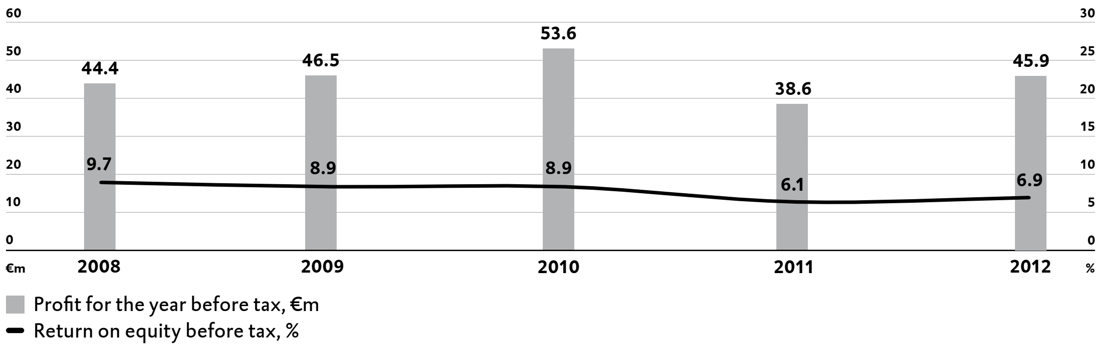
Committed to Responsible Action

Annual Report 2012

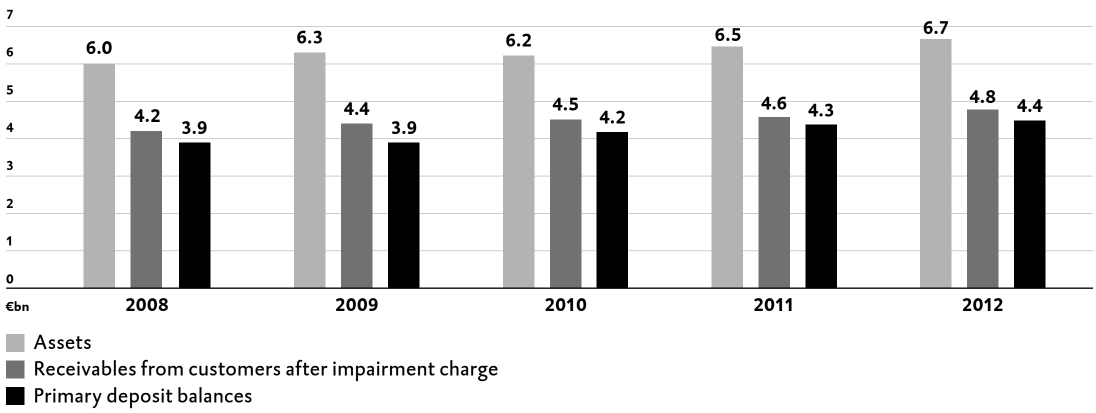
BKS Bank
3 Banken Gruppe

BKS Bank continued on its path of corporate responsibility during the 2012 financial year. In this annual report, we have done without colours and print finishing and have saved €10 thousand by doing so. This money has been donated to the 'Auwald' alluvial forest project on the Obere Drau river, where alluvial forest plants are being planted and a body of water is being created for amphibians in collaboration with the *Umweltdachverband* (Austria's umbrella environmental organization), the *Fritz-Strobl-Schulzentrum* schools centre in Spittal an der Drau and Spittal an der Drau's waterways authority.

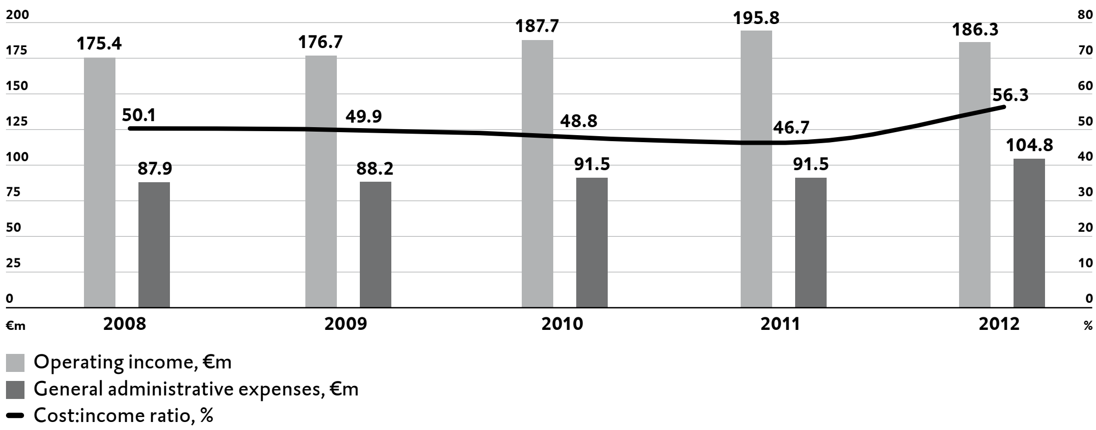
PROFIT



BALANCE SHEET



COST:INCOME RATIO



THREE-YEAR COMPARISON

Income account, €m	2010	2011	2012
Net interest income	143.6	150.4	143.1
Impairment charge on loans and advances	(47.6)	(33.2)	(38.6)
Net fee and commission income	42.5	42.3	44.4
General administrative expenses	(91.5)	(91.5)	(104.8)
Profit for the year before tax	53.6	38.6	45.9
Consolidated net profit for the year after tax	46.4	36.4	40.1

Balance sheet data, €m			
Assets	6,238.2	6,456.0	6,654.4
Receivables from customers after impairment charge	4,498.2	4,647.8	4,794.2
Primary deposit balances	4,158.5	4,251.4	4,362.4
Of which savings deposit balances	1,847.2	1,786.3	1,797.9
Of which liabilities evidenced by paper, including subordinated debt capital	667.6	715.7	816.5
Equity	627.8	644.9	688.3
Customer assets under management	10,023.5	10,025.5	10,674.9
Of which in customers' securities accounts	5,865.0	5,774.1	6,312.5

Own funds within the meaning of BWG, €m			
Risk-weighted assets	4,345.1	4,415.2	4,457.9
Own funds	567.4	681.9	709.5
Of which Tier 1 capital	416.6	599.5	630.7
Surplus own funds (before operational risk)	219.8	328.7	352.9
Surplus own funds (after operational risk)	194.8	301.9	325.8
Tier 1 ratio, %	9.59	12.46	13.10
Own funds ratio, %	13.06	15.44	15.92

Performance, %			
Return on equity before tax	8.9	6.1	6.9
Return on equity after tax	7.7	5.7	6.0
Cost:income ratio	48.8	46.7	56.3
Risk:earnings ratio (credit risk in % of net interest income)	33.1	22.1	27.0

Resources			
Average number of staff	872	901	930
Branches	55	55	55

BKS Bank's shares			
No. of ordinary no-par shares (ISIN AT0000624705)	30,960,000	30,960,000	30,960,000
No. of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	18.4/15.4	18.6/15.6	17.6/15.5
Low: ordinary/preference share, €	15.9/13.7	17.6/14.8	17.2/14.9
Close: ordinary/preference share, €	18.4/15.4	17.6/15.5	17.3/15.0
Market capitalization, €m	595.8	572.8	562.6
Dividend per share, €	0.25	0.25	0.25[1]
P/E: ordinary/preference share	12.9/10.9	15.9/14.0	14.2/12.3

[1] Proposal to the 74th Annual General Meeting of *BKS Bank AG* on 15 May 2013.

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Preface by the Management Board

The Whitebeam

Sorbus

Durability

The woods of the different varieties of *sorbus* are among Europe's most robust. They are very durable and adapt well to extreme locations.

CEO Heimo Penker

Dear Shareholder,

2012 was again a year dominated by the financial and economic crisis. Throughout 2012, there was debate about:
- the euro's future;
- how to deal with Greek, Italian, Spanish and Portuguese debt;
- the stability of Slovenia's banking sector;
- the cooling of the global economy;
- the introduction of the financial transaction tax;
- the stricter regulation of banks.

We too — as a regional bank — could not escape the global pressure and had to carry out a series of changes to our organizational structure and workflows. But thanks to these strategic changes, our market position continued to strengthen.

It is now beyond question that our business model — a sustainability model that puts long-term success above short-term profit — has proven its worth, and this is reflected by our numbers. We were able to increase our assets by 3.1 per cent to €6.65 billion during the year under review. The two biggest line items on the balance sheet were *Receivables from customers* on the assets side and *Payables to customers* on the equity and liabilities side, and these too grew at respectable rates. Although the demand for credit was falling across Europe, BKS Bank's customer loan portfolio increased by 3.4 per cent to €4.96 billion, while *Payables to customers* grew by 0.3 per cent to €3.55 billion. The deposits market was still very competitive as stricter liquidity and capital requirements combined with the languishing interbank market made so-called *primary deposits* even more crucial as the main source of funds for banks. Our solid reputation as a dependable and secure bank helps us attract deposits even when we are not offering customers the best available terms and conditions. However, our prudent terms and conditions policy did mean that the rate of growth was lower than it could have been had we made our interest rates more competitive.

Satisfactory profit for the year

As prudent business people, we always have profit in mind. For some months, our net interest income has been experiencing headwind. Risk-free market interest rates have dropped to all-time lows, but unfortunately, they no longer play a role in funding because we too also have to pay premiums, which vary depending on the state of the market. As a result, the total interest margin has slumped sharply. Despite all our efforts, net interest income after the impairment charge on loans and advances was 10.9 per cent down on the previous year to €104.5 million. Net fee and commission income developed more satisfactorily, increasing by 5.0 per cent to €44.4 million. Having freed our portfolio from Greek government bonds in 2011, we were once again able to make a profit from financial assets as well in the year under review. Most of the increase in general administrative expenses, which came to €104.8 million, was due to a rise in our expenditure on so-called *social capital*. In all, our profit for the year before tax in 2012 came to €40.1 million, which was 10.1 per cent up on the previous year. In view of the poor economic and banking industry outlooks for 2013, we are happy with this result, but we know that this is no time to sit on our laurels. According to a KPMG survey of management staff at 110 banks in Austria and five Eastern European countries, 46 per cent of respondents believed that banks' profits will continue to fall in 2013. Only 25 per cent expect an increase. Many banks have already announced that they will have to lay off staff. In addition, liquidity and capital requirements will increase. The financial transaction tax being introduced in 2014 will impose an additional monetary burden on the financial sector. Fortunately, the criteria for calculating the

The Alder

Alnus

Stability

Alders are often the first tree to grow in a place where nothing else is growing. They prepare the soil for other flora. They are believed to be particularly good for the ecosystem.

Herta Stockbauer
Member of the Management Board

liquidity coverage ratio (LCR) have been made less stringent. Nonetheless, implementing Basel III will be a challenge. BKS Bank has been making intensive preparations for its introduction in recent years. We can rightly describe our capital position as very solid. At year-end, we had an own funds ratio of 15.92 per cent and a Tier 1 ratio of 13.10 per cent. A new dimension was added to the regulation and supervision debate in the middle of the year, namely the banking union. The core of the plan is that the ECB will be responsible for supervising all banks in the eurozone in the future and that national supervisors will, so to speak, merely do the groundwork for bank supervision by the ECB.

Wolfgang Mandl joins the Management Board

On 26 September 2012, the Supervisory Board took an important strategic decision that will shape our bank's future. After 28 years on the Management Board, Heimo Penker will be retiring at the end of his present term of office at the close of March 2014. We are very pleased to report that Wolfgang Mandl — a long-standing employee at BKS Bank — was newly appointed to the Management Board to replace him. Wolfgang Mandl began his career as a personal banking advisor at our Spittal Regional Head and then graduated in applied business management as a mature student. He then had a number of posts in corporate and business customer care before becoming Head of the Klagenfurt Regional Head Office in 2003. Since then, he has been responsible for retail operations. He has been acting as a member of the Management Board since 1 January 2013.

Changes to our Head Office structure, branches and products and services

We have updated our Head Office structure so as to be ready for the many and diverse challenges we are facing. Corporate and business customer sales and retail customer sales were concentrated within a new department called *Zentrales Firmen- und Retailkundengeschäft* (central corporate and business banking and retail banking operations). We did this to make even better use of synergies and to prevent duplication when approaching customers. In order to more clearly position securities operations — which were previously integrated into our retail banking structure — we created a department called *Private Banking und Wertpapiergeschäft* (private banking and securities operations). Our new organizational structure took effect on 1 January 2013.

We continued our gradual expansion in the market and opened a new branch in Domžale in Slovenia. A number of branches underwent renovation. Our flagships include our new Vienna Regional Head Office, which moved to *Renngasse* after 22 years in *Lugeck*, our new branch on Klagenfurt's *Völkermarkter Strasse*, which has amalgamated the previous Welzenegg and Ebenthal branches, and the completely renovated branch in Bad St. Leonhard.

Our line of products and services was also enlarged and adapted to current market conditions. The line in Slovakia has included products and services for retail customers since the fourth quarter of 2012. As a result, our range in what is our newest market now includes current accounts for both retail and corporate and business banking customers complete with overdrafts, loans and saving products. Slovenia is still the foreign market that makes the biggest contribution to our profits and assets. Although we are one of the smaller banks there, Finance Magazine named us the bank in Slovenia with the best value for money for the second time in succession. This is an award that makes us feel very honoured. In Austria, our focus in 2012 was on securities and investment operations. The saving rate in our home market is falling and customers

The Ash

Fraxinus

Strength

Ash wood tends to be used if one needs timber that is very strong and elastic and has a high load-bearing capacity.

Dieter Krassnitzer
Member of the Management Board

are looking for security. Often, they believe they will find this security in property investments rather than typical bank products. People continue to feel that capital market products are too risky. As a result, volumes of and profits from securities and deposit operations are still growing less rapidly than before the crisis. We have specifically targeted high net worth customers by setting up a private banking unit. Its offerings include our *IVV – Individuelle Vermögensverwaltung* individual asset management service, brokerage, special fund solutions, buy to let properties, models for property investors and the unit's trust service. To date, we have been very satisfied with this new division's development.

Sustained success

Despite the turbulent conditions, we do not want to neglect sustainability. At this point, we would like to emphatically stress on behalf of BKS Bank our commitment to the 10 corporate responsibility principles set out in the UN Global Compact and *respACT*'s sustainable management vision.

