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Interim Report to 31 March 2015

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements

This Interim Report as at and for the three months ended 31 March 2015 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 20 May 2015. 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 2013	Q1 2014	Q1 2015
Net interest income	32.5	39.1	36.1
Impairment charge on loans and advances	(9.7)	(13.9)	(6.2)
Net fee and commission income	11.5	11.7	12.9
General administrative expenses	(24.8)	(25.9)	(26.2)
Profit for the period before tax	11.8	12.3	18.1
Profit for the period after tax	10.4	10.5	11.7

Balance sheet data, €m	31/12/2013	31/12/2014	31/3/2015
Assets	6,743.8	6,864.5	6,868.7
Receivables from customers after impairment charge	4,874.2	4,828.9	4,962.9
Primary deposit balances	4,597.5	5,013.0	4,918.6
– Of which savings deposit balances	1,741.2	1,705.4	1,710.7
– Of which liabilities evidenced by paper, including subordinated debt capital	813.9	789.1	799.0
Equity	714.2	805.7	809.5
Customer assets under management	11,383.4	12,972.0	13,350.2
– Of which in customers' securities accounts	6,785.9	7,959.0	8,431.6

Own funds within the meaning of BWG, €m (Basel III from 1/1/2014)	31/12/2013	31/12/2014	31/3/2015
Risk-weighted assets	4,423.3	4,846.6	4,982.7
Own funds	707.6	580.9	564.6
– Of which Common Equity Tier 1 capital (Common Equity Tier 1 capital in conformity with Basel III from 1/1/2014)	662.5	543.7	534.5
Surplus own funds before operational risk	353.8	—	—
Surplus own funds after operational risk	326.8	—	—
Surplus own funds for the purposes of Basel III	—	193.2	166.0
Tier 1 capital ratio, % (Common Equity Tier 1 capital ratio in conformity with Basel III from 1/1/2014)	13.9	11.2	10.7
Own funds ratio, % (own funds ratio in conformity with Basel III from 1/1/2014)	16.0	12.0	11.3

Corporate ratios, %	2013	2014	Q1 2015
Return on equity before tax	6.5	6.7	6.7
Return on equity after tax	5.8	6.1	5.8
Cost:income ratio	54.3	52.7	53.8
Risk:earnings ratio (credit risk in % of net interest income)	29.2	31.5	17.1

Resources	2013	2014	Q1 2015
Average number of staff	910	915	923
Branches	56	57	57

BKS Bank's shares	2013	2014	Q1 2015
No. of ordinary no-par shares (ISIN: AT0000624705)	30,960,000	34,236,000	34,236,000
No. of no-par preference shares (ISIN: AT0000624739)	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	17.6/15.3	17.8/15.6	17.5/15.5
Low: ordinary/preference share, €	17.0/14.5	16.9/14.9	17.0/15.0
Close: ordinary/preference share, €	17.5/15.3	17.3/15.3	17.2/15.5
Market capitalization, €m	569.3	619.8	616.8

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

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

We welcome you very warmly to our first Shareholders Letter in 2015. Following BKS Bank's successful start to 2015, we would like to invite you to find out more online about your bank's all in all satisfactory business performance during the first quarter of this reporting year.

We want to begin by briefly recalling the 76th Ordinary General Meeting on 20 May. The resolutions passed during the meeting have been published on BKS Bank's website. Click on Investor Relations » Hauptversammlung. If you were unable to attend the shareholders' meeting in person, we can give you some good news as an equity holder, namely that BKS Bank will be paying a dividend of €0.23 per share out of its net profit as at 31 December 2014. This translates into a total distribution of roughly €8.29 million, compared with €8.19 million last year (ex-dividend date: 22 May; dividend payment date: 26 May). It means that our bank was once again one of the Austrian banking industry's strongest dividend payers notwithstanding the persistently demanding economic and capital markets environment.

Waldemar Jud and Dietrich Karner resigned from the Supervisory Board with effect from the end of the 76th Ordinary General Meeting. In addition, Franz Gasselsberger's membership of the board expired at the same time. Franz Gasselsberger's appointment was renewed, and Klaus Wallner and Peter Hofbauer were newly elected to the company's Supervisory Board. In each case, this was for the maximum duration allowed by the Memorandum and Articles of Association (*Satzung*), that is to the end of the Ordinary General Meeting deciding on discharges from liability in respect of the 2019 financial year. *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigstelle Klagenfurt*, Krassniggstrasse 36, 9020 Klagenfurt, Austria, was tasked with carrying out the annual audit of the business practices and activities of *BKS Bank AG* and its group for the year 2016.

Thanks to the consistent tailoring of our business model to our customers' needs, we achieved another increase in BKS Bank's earning power despite the fact that the real economy's growth was still very muted. However, although our overall business performance during the first quarter was better than expected, we were made aware that we need to be prepared for another demanding banking year in 2015. This was, not least, because of the escalating debt crisis in Greece, budgetary imbalances in other eurozone countries and the precarious low interest rates environment. That notwithstanding, we are able to present to you a result for the first quarter of 2015 that was both balanced and in line with our plans. Building on a solid capital base, we continued to focus on achieving sustainable growth and raising our efficiency in every business segment. The most important components of our income statement—net interest income after the impairment charge and net fee and commission income—were 19.1 per cent and 10.5 per cent, respectively, up on the same period of 2014. As in prior periods, we consistently allowed for risk exposures by recognizing appropriate impairment charges, but for the first time, there were clear signs of an improvement. The success of BKS Bank's sustainable business model was in particular mirrored by an increase of roughly 46 per cent in profit for the period before tax to €18.1 million, 2.8 per cent growth in receivables from customers to €5.16 billion and the high balance of so-called *primary funds*, which came to €4.92 billion. That was only just below the figure of €5.01 billion recorded at 31 December 2014, which was a typically high year-end total. Consolidated assets grew marginally to €6.87 billion during the first quarter of 2015.

Our bank has its Head Office in Carinthia. Consequently, following the announcement of the HETA debt moratorium and in view of the government liquidity crisis that it triggered in the Province of Carinthia, our investors, customers and business associates time and again asked us about our exposure to those debtors and the debtors dependent upon them. BKS Bank did not have any direct risk exposures to HETA or the Province of Carinthia. We analyzed any indirect dependencies that did exist. We rate them as minimal.

Consolidated Management Report for the Three Months Ended 31 March 2015

The Economic Setting in which Banks are Operating

The U.S. American economy will continue to grow strongly in 2015. Analysts are now predicting real GDP growth of 3.1 per cent even though the rate of growth in the first quarter was only marginal, at 0.2 per cent, because of the harsh winter. That notwithstanding, the United States is the clear leader of the pack of developed economies. Its growth is being driven by an improvement in the labour market and by an increase in private household spending. Because of its effect on disposable incomes, the low price of oil is positively impacting Americans' consumer behaviour. The U.S. labour market has recently continued to stabilize and the increase in the number of jobs has been more rapid than anticipated. Although the strong U.S. dollar is having an adverse impact on exports, stronger domestic demand will make it possible to compensate for the damage caused.

The economic outlook in Europe has also brightened recently. In its spring forecast, the European Commission predicted that the Member States of the European Union would enjoy some economic growth. Projections for the eurozone's overall economic development reflected its positive economic performance on the back of the German economic engine (forecast real GDP growth of 1.9 per cent). The GDP growth forecasts for this financial year are 1.8 per cent for the EU as a whole and 1.5 per cent for the eurozone. The economic tailwind is being strengthened by the euro's persistent weakness, the sharp drop in oil prices in recent quarters and the monetary policy measures recently introduced by the European Central Bank (ECB). The defenders of the currency introduced quantitative easing to provide the decisive momentum for economic recovery. In March, the ECB launched a programme of large-scale government bond purchases amounting to about €60 billion a month. Low energy prices should have a beneficial impact on private households' disposable incomes and stimulate their propensity to consume. Despite this good news, there are also challenging side-effects like overreactions in the European property market and unsolved structural problems, such as, in particular, those of France and Italy. The long running geopolitical risks—including notably the Ukraine crisis, the precarious financial crisis in Greece and persistently high unemployment in Europe—are still causing uncertainty and harming economic outlooks. In the light of muted growth, the situation in the European job market is not expected to ease. In addition, we do not currently foresee a de-escalation of the smouldering conflict between Russia and the Ukraine.

The Austrian economy's growth in the 2014 financial year was modest, at 0.3 per cent. This year, analysts are predicting real GDP growth of between 0.5 per cent (WIFO) and 0.8 per cent (EU Commission). Stronger growth of 1.6 per cent is being predicted in 2016. At the moment, conditions bode very well for recovery in the Austrian economy. A weaker euro, the low oil price and rising global demand could provide the decisive basis for the long awaited economic upturn. However, the pessimistic stance of Austria's captains of industry and business is marring the improvement in sentiment, so the Austrian economy is still at risk of setbacks. The tense situation in the labour market has continued to worsen since the final quarter of 2014, and a trend reversal is not to be expected in 2015. Instead, one can assume that the jobless rate will continue to rise from 5.0 per cent (2014) to 5.3 per cent. In absolute numbers, 402,323 people were jobless at the end of March.

As for euro exchange rates, the euro's slide versus the currencies of the eurozone's main trading partners continued in the first quarter of 2015. The single currency's weakness resulted from market participants' limited expectations regarding the success of the ECB's monetary policy measures and continuing speculation that Greece might leave the eurozone. On the wings of the Federal Reserve Board's announcements to the effect that it was considering further cuts in its monthly securities purchases and a moderate rates policy turnaround, the U.S. dollar posted a solid gain of 11 per cent versus the euro during the first quarter, resulting in an exchange rate of US$1.0759/€ at the end of March. The euro also weakened by about 11 per cent versus the Japanese yen. The Swiss National Bank's (SNB's) departure from the cap on the exchange rate between the Swiss franc and the euro in the middle of January led to a sharp shift in the euro exchange rate. The Swiss franc strengthened by a substantial 13 per cent during the first quarter—and it was, at times, actually worth more than the euro. It was trading at SFr 1.0463/€ at the end of March, compared with SFr 1.20204/€ at the beginning of the year. The Croatian kuna, which is of importance to our bank, was trading at HRK 7.645/€ at the end of the first quarter.

To date, developments in the international financial markets have been shaped mainly by the fact that any slight tightening of American central bank policy is unlikely before the autumn of 2015 and by the ECB's recent quantitative easing of its monetary policy. The drop in yields on long-term AAA rated eurozone government bonds and the simultaneous rise in yields on U.S. securities prolonged the decoupling between yields on opposite sides of the Atlantic. By the end of March, yields on German *bunds* had dropped to 0.185 per cent, while the U.S. equivalents were yielding 1.927 per cent. The one-month, three-month, six-month and 12-month Euribor rates have continued to flatten since the beginning of 2015 and were negative 0.044 per cent, 0.027 per cent, 0.097 per cent and 0.212 per cent, respectively, at the end of March.

The international equity markets were signalling further solidification of the economy during the first three months of this year with a preference for European equities over American ones. The MSCI World Equity Index in euros still stood at 123 points at the beginning of 2014 but had advanced by 34.5 per cent to 165.51 points by the end of the first quarter of 2015, having gained 14.7 per cent. Share prices in European equity markets measured in terms of the DAX increased by about a quarter, taking the DAX to 11,966.17 points from 9,552.16 points at the beginning of 2014. On the Vienna Stock Exchange, the ATX reached 2,509.82 points at the end of March, which translates into a performance of 16 per cent during the first quarter of 2015. However, in a year-on-year comparison, it failed to improve from its level at the beginning of 2014.

BKS Bank's shares stayed within a narrow corridor between January and March 2015. At the end of March, the ordinary no-par share was worth €17.2 and the BKS Bank no-par preference share was trading at €15.5. At the end of the first quarter, BKS Bank had market capitalization of €616.8 million, which was slightly down on the end of 2014.

Sentiment in the international commodity markets was again dominated by movements in crude oil and precious metal prices in 2014 and the first quarter of 2015. Energy prices went on falling during the period under review.

Notwithstanding tense and explosive situations in a number of oil exporting countries, the Organization of the Petroleum Exporting Countries (OPEC) left production largely unchanged. Despite numerous temporary well closures, global crude oil production in March reached the same level as four years ago. In the wake of the drop in crude oil prices that began in mid-2014, European benchmark Brent crude was trading at US$56.79 at the end of March, compared with US$57.56 at the beginning of 2015 and US$111.0 at the beginning of 2014. In the medium term, the foreseeable end of the trade embargo against Iran, the globally stagnant demand for crude oil and high inventories are likely to keep oil pries low. At all events, forward curves show that market participants are expecting no more than a moderate rise in oil prices. Futures prices and other industrial raw materials give a similar picture.

Because of an increase in speculative demand, the price of gold rose noticeably at the beginning of 2015. However, the uptrend weakened again during the quarter. A fine ounce of gold cost US$1,183.50 at the end of March, putting it back at the same level as at the end of 2014.

Notes on the Scope of Consolidation

At the reporting date, the scope of consolidation of BKS Bank upon which Group analyses were based consisted of 20 banks and other financial institutions and entities rendering banking-related ancillary services. Those entities included our leasing companies in Austria and abroad as well as *Drei-Banken Versicherungs-Aktiengesellschaft*. The overview that follows presents the entities whose assignment to the BKS Bank Group was required by the International Financial Reporting Standards. When choosing which subsidiaries to include, materiality was judged in accordance with common Group-wide criteria on the basis of qualitative and quantitative parameters. The principal criteria of materiality were the balance sheet total of a subsidiary, the Group's interest in an associate's equity and the number of people employed by the entity in question.

Besides *BKS Bank AG*, the consolidated members of the BKS Bank Group comprised 15 banks and other financial institutions 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. These Interim Consolidated Financial Statements were thus based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies.

THE MEMBERS OF THE GROUP

Consolidated
Accounted for using the equity method
Accounted for on a proportionate basis

Banks and Other Financial Service Providers

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

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		

The carrying amounts of the investments in the three associates accounted for using the equity method in conformity with IAS 28 were adjusted according to the changes in the net assets of the entities in which those investments were held. Besides *Drei-Banken Versicherungs-Aktiengesellschaft*, in which BKS Bank held a stake of 20 per cent, our investments in our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* were also accounted for using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of those banks, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. *Alpenländische Garantie-GmbH*, which had previously been accounted for using the equity method, was now accounted for on a proportionate basis because this investment required classification as a joint operation following the adoption of IFRS 11 in the 2014 financial year.

The other consolidated entities, most of which were designated as real estate companies, rendered banking-related ancillary services. All other company shares were assigned to the available for sale portfolio.

Assets, Liabilities, Financial Position

Assets

The BKS Bank Group had assets of €6.87 billion at 31 March 2015. The biggest increase on the assets side of the balance sheet took place in the line item *Receivables from customers*, which grew by €138.8 million or 2.8 per cent to €5.16 billion. In contrast, *Receivables from other banks* fell by €76.8 million or 28.5 per cent to €192.7 million, and *Cash and balances with the central bank* also fell, decreasing by €47.3 million or 22.0 per cent to €168.0 million. During the period under review, impairment allowances increased the impairment allowance balance, whose deduction from the line item *Receivables from customers* is required by IFRSs, by €4.9 million to €199.0 million. On the other hand, the line item *Financial assets* decreased by €14.7 million or 1.0 per cent to €1.39 billion.

Looking at these items in detail, the increase in receivables from customers was a reflection of growth in new business volumes and the abrupt shift in the value of the euro versus the Swiss franc. As of 15 January 2015, the Swiss National Bank abandoned the cap on the exchange rate between the Swiss franc and the euro that had been in place since September 2011. As a result of this change, existing stop loss agreements led to the conversion of SFr 76.2 million of loans into euro loans. In addition, the remaining Swiss franc loan receivables from customers increased this line item by about €50 million in euro terms. We were pleased with the volume of new business during the first quarter, which totalled about €290 million in our corporate and business banking and retail banking segments.

Leasing operations in Austria continued to grow well, with lease receivables at *BKS-Leasing* increasing by €3.0 million to €170.7 million during the first quarter. The efforts of the Regional Head Office in Graz made a particularly big contribution. At the end of March, our leasing companies abroad (*BKS-leasing d.o.o.*, Ljubljana; *BKS-leasing Croatia d.o.o.*, Zagreb; and *BKS-Leasing s.r.o*, Bratislava) had accumulated assets of €141.6 million, compared with €144.3 million at 31 December 2014. We were particularly pleased with the business performance of *BKS-leasing d.o.o.*, which had a lease portfolio of €68.4 million under management. *BKS Bank d.d.*, which is headquartered in Rijeka, also performed satisfactorily. At the end of the period under review, it had 4,516 customers and a balance sheet total of €173.0 million.

The proportion of foreign currency loans in relation to total loans in the portfolio continued to fall, reaching 8.5 per cent by 31 March 2015. This compared with 9.4 per cent at the end of the previous quarter. The reduction was the fruit of the immense efforts made by our sales team to reduce FX loan balances at every regional head office. Customers' readiness to switch to euros remained very limited—which is hard to comprehend given that the Swiss franc no longer offers better interest rates than the euro. That notwithstanding, the Swiss franc loan portfolio shrank by SFr 104.0 million to SFr 417.8 million.

The line item *Financial assets* decreased by €14.7 million to €1,392.7 million. This was mainly due to redemptions in the held to maturity portfolio. The persistently low interest rates meant that the returns on new investments were universally unattractive. For instance, yields on 10-year German *bunds* fell dramatically during the period under review, dropping to 0.185 per cent. In this setting, new investments could not make up for redemptions and we had to tolerate high above-par impairment allowances wherever attractive nominal interest rates were on offer.

Investments in entities accounted for using the equity method were 1.1 per cent up on the end of 2014 to €400.2 million. This was in line with our plans. The change in this line item was due to the addition of the profit for the period recorded by the entities accounted for using the equity method. These consisted primarily of *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft*.

Equity and Liabilities

The balance of primary deposits was close to the figure recorded at the end of 2014, coming to €4.92 billion. This was accounted for by the line item *Other liabilities*—made up of sight and time deposits—which came to €2.41 billion. Although this was €109.6 million down on the outstanding figure of €2.52 billion recorded at the end of 2014, our ambitious budget targets had largely been met. As a result, our loan:deposit ratio was again excellent, at 99 per cent.

We were able to halt the downtrend in savings deposit balances that took place in prior quarters. In fact, there was a marginal increase of €5.2 million during the quarter under review, resulting in a balance of €1.71 billion at the end of March.

The line item *Liabilities evidenced by paper* increased by 3.5 per cent to €614.3 million. In a period of extremely low interest rates, it was hard to generate attractive offerings. Nonetheless, we did manage to place a variable BKS Bank note (*BKS Bank Obligation*) maturing in 2022 with a final volume of €26.2 million that was open for subscription over the end of 2014. We point out that a variable BKS Bank note (*BKS Bank-Obligation 2015-2023/1*) with a volume of up to €20 million that is pegged to the 6-month Euribor has been available for subscription since 22 April.

We have not issued any subordinated debt so far this year. Following the redemption of a 4.75 per cent subordinated supplementary capital note in the amount of €10.0 million during the quarter under review, issues in circulation decreased by 5.5 per cent to €184.7 million.

Consolidated Own Funds

BKS Bank calculated its own funds ratio and basis of assessment in accordance with the own funds regime established by Basel III. Our own funds requirement was computed in compliance with the requirements of the standardized approach. The basis of assessment was €136.1 million up on the end of 2014 to €4.98 billion. This was the result of pleasing growth in the credit portfolio.

Our total own funds fell by €16.3 million to €564.6 million during the quarter under review. This was caused by a drop in ancillary own funds and an increase in the deductions carried out in connection with the higher carrying amounts of the investments accounted for using the equity method. We were able to keep Common Equity Tier 1 capital, which plays such a important role in the bank's management, close to its level at the end of 2014, at €534.5 million.

Based on these figures, our Common Equity Tier 1 capital ratio at 31 March 2015 was 10.7 per cent, compared with 11.2 per cent at the end of 2014. The total own funds ratio was 11.3 per cent, compared with 12.0 per cent at 31 December 2014. Surplus own funds at the reporting date came to €166.0 million.

The CRR introduced a new regulatory ratio—the leverage ratio—to limit the gearing of financial institutions and make absolute debt in the financial system more transparent. Our leverage ratio at 31 March 2015 was 7.6 per cent, which was well above the regulatory benchmark of 3 per cent.

BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS FOR THE PURPOSES OF BASEL III		
€m	31/12/2014	31/3/2015
Equity	71.4	71.0
Reserves less intangible assets	714.5	714.4
Deductions	(242.2)	(250.9)
Common Equity Tier 1 capital	**543.7**	**534.5**
Common Equity Tier 1 capital ratio	11.2%	10.7%
Hybrid capital	32.0	28.0
Deductions	(32.0)	(28.0)
Additional Tier 1 capital	0	0
Tier 1 capital	**543.7**	**534.5**
Tier 1 capital ratio (including additional Tier 1 capital)	11.2%	10.7%
Ancillary capital items and instruments	117.8	112.2
Deductions	(80.6)	(82.1)
Ancillary capital	**37.2**	**30.1**
Total own funds	**580.9**	**564.6**
Own funds ratio	12.0%	11.3%
Basis of assessment	4,846.6	4,982.7
Surplus own funds	**193.2**	**166.0**

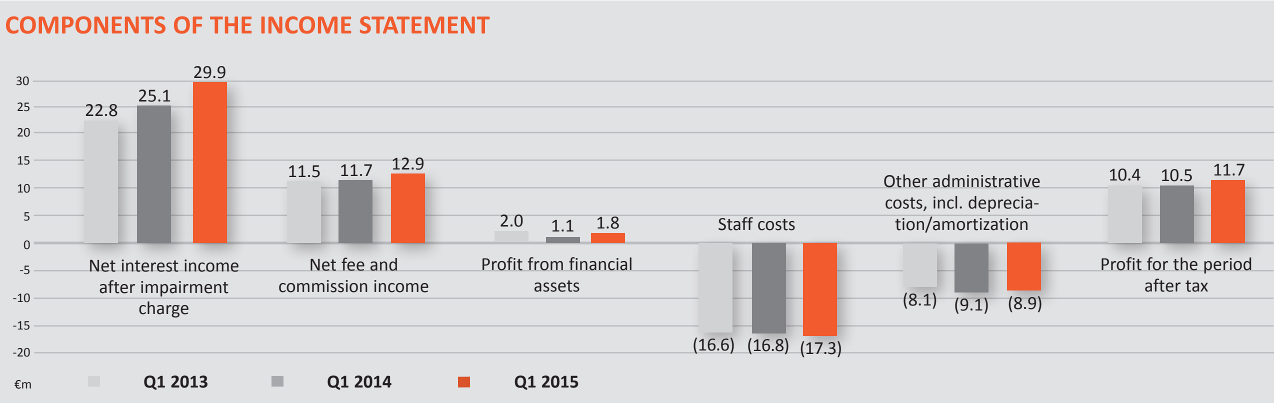
Performance

On the whole, the uncertainty among our customers and the participants in the money and capital markets has eased somewhat in recent quarters. In an environment that remained as difficult as before for the banking industry, BKS Bank achieved solid net interest income after the impairment charge compared with the same period of 2014. It came to €29.9 million, as against €25.1 million in the first quarter of last year. Net fee and commission income came to €12.9 million, which was 10.5 per cent up on the same period of 2014. Profit for the period was €1.2 million or 11.3 per cent up on the first quarter of 2014 to €11.7 million.