We continued our *Durch die Bank gesund* (banking on health) scheme. In 2012, it was devoted to eyes. These important sense organs are especially challenged by working daily at a computer. BKS Bank has been awarded the Austrian Quality Seal for Workplace Health Promotion, and the *Gebietskrankenkasse* (provincial statutory health insurance authority) has already told us that we can continue to display the seal from 2013 to 2015. Most of the measures developed during the *berufundfamilie* 'JobAndFamily' audit process were put into effect, and considerable progress has already been made on the last major point that is still open, namely providing anonymous psychological support for employees in crisis situations. Because we see increasing the proportion of female management staff as an important goal, we offer female staff help planning their careers in the form of our *Frauen.Perspektiven.Zukunft* (Women.Prospects.Future) course.

We broadened our commitment to corporate social responsibility in 2012. The BKS Bank Public's Choice Prize was awarded for the first time during the *Tage der deutschsprachigen Literatur* German literature festival. We are delighted to be able to sponsor this competition, which is highly regarded throughout the German-speaking world. Our CEO Heimo Penker presented this first BKS Bank Public's Choice Prize to the young writer Cornelia Travnicek. Our partnership with *Kärntner in Not* continued.

We were very proud of our employees at the beginning of December, when they showed how big-hearted they are. As you may know, a once-in-a-century flood caused enormous damage in Lavamünd. Our staff donated €6,960 to a family who were particularly hard hit by the flood. That amount was then doubled by the our bank, giving the family €14,500 to help them make a new start. And those were just some of the highlights of our CSR activities, which have, for the first time, been described in a separate Sustainability Report.

90 Years of BKS Bank

You may think that this brief look at our activities is missing something, namely any reference to the 90th anniversary celebrated by us in 2012. This milestone birthday gave us an added incentive to remain prudent in our conduct of business. Given the persistently difficult environment, we therefore concentrated on our core operations and did without time-consuming and costly festivities. Nonetheless, people outside the bank did take note of our jubilee, and we are very proud that the City of Klagenfurt awarded us the right to display the city's arms.

The Willow

Salix

Flexibility

Willows are often planted along rivers because they quickly grow roots, stabilizing the river bank.
In addition, the bark has healing properties.

Wolfgang Mandl
Member of the Management Board

We are looking to the future with cautious optimism. We want to go on acting independently and autonomously and undertaking carefully targeted growth. We will continue to enlarge our branch network in Vienna during the coming year. However, we will only engage in further major expansion abroad again when we see the initial signs of an economic recovery in Slovenia and Croatia. We will continue our strict cost management regimen and carry out changes on the profits side of the account to increase the profitability of our retail banking operations. We believe that credit risk will remain an important issue, especially in the corporate and business banking segment.

We would like to thank you — our shareholders — for the trust you have placed in us. We can assure you that we will go on doing everything we can to remain a solid and dividend-rich bank. In the pursuit of our consistent dividend and capital markets policy, we will be recommending that our AGM for the 2012 financial year approve another dividend of €0.25 per share. We would also like to thank all the members of the Supervisory Board for our fruitful and close cooperation during the year under review. We are delighted that our employees helped us tackle all the year's challenges with so much commitment. We thank them very sincerely for their forbearance in the face of many and diverse changes and for their high personal dedication.

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Report by the Chairman of the Supervisory Board


Hermann Bell, Chairman of the Supervisory Board

Dear Sir or Madam,

In the year under review, the Supervisory Board continued to support and regularly supervised the Management Board in its management of BKS Bank and its related entities. The focuses of the advisory and controlling duties that were incumbent upon it by virtue of the law, the Memorandum and Articles of Association (*Satzung*) and Austria's Code of Corporate Governance were the development of BKS Bank's financial, profit and liquidity positions, investment and personnel planning and the business and financial positions of the entities in which it held equity investments.

The Management Board briefed the members of the Supervisory Board in written and verbal reports and reported to its regular plenary meetings on the company and on important members of the Group. These reports were always close to real time. The Supervisory Board was thus, to the requisite extent, involved in all decisions of material importance to the enterprise's profitability or liquidity. The members of the Supervisory Board carefully analyzed and examined, critically questioned the appropriateness and soundness of and approved Management activities that required approval by virtue of the law, the Memorandum and Articles of Association or standing orders. This was done by way of draft resolutions proposed to plenary meetings of the Supervisory Board. Particular attention was paid to BKS Bank's risk position, measures required to provide for risks, various aspects of risk management and compliance management.

As the Chairman of the Supervisory Board, I, moreover, was in regular contact with the members of the Management Board to discuss with them strategy, business performance and risk management. As a result, I was continuously involved in the course of business. During the 73rd AGM, I told our shareholders about the principles underlying the remuneration system.

The Supervisory Board held four ordinary plenary meetings during the financial year. In addition, in order to comply with the legal requirements and to increase efficiency, the Supervisory Board set up five expert committees. In the year under review, they were the Audit, Working, Credit, Nominations and Remuneration committees. These committees prepared motions for the Supervisory Board as a whole and did preparatory work on topics to be dealt with during plenary meetings. Resolutions were passed and approvals were granted during plenary meetings or, occasionally, by means of circular resolutions. In each case, however, business transactions approved by a circular resolution were discussed during the plenary meeting following that resolution. The core topics dealt with during all ordinary meetings were the enterprise's financial position, including its risk position and risk management activities, its strategic development and other important events and occurrences. These were always discussed in detail with the Management Board.

During the first meeting in the financial year, which took place on 28 March 2012 and at which representatives of the Auditor also took part in accordance with § 63 *Abs. 2 BWG* (Austrian banking act), the Supervisory Board dealt, among other things, with the Annual Financial Statements for 2011, the Profit Appropriation Proposal, the Management Report, the IFRS-compliant Consolidated Financial Statements, the Corporate Governance Report and the Risk Report. In addition, the agenda also included in-depth reports by the Remuneration Committee and by the Audit Committee, which met immediately before the meeting of the Supervisory Board, as well as credit matters, transactions by board members, preparation of the points on the agenda of and motions for the 73rd Ordinary General Meeting (AGM), the Compliance Report and a report on the current financial year. In addition, the Supervisory Board carried out a self-evaluation in connection with C Rule 36 of the Code of Corporate Governance.

Among other things, the second meeting of the Supervisory Board, held immediately after the 73rd Ordinary General Meeting on 15 May, dealt with the election of the Chairman's committee, the appointment of the members of the Supervisory Board's five committees and the report on the credit applications processed and already approved by the Credit Committee. Moreover, the agenda also included reports on the current financial year, Internal Audit's reports and personnel matters.

Besides the Management Board's report on the current financial year, the core topics during the Supervisory Board's meeting on 26 September were detailed Audit Committee reports on the financial reporting process, the internal control system, the internal auditing system and the risk management system.

As proposed by the Nominations Committee, Wolfgang Mandl was unanimously appointed to the Management Board for three years with effect from 1 January 2013, that is until 31 December 2015. The Management Board's elucidations on credit matters and other transactions requiring Supervisory Board approval were also taken note of and approved.

During the fourth meeting in the year under review, on 28 November, the Management Board reported on the BKS Bank Group's development on the basis of the Balance Sheet and Income Statement and the segmental and risk reports. In addition, it presented the enterprise's strategy and goals to the plenary meeting of the Supervisory Board and discussed with it the most important measures to be taken in order to attain them. The budget for 2013 was then prepared and presented to the Supervisory Board for approval on that basis. In addition to the income and expenses budget, the investment budget and the amount of BKS Bank's own securities that are to be issued in 2013 were also presented for approval. A new allocation of remits to take account of the changes in the Management Board was presented, taken note of and approved. Moreover, this meeting was given a report on the loans approved by the Credit Committee, and the annual report on major investments and anti-corruption measures was presented. In addition, the Supervisory Board declared its intention to comply fully with the rules of the Code of Corporate Governance as amended in July 2012, which took effect retrospectively, with the exception of the C Rules not complied with as explained on page 27 of this report.

The Supervisory Board's committees carried out efficiently and conscientiously the tasks assigned to them by the Supervisory Board as a whole. The Supervisory Board's Audit Committee met immediately prior to the full meetings of the Supervisory Board on 28 March and 26 September.

In its spring meeting, it dealt in detail with the auditing and preparation of the adoption of both the Annual Financial Statements of *BKS Bank AG* for 2011 and the Consolidated Financial Statements for 2011, the Profit Appropriation Proposal, the Management Board's reports on BKS Bank's risk position and on adherence to the Code of Corporate Governance and compliance and anti-money laundering matters. At my request, the certified public accountants at *KPMG Austria GmbH* who had been consulted regarding the respective item on the agenda presented the focuses and results of the audits of the Consolidated Financial Statements and Risk Report that had been carried out. Among other things, the Audit Committee voted to recommend that the plenary meeting of the Supervisory Board approve the Annual Financial Statements and Consolidated Financial Statements inclusive of the Management Report. In addition, the Corporate Governance Report, Risk Report and Compliance Report were discussed, as were the Auditor's Report and Notes. Furthermore, the Audit Committee agreed a proposal for the election of the Auditor and, in that connection, also discussed the cost estimate and declaration of independence.

The main focuses of its autumn meeting were the preparation of the year-end audit for 2012 and the financial reporting process. During this meeting, it also critically examined the Audit Plan and the efficiency of the internal audit process, the quality of BKS Bank's risk management activities, enterprise reporting and internal control system (ICS) and the Auditor's independence.

In the year under review, the Credit Committee made decisions on 74 credit applications by means of circular resolutions. Detailed reports on each of these applications were presented to the next plenary meeting.

Finally, as we have already mentioned, the Nominations Committee nominated Wolfgang Mandl as a member of the Management Board on the basis of a job profile that had been matched to the enterprise's orientation and situation. The representatives of the Staff Council also described this proposal as the best possible proposal.

The 10 representatives of the equity holders on the Supervisory Board changed during the year under review in that Wolf Klammerth resigned from his post on the Supervisory Board with effect from the end of the 73^{rd} AGM and Christina Fromme-Knoch was newly elected to the company's Supervisory Board. According to *§ 11 Abs. 2* of *BKS Bank AG*'s Memorandum and Articles of Association (*Satzung*), at least one fifth of the members of the Supervisory Board must leave the Supervisory Board each year at the end of the AGM. In accordance with this requirement, Michael Kastner left the Supervisory Board as a result of the duration of his membership, and I left the Supervisory Board by lot. The 73^{rd} AGM renewed both appointments for the maximum period allowed by the Memorandum and Articles of Association. Among the staff representatives, Maximilian Medwed succeeded the long standing member Josef Hebein as of 1 December 2012.

The attendance rate of the representatives of the equity holders and the staff representatives at the four meetings of the Supervisory Board was approximately 92 per cent. Josef Korak was unable to attend three plenary meetings. Karl Samstag and Helmuth Binder each apologized for their absence from one meeting.

As the Auditor, *KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt*, audited *BKS Bank AG*'s accounts, Annual Financial Statements and Management Report. The Auditor did not have any objections to raise and confirmed this in an unqualified Auditor's Report. The Annual Financial Statements and Management Report and the Auditor's audit reports were given to all the members of the Supervisory Board. The Supervisory Board endorsed the results of the audit and expressed its approval of the Annual Financial Statements and Management Report submitted by the Management Board as well as the Profit Appropriation Proposal. During its meeting on 27 March 2013, the Audit Committee examined the Consolidated Financial Statements and reported thereon to the Supervisory Board. In particular, it presented the separate financial statements of *BKS Bank AG* for 2012 prepared in accordance with UGB (Austrian enterprises code) together with the Notes and Management Report and the Profit Appropriation Proposal as well as the IFRS-compliant Consolidated Financial Statements for 2012 together with the Notes and Management Report. Furthermore, it presented the development of the assets, liabilities, financial position and profit or loss of the Group and its segments, a Corporate Governance Report, a Risk Report and the Auditor's Report and Notes. The Supervisory Board endorsed the results of the audit, approved the Annual Financial Statements and Management Report presented by the Management Board and adopted the company's Annual Financial Statements for 2012, which are thus final for the purposes of *§ 96 Absatz 4 Aktiengesetz*.

The Supervisory Board concurred with the Management Board's proposal that an undiminished dividend of €0.25 per share should be distributed out of net profit for the year 2012, resulting, as in the previous year, in a distribution of €8,190,000, and that the remaining profit should be carried forward to a new account.

The Consolidated Financial Statements as at and for the period ended 31 December 2012, which were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Group Management Report, which was prepared in accordance with Austrian commercial law, were audited by *KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung*

Klagenfurt. This audit too did not give rise to any objections. The legal requirements having been met, the prerequisites for exemption from the obligation to prepare Consolidated Financial Statements in accordance with Austrian law had been satisfied. It is the opinion of the Bank Auditor that the Consolidated Financial Statements present fairly, in all material respects, the assets, liabilities and financial position of the BKS Bank Group at 31 December 2012 and its profit and cash flows during the financial year from 1 January to 31 December 2012 in accordance with the IFRSs as adopted by the EU. The Supervisory Board endorses the results of the audit and expresses its approval of the Consolidated Financial Statements and Group Management Report submitted to it by the Management Board.

On behalf of the Supervisory Board, I express my warm thanks and appreciation to the Management Board and every member of staff for their work and high level of commitment during the financial year.

Klagenfurt am Wörthersee
March 2013

Hermann Bell

Corporate Governance Report

Corporate Governance at BKS Bank

Responsible corporate governance, transparent and efficient control

BKS Bank's corporate goals are primarily geared towards ensuring lasting stability in order to create sustainable value added for our shareholders, customers and employees and the company itself and so as to safeguard the independence of the enterprise and the *3 Banken Group*. No single shareholder is in a position to directly or indirectly control BKS Bank on its own. That will continue to be the case in the future, with transparent and efficient cooperation between the Management Board, Supervisory Board, shareholders and employees providing a fundamental basis for sustaining our steady growth path of recent years.

The members of BKS Bank's Supervisory Board and Management Board have therefore affirmed their unqualified commitment to adhere to the principles of responsible corporate governance and control as stated for the first time in Austria in 2002 in the Austrian Code of Corporate Governance (*Österreichischer Corporate Governance Kodex* or ÖCGK). This commitment has been underpinned by a declaration of commitment made in accordance with *§ 243b UGB*. It is an expression of our trust-based relationships with BKS Bank's shareholders, customers, employees and business associates. Close cooperation between the Management Board and the Supervisory Board, a reasonable remuneration system that reflects the bank's financial situation, the avoidance of conflicts of interest and up-to-date, transparent and detailed business reporting are core elements of this ethos. A compliance management system based on honesty and integrity and on behaviour by every member of staff and all our management personnel that is in conformity with the law and rules and regulations is also part of our identity.

BKS Bank's agenda for sustainable and effective corporate governance takes its bearings from the rules and regulations contained in Austrian stock corporation, stock market and capital markets law, from European Commission recommendations, from the corresponding OECD guidelines and from our Memorandum and Articles of Association and the standing orders of the Management Board and Supervisory Board. BKS Bank's Supervisory Board most recently reaffirmed its commitment to the ÖCGK on the basis of the 2012 amendments to the Code during its meeting on 28 November 2012.

The standards for responsible corporate governance are subject to regular revision by the *Österreichischer Arbeitskreis für Corporate Governance* (Austrian Working Group for Corporate Governance). They are divided into three categories: the L Rules (Legal Requirements), which comprise mandatory legal standards; the C Rules (Comply or Explain), where non-compliance is allowed but must be explained; and finally, the R Rules (Recommendations), which are mere proposals and do not require any explanations or disclosures.

By declaring and explaining any non-compliance with C Rules made necessary by the specific circumstances of *BKS Bank AG*, the *3 Banken Group* or the legislative provisions governing banks, BKS Bank adhered to the Code during the year under review. The ÖCGK is available from the website of the *Österreichischer Arbeitskreis für Corporate Governance* at http://www.corporate-governance.at. BKS Bank's corresponding declaration of commitment is available from our website at http://www.bks.at. Click on Investor Relations » Corporate Governance.

BKS BANK'S EXPLANATIONS OF NON-COMPLIANCE WITH C (*Comply or Explain*) RULES

Rule	Explanation
Rule 2 C	Besides ordinary shares, BKS Bank has also issued non-voting no-par preference shares (*Stückaktie*). The preferred interest in profits offers its preference shareholders an attractive investment variant.
Rule 16 C	The Management Board — a body with collective responsibility — has four members. They have equal rights. Management Board decisions regarding the taking on of business obligations and risks by BKS Bank must be unanimous. In general, the Management Board's Spokesperson chairs meetings and represents the company externally.
Rule 31 C	The remuneration of the members of the Management Board is disclosed in accordance with the legal requirements. For data protection reasons and out of respect for the individual Management Board members' right to privacy, remunerations are not broken down into fixed and variable components.
Rule 45 C	Because of the way our shareholder structure has evolved, representatives of the largest single equity holders have been elected to the Supervisory Board. Since the principal shareholders are likewise banks, their representatives also hold positions on the boards of other banks that compete with BKS Bank. However, this group of people are committed absolutely to the independence rules so as to avoid conflicts of interest as well as to fulfilling their obligations to the other shareholders.

The Management Board and Supervisory Board

The Management Board's mode of operation

The members of BKS Bank's Management Board manage the enterprise on their own responsibility in line with clearly defined principles that are anchored in the bank's overall strategy. They concern themselves primarily with the bank's strategic orientation and with defining its corporate goals within their own remits and within the companies group as a whole. Furthermore, the Management Board takes suitable precautions to ensure that the relevant legislation is adhered to while safeguarding the distinct interests allowed for by Austria's *Aktiengesetz* (stock corporation law).

The member of the Management Board with a certain remit has primary responsibility for that field of activity. However, the other members of the Management Board remain extensively informed about the enterprise as a whole, and fundamental decisions are submitted to the Management Board as a whole for approval. Within his or her own field of activity, each of the present four members of the Management Board is fully involved in day-to-day operations and continuously informed about business developments and specific transactions. The members of the Management Board discuss matters of note, strategic issues and the measures that are to be taken during scheduled meetings of the Management Board and meetings held for specific reasons or by means of circular resolutions. Measures are put into effect by each member of the Management Board within his or her sphere of activity or by the Management Board as a whole. If possible, Management Board decisions are made unanimously. An extensive internal reporting system ensures that Management Board decisions are carefully prepared. The Management Board members' work together is regulated by the board's standing orders, which were amended most recently during the Supervisory Board meeting held on 28 November 2012.

The members of the Management Board

At 31 December 2012, the Management Board of *BKS Bank AG* had three members. Since then, it has had four members. It will have three members again once Heimo Penker has retired.

THE MANAGEMENT BOARD	Date of Birth	Date of Initial Appointment	End of Term of Office
Heimo Penker, CEO	1947	1/6/1984	31/3/2014
Herta Stockbauer	1960	1/7/2004	30/6/2014
Dieter Krassnitzer	1959	1/9/2010	31/8/2015
Wolfgang Mandl	1969	1/1/2013	31/12/2015

Heimo Penker
Heimo Penker began his professional career as an assistant lecturer at the Institute of Public Finance of the *Hochschule für Welthandel* (now Vienna's University of Economics and Business Administration) in Vienna. In 1972, he joined BKS Bank, where he worked in various areas. He was appointed to the Management Board in 1984 and became its official Spokesperson in 1997. His present term of office ends on 31 March 2014.

Within the Management Board of BKS Bank, Heimo Penker is responsible for the Retail Banking and Corporate and Business Banking, Human Resources, Public Relations, Marketing and Investor Relations divisions. In addition, he has regional responsibility for the bank's business operations in its Carinthian and Styrian markets inside Austria as well for Italy.

POSTS AND FUNCTIONS

Posts at entities accounted for in the Consolidated Financial Statements:
Vice-chairman of the supervisory board of *Oberbank AG*
Vice-chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG*

Posts at other entities in Austria and abroad not accounted for in the Consolidated Financial Statements:
Member of the supervisory board of *Oesterreichische Kontrollbank AG*
Member of the supervisory board of *Generali Holding Vienna AG*

Other posts and functions:
Vice-president of the *Vereinigung Österreichischer Banken und Bankiers* (Austrian Banks' and Bankers' Association)
Chairman of the banking and insurance division of *Wirtschaftskammer Kärnten* (Carinthian economic chamber)
Professional representative of the banks and bankers at the *Bundeswirtschaftskammer* (Austrian Federal Economic Chamber)
Honorary Consul of the Republic of Italy in the Province of Carinthia
Member of the Board of *Bankwissenschaftliche Gesellschaft Österreich* (Austrian Banking Science Society)

Herta Stockbauer
Herta Stockbauer studied commercial science at Vienna's University of Economics and Business Administration and then worked as an assistant professor and lecturer at the Institute of Commercial Science of the Alpen-Adria University in Klagenfurt. She joined BKS Bank in 1992, working in corporate and business banking and securities operations before moving to the Controlling and Accounts Department. She became Head of Department in 1996 and was appointed to the Management Board in 2004. Her present term of office lasts until 30 June 2014.

Within the Management Board of BKS Bank, she is responsible for the International Operations, Accounts and Sales Controlling, Treasury and Proprietary Operations, Capital Markets Law and Construction divisions and for BKS Bank's subsidiaries and equity investments in Austria and abroad. Inside Austria, Herta Stockbauer is responsible for the bank's regional head offices in Burgenland and Vienna. Abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

POSTS AND FUNCTIONS

Posts at entities accounted for in the Consolidated Financial Statements:
Chairwoman of the supervisory board of *BKS Bank d.d.*
Chairwoman of the supervisory board of *BKS-Leasing a.s.*
Chairwoman of the supervisory board of *BKS-leasing Croatia d.o.o.*
Vice-chairwoman of the supervisory board of *Drei-Banken Versicherungs-AG*
CEO of *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH*

Posts at other entities in Austria and abroad not accounted for in the Consolidated Financial Statements:
Member of the supervisory board of *SW Umwelttechnik AG*

Other posts and functions:
Member of the management board of *Vereinigung Österreichischer Industrieller für Kärnten*
Vice-president of *respACT - austrian business council for sustainable development*
Chairwoman of the *Universitätsrat* (university council) of Alpen-Adria University in Klagenfurt
Honorary Consul of Sweden in the province of Carinthia

Dieter Krassnitzer
Born in Waiern in 1959; at BKS Bank since 1987; a member of the Management Board since 1 September 2010. After graduating in business studies, Dieter Krassnitzer worked as a journalist at the stock market magazine *Börsenkurier* and gained a variety of work experience with firms of accountants and tax consultants. He joined BKS Bank in 1987. He was Head of Internal Audit at BKS Bank from 1992. In 2006, he completed training as a Certified Internal Auditor (CIA©) at the Institute of Internal Auditors in the United States. His present term of office ends on 31 August 2015.

Within the Management Board of BKS Bank, Dieter Krassnitzer is responsible for the Risk Management, Risk Controlling, Credit Back Office, IT, Business Organization, Technical Services and *Drei-Banken-EDV Gesellschaft mbH* divisions.

POSTS

Posts at entities accounted for in the Consolidated Financial Statements:
Vice-chairman of the supervisory board of *BKS Bank d.d.*
Vice-chairman of the supervisory board of *BKS-Leasing a.s.*
Vice-chairman of the supervisory board of *BKS-leasing Croatia d.o.o.*

Wolfgang Mandl
Born in Spittal in 1969; at BKS Bank since 1990; a member of the Management Board since 1 January 2013. Wolfgang Mandl began his career as a personal banking account manager at our Spittal/Drau branch and graduated in applied business administration as a mature student in 1997. He then held various positions in corporate and business customer care at our Klagenfurt Regional Head Office before becoming Head of that Regional Head Office in 2003. Since then, he has been responsible for retail operations. Wolfgang Mandl's present terms of office as a member of BKS Bank's Management Board lasts until 31 December 2015.

Until the end of the term of office of Management Board member Heimo Penker, Wolfgang Mandl will run the Private Banking and Retail Banking divisions with him.

MANAGEMENT BOARD REMITS

Heimo Penker [1] Wolfgang Mandl [1]	Herta Stockbauer	Dieter Krassnitzer
Internal Audit	Internal Audit	Internal Audit
Compliance	Compliance	Compliance
Corporate and Business Banking	International Operations	Risk Management
Retail Banking [M]	Accounts and Sales Controlling	Risk Controlling
Private Banking [M]	Treasury & Proprietary Operations	Credit Back Office
Human Resources	Capital Markets Law	IT, Business Organization, Technical Services
Public Relations, Marketing, Investor Relations	Construction	3-Banken-EDV Gesellschaft
BKS Bank's Sales Partners [M]	Subsidiaries and Equity Investments	
Online Shop and Social Media [M]	Regional Remits Austria: Burgenland, Vienna Abroad: Slovenia, Croatia, Hungary, Slovakia	
Regional Remits Austria: Carinthia, Styria Abroad: Italy		

[1] Until the end of the period of office of Management Board member Heimo Penker, divisions marked with an M in the chart above will be run jointly by him and Wolfgang Mandl.

The Supervisory Board's mode of operation

The Supervisory Board consists of 10 representatives of the equity holders and five members delegated by the enterprise's Staff Council. It supervises the enterprise's management as required by the law, the Memorandum and Articles of Association and the standing orders and supports the Management Board in the realization of strategic plans and projects. It also makes decisions on planned measures of relevance to the enterprise. It is, in particular, responsible for examining the annual financial statements of *BKS Bank AG* and the BKS Bank Group in accordance with international auditing standards (ISAs). The rights and duties of the staff representatives are basically the same as those of the representatives of the equity holders. This applies, in particular, to their rights to information, their supervisory rights, their duties of care, their obligations of secrecy and any liability in the event of a breach of duty. Like the representatives of the equity holders, the staff representatives must abstain from voting if they have a personal conflict of interest.

In the 2012 financial year, the Supervisory Board as a whole had four scheduled meetings, during which it exercised its controlling function. The Management Board informed the Supervisory Board in good time and extensively regarding the enterprise's strategic orientation and anything requiring its approval. Moreover, the Management Board also informed the Supervisory Board — in particular the Chairman of the Supervisory Board — about exceptional business transactions of particular relevance to gauging BKS Bank's position and development in the periods between meetings. The list of transactions that require approval and the limits on amounts set according to the enterprise's size are laid down in the standing orders of the Management Board.

The Members of the Supervisory Board

REPRESENTATIVES OF THE EQUITY HOLDERS

Name Posts in Supervisory Boards and Comparable Posts at Listed Companies in Austria and Abroad	Year of Birth	Date of Initial Appointment	End of Term of Office
Hermann Bell Chairman – Chairman of the supervisory board of *Oberbank AG*	1932	24/4/1972	AGM in 2017
Franz Gasselsberger Vice-Chairman – Chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG* – Member of the supervisory board of *voestalpine AG* – Member of the supervisory board of *AMAG AG*	1959	19/4/2002	AGM in 2015
Peter Gaugg Vice-Chairman – Vice-chairman of the supervisory board of *Oberbank AG*	1960	29/4/1998	AGM in 2016
Christina Fromme-Knoch	1970	15/5/2012	AGM in 2013
Reinhard Iro	1949	26/4/2000	AGM in 2013
Waldemar Jud – Chairman of the supervisory board of *DO & CO Aktiengesellschaft* – Vice-chairman of the supervisory board of *Ottakringer Getränke AG* – Member of the supervisory board of *Oberbank AG* – Member of the supervisory board of *Bank für Tirol und Vorarlberg AG* – Member of the supervisory board of *CA Immobilien Anlagen AG*	1943	19/5/2010	AGM in 2015
Dietrich Karner – Member of the supervisory board of *Bank für Tirol und Vorarlberg AG*	1939	22/5/1997	AGM in 2015
Michael Kastner	1947	19/4/2002	AGM in 2017
Wolf Klammerth	1946	30/4/1999	to 15/5/2012
Josef Korak	1948	26/4/2005	AGM in 2014
Karl Samstag – Member of the supervisory board of *Oberbank AG* – Member of the supervisory board of *Bank für Tirol und Vorarlberg AG* – Member of the supervisory board of *Allgemeine Baugesellschaft-A. Porr AG* – Member of the supervisory board of *Schoeller-Bleckmann Oilfield Equipment AG*	1944	19/4/2002	AGM in 2016

STAFF REPRESENTATIVES

Name	Year of Birth	Date of Initial Appointment	End of Term of Office
Helmuth Binder	1950	1/1/2005	
Josef Hebein	1952	26/7/1999	to 30/11/2012
Maximilian Medwed	1963	1/12/2012	
Herta Pobaschnig	1960	1/6/2007	
Manfred Suntinger	1966	1/11/2011	
Hanspeter Traar	1956	1/1/2003	

REPRESENTATIVES OF THE REGULATORY AUTHORITY

Name	Year of Birth	Date of Appointment
Alois Schneebauer	1954	1/8/1999
Johann Wittmann	1959	1/8/2003

The report by the Chairman of the Supervisory Board, Hermann Bell, commencing on page 19 of this Annual Report, provides details of the Supervisory Board's activities and the activities of the responsible committees during the year under review.