Interest rates that were even lower than the year before were the principal driving force behind these developments. Our bank's *Mindestkonditionenrechner* (minimum rate calculator) is a well-developed instrument for calculating lending rates that adequately factor in the risks. Our sales staff made consistent use of it when they were computing loan terms and conditions. However, the market became considerably more competitive during the first quarter, so it proved impossible to prevent declines in lending margins.

This reduced net interest income after the impairment charge compared with the same period of 2014, diminishing it by €3.0 million to €36.1 million. As we have already said, this was caused by a drop in interest income of €7.0 million versus the first quarter of 2014 to €43.1 million. The lending margin shrank from 1.93 per cent at the end of 2014 to 1.87 per cent at 31 March 2015 while the deposit margin stabilized at the low level of 0.05 per cent. The drop in interest expenses thus failed to make up for all of the decline in interest income. Profit from our investments in entities accounted for using the equity method was €1.5 million up on the same period of 2014.

The positive effects of our rigourous risk policy and willingness to consistently combat risks were felt during the first quarter of 2015. Our impairment charge on loans and advances came to €6.2 million, which was significantly down on the charge of €13.9 million recognized in the same period of 2014. The improvement was partially driven by the reversal of some of the allowance for country risk exposure. It was reduced by €201.1 thousand in response to the improvement in the credit standing of Slovenia, which Moody's uprated from Ba1 to Baa3.



As for the components of net fee and commission income, the most important source of earnings was fee and commission income from payment services, which came to €4.8 million and made an undiminished and constant contribution to the total. During the first quarter, we completed the bank-wide transition to our new personal banking account models. Except for a few protests, the changeover was more or less free from friction and was completed as planned. The new account models took effect on 1 April 2015. Fee and commission earnings from securities operations increased by €0.7 million to €3.6 million. At the same time, securities turnover in the first quarter of 2015 was €482.2 million up on the same quarter of 2014 to €1.37 billion. Our customers' securities portfolios were worth €8.43 billion at 31 March 2015, compared with €7.96 billion at the end of December 2014. They thus passed the €8 billion mark for the first time. Our fee and commission earnings from lending operations were also very good, at €2.5 million.

Reflecting our commitment to strict cost management, general administrative expenses were just 0.9 per cent up on the first quarter of 2014 to €26.2 million. Above all, in view of their impact on consolidated profit, we kept a critical eye on staff costs, which were €0.4 million or 2.6 per cent up on the same period of 2014 to €17.3 million. The hikes in the salaries of the average of 923 people working in the Group (2014: average of 915) under collective agreements took effect on 1 April 2015. They averaged 1.78 per cent. Most of the increase in staffing took place at our regional head offices in Austria. Among other things, we added another branch to our network in Vienna. We are pleased to report that other administrative costs inclusive of depreciation and amortization were €0.2 million down on the first quarter of 2014 to €8.9 million and were therefore in line with our plans. Above all, those responsible for cost centres exercised strict cost discipline when it came to discretionary expenses. In the first quarter of 2014, the line item *Other administrative costs* had also been increased by outlay on ongoing projects. It was lower in the first quarter of this year.

Our profit from financial assets up to the end of March 2015 came to €1.8 million, compared with €1.1 million in the first quarter of 2014. This translates into a period-on-period increase in profit of 62.1 per cent. It was mainly due earnings from financial assets designated as at fair value through profit and loss that, in line with our predictions, came to €1.3 million. During the first quarter of 2015, the available for sale portfolio benefited from positive movements in the stock markets to yield a profit of €0.2 million.

Income tax expense was €4.5 million up on the same period of 2014 to €6.3 million. This was because we recognized a precautionary provision of €3.5 million for a tax audit that had lasted for two years and had still not been finalized.

Segmental Reports

Our segmental reporting was based on the organizational structure of the Group that underlies its internal management reporting system. BKS Bank thus focused its activities on its three big business segments, namely the corporate and business banking, retail banking and financial markets segments. The success of each of those segments was measured on the basis of its profit before tax and return on equity (ROE), its cost:income ratio (CIR) and its risk:earnings ratio (RER).

Corporate and Business Banking

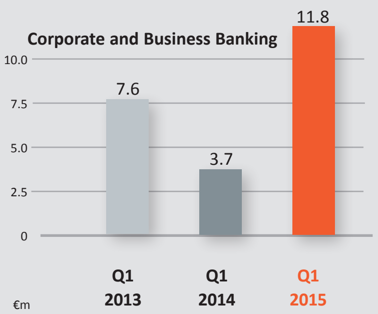
We were servicing some 14,500 corporate and business banking customers in this segment. BKS Bank having originally been conceived as a pure corporate and business bank, this segment has the longest tradition, and since corporate and business banking customers accounted for the larger part of the loan portfolio and made an essential contribution to profit for the period, it remained the enterprise's most important pillar. 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 leasing companies insofar as they arose from business done with companies.

The significant reduction in credit risk in the corporate and business banking segment increased its profit for the period to €11.8 million, compared with €3.7 million in the same period of 2014. This quarterly profit, which was the segment's best since we started preparing segmental reports, gives us hope that we will be able to start building on our successes in the pre-crisis years again. We also felt a distinct positive countertrend in the field of risk. Following an impairment charge on loans and advances of €13.1 million in the first quarter of 2014, the charge was down by over 50 per cent to just €6.1 million in the first quarter of 2015. The risk:earnings ratio improved accordingly, dropping sharply from 65.5 per cent to 29.5 per cent. The fly in the ointment in an otherwise pleasing overall picture was margins, whose development led to the near stagnation of net interest income at €20.6 million. On the other hand, though, we were also able to freeze general administrative expenses in this segment at the same low level as in the first quarter of 2014, resulting in general administrative expenses of €9.5 million. As for net fee and commission income, which grew by 5.9 percent to €6.2 million, we registered increases in fee and commission earnings from credit operations and from securities operations (which picked up in the wake of the ECB's announcements on monetary policy). The return on equity and cost:income ratio in the corporate and business banking segment were pleasing at 19.0 per cent (Q1 2014:5.6 per cent) and 34.7 per cent (Q1 2014: 35.9 per cent), respectively.

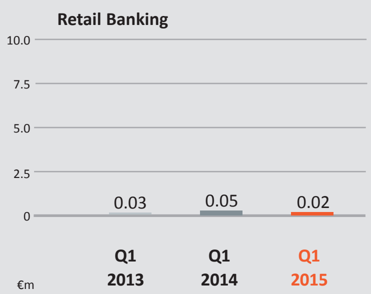
Retail Banking

Roughly 135,200 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies were being serviced in the retail banking segment at the end of March 2015. Because it is highly dependent on branch operations, this was our most resource and cost intensive segment. At the same time, though, it was indispensable to us because about 90 per cent of savings deposit balances and 33 per cent of sight and time deposit balances—that is, roughly

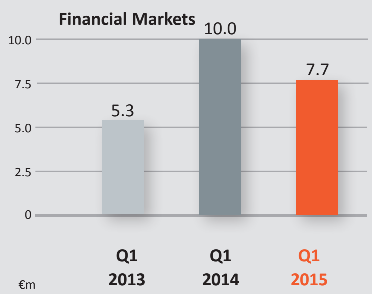
PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



ROE	11.6%	5.6%	19.0%
CIR	35.7%	35.9%	34.7%
RER	46.8%	65.5%	29.5%



ROE	0.3%	0.5%	0.2%
CIR	98.2%	95.4%	98.0%
RER	2.6%	7.1%	3.3%



ROE	5.6%	9.8%	6.0%
CIR	33.1%	15.5%	21.5%
RER	0.2%	1.6%	—

A detailed segmental analysis is presented in the Notes on page 37.

57 per cent of our payables to customers—were accounted for by retail customers at the end of March, making this segment our bank's most important source of funds even in times of historically low interest rates.

The retail banking segment recorded a profit for the period before tax of €22 thousand in the three months ended 31 March 2015, compared with €53 thousand in the same period of 2014. The small drop in net interest income, which fell by €0.6 million to €8.0 million, was a direct effect of the renewed decline in deposit margins, which fell from 0.16 per cent to 0.09 per cent during the period under review. This trend was cushioned by expansion in the retail customer base. The healthy growth in securities operations increased the segment's net fee and commission income, which came to €6.0 million. That was over €0.4 million more than in the same period of 2014. We believe that these advances marked the beginning of a sustained stabilization of our profits in the retail banking segment. There was also a pleasing reduction in the impairment charge on loans and advances, which fell to just €0.3 million from €0.6 million in the first three months of 2014. There was a corresponding drop in the segment's risk:earnings ratio to 3.3 per cent from 7.1 per cent in the same period of 2014. General administrative expenses were held steady at €13.8 million. However, despite the improvement in income and cost items, the cost:income ratio remained unsatisfactory, at 98.0 per cent. Strict cost discipline combined with measures to boost earnings should lead to a perceptible reduction in this ratio during the rest of the year.

Financial Markets

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

This segment's profit for the period before tax was shaped by a profit of €1.8 million from financial assets and an increase of about a third in the profit from investments in entities accounted for using the equity method, which came to €6.4 million. At the same time, the continuing fall in interest rates caused a drop in so-called 'structural' income, which declined by roughly a quarter to €7.7 million. As for the impairment charge, which in the financial markets segment also includes the impairment allowance for country risk exposure, Slovenia's uprating led to an impairment reversal of €0.2 million and, therefore, a positive risk figure in this segment. Even though general administrative expenses were reduced by €0.1 million to €1.6 million, the segment's cost:income ratio deteriorated from 15.5 per cent to 21.5 per cent. Nonetheless, it remained low.

Key Corporate Ratios

During the first quarter of 2015, the BKS Bank Group's key performance ratios stayed within the same ranges as in the past two financial years. The return on equity (ROE) before tax again came to 6.7 per cent on the back of our good profit performance. The return on assets—the gauge of the total return on our assets—was at the same level as in 2014 at 0.8 per cent. We are pleased to report that our risk:earnings ratio stayed well below the prior-year figure of 31.5 per cent at 17.1 per cent. Although we maintained the same strict standards when determining impairment allowances, we were spared the need for any big write-downs during the quarter under review. The cost:income ratio in the three months up to the end of March was 53.8 per cent. In other words, the ratio of our earnings to our costs was still healthy, even if this ratio was slightly up on ratio of 52.7 per cent recorded in 2014.