Committees set up by the Supervisory Board

As a rule, the Supervisory Board as a whole performs its tasks during its plenary meetings. However, because of BKS bank's specific circumstances, it delegates certain matters to expert committees. Their members are elected by the Supervisory Board as a whole from among the representatives of the equity holders and supplemented by the required number of staff representatives. The Audit Committee and the Working Committee consist, respectively, of five and four representatives of the equity holders. The Credit Committee consists of three. The Nominations Committee and the Remuneration Committee consist respectively of two and three representatives of the equity holders. The setting up of committees and their decision-making powers are regulated in the Supervisory Board's standing orders.

Audit Committee

The responsibilities of the Audit Committee include:

- monitoring the financial reporting process;
- monitoring the effectiveness of the company's internal control system (ICS), internal auditing system and risk management system;
- monitoring the audits of the Annual Financial Statements and Consolidated Financial Statements;
- checking and monitoring the independence of the Auditor, especially with regard to the additional services rendered for the audited entity;
- examining the Annual Financial Statements and preparing their adoption, examining the Profit Appropriation Proposal, Management Report and Corporate Governance Report and reporting the results of the audit to the Supervisory Board;
- examining the Consolidated Financial Statements and the Group Management Report and reporting the results of the audit to the supervisory board of the parent;
- preparing a recommendation to the Supervisory Board regarding the choice of Auditor;
- handling the Auditor's Management Letter;
- monitoring the enterprise's management.

The Audit Committee held two scheduled meetings in the year under review and carried out fully the tasks assigned to it. During the first meeting, it dealt primarily with the Annual Financial Statements and Consolidated Financial Statements and the Auditor's Report and, besides addressing the topics required by law, also gave its attention to the audit plan for 2012. The focus during the second meeting was on the preparation of the audits for 2012. During each of these meetings, there was an opportunity for an exchange of information between the Audit Committee and the Auditor of the (Consolidated) Financial Statements without the Management Board being present in accordance with C Rule 81. Similarly, in accordance with the law, representatives of the Auditor took part in all meetings.

In accordance with *§ 63 Abs. 4 BWG*, the Bank Auditor audited the legality of the Annual Financial Statements, the comprehensive precautions taken to limit operational and other banking risks and the procedures used to assess the adequacy of own funds. The results of this risk assessment were presented both in the Audit Report and in the Notes to the Audit Report in accordance with *§ 63 Abs. 5 BWG*, discussed by the Audit Committee and covered by the Chairman of the Audit Committee in his reports to the Supervisory Board as a whole.

The members of the Audit Committee were:
Hermann Bell, Chairman; Franz Gasselsberger, Peter Gaugg, Waldemar Jud, Michael Kastner, Josef Hebein (to 30/11/2012), Maximilian Medwed (from 1/12/2012), Herta Pobaschnig and Hanspeter Traar.

Working Committee
The Working Committee is responsible for making decisions on urgent matters assigned in the standing orders neither to plenary meetings of the Supervisory Board nor to the Credit Committee. This committee is convened as required. It is in close contact with the Management Board, giving it a suitable basis for monitoring the enterprise's management. Cases referred to it must subsequently be brought to the attention of the Supervisory Board as a whole. The Working Committee did not meet during the financial year under review.

The members of the Working Committee were:
Hermann Bell, Chairman; Franz Gasselsberger, Peter Gaugg, Michael Kastner, Josef Hebein (to 30/11/2012), Herta Pobaschnig (from 1/12/2012) and Hanspeter Traar.

Credit Committee
As a rule, the Credit Committee makes decisions, by means of circular resolutions, on new loans, leases and guarantees and on extending loans, leases and guarantees from a certain exposure size in accordance with the Management Board's standing orders and *§ 27 BWG*. The Supervisory Board as a whole is subsequently informed about decisions made by the members of the Credit Committee at its next plenary meeting. During the year under review, the Credit Committee decided on 74 credit applications by means of circular resolutions. No committee meetings were convened during the year under review.

The members of the Credit Committee were:
Hermann Bell, Chairman; Franz Gasselsberger, Peter Gaugg, Josef Hebein (to 30/11/2012), Herta Pobaschnig (from 1/12/2012) and Hanspeter Traar.

Nominations Committee
This committee makes recommendations regarding the filling of vacant posts on the Management Board and Supervisory Board on the basis of candidates' personal and professional qualifications and with the professionally balanced composition of those boards in mind. Like all the other committees, the Nominations Committee reports in detail to the plenary meeting that follows any decision. The Nominations Committee met once during the year under review, when it decided to recommend Wolfgang Mandl to the plenary meeting of the Supervisory Board as a new member of the Management Board on the basis of a job profile tailored to the enterprise's orientation and position and as the result of pre-defined appointment procedures.

The members of the Nominations Committee were:
Hermann Bell, Chairman; Peter Gaugg.

Remuneration Committee
The Remuneration Committee regulates the remuneration of the members of the Management Board and the contents of the contracts of employment of members of the Management Board and performs the tasks relating to BKS Bank's remuneration policy that have been assigned to it by the *Bankwesengesetz* (Austrian banking act) and the ÖCGK. In the year under review, all three members again applied their in-depth expertise in the field of remuneration policy and reported to the Supervisory Board as a whole accordingly. The Remuneration Committee audits adherence to the legal requirements contained in *§ 39 Abs. 2* in conjunction with *§ 39b BWG* together with the Annex on an annual basis. In addition, it monitors the practical implementation of the remuneration policy it has approved and also reports thereon to meetings of the

Supervisory Board as a whole. During its meeting on 28 March 2012, it reviewed the principles underlying BKS Bank's remuneration policy and its application and gave greater detail to its remuneration guidelines in line with the principle of proportionality. Besides calculating the variable components of the remuneration of the members of the Management Board, it also set the remunerations of the members of senior management in risk management and compliance positions.

The members of the Remuneration Committee were:
Hermann Bell, Chairman; Peter Gaugg and Dietrich Karner.

Independence of the members of the Supervisory Board
C Rule 53 of the Austrian Code of Corporate Governance requires the majority of the representatives on the Supervisory Board to be independent. This means that they should not maintain any business or personal relationship with the company or its Management Board that could give rise to a material conflict of interest and would therefore be likely to influence their conduct. To carry out its functions, the Supervisory Board takes care when making proposals to the General Meeting regarding the filling of vacant posts on the board to ensure that the board is balanced and diversified with respect to the nationalities of the members, representation of both sexes and its age structure and to ensure that its members have the requisite knowledge and abilities. All of the representatives of the equity holders on BKS Bank's Supervisory Board are banking and/or business experts with relevant experience in the banking and financial fields and extensive knowledge and the ability to assert themselves. All of them have, in a personal statement, declared their independence in line with the criteria listed below. These declarations can also be accessed on BKS Bank's website. Click on Investor Relations » Corporate Governance.

Even outside the scope of its ordinary banking activities, BKS Bank does not have any business dealings with related parties or persons that could affect their independence.

INDEPENDENCE GUIDELINES FOR THE SUPERVISORY BOARD OF BKS BANK
A member of the Supervisory Board shall not in the previous three years have been a member of the management board or the management staff of the company or of a subsidiary of BKS Bank. A prior activity as a member of such a management board shall not be deemed to mean that that person is not independent if, above all, every requirement of *§ 87 Abs. 2 AktG* having being met, there are no doubts that the office is being exercised independently.
A member of the Supervisory Board shall not maintain a business relationship with BKS Bank or one of its subsidiaries to an extent that is material to that Supervisory Board member or have done so in the past year. The same applies to business relationships with entities in which the member of the Supervisory Board has a considerable economic interest. The approval by the Supervisory Board of individual transactions as described in L Rule 48 shall not automatically be deemed to mean that that person is not independent. The conclusion or existence of normal banking contracts with the company shall not be deemed to affect that member's independence.
A member of the Supervisory Board shall not in the past three years have been BKS Bank's auditor or a shareholder in or member of or employee of the auditing company performing the audit.
A member of the Supervisory Board shall not be a member of the management board of another company in which a member of BKS Bank's Management Board is a supervisory board member unless the one company is associated with the other within the scope of a group or has a business interest in it.
A member of the Supervisory Board shall not be a close relative (direct descendent, spouse, partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the Management Board or of a person in one of the positions described in the above points.

Remuneration Report

Below, the Remuneration Report states the criteria applied when setting the remuneration for the members of BKS Bank's Management Board and Supervisory Board and elucidates the amounts and structures of payments to the members of the Management Board and Supervisory Board as well as the Auditor's auditing fees and auditing services.

Remuneration of members of the Management Board

In principle, the remuneration of each active member of the Management Board of BKS Bank depends on that member's areas of activity and responsibility, his or her contribution to the enterprise's business performance and reasonable standards in the industry for entities of a similar size. The intention is to achieve a balance of fixed components of remuneration that depend on the respective areas of activity and variable components. In the year under review, the fixed components of remuneration came to €1,171 thousand. The variable components are linked to the sustainable, long-term fulfilment of business and risk strategy and BKS Bank's sustainable business performance. If a lasting shortfall in these areas can be ascertained, it must find expression when the current variable components of annual remuneration are calculated. The variables used to calculate the variable components in a financial year are BKS Bank's overall operational business performance and its performance in the corporate and business banking and retail banking segments; and in addition, risk-dependent variables are also taken into account when fixing the variable components of remuneration.

Besides regular pay, members of the Management Board are also entitled to the following benefits: old-age pensions, occupational disability benefits and pensions for surviving dependants after the death of the entitled Management Board member. When a member's duties on the Management Board end, his or her termination benefit entitlement will depend mainly on the legislative provisions (*Angestelltengesetz* [Austrian salaried employees act] and the *Banken-Kollektivvertrag* [collective agreement for bank employees]). The amount of company pension as promised to a member of the Management Board by contract will depend on the duration of his or her service and will be based on his or her pensionable fixed remuneration component. The total remuneration paid to the members of the Management Board during the financial year is disclosed in note (47) to the Annual Financial Statements on page 121. Retirement pensions paid to former members of the Management Board and their surviving dependents came to €749 thousand. Expenditure on provisions for termination and post-employment benefits for members of the Management Board came to €571 thousand. Under the standing orders of the Management Board, additional functions of members of the Management Board must be approved by the Supervisory Board. No remuneration is paid for positions held within subsidiaries of BKS Bank. The requirements of C Rule 27a of the ÖCGK will be adhered to if a Management Board member leaves the board prematurely.

REMUNERATIONS PAID TO THE MEMBERS OF THE MANAGEMENT BOARD DURING THE FINANCIAL YEAR

€k	2011	2012
Total emoluments of active members of the Management Board during the year under review	1,166	1,450
– Of which of Heimo Penker	n.a.	667
– Of which of Herta Stockbauer	n.a.	429
– Of which of Dieter Krassnitzer	n.a.	354
Retirement pensions paid to former members of the Management Board and their surviving dependants	739	749
Expenditure on termination and post-employment benefits for members of the Management Board	604	571

In the year under review, remunerations paid to the active members of the Management Board totalled €1,450 thousand. Roughly 81 per cent of the total consisted of fixed payments and about 19 per cent comprised variable components. As described above, the amount of the variable components is limited. These take account of both the joint and the individual performances of the members of the Management Board and the results of BKS Bank's business and risk strategy. Great importance is attached to safeguarding BKS Bank's sustainable risk bearing capacity in accordance with overall bank management requirements (ICAAP). Non-financial criteria are also taken into account during such assessments.

The concrete sources and variables used when setting variable components of remuneration are the consolidated financial statements, the return on equity before tax, the cost:income ratio, the risk:earnings ratio, the staff fluctuation rate, the development of the customer base and the Tier 1 capital and own funds ratios as gauges of the entity's overall operational business performance and its performance by business segment. In addition, figures relating to risk bearing capacity and credit, market, liquidity and operational risk are also taken into account as criteria when awarding variable components of remuneration. In detail, these include the level of utilization of economic capital, measures of concentration risk in credit operations (large loans, proportion of foreign borrowers, foreign-currency loans), interest rate risk as a percentage of own funds, the loan:deposit ratio and the amount of operational risk. The rules regarding variable components of remuneration were essentially unchanged compared with the previous year.

A directors and officers (D&O) liability insurance policy was in place during the year under review. It was paid for entirely by BKS Bank. As a result, the Management Board and Supervisory Board and the boards and officers of the companies in the Group had and have insurance cover for compensation claims brought against them in relation to financial losses.

Remuneration of the members of the Supervisory Board

The annual remunerations of the members of the Supervisory Board are regulated in the Memorandum and Articles of Association. If necessary, they are adjusted by the Annual General Meeting. In the 2012 financial year, the Chairman of the Supervisory Board was awarded remuneration of €17,000 *per annum* with effect from 1 January 2011 on the basis of a decision of the 72nd Annual General Meeting on 18 May 2011; his deputies were each awarded remuneration of €13,000 *per annum*; and the other representatives of the equity holders were each awarded remuneration of €11,000 *per annum*. The attendance fee paid to each member of the Supervisory Board in 2012 was €120 per meeting attended by that member. As decided during the 73rd Annual General Meeting on 15 May 2012, Supervisory Board members belonging to one or more Supervisory Board committees received fees for additional work caused by their membership of the respective committee(s) with effect from 1 January 2012. Each member of the Audit Committee

REMUNERATION OF THE SUPERVISORY BOARD

Name	Fixed Board Members' Fee, €	Committee Memberships, €	Attendance Fees, €	Total, €
Hermann Bell	17,000	12,000	480	29,480
Franz Gasselsberger	13,000	10,000	480	23,480
Peter Gaugg	13,000	12,000	480	25,480
Christina Fromme-Knoch	6,913	—	360	7,273
Reinhard Iro	11,000	—	480	11,480
Waldemar Jud	11,000	4,000	480	15,480
Dietrich Karner	11,000	1,000	480	12,480
Michael Kastner	11,000	6,000	480	17,480
Wolf Klammerth	4,087	—	120	4,207
Josef Korak	11,000	—	120	11,120
Karl Samstag	11,000	—	360	11,360

and Credit Committee was compensated with a fee of €4,000 *per annum*; each member of the Working Committee was compensated with a fee of €2,000 *per annum*; and each member of the Remuneration Committee and Nominations Committee was compensated with a fee of €1,000 *per annum*. As before, members performing their functions on an honorary basis did not receive remuneration. Staff representatives performed their functions within the scope of their employment.

Since 2011, BKS Bank has had a three-year corporate governance consultancy agreement with Supervisory Board member Waldemar Jud in the form of an agreement with *Univ. Prof. DDr. Waldemar Jud Corporate Governance Forschung CGF GmbH*. It was approved by the Supervisory Board. As a result, this Corporate Governance Report was prepared with the support of *Univ. Prof. DDr. Waldemar Jud Corporate Governance Forschung CGF GmbH*. A fixed annual fee of €15,000 (plus VAT) has been set for its services. Furthermore, within the scope of a general approval that has been in place since 2011, *Univ. Prof. DDr. Waldemar Jud Unternehmensforschungs GmbH*—a company that is wholly owned by Waldemar Jud—was tasked with giving an expert legal opinion on regulatory matters and paid €30,000 (plus VAT) for doing so.