CORPORATE RATIOS

Per cent	2013	2014	Q1 2015
ROE (before tax)	6.5	6.7	6.7
ROA (before tax)	0.7	0.8	0.8
Cost:income ratio	54.3	52.7	53.8
Risk:earnings ratio	29.2	31.5	17.1
Tier 1 capital ratio [1]	13.9	11.2	10.7
Own funds ratio [1]	16.0	12.0	11.3

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

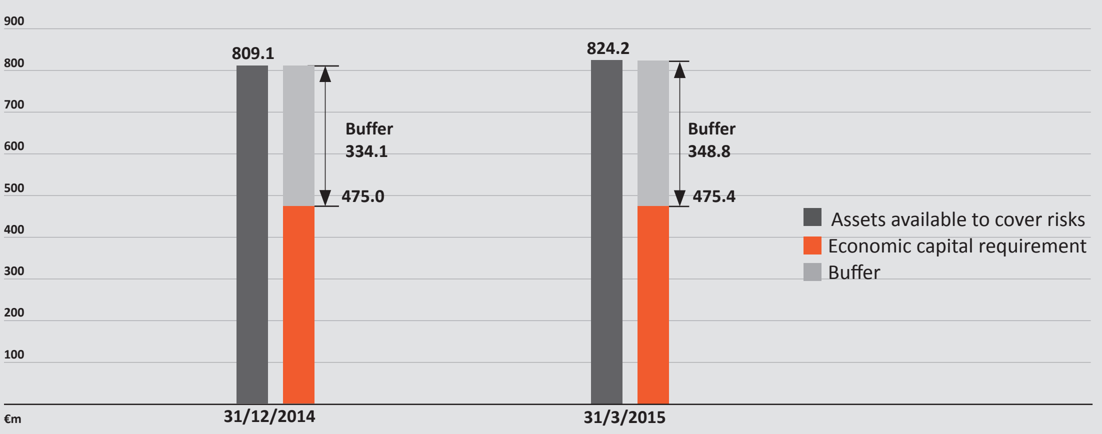
Risk Report

The goal of BKS Bank's risk policy was to detect all the relevant operational and other banking risks early and to actively manage and limit them using effective risk management techniques. The aim was to continuously and fully capture every individual risk. Available capital was used as efficiently as possible in the light of our medium-term and long-term strategic goals, and the trade-off between risk and return was constantly optimized. So as not to jeopardize our bank's independence and autonomy, the precept that we only enter into risks that we can bear without outside help is anchored in the Risk Strategy as a general principle.

BKS Bank's risks were 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. Based on official regulatory recommendations, a Management Board member who was not involved in front office operations had central responsibility for risk management.

Pursuant to the provisions of *§ 39a BWG*, banks are required to have effective plans and procedures in place to ascertain the amount, composition and distribution of the capital available to cover quantitatively and qualitatively all material operational and other banking risks. The requisite amount of capital must be held on that basis. These procedures were combined within the internal capital adequacy assessment process (ICAAP) and captured within BKS Bank during the risk bearing capacity analysis process. This was a fundamental part of BKS Bank's overall bank risk management activities. We assess our internal capital adequacy once a quarter on the basis of the risks that have been identified using internal models. The materiality of the respective risks was taken into account when selecting those models. The aim was to ensure that BKS Bank always has sufficient assets available to cover its risks, enabling it to absorb the risks it has assumed even if unexpected events were to occur. All identified and quantified unexpected risks were therefore aggregated to obtain a figure for overall bank risk. The overall bank risk is the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. This aggregated total potential loss was compared with the assets available to cover such a potential loss to ascertain whether the bank was in a position to cover unexpected losses without suffering serious detriment to its business activities. The individual components of the assets that were available to cover risks were ranked according to their commercial usability while taking account, above all, of their disposability and publicity effects.

CALCULATION OF RISK BEARING CAPACITY ON A LIQUIDATION BASIS



At BKS Bank, unexpected losses within a period of observation of one year were predicted on a liquidation basis with a confidence interval of 99.9 per cent. As in the same period of 2014, the economic capital requirement for credit risk was the biggest risk capital requirement within the *Kreditinstitutsgruppe* (credit institution group). Credit risk accounted for about 80:7 per cent (31 December 2014: 82.8 per cent) of our total potential loss. Market risk was responsible for 10.6 per cent of the total (31 December 2014: 8.7 per cent). On a liquidation basis, our economic capital requirement at 31 March 2015 was €475.4 million, compared with €475.0 million at the end of 2014. The corresponding assets available to cover risks came to €824.2 million, compared with €809.1 million at the end of 2014.

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 product level, at the single customer level, at the level of groups of related customers and at the portfolio level. Our management of credit risk was based on the principle that loans could only be granted on a know-your-customer basis. In other words, loans were only granted after thorough personal and credit checks and on a dual-control or 'four-eyes' basis (front office and back office). Collateral requirements were based on the rating class and the product concerned. Fair value valuations of collateral took their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside Austria was regulated by guidelines that were fine tuned to suit the specific features of the country concerned. They depended in particular on the economic setting and allowed for the heightened risk involved in realizing collateral. BKS Bank employed a 13-class rating system. At the reporting date of 31 March 2015, about 42 per cent of the total corporate and business loan portfolio and about 66 per cent of the retail loan portfolio were in the very good rating classes from AA to 2b. BKS Bank's new customer acquisition activities focused on these rating classes.

CHARGE FOR IMPAIRMENT LOSSES

€m	31/12/2014	31/3/2015	+/(-) Change, %
Direct write-offs	0.1	0.2	55.0
Impairment allowances	15.5	7.2	(53.7)
Impairment reversals	(1.6)	(1.1)	(33.5)
Subsequent recoveries	(0.1)	(0.1)	8.1
Charge for impairment losses	**13.9**	**6.2**	**(55.7)**

The charge for impairment losses in the first quarter of 2015 was satisfactorily low at €6.2 million, compared with €13.9 million in the same period of 2014. This represents a reduction of €7.7 million or 55.7 per cent. Impairments allowances were cut from €15.5 million to €7.2 million. This figure includes individual impairment allowances, collective assessments of impairments carried out in accordance with IAS 39 and the collective allowance for country risk exposure. The impairment reversal of €201.1 thousand in respect of country risk exposure that resulted from the uprating of Slovenia during the quarter under review also contributed to the improvement. Internally, its rating improved from 2a to 1b.

The requisite risk charge at our foreign subsidiaries fell slightly in the first quarter to total just €0.2 million. The charge was largest at *BKS-leasing d.o.o.*, Ljubljana, where it came to €0.2 million.

Looking at our credit risk at the level of non-performing loans, the proportion of such loans was virtually unchanged, accounting for 7.37 per cent of the total portfolio at the end of the first quarter of 2015. This compared with 7.35 per cent at the end of 2014.

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category €m	Financial Instruments that were Neither Past Due nor Impaired 31/12/2014 (IFRS)	31/3/2015 (IFRS)	Past Due Financial Instruments 31/12/2014 (IFRS)	31/3/2015 (IFRS)
Receivables from customers	5,085	5,188	556	560
Contingent liabilities	183	175	5	3
Receivables from other banks	306	242	0	0
Securities and fund units	755	729	0	0
Equity investments	378	382	0	0
Total	**6,707**	**6,716**	**561**	**563**

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category €m	Impaired Financial Instruments 31/12/2014 (IFRS)	31/3/2015 (IFRS)	Financial Instruments that were Past Due but Not Yet Impaired 31/12/2014 (IFRS)	31/3/2015 (IFRS)
Receivables from customers	445	417	173	163
Contingent liabilities	0	0	0	0
Receivables from other banks	0	0	0	0
Securities and fund units	0	0	0	0
Equity investments	0	0	0	0
Total	**445**	**417**	**173**	**163**

Market Risk

BKS Bank defines market risk as the risk of losses that might arise from movements in market prices and rates (e.g. equity and bond prices, foreign exchange rates, interest rates) or other parameters that influence prices (e.g. volatilities and credit spreads). Market risk affected all interest rate and price sensitive positions in the trading and banking books of BKS Bank and the individual institutions within the *Kreditinstitutsgruppe*. BKS Bank subdivided market risk into the categories of interest rate risk (including credit spread risk), equity price risk and foreign exchange risk. We used a combination of different proven ways of gauging risk (value at risk, modified duration, volumes and stress testing) to effectively manage market risks and set limits.

Interest rate risk is the risk of adverse changes in the values of interest rate sensitive positions caused by a change in interest rates. Differing maturities and interest rate adjustment periods can lead to interest rate risks on both the assets and the equity and liabilities side of the account. However, they can generally be hedged against by a combination of on-balance sheet and off-balance sheet transactions. BKS Bank pursued a conservative interest rate risk strategy and did not in general engage in any material speculative derivative transactions. BKS Bank engaged in derivative transactions almost exclusively to hedge against market risks. In doing so, it only used instruments whose characteristics were known, the risks associated with which were known and where we had experience-based data. We were able to reduce our interest rate risk measured in terms of modified duration from negative 0.33 per cent at the end of 2014 to negative 0.36 per cent at the end of the first quarter. In the course of the first quarter, the ratio of our interest rate risk to our eligible own funds assuming an interest rate shift of 200 basis points as reportable to OeNB increased to 5.24 per cent from 4.39 per cent at the end of 2014. It thus remained significantly below the critical 20 per cent mark. The increase was due to accelerating deposits growth and private placement issuances.

Since earning profits from open currency positions is not a focus of our business policy, BKS Bank has always kept its foreign exchange risks low. Consequently, open currency positions were only held in small amounts and for short periods. Generally, foreign currency loans and deposit balances were funded or invested in the same currency. To counteract foreign exchange risks, BKS Bank sometimes engaged in derivative transactions like cross currency swaps, currency forwards and futures and currency swaps. Our open currency positions increased to €13.8 million during the first quarter of 2015. This was €8.6 million more than at the end of 2014. The increase was due to the

VALUE AT RISK

€m	31/12/2014	31/3/2015
Interest rate risk [1]	7.2	7.9
FX risk	0.6	0.9
Equity price risk	1.1	1.5
Total (including diversification effects)	7.7	7.9

[1] Includes credit spread risk.

existence of an open spot currency position in U.S. dollars of roughly €7 million at the reporting date. However, this open position was only a book entry and was not actually realized. As a result, it could not cause any actual risk. Our foreign exchange value at risk increased just marginally from €0.6 million to €0.9 million.

Equity price risk is the risk of changes in prices caused by the interplay of supply and demand. Most of our investments in equities in our treasury portfolio were in highly liquid German and Austrian stock market securities. At the end of the first quarter, equity positions in the portfolio totalled €37.3 million, which was €4.8 more than at 31 December 2014. The increase was due to purchases of a number of high-dividend securities. The equity value at risk at the end of March was €1.5 million, compared with €1.1 million at the end of 2014.

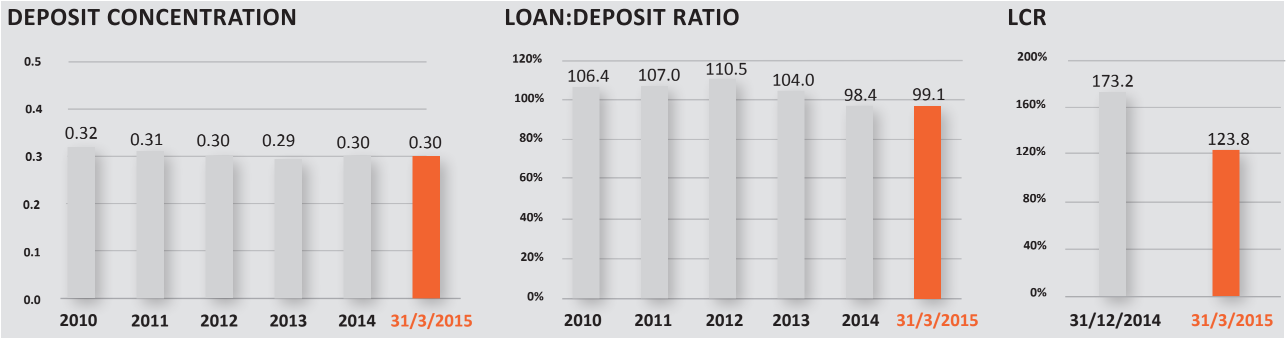
Liquidity Risk

Liquidity risk is associated with the danger of not being able to meet present or future financial obligations in full or in time. This also includes the risk of only being able to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk). We would like to begin by pointing out that BKS Bank continued to have unrestricted access to the money and capital market during the period under review. Clearly defined principles were in place to govern the management of liquidity risk. They were anchored in our Risk Strategy and in our liquidity management manuals. The diversification of our funding profile to achieve a mix of investor categories, products and maturities was an essential part of the liquidity management process.

At BKS Bank, the management of liquidity so as to ensure solvency at all times was carried out with the help of a daily maturity gap analysis for the main currencies. Limits were set at the short end to set liquidity risk boundaries. We mainly held as a liquidity buffer highly liquid securities that were eligible for refinancing with the ECB and eligible customer accounts. Material liquidity risk management decisions were made and liquidity risk monitoring was carried out by our Asset Liability Management Committee, which met regularly. Its decisions were subsequently confirmed by the Management Board. As a result, BKS Bank had a solid liquidity buffer (liquidity buffer 1) of €899.0 million at 31 March 2015, compared with €898.5 million at year-end 2014. The extended liquidity buffer 2 (counterbalancing capacity), which also included additional equities and fund units, was €6.3 million larger than at the end of the previous quarter, at €1.05 billion. This was due to an increase in the line item *Other securities*.

The deposit concentration is a ratio that helps us estimate the deposit withdrawal risk. Above all, it therefore highlights the dangers that come with relying on large deposits. At the end of the first quarter of 2015, this indicator—which is of crucial importance to us—came to 0.30. The loan:deposit ratio shows the relationship between the loan portfolio and primary deposit balances. At the end of the period under review, it came to 99.1 per cent, which was a strategically pleasing result.

The liquidity coverage ratio (LCR) is used to test 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 holdings of highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. At BKS Bank, this regulatory liquidity ratio came to 123.8 per cent at 31 March 2015 and was therefore far above the minimum ratio of 100 per cent that will gradually be phased in between October 2015 and 2018.



Operational Risk

In line with the Capital Requirements Regulation under the Basel III regime (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. Operational risks at *BKS Bank AG* and all its subsidiaries in Austria and abroad were limited by an appropriate and continually refined internal control system. It included a raft of organizational measures ranging from the suitable separation of functions during business processes (separation of front office from back office activities, dual-control or 'four-eyes' principle) to extensive bodies of internal rules and regulations and regular controls to emergency plans and self-auditing systems. We registered 86 loss events (not including those resulting from credit operations) during the first quarter of 2015. After the deduction of reimbursements for those losses, they cost just €183.7 thousand. In the period under view, five cases arose that were of relevance for the purposes of WAG (Austrian securities supervision act) costing €16.7 thousand.

Outlook for the Year as a Whole

The European Commission's latest economic forecast brought a perceptibly brighter outlook. According to its predictions, global GDP growth will accelerate slightly this year compared with 2014 to total about 3.5 per cent. However, the outlook for 2016 is still cautious. Above all, those threshold countries are at risk in which cheap money policies have triggered overreactions in the property markets and excessive indebtedness. The U.S. economy is expected to grow by 3.1 per cent in real terms in 2015, compared with 2.4 per cent in 2014. The European Commission expects the eurozone economy to enjoy a slight economic recovery leading to growth of 1.5 per cent, compared with 0.9 per cent in 2014. However, the mix of sovereign debt, financial and structural crises means that the euro crisis is unlikely to be easy to solve. Germany is expected to achieve real GDP growth of 1.9 per cent this year, whereas the French and Italian economies are again only likely to grow by 1.1 per cent and 0.6 per cent, respectively. GDP growth estimates for the countries of Central and Eastern Europe lie within a range that spans 0.3 per cent real growth in Croatia, 2.3 per cent in Slovenia and 3 per cent in Slovakia to 3.3 per cent in Poland. As for the domestic economy, the European Commission expects the Austrian economy to follow a flat growth path with a growth rate of 0.8 per cent. WIFO is slightly more pessimistic about the state of the Austrian economy and is predicting a GDP growth rate of just 0.5 per cent, compared with 0.3 per cent in 2014. GDP growth in the first quarter was marginal, at 0.1 per cent. It was driven by consumer demand and some export growth. Investment continued to decline.

The international financial markets profited from the major central banks' retention of their loose monetary policies, the low price of oil (although it has been rising again since the middle of March) and the economic uptrend being enjoyed by most members of the OECD. However, exogenous factors like the unexpected slump in the U.S. economy in the first quarter, the steady strengthening of the euro (taking it from a low of US$1.0557/€ in March to US$1.1118/€ at the copy deadline date), the likelihood of a hike in key U.S. interest rates in the autumn of 2015 and smouldering geopolitical unrest in the Ukraine and the Middle East could dampen any over-optimistic expectations. So far this year, the ECB Council has left the key interest rate in the eurozone at a historical low of 0.05 per cent. On the other hand, the equity markets have performed strongly since the beginning of the year. The DAX reached a record high of 12,391 points in April, although it had dropped back to 11,848.47 points by the copy deadline date.

Likewise at the copy deadline date, the broader EURO-STOXX 50 stood at 3,651.90 points, having gained over 16 per cent since the beginning of the year. Among other things, these gains were driven by the strong demand for fund products and by securities purchases by U.S. American investors.

As for the outlook for our bank, we remain consistent in the pursuit of our customer-focused strategy. It is characterized by risk discipline, capital efficiency, profit diversification, rigorous cost discipline and, not least, our excellent liquidity position. Although we are cautiously optimistic about 2015 as a whole, it still seems too early to sound the all-clear when it comes to the unnerving banking environment. Nonetheless, regardless of the challenging environment created by the low interest rates and the aggressive rivalry that exists for so-called ‘primary’ deposits (as the cornerstone of raising funds without having to resort to the interbank market), we intend to reinforce our earnings and market positions in our core areas of business—corporate and business banking and retail banking—during the 2015 financial year. However, the generally high level of unemployment could impose narrow limits on deposit and securities operations and the demand for credit. At the same time, based on its pleasing development during the first quarter, we expect our risk position to improve visibly. That notwithstanding, relentlessly high regulatory requirements, structural change in the banking sector and the escalating legislative burden of bank levies will continue to increase cost pressures. We are endeavouring to make up for those pressures by resolutely putting our efficiency programmes and strategic agenda into effect. Thanks to the pleasing overall development of our profits during the first quarter and based on the assumption that the market environment will not deteriorate any further, we believe that our profit for the year 2015 will again permit additions to our reserves and, as a result, contribute to another increase in enterprise value.

We remain,

Yours faithfully,

Herta Stockbauer
Chairwoman

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

The 3 Banken Group at a glance

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	Q1 2014	Q1 2015	Q1 2014	Q1 2015	Q1 2014	Q1 2015
Net interest income	39.1	36.1	82.4	86.5	46.0	44.2
Impairment charge on loans and advances	(13.9)	(6.2)	(18.1)	(20.4)	(9.4)	(4.3)
Net fee and commission income	11.7	12.9	30.6	35.2	10.8	13.2
General administrative expenses	(25.9)	(26.2)	(57.9)	(59.7)	(31.9)	(32.3)
Other operating income net of other operating expenses	0.0	(0.3)	4.5	2.4	6.1	3.8
Profit for the period before tax	12.3	18.1	42.9	48.9	22.6	28.2
Profit for the period after tax	10.5	11.7	35.6	40.6	18.4	22.9
Balance sheet data, €m	31/12/2014	31/3/2015	31/12/2014	31/3/2015	31/12/2014	31/3/2015
Assets	6,864.5	6,868.7	17,774.9	17,871.4	9,597.7	9,913.3
Receivables from customers after impairment charge	4,828.9	4,962.9	11,801.8	11,951.6	6,187.2	6,310.4
Primary deposit balances	5,013.0	4,918.6	12,288.6	12,325.1	6,918.6	7,077.6
– Of which savings deposit balances	1,705.5	1,710.7	3,098.5	3,081.9	1,176.3	1,187.0
– Of which liabilities evidenced by paper	789.1	799.0	2,295.0	2,217.2	1,391.5	1,425.6
Equity	805.7	809.5	1,534.1	1,591.0	1,004.4	1,024.1
Customer assets under management	12,972.0	13,350.2	23,441.9	24,458.7	12,155.5	12,734.5
– Of which in customers' securities accounts	7,959.0	8,431.6	11,153.3	12,133.6	5,236.8	5,656.9
Own funds within the meaning of CRR, €m	31/12/2014	31/3/2015	31/12/2014	31/3/2015	31/12/2014	31/3/2015
Basis of assessment of own funds	4,846.6	4,982.7	11,935.2	12,015.2	6,212.8	6,332.6
Own funds	580.9	564.6	1,874.4	1,868.5	930.1	933.3
– Of which Common Equity Tier 1 capital (CET1)	543.7	534.5	1,306.9	1,338.9	796.1	825.9
– Of which total Tier 1 capital (CET 1 and AT1)	543.7	534.5	1,385.2	1,389.7	796.1	825.9
Common Equity Tier 1 capital ratio, %	11.2	10.7	11.0	11.1	12.8	13.0
Tier 1 capital ratio, %	11.2	10.7	11.6	11.6	12.8	13.0
Own funds ratio, %	12.0	11.3	15.7	15.6	15.0	14.7
Corporate ratios, %	2014	Q1 2015	2014	Q1 2015	2014	Q1 2015
Return on equity before tax	6.7	6.7	10.7	12.6	9.3	11.3
Return on equity after tax	6.1	5.8	9.3	10.5	7.9	9.1
Cost:income ratio	52.7	53.8	50.1	46.3	54.4	50.0
Risk:earnings ratio	31.5	17.1	20.9	23.6	15.9	9.6
Resources	2014	Q1 2015	2014	Q1 2015	2014	Q1 2015
Average number of staff	915	923	2,004	2,019	1,195	1,193
Branches	57	57	156	156	38	37

The *3 Banken Group* has existed for more than 20 years. This voluntary collaboration between *Oberbank AG*, *Bank für Tirol und Vorarlberg Aktiengesellschaft* and BKS Bank has the strength of a major bank. The success of BKS Bank and its sister banks stems from the fact that each has its own strategy and business policy and from their self-image as independent and capable 'universal' banks servicing export-orientated medium-sized enterprises in their respective regions. All three banks continued on their sustainable business policy paths in the period from January through March 2015. Their aggregate profit for the period before tax grew by €17.4 million or 22.4 per cent to €95.2 million. Their aggregate assets stabilized at a level of €34.7 billion, their aggregate loan portfolio net of impairment allowance balances came to €23.2 billion, and funds under management by the three banks in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated liabilities came to €24.3 billion at the end of March 2015. At the end of the period under review, the three banks employed a total of 4,135 people. The branch network, which is at the disposal of all three sister banks, consisted of 250 points of contact for corporate and business banking and retail banking customers.