The members of the Supervisory Board were awarded remuneration, including committee membership and attendance fees, totalling €169.3 thousand in the year under review (2011: €123.7 thousand). It is noteworthy that, as already mentioned in the report by the Chairman, Hermann Bell, that Josef Korak was unable to attend three plenary meetings and, therefore, more than half of them. However, the overall attendance rate of the representatives of the equity holders at plenary meetings increased to 87.5 per cent, compared with 77.5 per cent in 2011.

BKS Bank has not set up a stock option scheme for the members of the Management Board or members of the Supervisory Board or management staff and does not intend to do so. During the year under review, BKS Bank had a portfolio of loans to members of the Supervisory Board and their close relatives within the scope of its ordinary business activities totalling €476 thousand. As for the granting of loans and advances to members of the Management Board or persons or entities related to them, agreements approved by the Supervisory Board were concluded with two companies belonging to a spouse of a member of the Management Board on terms customary in the industry. Outside the scope of its banking activities, BKS Bank does not have any business dealings with related parties or persons that could affect their independence.

Fees paid to the Bank Auditor

The Auditor is elected by the Annual General Meeting on the basis of a recommendation by the Supervisory Board. The Supervisory Board's Audit Committee prepares an appropriate nomination and initially awards the Bank Auditor the mandate once the Annual General Meeting has made its decision. In addition, the Audit Committee approves, on its own responsibility, the terms and scope of the audit and all auditing fees and monitors the independence of the auditor of the (consolidated) annual accounts with regard to any additional audit related and non-audit related services rendered for BKS Bank. During the 72nd Annual General Meeting, *KPMG Austria AG, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigstelle Klagenfurt*, was tasked with auditing the business management of *BKS Bank AG* and its group in 2012. The table below lists all the fees charged by our auditor for services rendered in accordance with the Memorandum and Articles of Association and regulatory requirements and for rendering audit related services. They totalled €465 thousand in 2012, compared with €578 thousand in 2011.

FEES PAID TO THE BANK AUDITOR

€k	BKS Bank (2011)	BKS Bank (2012)
Fees for statutory audits	360	353
Other fees	218	112
Total fees	**578**	**465**

Measures for the Advancement of Women

BKS Bank has always endeavoured to offer its employees a healthy work-life balance based on flexible flexitime models, extensive basic and advanced training during working hours, the care of small children in the *Kinki* crèche, made-to-measure holiday offers for employees' children and the explicit encouragement of fatherhood leave. This is an ethos that, not least, earned us the basic *berufundfamilie* 'JobAndFamily' audit certificate awarded by the Austrian federal Ministry of Economy, Family and Youth back in 2010. Women's career opportunities should benefit from this audit in a special way. The steady increase in the proportion of younger women working for BKS Bank gives us cause for optimism. In addition, we want to raise the average retirement age of our female employees von 57.8 to 59 years, and we attach particular importance to reducing the remaining differences in salaries between women and their male colleagues.

Although the proportion of female employees of the BKS Bank Group has risen steadily in recent years, reaching 56.4 per cent in 2012, and despite the fact that all employees have the same career opportunities when management posts are filled, regardless of their sex, age or cultural background, only 25 out of 118 people in management posts were women. This translates into a ratio of 21 percent, which means that they are still well behind the men. Five vacant management jobs went to women during the year under review. Group-wide, 26 per cent of management posts are held by women.

In 2012, women accounted for one in three of the members of the Management Board, and this proportion was reduced to one in four by the appointment of a fourth member of the Management Board as of the beginning of 2013. The appointment of Christina Fromme-Knoch to the Supervisory Board increased the proportion of women members to 13.3 per cent.

BKS Bank wants to give more management posts to women. During the year under review, we launched a far-reaching qualification improvement programme called *Frauen.Perspektiven.Zukunft* (Women.Prospects.Future). It is another important building block in the process of attracting women with the right expertise to senior management posts. An accompanying series of lectures by renowned social researcher Bernd Marin on the problem of women's different life models and their effects in old age and during retirement increased awareness of the issue among BKS Bank's management personnel and the 16 nominated female employees who were present. Since November 2012, the latter have been completing a multi-tier qualification improvement programme that is being supplemented by regular 'career anchoring' meetings.

Klagenfurt am Wörthersee
14 March 2013

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Investor Relations

BKS Bank's Shares

Gradual stabilization in the financial markets

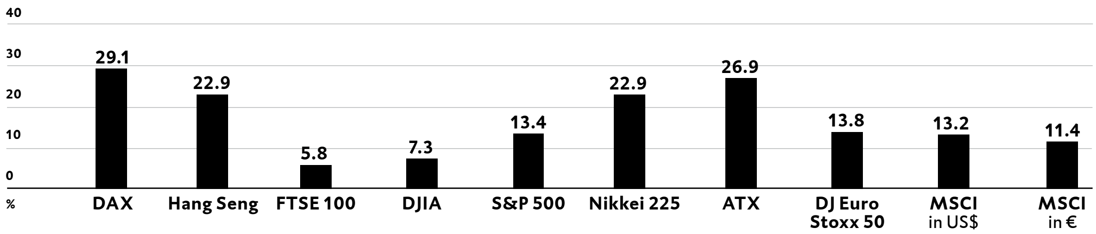
Greek sovereign debt having been restructured in the middle of March, developments in the international financial markets during the first few months of the year under review were shaped by optimistic growth forecasts and hope that the obstinate European financial crisis would ease. This was mirrored by growing confidence among investors and a tendency towards narrower yield spreads between the 10-year government bonds of most eurozone countries and German *bunds*. Yield premiums on Spanish and Italian government bonds relative to the German equivalents fell — albeit briefly — to about 300 basis points.

However, the sovereign debt crises on both sides of the Atlantic worsened again the second quarter, and economic indicators in Europe, the United States and China weakened. On the positive side of the coin, the EU finance ministers reached agreement on the European Stability Mechanism (ESM) and the fiscal compact, and the corporate reporting season was better than expected. At the end of June, the euro members agreed to recapitalize the Spanish banking sector, which had got into massive financial difficulties, as an initial step towards a European banking union. In addition, on 5 July 2012, the European Central Bank cut its headline interest rate to an all-time low of 0.75 per cent and announced that both its main refinancing operations and its one- and three-month-refinancing operations would continue to employ fixed rate tenders with full allotment. In the United States, the Federal Reserve Open Market Committee (FOMC) confirmed at the beginning of August its intention to leave the Fed's overnight interest rates unchanged in a corridor of between zero and 0.25 per cent until well into 2014. The US Federal Reserve's 'Operation Twist' — which aims to stimulate the economy through the sale of shorter-dated federal bonds and the purchase of much longer-dated bonds in their place — was already enlarged by another US$267 billion from its original volume of US$400 million on 20 June and extended until the end of 2012.

Between the middle of August and the middle of September, trading in the international financial markets reflected another reduction in the perceived risk due to extreme scenarios in the eurozone and expectations of an even more generous supply of liquidity by the leading central banks. At the beginning of September 2012, the ECB Council launched a new secondary market government bond buying programme. Since then, this OMT (outright monetary transactions) programme has made it possible to buy the government bonds of euro members that have promised the institutions of the European Stability Mechanism (ESM) that they will undertake reforms. There are no quantitative or duration limits. The financial markets were given another shot of optimism on 12 September in the form of a decision by Germany's *Bundesverfassungsgericht* (federal constitutional court) ruling that the European Stability Mechanism (ESM) does not violate Germany's constitution. In the United States, the Federal Reserve began buying further mortgage backed securities of government-sponsored mortgage issuers on 13 September as part of its efforts to reduce long-term interest rates.

Although bond yields in the crisis countries fell again, premiums on the corresponding credit default swaps fell and there was progress reducing the big imbalances within the Target 2 European cross border settlement system, the key central banks stuck firmly to their low interest policies for the rest of the year. Headline interest rates were at historically low levels at the end of 2012. The main refinancing operations rate in the eurozone was 0.75 percent, the Fed Funds Rate in the United States was between zero and 0.25 per cent, Japan's call rate was between zero and 0.1 per cent, Switzerland had an SNB target rate of between zero and 0.25 per cent, England had a bank rate of 0.5 per cent and China had a lending rate of 6.0 per cent. In the course of the year, yields on AAA rated long-term government bonds in the eurozone fell by about

PERFORMANCE OF THE KEY STOCK INDICES

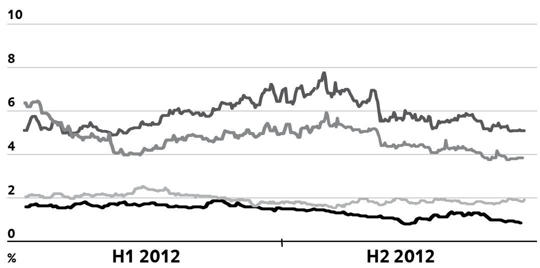


Close of Year	Frankfurt	Hong Kong	London	New York		Tokyo	Vienna	Zurich	Worldwide	
2011	5,898.35	18,434.39	5,572.30	12,217.56	1,257.60	8,455.35	1,891.68	2,316.55	1,182.60	93.02
2012	7,612.39	22,656.92	5,897.80	13,104.14	1,426.19	10,395.18	2,401.21	2,635.93	1,338.50	103.67

■ Percentage movement in the index versus the end of the previous year

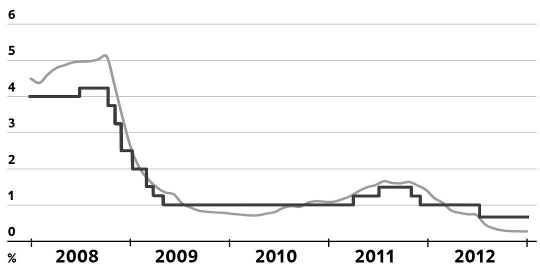
Sources: Yahoo, OnVista .

LONG-TERM GOVERNMENT BOND YIELDS



■ Germany ■ Spain ■ Italy ■ United States Source: Bloomberg.

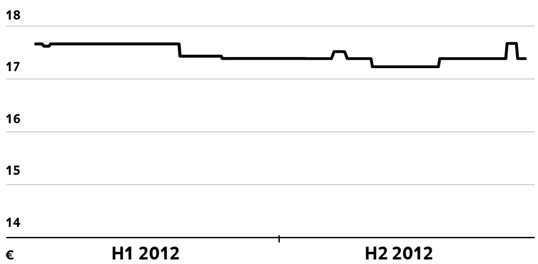
EURO INTEREST RATES



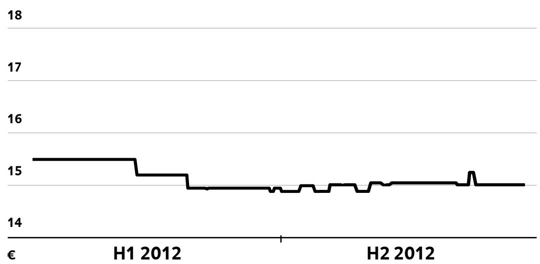
■ Headline rate ■ 3-month Euribor

Source: OeNB.

PERFORMANCE OF BKS BANK'S SHARES



■ BKS Bank ordinary no-par share, €



■ BKS Bank no-par preference share, €

BASIC INFORMATION ABOUT BKS BANK'S SHARES

	2010	2011	2012
Ordinary no-par shares in issue (ISIN AT0000624705)	30,960,000	30,960,000	30,960,000
No-par preference shares in issue (ISIN AT0000624739)	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	18.4/15.4	18.6/15.6	17.6/15.5
Low: ordinary/preference share, €	15.9/13.7	17.6/14.8	17.2/14.9
Closing price: ordinary/preference share, €	18.4/15.4	17.6/15.5	17.3/15.0
Market capitalization, €m	595.8	572.8	562.6
IFRS earnings per share in issue, €	1.44	1.13	1.25
Dividend per share, €	0.25	0.25	0.25[1]
P/E: ordinary/preference share (basis: *BKS Bank AG*)	12.9/10.9	15.9/14.0	14.2/12.3
Dividend yield: ordinary no-par share, %	1.36	1.42	1.45
Dividend yield: no-par preference share, %	1.62	1.61	1.67

[1] Proposal to the 74th AGM on 15 May 2013.

50 basis points to 1.32 per cent. After a largely stable year, the yield on comparable US bonds had fallen to about 1.75 per cent by the end of 2012. The 3-month Euribor fell from 1.343 per cent at year-end 2011 to 0.188 per cent at the end of 2012. Because there were sizeable amounts of surplus liquidity in the call money market, the EONIA (Euro OverNight Index Average) for unsecured overnight interbank lendings fell by 25 basis points to 0.13 per cent.

The MSCI World Index in US dollar terms — the barometer of prices in the global equity markets — rose from 1,182.6 to 1,338.5 points during the year under review. Based on the year-end closing of the DAX, which stood at 7,612 points at the close of 2012, standard German stocks gained 29.1 per cent. The Dow Jones Industrial Average — the most important US equity index — gained 7.3 per cent to 13,104 points. The big Asian markets followed the same trend. Having gained 22.9 percent during the year, Japan's NIKKEI Index ended December at 10,395 points. The Vienna Stock Exchange's ATX rose by 26.9 per cent to end the year at 2,401 points following a low of 1,855 in June, making up for part of the sobering losses during the 2011 stock market year. The market capitalization of all the 157 issuers listed in the official *Amtlicher Handel* segment and the *Geregelter Freiverkehr* regulated OTC segment on the Vienna Stock Exchange increased by 19.4 per cent to €104.3 billion.

BKS Bank's ordinary no-par share, which is also listed on the Vienna Stock Exchange, closed the 2012 stock market year at €17.3, and the BKS Bank no-par preference share reached €15.0. IFRS earnings per share were up on the previous year to €1.25. Based on year-end prices, the ordinary no-par share had a P/E of 14.18 and the no-par preference share's P/E was 12.30. BKS Bank's market capitalization was €562.6 million, which was only just below the figure of €572.8 million recorded at the end of 2011.

A stable shareholder structure

BKS Bank AG had subscribed share capital of €65.52 million. This share capital was represented by 30,960,000 ordinary no-par ordinary bearer shares and 1,800,000 non-voting no-par bearer preference shares. Instead of each share having a par value, it is the number of shares in issue that is fixed at any one time. In other words, one no-par share represents the corresponding interest in the company's capital (i.e. share capital divided by the number of shares in issue).