Consolidated Financial Statements as at and for the Three Months Ended 31 March 2015

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Comprehensive Income Statement of the BKS Bank Group for the Period from 1 January to 31 March 2015

INCOME STATEMENT

€k	Note	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Interest income		50,053	43,099	(13.9)
Interest expenses		(15,889)	(13,376)	(15.8)
Profit/(loss) from investments in entities accounted for using the equity method		4,889	6,371	30.3
Net interest income	**(1)**	**39,053**	**36,094**	**(7.6)**
Impairment charge on loans and advances	(2)	(13,913)	(6,161)	(55.7)
Net interest income after impairment charge		**25,140**	**29,933**	**19.1**
Fee and commission income		12,403	13,684	10.3
Fee and commission expenses		(716)	(769)	7.4
Net fee and commission income	**(3)**	**11,687**	**12,915**	**10.5**
Net trading income	(4)	321	(67)	(>100)
General administrative expenses	(5)	(25,930)	(26,173)	0.9
Other operating income	(6)	869	1,433	64.9
Other operating expenses	(6)	(859)	(1,751)	>100
Total profit/(loss) from financial assets		**1,091**	**1,768**	**62.1**
– Profit/(loss) from financial assets (FV)	(7)	673	1,256	86.6
– Profit/(loss) from financial assets (AFS)	(8)	418	225	(46.2)
–Profit/(loss) from financial assets (HTM)	(9)	—	287	—
Profit for the period before tax		**12,319**	**18,058**	**46.6**
Income tax expense	(10)	(1,798)	(6,345)	>100
Profit for the period after tax		**10,521**	**11,713**	**11.3**
Minority interests in profit for the period		(1)	(1)	—
Profit for the period after tax and minority interests		**10,520**	**11,712**	**11.3**

OTHER COMPREHENSIVE INCOME (OCI)

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Profit for the period after tax	**10,521**	**11,713**	**11.3**
Items not reclassified to consolidated profit or loss	**85**	**(5,321)**	**(>100)**
+/(–) 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	85	(5,321)	(>100)
Items reclassified to consolidated profit or loss	**4,891**	**1,405**	**(71.3)**
+/(–) Foreign exchange differences	(80)	50	(>100)
+/(–) Available-for-sale reserve	787	5,096	>100
+/(–) Deferred taxes taken to AFS reserve items	(388)	(1,347)	>100
+/(–) Gains less losses arising from use of the equity method	4,572	(2,394)	(>100)
Total income and expenses taken directly to equity	**4,976**	**(3,916)**	**(>100)**
Comprehensive income before minority interests	**15,497**	**7,797**	**(49.7)**
Of which minority interests	(1)	(1)	—
Comprehensive income after minority interests	**15,496**	**7,796**	**(49.7)**

QUARTERLY REVIEW

€k	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Interest income	50,053	47,937	48,238	45,946	43,099
Interest expenses	(15,889)	(16,216)	(16,114)	(15,174)	(13,376)
Profit/(loss) from investments in entities accounted for using the equity method	4,889	7,493	8,712	7,468	6,371
Net interest income	**39,053**	**39,214**	**40,836**	**38,240**	**36,094**
Impairment charge on loans and advances	(13,913)	(13,088)	(13,173)	(9,346)	(6,161)
Net interest income after impairment charge	**25,140**	**26,126**	**27,663**	**28,894**	**29,933**
Fee and commission income	12,403	12,543	13,082	9,795	13,684
Fee and commission expenses	(716)	(666)	(879)	(823)	(769)
Net fee and commission income	**11,687**	**11,877**	**12,203**	**8,972**	**12,915**
Net trading income	321	743	458	(149)	(67)
General administrative expenses	(25,930)	(26,061)	(24,953)	(28,865)	(26,173)
Other operating income	869	1,255	438	3,411	1,433
Other operating expenses	(859)	(3,041)	(2,689)	(1,896)	(1,751)
Total profit/(loss) from financial assets	**1,091**	**1,352**	**933**	**2,247**	**1,768**
– Profit/(loss) from financial assets (FV)	673	145	(112)	(2,787)	1,256
– Profit/(loss) from financial assets (AFS)	418	1,207	1,045	347	225
– Profit/(loss) from financial assets (HTM)	0	0	0	4,687	287
Profit for the period before tax	**12,319**	**12,251**	**14,053**	**12,614**	**18,058**
Income tax expense	(1,798)	(1,708)	(1,835)	718	(6,345)
Profit for the period after tax	**10,521**	**10,543**	**12,218**	**13,332**	**11,713**
Minority interests in profit for the period after tax	(1)	0	(1)	(1)	(1)
Profit for the period after tax and minority interests	**10,520**	**10,543**	**12,217**	**13,331**	**11,712**

Balance Sheet of the BKS Bank Group as at 31 March 2015

ASSETS

€k	Notes	31/12/2014	31/3/2015	+/(–) Change, %
Cash and balances with the central bank	(11)	215,269	168,017	(22.0)
Receivables from other banks	(12)	269,482	192,675	(28.5)
Receivables from customers	(13)	5,023,080	5,161,860	2.8
– Impairment allowance balance	(14)	(194,161)	(198,964)	2.5
Trading assets	(15)	46	60	30.4
Total financial assets		1,407,362	1,392,662	(1.0)
– Financial assets designated as at fair value through profit or loss	(16)	149,399	147,239	(1.4)
– Available-for-sale financial assets	(17)	183,310	179,957	(1.8)
– Held-to-maturity financial assets	(18)	678,757	665,301	(2.0)
– Investments in entities accounted for using the equity method	(19)	395,896	400,165	1.1
Intangible assets	(20)	1,993	1,959	(1.7)
Property and equipment	(21)	59,040	59,457	0.7
Investment property	(22)	28,985	28,964	(0.1)
Deferred tax assets	(23)	21,670	21,884	1.0
Other assets	(24)	31,738	40,141	26.5
Total assets		**6,864,504**	**6,868,715**	**0.1**

EQUITY AND LIABILITIES

€k	Notes	31/12/2014	31/3/2015	+/(–) Change, %
Payables to other banks	(25)	860,517	891,311	3.6
Payables to customers	(26)	4,223,966	4,119,618	(2.5)
– Of which savings deposit balances		1,705,481	1,710,700	0.3
– Of which other payables		2,518,485	2,408,918	(4.4)
Liabilities evidenced by paper	(27)	593,614	614,255	3.5
Trading liabilities	(28)	45	56	(24.4)
Provisions	(29)	128,519	132,368	3.0
Deferred tax liabilities	(30)	10,505	12,341	17.5
Other liabilities	(31)	46,173	104,518	>100
Subordinated debt capital	(32)	195,453	184,701	(5.5)
Equity		805,712	809,547	0.5
– Of which total minority interests and equity		805,700	809,534	0.5
– Of which minority interests in equity		12	13	8.3
Total equity and liabilities		**6,864,504**	**6,868,715**	**0.1**

EARNINGS AND DIVIDEND PER SHARE

	31/3/2014	31/3/2015
Average number of shares in issue	32,184,397	35,451,803
Dividend per share, €	0.25	0.23
Earnings per share, € (diluted and undiluted)	**1.31**	**1.32**

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

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Equity
At 1 January 2015	**72,072**	**143,056**	**(1,107)**	**2,560**	**531,286**	**11,219**	**46,614**	**805,700**
Planned distribution							(8,288)	(8,288)
Taken to retained earnings					38,326		(38,326)	0
Profit for the period after tax							11,713	11,713
Gains and losses taken directly to equity			50	3,749		(7,715)		(3,916)
Increase in share capital								0
Change arising from use of the equity method						5,597		5,597
Changes in treasury shares					(1,219)			(1,219)
Other changes					(53)			(53)
At 31 March 2015	**72,072**	**143,056**	**(1,057)**	**6,309**	**568,340**	**9,101**	**11,713**	**809,534**
Available-for-sale reserve								8,408
Deferred tax reserve								(2,100)

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Equity
At 1 January 2014	**65,520**	**97,929**	**(987)**	**2,498**	**504,322**	**4,276**	**40,596**	**714,154**
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)

Cash Flow Statement

CASH FLOWS

€k	1/1–31/3/2014	1/1–31/3/2015
Cash and cash equivalents at end of previous period	**104,815**	**215,269**
Net cash from/(used in) operating activities	7,792	(55,978)
Net cash from/(used in) investing activities	(10,456)	19,268
Net cash from/(used in) financing activities	(9,176)	(10,752)
Effect of exchange rate changes on cash and cash equivalents	74	210
Cash and cash equivalents at end of reporting period	**93,049**	**168,017**

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

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the three months ended 31 March 2015 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) that were 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 a total of 19 entities (15 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). The scope of consolidation was unchanged versus 31 December 2014.

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00	—	31/3/2015
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	31/3/2015
BKS-leasing d.o.o.	Ljubljana	100.00	—	31/3/2015
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	31/3/2015
BKS-Leasing s.r.o.	Bratislava	100.00	—	31/3/2015
IEV Immobilien GmbH	Klagenfurt	100.00	—	31/3/2015
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	31/3/2015
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	—	100.00	31/3/2015
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	31/3/2015
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	31/3/2015
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	31/3/2015
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00	31/3/2015
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	31/3/2015
BKS Service GmbH	Klagenfurt	100.00	—	31/3/2015
BKS 2000 Beteiligungsverwaltungs GmbH	Klagenfurt	100.00		31/3/2015

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	—	31/12/2014
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	31/12/2014
Drei-Banken Versicherungs-Aktiengesellschaft	Linz	20.00	—	31/3/2015

Regarding *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*, we point out that although BKS Bank had voting interests of less than 20 per cent in those banks, namely of 18.51 per cent and 15.10 per cent, respectively, and equity interests of less than 20 per cent, namely of 16.95 per cent and 13.59 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them.

Entities accounted for on a proportionate basis

As a result of the application of IFRS 11 since the 2014 financial year, our investment in *Alpenländische Garantie-GmbH* required classification as a joint operation and was, therefore, accounted for on a proportionate basis.