BKS Bank AG's ordinary no-par shares have been listed on the Vienna Stock Exchange since 1986, the no-par preference shares since 1991. Both share classes are traded in the *Geregelter Markt* (regulated market) in the *Standard Market Auction* segment. Unlike the ordinary share, the preference share does not give the shareholder any voting right. Instead, it gives its holder preferential treatment in respect of distributions of dividends. The associated minimum dividend, payable immediately or, if that is not possible, in a later period, is 6 per cent of the interest in the share capital that it represents. This minimum dividend must always be paid if it is covered by net profit. If the minimum dividend for a financial year is not paid or is not paid in full, the arrears must be paid out of net profit in later financial years.

The *Oberbank* in Linz holds 19.54 per cent of the voting rights and BTV in Innsbruck holds 19.65 per cent. Together, these two big regional banks and BKS Bank make up the *3 Banken Group*. *Generali 3 Banken Holding AG*, Vienna, holds 7.88 per cent of the ordinary no-par shares. *BKS Bank AG*'s biggest single equity holder is *CABO Beteiligungsgesellschaft mbH*. This is a wholly-owned subsidiary in the group of *UniCredit Bank Austria AG* headquartered in Vienna. Including the shares held directly by *UniCredit Bank Austria AG*, the *UniCredit Group* therefore holds 37.10 per cent of the voting rights. *Wüstenrot Wohnungswirtschaft gem. reg. Gen. mbH*, Salzburg, owns another 3.11 per cent. The free float of shares of BKS Bank accounts for 12.72 per cent of the total. It is held by corporates, institutional investors and private shareholders.

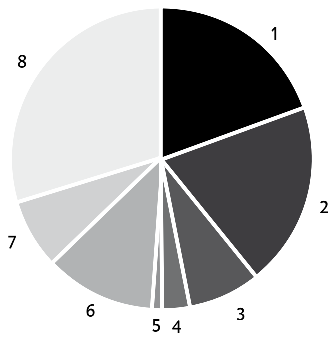
The employees of BKS Bank account for a substantial proportion of these shares. At year-end, *BKS-Belegschaftsbeteiligungsprivatstiftung*, a trust that exists solely to distribute in full investment income within the meaning of *§ 10 Abs 1 KStG* to employees of BKS Bank, held 103,480 ordinary no-par shares and 112,321 no-par preference shares, giving it a voting interest of 0.33 percent.

The three core shareholders — *Oberbank*, BTV and *Generali 3 Banken Holding AG* — have concluded a syndicate agreement; together, they own 47.07 per cent of the voting rights. The syndicate agreement consists essentially of arrangements regarding the joint exercise of voting rights at general meetings and the syndicate partners' mutual rights of first refusal. Syndication of the shares strengthens BKS Bank's independence, and the syndicate partners' interests are united within the scope of cooperation partnerships and sales alliances. In addition, there are mutual shareholdings between the three banks.

Otherwise, *BKS Bank AG* is not aware of any groupings that could result in control of the enterprise by one or more shareholders. Consequently, it is the opinion of the Management Board of *BKS Bank AG* that measures to prevent abuse of control are not required. At year-end, the held-for-trading portfolio of treasury shares consisted of 433,081 ordinary no-par shares and 43,177 no-par preference shares.

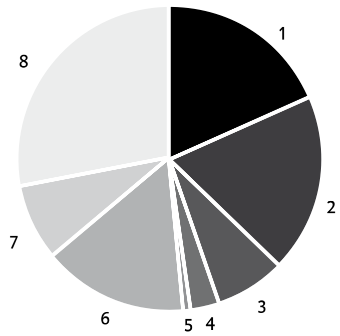
Oberbank held an equity interest of 18.52 per cent in BKS Bank; BTV held an equity interest of 18.90 per cent; and *Generali 3 Banken Holding AG* held an equity interest of 7.44 per cent. *UniCredit Bank Austria AG* held an equity interest of 8.02 per cent directly. Including the equity interest of 28.01 per cent held by *CABO Beteiligungsgesellschaft mbH,* its equity interest totalled 36.03 percent. *Wüstenrot Wohnungswirtschaft gem. reg. Gen. mbH* held 2.98 per cent. Free float accounted for 15.47 per cent of the ordinary no-par shares and no-par preference shares.

SHAREHOLDER STRUCTURE OF BKS BANK



By voting interest

1	*Oberbank AG*	**19.54%**
2	*Bank für Tirol und Vorarlberg AG*	**19.65%**
3	*Generali 3 Banken Holding AG*	**7.88%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**3.11%**
5	*BKS-Belegschaftsbeteiligungs-privatstiftung*	**0.33%**
6	Free float	**12.39%**
7	*UniCredit Bank Austria AG*	**7.46%**
8	*CABO Beteiligungs GmbH*	**29.64%**



By equity interest

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4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**2.98%**
5	*BKS-Belegschaftsbeteiligungs-privatstiftung*	**0.66%**
6	Free float	**15.47%**
7	*UniCredit Bank Austria AG*	**8.02%**
8	*CABO Beteiligungs GmbH*	**28.01%**

Resolutions Passed at the 73rd Annual General Meeting

About 90.2 per cent of the voting stock was represented at the 73rd Annual General Meeting of *BKS Bank AG* on 15 May 2012, as was roughly 34 per cent of the voting free float. Among other things, during this meeting, the shareholders adopted the recommendation to distribute a dividend of €0.25 per share from the net profit reported as at 31 December 2011. Given the 32,760,000 ordinary no-par shares and no-par preference shares in issue, this resulted in a total distribution of €8.19 million. The dividend payment date was 23 May 2012. The remaining profit was carried forward to a new account subject to *§ 65 Abs 5 Aktiengesetz*.

The discharge from liability of the members of the Management Board and the members of the Supervisory Board in office during the 2011 financial year was unanimous, as was the decision to amend the remuneration of the members of the Supervisory Board for the 2012 financial year and the financial years thereafter. In addition, the AGM voted to renew the appointments of Michael Kastner and Hermann Bell to the Supervisory Board for the maximum permitted period and, because of the resignation of Wolf Klammerth as a member, to newly appoint Christina Fromme-Knoch to the board for the remaining term of his appointment, that is until the end of the AGM deciding whether to discharge the members of the board from liability with respect to the 2012 financial year.

KPMG Austria AG, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft was tasked with auditing the conduct of business at the BKS Bank Group and *BKS Bank AG* for the 2013 financial year.

Moreover, the Management Board was authorized by a majority decision for the period of 30 months from the time of the decision to acquire treasury shares up to the legally permissible maximum pursuant to *§ 65 Abs. 1 Z 4 AktG* for the purposes of offering them to employees, senior personnel and members of the Management Board and Supervisory Board of the company or an entity related to it. In addition, the AGM authorized the Management Board to acquire the Company's own shares in the period up to and including 14 November 2014 in an amount of up to 5 per cent of the Company's share capital for securities trading purposes in conformity with *§ 65 Abs. 1 Z 7 AktG* and in an amount of up to 10 per cent of the company's share capital for no specific purpose in conformity with *§ 65 Abs. 1 Z 8 AktG*.

Finally, the Memorandum and Articles of Association of BKS Bank were amended in line with the provisions of stock corporation law and the provisions contained in the *Gesellschaftsrechts-Änderungsgesetz* (Austrian company law amendment act) of 2011.

Profit Appropriation Proposal

When appropriating net profit, BKS Bank strives to achieve a balance between strengthening its equity base and offering shareholders an appropriate return. In the continuing pursuit of an ambitious dividends policy, we will be recommending to the shareholders of BKS Bank at the 74th AGM on 15 May 2013 the payment of another dividend of €0.25 per share out of *BKS Bank AG*'s net profit of €8,352,383.68. This would result in a total distribution of roughly €8.19 million. This corresponds to a return of 1.45 per cent on the ordinary no-par shares and 1.67 per cent on the no-par preference shares based on their prices at the end of 2012. The resulting payout ratio based on profit for the year after tax would be 40.4 per cent.

Investor Relations Communication

In 1986, BKS Bank decided to open up its shareholder structure and go to the Vienna Stock Exchange. In doing so, it also intentionally opted for greater transparency and comprehensive disclosure of its activities. Consequently, for transparency reasons, investor relations have always been a priority at BKS Bank. Satisfying the need of the interested public and the capital markets for a trust-based communication policy is more than just a duty for us. It is also an important way of permanently deepening BKS Bank's relations with its equity holders, customers and investors and with the financial media.

In the interests of fair disclosure, BKS Bank gives its shareholders, employees, customers and the media close-to-real-time detailed information about the enterprise's situation. The preferred Internet platform for information from our Newsroom and for all company information of relevance for corporate governance purposes is the website at www.bks.at. We point out that BKS Bank always observes a quiet period during which IR communications are limited prior to the publication of business results. This is to comply with the requirements of the *Emittenten-Compliance-Verordnung* (ECV: Austrian issuer compliance directive).

In addition, regular publications that are reportable under the *ad hoc* criteria set out in the EU Transparency Directive are also available from *OeKB*'s Issuer Information Center. All the relevant documents are stored on this web-based platform in a structured and failsafe manner and can be downloaded in their original form free of charge. They mainly include invitations to general meetings, publications of annual and semi-annual financial reports and the interim reports on results as at 31 March and 30 September as well as announcements of new bond issuances and other measures that require disclosure.

Note on the *Offenlegungsverordnung* (OffV: Austrian disclosure directive)
Information about the disclosure directive is available in German from our website at www.bks.at. Click on Investor Relations » Berichte & Veröffentlichungen.

FINANCIAL CALENDAR FOR 2013

Date(s)	Event
29 January – 29 March 2013	Quiet period
29 March 2013	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2012 in the Internet and in the official *Wiener Zeitung* gazette
3 April 2013	Press conference to present the Annual Financial Statements for 2012
3 May – 23 May 2013	Quiet period
15 May 2013	74th Annual General Meeting
17 May 2013	Ex-dividend date
21 May 2013	Dividend payment date
24 May 2013	Interim Report as at and for the 3 months ended 31 March 2013
2 August – 22 August 2013	Quiet period
23 August 2013	Semi-Annual Report
8 November – 28 November 2013	Quiet period
29 November 2013	Interim Report as at and for the 9 months ended 30 September 2013
Investor Relations Contact	Herbert Titze, Head of Investor Relations. Phone: +43 463 5858 120; email: herbert.titze@bks.at

Group Management Report

Management and Shareholder Structure

The Members of the Supervisory Board and its Committees

HONORARY PRESIDENT

Heinrich Treichl

REPRESENTATIVES OF THE EQUITY HOLDERS

Hermann Bell
Chairman
Franz Gasselsberger
Vice-Chairman
Peter Gaugg
Vice-Chairman
Christina Fromme-Knoch
Reinhard Iro
Waldemar Jud
Dietrich Karner
Michael Kastner
Josef Korak
Karl Samstag

STAFF REPRESENTATIVES

Helmuth Binder
Maximilian Medwed
Herta Pobaschnig
Manfred Suntinger
Hanspeter Traar

REPRESENTATIVES OF THE REGULATORY AUTHORITY

Alois Schneebauer
Ministerialrat
Johann Wittmann
Amtsdirektor

SUPERVISORY BOARD COMMITTEES

Audit Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Waldemar Jud
Michael Kastner
Maximilian Medwed
Herta Pobaschnig
Hanspeter Traar

Working Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Michael Kastner
Herta Pobaschnig
Hanspeter Traar

Credit Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Herta Pobaschnig
Hanspeter Traar

Nominations Committee
Hermann Bell, Chairman
Peter Gaugg

Remuneration Committee
Hermann Bell, Chairman
Peter Gaugg
Dietrich Karner

As in March 2013.
All board members currently in office can be contacted at *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee, Austria. Further details about each individual and their functions are provided in the section on *Corporate Governance* from page 25.

Management Structure

MANAGEMENT BOARD

Heimo Penker
Herta Stockbauer
Dieter Krassnitzer
Wolfgang Mandl

CENTRAL ADMINISTRATIVE DEPARTMENTS

Office of the Management Board
Herbert Titze
Jörg Fellner (Compliance)

Controlling and Accounts
Hubert Cuder

Personnel Management
Werner Laure

Internal Audit
Robert Raunig

HEAD OFFICE

Corporate, Business and Retail Banking
Viktor König

Private Banking and Securities Operations
Georg Svetnik

Treasury and International Operations
Josef Morak

Credit Management
Michael Oberwalder

Credit Back Office
Georg Köferle

Operations
Johannes Zebedin

REGIONAL HEAD OFFICES

Klagenfurt
Karl Mertel
Diethmar Wölle

Villach
Georg Ahammer
Sabine Lax

Spittal/Drau
Gottfried Kindler

Styria
Nikolaus Juhász
Alfred Kordasch

Vienna
Gunnar Haberl
Thomas Litschauer

Burgenland
Wolfgang Bauer
Joachim Reitmeier

ABROAD

Branches
5 in Slovenia
1 in Slovakia

Subsidiaries
BKS Bank d.d. (Rijeka)
BKS-Leasing a.s. (Bratislava)
BKS-leasing d.o.o. (Ljubljana)
BKS-leasing Croatia d.o.o. (Zagreb)

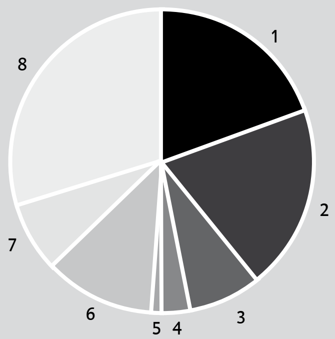
Representative Offices
Slovenia (Ljubljana)
Croatia (Zagreb)
Italy (Padova)
Hungary (Sopron)

As in March 2013.

Shareholder structure

BKS Bank has share capital of €65,520,000 represented by 30,960,000 ordinary no-par bearer shares and by 1,800,000 non-voting no-par bearer preference shares carrying a dividend payable immediately or, if that is not possible, in a later period, of 6 per cent of the interest in the share capital that they represent. *BKS Bank AG*'s ordinary no-par shares have been listed on the Vienna Stock Exchange since 1986, the no-par preference shares since 1991. Both share classes are traded in the Vienna Stock Exchange's *Standard Market Auction* segment.