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Entity	Head Office	Direct Equity Interest, %	Date of Financial Statements
Alpenländische Garantie-GmbH	Linz	25.00	31/3/2015

FOREIGN SUBSIDIARIES AND BRANCHES AT 31 MARCH 2015

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period Before Tax
Branches abroad				
Slovenia Branch (banking branch)	2,878	3,472	91	699
Slovakia Branch (banking branch)	287	308	20	(49)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	551	957	11	392
BKS-leasing Croatia d.o.o., Zagreb	380	453	11	238
BKS-Leasing s.r.o.,Bratislava	265	319	14	46
BKS Bank d.d., Rijeka	1,292	1,454	57	450

FOREIGN SUBSIDIARIES AND BRANCHES AT 31 MARCH 2014

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period Before Tax
Branches abroad				
Slovenia Branch (banking branch)	2,986	3.,24	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 just two companies that did not prepare their financial statements in euros. They were Croatian companies that prepared their financial statements in Croatian kunas (HRK). 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 period. The resulting foreign exchange differences were recognized in *Other comprehensive income*. Foreign 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, including all derivatives except for those that are designated as hedges (held for trading);

   – financial assets and liabilities designated as at fair value through profit or loss (fair value option)
- available-for-sale financial assets and liabilities (AFS);
- held-to-maturity financial assets and liabilities (HTM);
- loans and receivables (LAR);
- financial liabilities (other liabilities).

On each reporting date, financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a 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 2014, 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 our shareholdings in *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* were below 20 per cent—as syndicate agreements were in place. These agreements 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 individual impairment charges (in the case of material exposures, these were calculated on the basis of the *discounted cash flow method*), by recognizing individual impairment charges applying 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 (by certified appraisers). Depreciation rates were 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 66.7 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 goodwill and other intangible assets. The *Other intangible assets* were all purchased, had limited useful lives and consisted primarily of software. Ordinary amortization was linear based on an asset's usual useful life. The amortization rate of software was 25 per cent (i.e. 4 years).

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

No goodwill was shown on the Balance Sheet as at 31 March 2015.

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. As of 31 December 2000, the pension 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, foreign 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 from customers, liabilities evidenced by paper and investment property. Interest income and interest expenses were accounted for on an accrual basis. 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. Fees and commission in connection with newly granted loans with original durations of more than one year were recognized in the Income Statement *pro rata temporis*.

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, compensation for damages, proceeds from property sales and similar items. 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 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 reporting date of 31 March 2015.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Interest income	**50,053**	**43,099**	**(13.9)**
– Of which from credit operations	37,920	32,725	(13.7)
– Of which from fixed-interest securities	7,031	5,956	(15.3)
– Of which from lease receivables	2,073	2,176	5.0
– Of which from shares and investments in other entities	2,445	1,405	(42.5)
– Of which from investment property	584	837	43.3
Interest expenses	**15,889**	**13,376**	**(15.8)**
– Of which on deposits from customers and other banks [1]	9,094	6,712	(26.2)
– Of which on liabilities evidenced by paper	6,604	6,411	(2.9)
– Of which on investment property	191	253	32.5
Profit from investments in entities accounted for using the equity	**4,889**	**6,371**	**30.3**
– Of which income from investments in entities accounted for using the equity method	5,120	6,387	24.7
– Financing costs of investments in entities accounted for using the equity method [2]	(231)	(16)	(93.1)
Net interest income	**39,053**	**36,094**	**(7.6)**

[1] Less 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	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Impairment allowances	15,523	7,187	(53.7)
Impairment reversals	(1,596)	(1,062)	(33.5)
Direct write-offs	109	169	55.0
Recoveries on receivables previously written off	(123)	(133)	8.1
Impairment charge on loans and advances	**13,913**	**6,161**	**(55.7)**

(3) NET FEE AND COMMISSION INCOME

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Fee and commission income	**12,403**	**13,684**	**10.3**
– Of which from payment services	5,126	5,261	2.6
– Of which from securities operations	3,147	3,815	21.2
– Of which from credit operations	3,116	2,614	(16.1)
– Of which from money and foreign exchange transactions	458	1,403	>100
– Of which from other services	556	591	6.3
Fee and commission expenses	**716**	**769**	**7.4**
– Of which arising from payment services	371	425	14.6
– Of which arising from securities operations	237	228	(3.8)
– Of which arising from credit operations	62	75	21.0
– Of which arising from money and foreign exchange transactions	4	4	0.0
– Of which arising from other services	42	37	(11.9)
Net fee and commission income	**11,687**	**12,915**	**10.5**

(4) NET TRADING INCOME

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Price-based contracts	(1)	0	—
Interest rate and currency contracts	322	(67)	(>100)
Net trading income	**321**	**(67)**	**(>100)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Staff costs	16,847	17,285	2.6
– Of which wages and salaries	12,843	13,084	1.9
– Of which social security costs	2,631	2,736	4.0
– Of which costs of old-age benefits	1,373	1,465	6.7
Other administrative costs	7,487	7,228	(3.5)
Depreciation/amortization	1,596	1,660	4.0
General administrative expenses	**25,930**	**26,173**	**0.9**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Other operating income	869	1,433	64.9
Other operating expenses	(859)	(1,751)	>100
Other operating income net of other operating expenses	**10**	**(318)**	**(>100)**

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

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Revaluation gains and losses on derivatives	497	391	(21.3)
Gain/(loss) as a result of using the fair value option	176	865	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	**673**	**1,256**	**86.6**

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

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Revaluation gains and losses	(18)	11	(>100)
Gains and losses realized on disposal	436	214	(50.9)
Profit/(loss) from available-for-sale financial assets	**418**	**225**	**(46.2)**

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

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Revaluation gains and losses and gains and losses realized on disposal	0	287	—
Profit/(loss) from held-to-maturity financial assets	**0**	**287**	**—**

(10) INCOME TAX EXPENSE

€k	1/1–31/3/2014	1/1–31/3/2015	+/(–) Change, %
Current taxes	(1,768)	(5,987)[1]	>100
Deferred taxes	(30)	(358)	>100
Income tax expense	**(1,798)**	**(6,345)**	**>100**

[1] Increase caused by the creation of a tax provision.

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2014	30/3/2015	+/(–) Change, %
Cash in hand	34,693	31,188	(10.1)
Credit balances with central banks of issue	180,576	136,829	(24.2)
Cash and balances with the central bank	**215,269**	**168,017**	**(22.0)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Receivables from Austrian banks	167,323	106,716	(36.2)
Receivables from foreign banks	102,159	85,959	(15.9)
Receivables from other banks	**269,482**	**192,675**	**(28.5)**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Corporate and business banking customers	3,893,421	4,005,661	2.9
Retail banking customers	1,129,659	1,156,199	2.3
Receivables from customers	**5,023,080**	**5,161,860**	**2.8**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2014	30/3/2015	+/(–) Change, %
At beginning of period under review	176,109	194,161	10.3
Change in consolidation policy [1]	28,285	—	(100)
+ Added	55,566	7,351	(86.8)
– Reversed	(13,147)	(1,337)	(89.8)
– Used	(52,607)	(1,234)	(97.7)
+ Foreign exchange differences	(45)	22	>(100)
At end of period under review	**194,161**	**198,964**	**2.5**

[1] Because of the proportionate consolidation of *Alpenländische Garantie-GmbH* (ALGAR), the dedicated provisions and provisions in respect of ALGAR's declarations of freedom from impairment were accounted for as specific risk allowances.

(15) TRADING ASSETS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Bonds and other fixed-interest securities	0	0	—
Shares and other variable-yield securities	0	0	—
Positive fair values of derivative financial instruments			
– Of which currency contracts	0	7	—
– Of which interest rate contracts	46	53	15.2
Trading assets	**46**	**60**	**30.4**

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

€k	31/12/2014	30/3/2015	+/(–) Change, %
Bonds and other fixed-interest securities	62,339	63,281	1.5
Loans	87,060	83,958	(3.6)
Financial assets designated as at fair value through profit or loss	**149,399**	**147,239**	**(1.4)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Bonds and other fixed-interest securities	82,636	69,870	(15.4)
Shares and other variable-yield securities	42,281	50,790	20.1
Investments in other associates and in subsidiaries	4,393	4,393	0.0
Other equity investments	54,000	54,904	1.7
Available-for-sale financial assets	**183,310**	**179,957**	**(1.8)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Bonds and other fixed-interest securities	678,757	665,301	(2.0)
Held-to-maturity financial assets	**678,757**	**665,301**	**(2.0)**

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

€k	31/12/2014	30/3/2015	+/(–) Change, %
Oberbank AG	259,001	259,477	0.2
Bank für Tirol und Vorarlberg AG	132,631	136,424	2.9
Drei-Banken Versicherungs-AG	4,264	4,264	0.0
Investments in entities accounted for using the equity method	**395,896**	**400,165**	**1.1**

(20) INTANGIBLE ASSETS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Goodwill	0	0	—
Other intangible assets	1,993	1,959	(1.7)
Intangible assets	**1,993**	**1,959**	**(1.7)**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2014	30/3/2015	+/(–) Change, %
Land	7,856	7,871	0.2
Buildings	41,232	40,989	(0.6)
Other	9,952	10,597	6.5
Property and equipment	**59,040**	**59,457**	**0.7**

(22) INVESTMENT PROPERTY

€k	31/12/2014	30/3/2015	+/(–) Change, %
Land	11,842	12,155	2.6
Buildings	17,143	16,809	(1.9)
Investment property	**28,985**	**28,964**	**(0.1)**

(23) DEFERRED TAX ASSETS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Deferred tax assets	**21,670**	**21,884**	**1.0**

(24) OTHER ASSETS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Positive fair values of derivative financial instruments	15,821	27,509	73.9
Other items	13,566	10,144	(25.2)
Deferred items	2,351	2,488	5.8
Other assets	**31,738**	**40,141**	**26.5**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Payables to Austrian banks	593,228	660,784	11.4
Payables to foreign banks	267,289	230,527	(13.8)
Payables to other banks	**860,517**	**891,311**	**3.6**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Savings deposit balances	**1,705,481**	**1,710,700**	**0.3**
– Of which from corporate and business banking customers	195,651	177,279	(9.4)
– Of which from retail banking customers	1,509,830	1,533,421	1.6
Other payables	**2,518,485**	**2,408,918**	**(4.4)**
– Of which to corporate and business banking customers	1,742,938	1,608,662	(7.7)
– Of which to retail banking customers	775,547	800,256	3.2
Payables to customers	**4,223,966**	**4,119,618**	**(2.5)**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2014	30/3/2015	+/(–) Change, %
Issued bonds	500,655	504,385	0.7
Other liabilities evidenced by paper	92,959	109,870	18.2
Liabilities evidenced by paper	**593,614**	**614,255**	**3.5**

(28) TRADING LIABILITIES

€k	31/12/2014	30/3/2015	+/(–) Change, %
Interest rate contracts	45	53	17.8
Currency contracts	0	3	—
Trading liabilities	**45**	**56**	**24.4**

(29) PROVISIONS

€k	31/12/2014	30/3/2015	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	78,917	79,809	1.1
Provisions for taxes (current tax)	117	3,698	>100
Other provisions	49,485	48,861	(1.3)
Provisions	**128,519**	**132,368**	**3.0**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2014	30/3/2015	+/(–) Change, %
Deferred tax liabilities	**10,505**	**12,341**	**17.5**