SHAREHOLDER STRUCTURE OF BKS BANK



By voting interest

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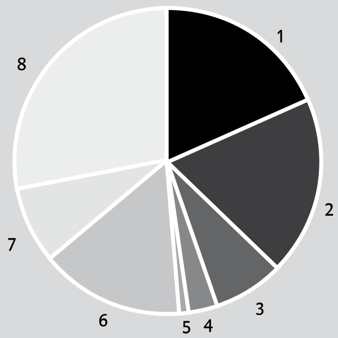

By equity interest

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6	Free float	**15.47%**
7	*UniCredit Bank Austria AG*	**8.02%**
8	*CABO Beteiligungs GmbH*	**28.01%**

The Economic Environment

Sluggish recovery of the world economy

The world economy continued to lose momentum in 2012. According to initial estimates, its gross domestic product increased by 3.3 per cent in real terms. This was sightly weaker growth than in prior years (2011: 3.8 per cent; 2010: 5.1 per cent). It was a development that reflected both the precarious effects of the sovereign debt crises in Europe and the United States and the economic weakness of the Asian and South American threshold countries. Above all, the catch-up process in the emerging markets temporarily slowed in the face of an increasingly growth-inhibiting and more restrictive pace of fiscal policy, the sagging momentum of world trade and the associated downturn in the business climate. In China, the world's second-largest economy, the government and the People's Bank of China felt compelled to combat the perceptible economic slowdown with expansionary fiscal and monetary policy measures. Against the backdrop of major imbalances in the domestic economy, a soft landing appears to have taken place in China in 2012, with real GDP growth slowing to 8.0 per cent from 9.2 per cent in 2011.

The Federal Reserve in the United States puts the real growth of US GDP in 2012 at between 1.7 and 2.0 per cent, and the latest WIFO figures estimate growth at 2.3 percent. Growth was still sluggish at the beginning of 2012, but the economy picked up a little speed in the course of the year. This was mainly thanks to brisk private consumption, an increase in public spending and stockbuilding. Whereas the property sector had already bottomed out, the turnaround in the labour market that had been expected in the run-up to the presidential elections was still unimpressive. The improvement in the jobless rate was marginal during 2012, taking it to 7.8 per cent, although it did go below 8 per cent for the first time since the start of Barack Obama's presidency. Given the still impending and inevitable raising of the US debt ceiling (currently US$16.4 billion), growing recessionary fears were only briefly calmed by the political compromise on tax and spending reforms reached by the Democrats and Republicans at year-end to avoid going over the fiscal cliff.

With the sovereign debt crisis still unsolved, domestic demand down significantly and drastic consolidation programmes in place in many peripheral countries, the eurozone has been in recession since the end of 2011. The real GDP of the 17 euro members fell by 0.3 per cent in 2012 after increasing by 1.4 per cent in the previous year. The EU-27 are believed to have suffered a 0.1 percent drop in GDP. While the investment and foreign trade figures of countries like Germany, France, the Nordic states and Austria were still good and their economic growth merely weakened, Greece, Portugal, Spain and Cyprus were joined by other European countries whose massive structural problems were getting them into economic difficulties. For instance, the crisis of confidence in the financial markets and the accompanying slump in government bond prices also affected Italy, which is Austria's second most important trading partner after Germany. However, the competitiveness of a number of countries that had been particularly hard hit by the crisis like Greece, Portugal and Italy improved considerably in the final quarter of 2012 thanks to growing export opportunities.

Overall, the Central, Eastern and Southeastern European members of the EU that make up BKS Bank's markets proved astonishingly resistant to recessionary tendencies and infection by the European debt crisis. On the other hand, economic growth in the countries that are very dependent on exports to the eurozone did get much weaker. The drop in domestic demand in virtually every country in the region was a problem and was only partially offset by the increase in net exports. At the same time, bigger wage settlements inflated unit labour costs. The drop in growth compared with 2011 was biggest in Hungary and Slovakia, whose real growth slowed from 2.8 per cent to 0.5 per cent and from 4.1 per cent to 1.1 per cent, respectively. At the same time, Slovenia felt the effects of a veritable crisis at its three major banks, which are state-controlled. As a result, it was still having economic problems in 2012, with real GDP down 2.0 per cent. On the other hand, Croatia's planned entry into the EU on 1 July 2013 means that we can expect an imminent end to several years of economic decline characterized by production cuts, falling public sector infrastructure investment, subdued domestic demand and high unemployment.

The sagging economy, existing and new geopolitical tensions in the Middle and Far East and production cuts by the OPEC cartel alongside increased production in the United States and the North Sea continued to have a knock-on effect on the commodity markets in 2012. At the end of December, European benchmark Brent crude was trading at US$111.94 a barrel, compared with US$107.58 at the beginning of the year. Market participants expect oil prices to fall a little in the medium term. This is reflected by futures for delivery in December 2013, which were trading at US$105.6 a barrel at the end of the period under review. Despite two sharp drops in February and October, the price of a fine ounce of gold, which depends on central banks, the jewellery industry and the technology and investment sectors, rose from US$1,569 to US$1,673 during the year under review. This translates into an increase of about 6.6 per cent.

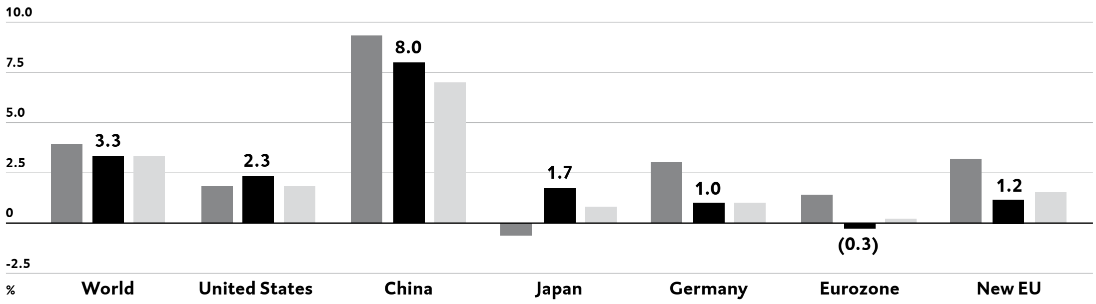
In 2012, euro exchange rates depended mainly on the market's assessments of the budgetary and economic outlooks in the big euro countries and the progress made by the ECB and Europe's heads of state and government coming to grips with problems in the crisis-ridden PIIGS countries. In addition, yield gaps between eurozone government bonds and the government bonds of other developed economies and the level of risk premiums also played a role. Since the Swiss National Bank continued to defend its minimum exchange rate of 1.2 francs per euro with the help of unlimited currency purchases, the euro/franc exchange rate weakened just marginally, falling by 0.7 per cent from SFr1.2156 at the beginning of the year to SFr1.2072 at year-end. The euro moved within a range of between US$1.2089 and US$1.3454 during the year to end 2012 about 2 per cent up to US$1.3194. On the other hand, the euro's exchange rate versus the Japanese yen improved considerably, strengthening the euro by 13.4 per cent compared with year-end 2011 to ¥113.61. A year after the Fukushima disaster, this reflected the offensive monetary policy action taken by Japan's central bank to boost the competitiveness of Japanese exports, especially to the eurozone and China.

A challenging year for banks

Despite the ECB's low interest rate policy, funding and liquidity costs in the European banking sector stayed high during the year under review. Furthermore, continuous structural change in the wake of capital requirements made more stringent by 'Basel III' and justified scepticism about plans for the European Central Bank to supervise banks (Banking Union) made the business outlook even bleaker. Given their supraregional orientation and the importance of the government bond segment in their day-to-day business operations, the eurozone's large banks were especially hard hit by the volatility of the financial markets, including, above all, the temporary surge in risk premiums on Spanish and Italian government bonds. In particular, the as yet uncompleted restructuring and recapitalization of the Spanish banking sector, which was caught in the vortex of the property crisis, demonstrated the problems associated with the bail-out risk situation of the highly indebted countries and their banks. Big capital outflows into supposedly safe havens regardless of the progress that had already been achieved in the consolidation process made an already precarious situation even worse.

Financial institutions — including those outside the highly indebted PIIGS countries — were temporarily faced with a big rise in risk premiums and consequently, even though interest rates were at historical lows, with persistently difficult funding conditions. Funding conditions in the eurozone only improved when

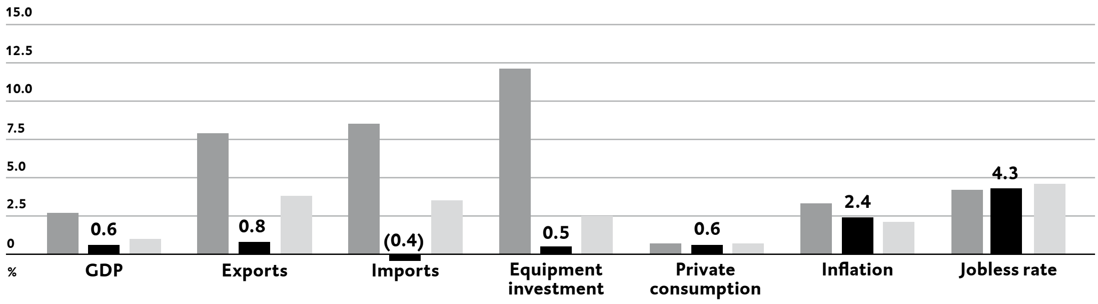
THE INTERNATIONAL ECONOMY



Real GDP growth versus previous year, %
2011 2012 2013 (forecast)

Source: WIFO.

ECONOMIC INDICATORS IN AUSTRIA



2011 2012 2013 (forecast)

Source: WIFO.

CRUDE OIL PRICES

Brent crude oil, US$

Source: Bloomberg.

GOLD PRICES

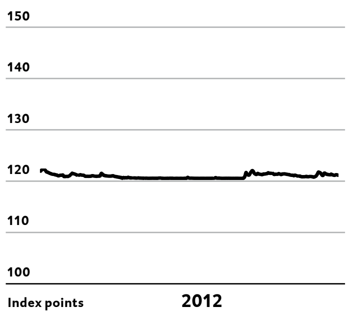
Gold, US$

Source: Bloomberg.

KEY EXCHANGE RATES

US$/€

¥100/€



SFr/€

Source: OENB.

market sentiment picked up and risk aversion fell, with the effect that banks were able to resort less to the euro system as a source of funds. Special measures carried out within the euro system, including, above all, the introduction of the instrument of outright monetary transactions that allows unlimited quantities of Euroland government bonds to be purchased in the secondary market, eased the funding pressure on the banking sector from September 2012. This prevented disordered deleveraging by banks and the non-financial private sector.

Austria's economy is on a moderate growth path

After growing strongly around the turn of the year, Austria's economy too was caught up in the international economic slowdown in the summer of 2012. Real GDP growth came to 0.6 per cent, compared with 2.7 per cent in 2011. However, given the eurozone crisis, this was still respectable growth. The poorer business outlook dented Austrian companies' propensity to invest. Even though interest rates were at historical lows, equipment investment grew by just 0.5 per cent in real terms, compared with 12.1 per cent in 2011. However, as solid order levels show, the construction industry, including, above all, the civil engineering sector, has successfully bucked the downtrend to date. The uncertainty caused by the euro crisis, including, in particular, the scenario of a disintegration of the eurozone in its present form (which is mainly being propagated by the media), of course depressed consumer sentiment, slowing the real rate of growth of private consumption to just 0.6 per cent. The most important stabilizing factor in the economy was still exports. This was thanks to the good basic health of the country's exporters. The euro crisis put them through a difficult period of restructuring, reducing real export growth to 0.8 per cent from 7.9 per cent in 2011.

Because growth was now slow, it did not drive inflation during 2012, and the ECB's expansionary monetary policy also did little to fuel inflation. Rather, the absence of big increases in the price of crude oil such as we had experienced in 2011 and the beneficial development of unit labour costs helped reduce inflation. Having increased by 3.3 per cent in 2011, consumer prices increased by 2.4 per cent in 2012, putting Austria in the middle of the European league. According to *Statistik Austria*, the main price drivers were foodstuffs, propellants and fossil fuels.

The domestic demand for labour developed relatively well. The number of jobholders increased by roughly 47,000 or 1.4 per cent during the year despite the adverse economic climate. This compared with roughly 65,300 additional jobseekers over the year as a whole. The number of registered unemployed increased by 5.7 per cent to about 261,000 in 2012. The jobless rate calculated applying Austrian statistical methods rose by 0.3 percentage points to 7.0 per cent of the working population. Using the *Eurostat* definition, the rate rose to 4.3 per cent of the working population, compared with 4.2 per cent in 2011. In comparison, Germany had a jobless rate of 6.8 per cent, the eurozone of 11.8 per cent and the EU-27 countries of 10.7 per cent.

Corporate Strategy

Responsible and sustainable growth

The cornerstones of BKS Bank's business strategy — a strategy of responsible and sustainable growth — were as follows:

- Business expansion is careful and gradual.
- BKS Bank only transacts business that is transparent and where it has the necessary expertise.
- BKS Bank strives for long-term successes, not short-term profits.
- Risks are only entered into if BKS Bank can bear them without outside help. They are continuously evaluated to assess whether they are viable in the light of BKS Bank's risk bearing capacity and worthwhile from an opportunities versus risk point of view.
- Equity investments are only acquired if they serve banking operations.
- BKS Bank is a reliable and secure bank whose word is its bond and whose decision-making chains are short.
- Highly trained employees who work in the region that they come from put the customer at the centre of what they do.

It is this strategy that has proved highly effective during the financial and economic crisis, which has now lasted more than four years. Among other things, this has been demonstrated by the fact that BKS Bank has never needed government help. BKS Bank's profits are still stable. During its annual strategic conclave, Management discusses and evaluates future market opportunities and risks. In this way, it ensures that BKS Bank can look forward to a successful future by reviewing the goals that have been set and, if necessary, revising them to suit changed circumstances. The strategic conclave in 2012 focused on reappraising BKS bank's business strategy for its foreign markets, the impact of the regulatory environment, future challenges in the IT field, the further development of BKS Bank's CSR activities and measures to increase earnings from retail banking operations. As ever, all the measures developed during the conclave took account of the rather subdued outlook for the European banking sector.

BKS Bank has reacted accordingly, adapting its internal structure at the end of the year under review to face the new challenges. The corporate, business and retail customer sales divisions were amalgamated to create one department called *Zentrales Firmen- und Retailkundengeschäft* (central corporate, business and retail banking operations). This was done to make better use of synergies and to prevent duplication when approaching customers. The *Private Banking und Wertpapiergeschäft* (private banking und securities operations) department was set up to more effectively position securities operations, which used to be a part of retail banking operations. The Supervisory Board's early decision on a successor to Management Board member and CEO Heimo Penker has ensured that the end of his professional activities at BKS Bank will be both orderly and free from friction.

Our bank still sees considerable potential for opening new branches in Vienna and our foreign markets, so we will continue on our sustainable growth path in years to come. However, the pace of our expansion will be far slower to allow for the economic situation. Our long-standing commitment to a cost:income ratio of below 50 per cent remains.