(31) OTHER LIABILITIES

€k	31/12/2014	30/3/2015	+/(–) Change, %
Negative fair values of derivative financial instruments	26,257	65,540	>100
Other items	13,928	38,055	>100
Deferred items	5,988	923	(84.6)
Other liabilities	**46,173**	**104,518**	**>100**

(32) SUBORDINATED DEPT CAPITAL

€k	31/12/2014	30/3/2015	+/(–) Change, %
Supplementary capital	155,453	144,701	(6.9)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**195,453**	**184,701**	**(5.5)**

(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 the 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 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 PERFORMANCE ANALYSIS

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	1/1–31/3/2014	1/1–31/03/2015	1/1–31/3/2014	1/1–31/03/2015	1/1–31/3/2014	1/1–31/03/2015
Net interest income	**8,593**	**8,006**	**20,067**	**20,646**	**10,326**	**7,209**
– Of which from investments in entities accounted for using the equity method	—	—	—	—	4,889	6,371
Impairment charge on loans and advances	(608)	(265)	(13,135)	(6,097)	(170)	201
Net fee and commission income	5,581	6,017	5,866	6,211	43	120
Net trading income	—	—	—	—	321	(67)
General administrative expenses	(13,663)	(13,846)	(9,421)	(9,477)	(1,659)	(1,558)
Other operating income net of other operating expenses	150	110	303	490	1	(13)
Profit from financial assets	—	—	—	—	1,091	1,768
Profit for the period before tax	**53**	**22**	**3,679**	**11,773**	**9,954**	**7,660**
Average risk-weighted assets	543,662	516,326	3,276,257	3,104,182	582,032	833,622
Average allocated equity	43,493	41,306	262,101	248,335	404,767	509,137
ROE based on profit for the period	**0.5%**	**0.2%**	**5.6%**	**19.0%**	**9.8%**	**6.0%**
Cost:income ratio	**95.4%**	**98.0%**	**35.9%**	**34.7%**	**15.5%**	**21.5%**
Risk:earnings ratio	**7.1%**	**3.3%**	**65.5%**	**29.5%**	**1.6%**	**—**

€k	Other		Total	
	1/1–31/3/2014	1/1–31/03/2015	1/1–31/3/2014	1/1–31/03/2015
Net interest income	**67**	**233**	**39,053**	**36,094**
– Of which from investments in entities accounted for using the equity method	—	—	4,889	6,371
Impairment charge on loans and advances	—	—	(13,913)	(6,161)
Net fee and commission income	197	567	11,687	12,915
Net trading income	0	0	321	(67)
General administrative expenses	(1,188)	(1,292)	(25,930)	(26,173)
Other operating income net of other operating expenses	(443)	(905)	10	(318)
Profit from financial assets	0	0	1,091	1,768
Profit for the period before tax	**(1,367)**	**(1,397)**	**12,319**	**18,058**
Average risk-weighted assets	39,051	49,346	4,441,003	4,503,476
Average allocated equity	6,302	8,852	716,663	807,630
ROE based on profit for the period	**—**	**—**	**6.9%**	**6.7%**
Cost:income ratio	**—**	**—**	**50.8%**	**53.8%**
Risk:earnings ratio	**—**	**—**	**35.6%**	**17.1%**

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2014	31/3/2015	+/(–) Change, %
Subscribed capital	72,072	72,072	0.0
– Of which share capital	72,072	72,072	0.0
Capital reserves	143,056	143,056	0.0
Retained earnings and other reserves, current profit	590,584	594,419	0.6
Shareholders' equity before minority interests	**805,712**	**809,547**	**0.5**
Minority interests	(12)	(13)	8.3
Shareholders' equity after minority interests	**805,700**	**809,534**	**0.5**

The share capital was represented by 34,236,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. The nominal value of each share was €2.0. Capital reserves contains premiums arising from the issuance of shares. Retained earnings and other reserves consists essentially of ploughed back profits.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2014	31/3/2015	+/(–) Change, %
Guarantees	392,244	391,287	(0.2)
Letters of credit	2,948	1,640	(44.4)
Contingent liabilities	**395,192**	**392,927**	**(0.6)**
Other commitments	868,499	874,522	0.7
Commitments	**868,499**	**874,522**	**0.7**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

	Outstanding Balances at		Guarantees Received		Guarantees Issued	
€k	31/12/2014	31/3/2015	31/12/2014	31/3/2015	31/12/2014	31/3/2015
Unconsolidated subsidiaries			**0**	**0**	**0**	**0**
Receivables	5,597	5,457				
Payables	1,165	1,511				
Associates and joint arrangements			**0**	**0**	**0**	**0**
Receivables	59,585	4,605				
Payables	145,108	146,294				
Key management personnel			**0**	**0**	**0**	**0**
Receivables	440	425				
Payables	479	651				
Other related persons			**0**	**0**	**109**	**109**
Receivables	16	19				
Payables	592	610				

LOANS AND ADVANCES GRANTED

€k	31/12/2014	31/3/2015	+/(–) Change, %
Loans and advances granted to members of the Management Board	165	159	(3.6)
Loans and advances granted to members of the Supervisory Board	275	266	(3.3)
Loans and advances granted	**440**	**425**	**(3.4)**

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

(37) EVENTS AFTER THE 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 2015) 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 31 March 2015 and 14 April 2015 within the scope of the stock buyback programme approved by the 73rd AGM on 15 May 2012. The issue price of each ordinary no-par BKS share was €17.45. A total of 9,343 shares were subscribed for.

(38) FAIR VALUES

The two tables that follow on page 40 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.

Valuation policies and classification

The fair values shown in the category *Level 1 'Market Values'* were determined using market prices quoted on active markets (stock exchange).

If market values were unavailable, fair value was ascertained using customary valuation models based on observable input factors and market data and presented in the category *Level 2 'Based on Market Data'* (e.g. by discounting future cash flows from financial instruments). In general, the fair values recognized in this category were ascertained using market data that could be observed for the respective asset or liability (e.g. yield curves, foreign exchange rates). In general, items in the category *Level 2* were measured using present value techniques.

In the category *Level 3 'Internal Valuation Methodology'* presented on page 41, 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. In general, receivables from customers and liabilities evidenced by paper in the category *Level 3* were measured on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in the category *Level 3* that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category *Level 3* were measured using present value techniques.

Reclassification

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

Changes in ratings of liabilities measured to fair value

During the period under review, the change in BKS Bank's credit standing reduced the value of the liabilities measured to fair value by €0.3 million (2014: reduction of €0.6 million).

(38) FAIR VALUES

31 MARCH 2015 €k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/3/2015	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	192,767	0	192,767	192,675	92
Receivables from customers	0	5,235,821	0	5,235,821	5,161,859	73,961
Trading assets	0	60	0	60	60	0
Financial assets designated as at fair value through profit or loss	63,281	0	83,958	149,399	149,399	0
Available-for-sale financial assets	154,945	0	25,012	179,957	179,957	0
Held-to-maturity financial assets	750,685	0	0	750,685	665,301	85,384
Investments in entities accounted for using the equity method	322,162	0	4,264	326,426	400,165	(73,739)
Investment property	0	0	44,633	44,633	28,964	15,669
Other assets (derivatives)	0	27,509	0	27,509	27,509	0
Equity and liabilities						
Payables to other banks	0	894,954	0	894,954	891,311	3,642
Payables to customers	0	4,139,260	0	4,139,260	4,119,619	19,641
Liabilities evidenced by paper	434,854	98,127	106,977	639,958	614,255	25,703
– Of which designated as at fair value through profit or loss	0	0	106,977	106,977	106,977	0
Subordinated debt capital	186,221	2,352	0	188,573	184,701	3,872
Trading liabilities	0	56	0	56	56	0
Other liabilities (derivatives)	0	65,540	0	65,540	65,540	0

31 DECEMBER 2014 €k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/12/2014	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	269,535	0	269,535	269,482	53
Receivables from customers	0	5,096,551	0	5,096,551	5,023,080	73,471
Trading assets	0	46	0	46	46	0
Financial assets designated as at fair value through profit or loss	62,338	0	87,061	149,399	149,399	0
Available-for-sale financial assets	158,345	0	24,965	183,310	183,310	0
Held-to-maturity financial assets	758,106	0	0	758,106	678,757	79,349
Investments in entities accounted for using the equity method	316,811	0	4,264	321,075	395,896	(74,821)
Investment property	0	0	44,520	44,520	28,986	15,534
Other assets (derivatives)	0	15,821	0	15,821	15,821	0
Equity and liabilities						
Payables to other banks	0	863,933	0	863,933	860,517	3,416
Payables to customers	0	4,242,935	0	4,242,935	4,223,966	18,969
Liabilities evidenced by paper	431,111	78,488	106,316	615,915	593,614	22,301
– Of which designated as at fair value through profit or loss	0	0	106,316	106,316	106,316	0
Subordinated debt capital	197,585	2,354	0	199,939	195,453	4,486
Trading liabilities	0	45	0	45	45	0
Other liabilities (derivatives)	0	26,257	0	26,257	26,257	0

LEVEL 3: CHANGES BETWEEN 1 JANUARY AND 31 MARCH 2015

€k	Available for Sale (FV)	Investments in Entities Accounted for using the Equity Method	At Fair Value Through Profit or Loss (FV)	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 1 January 2015	24,965	4,264	87,061	106,316
Reclassified	—	—	—	—
Income Statement [1]	—	—	(505)	661
Other profit or loss	47	—	—	—
Purchased	—	—	—	—
Sold/redeemed	—	—	(3,608)	—
At 31 March 2015	**25,012**	**4,264**	**82,948**	**106,977**

[1] Revaluations through profit or loss.

(39) BALANCE OF DERIVATIVES OUTSTANDING

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

31 March 2015	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1– 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,741,671**	**699,833**	**—**	**2,441,504**	**17,011**	**51,957**
– Of which in trading book	700	—	—	700	7	3
Interest rate contracts	**202,276**	**160,084**	**275,306**	**637,666**	**9,795**	**11,388**
– Of which in trading book	3,276	12,084	11,436	26,796	53	53
Securities contracts	**630**	**—**	**—**	**630**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,944,577**	**859,917**	**275,306**	**3,079,800**	**26,806**	**63,345**
– Of which in trading book	3,976	12,084	11,436	27,496	60	56

31 December 2014	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1– 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,365,225**	**630,789**	**—**	**1,996,014**	**6,743**	**13,094**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**211,928**	**172,574**	**280,896**	**665,398**	**8,320**	**11,603**
– Of which in trading book	2,928	9,324	14,986	27,238	46	46
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,577,153**	**803,363**	**280,896**	**2,661,412**	**15,063**	**24,697**
– Of which in trading book	2,928	9,324	14,986	27,238	46	46

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 2015 prepared in accordance with the effective financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Consolidated Management Report for the period from 1 January to 31 March 2015 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
20 March 2015

The Management Board

Herta Stockbauer (Chairwoman)

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

Dieter Krassnitzer (Member)

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

Wolfgang Mandl (Member)

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

Financial Calendar for 2015

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

BKS Bank's Interim Reports

22 May 2015:	Interim Report as at and for the 3 months ended 31 March 2015
21 August 2015:	Semi-Annual Financial Report as at and for the 6 months ended 30 June 2015
27 November 2015:	Interim Report as at and for the 9 months ended 30 September 2015

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