A large part of BKS Bank's success can be attributed to its membership of the *3 Banken Group*. This association of three independent and strong regional banks is a convincing and highly competitive counter model to the financial multinationals. *Oberbank*, BTV and our bank are linked by mutual shareholdings. To date, a syndicate agreement signed in 1997 has given us security and independence as well as generating synergistic effects that have saved us money.

The business philosophies of these banks — closeness to the customer, knowledge of regional markets and a conservative business policy — are very similar. Their joint ventures, which include *3 Banken-Generali Investment-Gesellschaft m.b.H.* and IT service provider *3-Banken-EDV Gesellschaft*, keep structural costs low and round off their offerings for customers. The long-standing strategic partnerships with building society *Wüstenrot AG* and insurer *Generali Versicherung AG* also contribute to a balanced line of products and services.

Markets

The company now called BKS Bank was founded in 1922, 90 years ago, in Klagenfurt as *Kärntner Kredit- und Wechsel Bankgesellschaft Ehrfeld & Co.* Branches were opened Villach, Spittal/Drau and Wolfsberg in the

BKS BANK'S CORE MARKETS

Vienna

• Regional head offices, headquarters of leasing companies, representative offices.

BKS BANK'S ACTIVITIES BY REGION

Country	Banking	Leasing	Representative Offices
Austria	*BKS Bank AG* 6 regional head offices, 47 branches	*BKS-Leasing GmbH,* *BKS-Immobilienleasing GmbH*	
Slovenia	5 bank branches: Ljubljana (2), Maribor, Celje, Domžale	*BKS-leasing d.o.o.*	Ljubljana
Croatia	*BKS Bank d.d.* Rijeka (Head Office); Zagreb Branch	*BKS-leasing Croatia d.o.o.*	Zagreb
Slovakia	1 branch: Bratislava	*BKS-Leasing a.s.*	
Italy	Cross-border activities		Padova
Hungary	Cross-border activities		Sopron

same year. Since then, BKS Bank has gradually enlarged its markets and is now active in Carinthia, Styria, Burgenland, Vienna and Lower Austria as well as in Slovenia, Croatia and Slovakia in the banking and leasing markets.

Austria

Averaged over the year, we employed 562 people in our original market — namely in Carinthia at our Head Office in Klagenfurt — and under our regional head offices in Klagenfurt, Villach and Spittal. They accounted for roughly two thirds of the Group's business volumes. Although BKS Bank has steadily extended its business activities to other market territories, Carinthia, where it has 23 branches, three regional head offices and its Head Office in Klagenfurt, is still the bank's most important market. BKS Bank is one of the foremost providers of banking services in its home market, where it has a large market share in the corporate and business banking and retail banking segments.

In May 2012, the WIFO economic research institute published a study of the development of Austria's various provinces. Carinthia lay well below the Austrian average in terms of gross value added. WIFO said that only partial use was being made of the industrial sector's structural advantages because growth in its key export markets in Southern Europe was still weak. Carinthia's labour market figures also painted a gloomy picture compared with other Austrian provinces. Above all, the emigration of young Carinthians is a worry. On the plus side, companies that already used the first crisis years in 2008 and 2009 as an opportunity to restructure have usually been able to assert themselves in the market thereafter. The industry most under pressure in 2012 was construction, which was struggling with a drop in orders, and the sawmill industry also came under pressure as round timber prices rose.

It was a challenging environment for companies, and we saw this reflected in BKS Bank's customer base in Carinthia. BKS having originally been a pure corporate and business bank, many of our business relationships with companies in Carinthia go back several generations. As a result, our bank is one of the province's most important lenders. Although BKS Bank's three regional head offices in Carinthia (Klagenfurt, Villach and Spittal) were still satisfied with the number of investment loans they granted, they did find that decisions were being made very cautiously and in a very restrained manner and that some companies were choosing not to invest in expansion. Our commitment to regionality sets us positively apart from many big banks. BKS experts who visited customers to give them advice about subsidies or organized information events about current payment topics like SEPA helped underscore the competitive advantage that BKS Bank's advisory skills give it. They thus helped our bank keep its existing customers in the especially coveted target group of thriving medium-sized

CORE AREAS OF EXPERTISE	
Austria	Retail customers: home construction loans and investment advice. Corporate and business banking customers: corporate finance, export finance, giving SMEs in the manufacturing, business and trading sectors advice about subsidies.
Slovenia	High level of financial expertise, high level of service, made-to-measure offerings; named the Slovenian bank offering the best value for money by Finance Magazine for the second time running.
Croatia	Corporate finance, deposit services for retail and corporate and business banking customers; we score points for our high level of service and individualized offerings.
Slovakia	Lending to SMEs; attractive savings products, high level of service, made-to-measure offerings.
Italy, Hungary	We assist Austrian companies entering these markets.

enterprises at the same time as acquiring new ones. The market also responded positively to the new account models we introduced at the beginning of 2012. These incorporate use-based pricing. The associated cost transparency is highly rated. During the year under review, security was the top priority for our corporate and business banking and retail banking customers. The demand for classical bank products often weakened in favour of gold or property. As a result, we had to redouble our sales efforts to keep deposit balances at a satisfactory level. The trend in the private property segment was towards condominiums, renovations and models for property investors, and demand was still strong.

Styria ranked second in the WIFO study behind Upper Austria, with gross value added growing by 4.4 per cent. This is because its industrial sector is much stronger than Carinthia's and that of many other provinces. Companies themselves also rated the state of the economy very positively. Nearly 40 per cent of the small and medium-sized enterprises who were surveyed within the scope of the Styrian economic barometer published by the Styrian *Wirtschaftskammer* (economic chamber) in January 2013 said that their current business situation was good, and over 41 per cent said that their order books were full.

Since the time BKS Bank opened its first branch in *Kaiserfeldgasse* in Graz in 1983, the province known as the 'Green March' has been one of our bank's designated growth territories and core markets. The 83 employees working at our Regional Head Office in Styria and the 12 branches linked to it accounted for roughly 12 per cent of our consolidated balance sheet assets at year-end. This regional head office reported satisfactory growth in the corporate and business loan portfolio. The retail banking division was able to get our private banking services firmly established in the market. Thanks to its range of products of and services, the new private banking unit in *Kaiserfeldgasse*, which is directly affiliated with our regional head office, already managed to acquire numerous new customers.

BKS Bank has a presence in Eastern Austria through its Vienna and Burgenland regional head offices and the branches affiliated with them. These regional head offices each accounted for over 5 per cent of our balance sheet total. BKS Bank has become well established in these regions as a consequential and reliable banking partner thanks to its made-to-measure solutions, expertise and outstanding advisory services. The Vienna Regional Head Office currently has five branches. Since as long ago as 1990, it has been positioning itself as a respectable David among the big banking Goliaths in the corporate and business banking and retail banking segments. Our main branch in Vienna was moved to *Renngasse* in 2012. This was an important change in preparation for further expansion in this market. Since almost all the big banks in Austria are based in Vienna, the city's banking market is particularly hotly contested. However, many customers value the intensive personal advice and short decision-making chains that BKS Bank offers them, not to mention the security we provide. For this reason, we acquired numerous new customers in 2012, increasing both lending and deposit volumes. The Vienna Regional Head Office and its 33 staff members accounted for over 5 per cent of our balance sheet assets at year-end. The country's capital is still one of BKS Bank's most important growth markets. We hope to open up to five more branches in Vienna over the next few years.

We made our carefully considered move into the Burgenland market in 2003 when we took over a majority stake in *Burgenländische Anlage- und Kreditbank AG* (*BAnK*). This was followed by *BAnK*'s merger into BKS Bank in 2005. As soon as we had acquired a majority interest in this bank, we rapidly restructured the existing network of *BAnK* branches to create one regional head office and seven branches, extended the product line and consistently implemented of all of BKS Bank's business policy guidelines. Despite its proximity to crisis-ridden Hungary, BKS Bank's Regional Head Office in Burgenland developed very well during 2012. It is located in the city of Mattersburg. Fifty-three people work there and at the branches affiliated with it. It accounted for over 5 per cent of our assets and reported roughly €130 million of new lending, which was well above expectations. The 15,000th customer opted for BKS Bank's products and services in the retail banking segment.

We will continue to enlarge the sales network during 2013. BKS Bank will be adding another branch in Vienna (*Billrothstrasse*) to the branch network, after which it will have a local presence serving its customers in Austria and abroad at 56 branches. We will only resume our gradual expansion in foreign markets when we see initial signs of an economic recovery in Slovenia and Croatia. The addresses of all our branches are available at www.bks.at.

Slovenia

Austria's southern neighbour is one of the EU Member States that suffered most from the economic and financial crisis in 2012. Its gross domestic product contracted by 2.3 per cent. This means that its economy was in a much worse state than the economies in BKS Bank's other national markets. Another contraction of 1.6 per cent is being forecast for 2013. A number of big Slovenian companies were hit by insolvency, and jobless rates have risen steadily in recent years. The good news is that Slovenia's national debt is still unproblematic by the standards of some other EU Member States. In the light of all these developments, we have become even stricter in the application of our business model — which was already risk-averse — by intentionally cutting back new lending and tightening up our lending guidelines.

Having opened a branch in Domžale, we now have five branches in Slovenia. They contributed €0.65 billion to our balance sheet total (increase of 14.1 per cent) and made a profit for the year of €5.1 million (increase of 41.0 per cent). BKS Bank has become well established in the Slovenian market. As a result, the business magazine Finance named us the bank in Slovenia that offers the best value for money for the second time running, and the corporate and business customer base grew to more than 1,000. The pace of growth in the retail banking segment was similar.

For a long time, BKS Bank in Slovenia was a loan specialist, so lending makes the biggest contribution to the balance sheet. We had a loan portfolio of €0.60 billion in Slovenia (31 December 2011: €0.53 billion). Consequently, in internal comparisons within the BKS Group, Austria's southern neighbour ranked third behind our traditional markets in Carinthia and Styria. Despite the wave of insolvencies we have already mentioned, we are satisfied with the way credit risk has developed. Our local management has always been very careful about how it grants new loans. Deposit balances continued to rise strongly, growing from €55.7 million at the end of 2011 to €86.3 million on the reporting date.

BKS Bank had 84 employees in Slovenia in 2012, compared with 70 in 2011. Eleven of them were working for *BKS-leasing d.o.o.* (2011: 9), which did very well during the 2012 financial year despite the fact that leasing was particularly hard hit by the economic slump. The lease portfolio was worth €68.7 million at the end of 2012, compared with €64.3 million a year earlier. Profit from ordinary activities came to €0.7 million (2011: €0.7 million).

Croatia

BKS Bank actually had two jubilees to celebrate in Croatia in 2012, with *BKS-leasing Croatia d.o.o.* celebrating its 10th birthday and *BKS Bank d.d.* celebrating five years with our companies group. Our entry into the Croatian market took place in 1998 by way of a representative office set up by BKS Bank to help its Austrian customers take their first steps into Croatia. *BKS-Leasing Croatia d.o.o.* was set up in 2002. It was only after this company had become firmly established in the marketplace that we entered the banking market by acquiring the company formerly called *Kvarner Banka d.d.* in 2007. This bank specialized in lending to small and medium-sized enterprises.

Since then, *BKS Bank d.d.* has continuously enlarged its line of products and services, giving our Croatian customers access to a banking partner with an extensive range. *BKS Bank d.d.*, which is headquartered in Rijeka and has a branch in Zagreb, employed an average of 59 people in 2012. The subsequent development of our Croatian banking subsidiary was mirrored by its business numbers. Having had assets of €50 million when it was acquired by BKS Bank, it had a balance sheet total of roughly €143 million at the end of 2011, and the figure was already roughly €160 million at the end of 2012. The loan portfolio grew by 9.1 per cent to €110 million during the year under review. So-called *primary* deposit balances totalling €71.3 million gave *BKS Bank d.d.* a solid funding base. The company is aiming to achieve further increases in both deposit balances and the number of retail banking customers during the next few years. *BKS Bank d.d.* has only been a so-called *universal bank* (apart from securities operations) since 2010. Because it used to specialize in servicing small and medium-sized enterprises, corporate and business banking customers still predominate. As a result, loan operations remain *BKS Bank d.d.*'s most important line of business.

The Croatian economy was still under stress in 2012. The country's real gross domestic product contracted by 2 per cent, and a lasting recovery is not yet in sight. However, despite an increase in the impairment charge on loans and advances, the 11 employees at our Group member *BKS-leasing Croatia d.o.o.*, which is headquartered in Zagreb, generated a pleasing profit of €0.38 million. The company had assets of €38.3 million at the end of 2012.

Slovakia

Slovakia is the market where BKS Bank has been operating in the banking and leasing markets for the shortest time. We did not open our first banking branch in Bratislava until the 2011 financial year. We entered the Slovakian market in 2007 when we acquired the company now called *BKS-Leasing a.s.* (previously *KOFIS Leasing*).

The BKS Bank branch had an average workforce of 17 in 2012. It developed very well, helped by its strategy of providing advisory services of exceptionally high quality so as to stand out from other banks. As in all our markets, our bank in Bratislava put its faith in quality, not quantity, and it has profited from a high recommendation rate.

Until the fourth quarter of 2012, BKS Bank Bratislava's customers were only offered corporate and business banking products and services. Besides loan and deposit products, these included account products and payment services complete with online banking. Products and services for retail customers have now been added to the range, which includes current accounts and credit and saving products. In the credit segment, BKS Bank offers its Slovakian customers both consumer and home construction loans. Customers can save in time deposit accounts or BKS Bank's online savings accounts, which offer attractive interest rates. As a next step, our subsidiary in Slovakia will be launching insurance products and, in the medium term, securities services. Because they use a lot of resources, it has not yet introduced counter services. By the end of 2012, this new branch had built up a loan portfolio worth about €40 million, with new loans accounting for €30.4 million of the total.

The pace of growth at *BKS-Leasing a.s.* was slightly slower than before during the year under review, and this leasing company's profit fell. *BKS-Leasing a.s.* employed an average of 18 people during the year (2011: 21) and had assets of €31.8 million at year-end (31 December 2011: €43.1 million). To improve its market position, it began a project at the beginning of 2013 to strengthen the links and cooperation between *BKS Leasing a.s.* and BKS Bank. The key objectives of this project are to strengthen and optimize sales and to create administrative synergies.

Italy, Hungary

BKS Bank has one representative office in Italy and one in Hungary. Customers from these countries are only provided with products and services on a cross-border basis. We currently have no plans to set up bank branches or leasing companies there.

Customers, Products and Services

BKS Bank's goal is to operate as a so-called *universal bank* in every one of its national markets. However, market entries outside Austria take place step by step following careful market analysis and research. We have usually begun the process with a leasing company, and banking operations have been launched later. Initially, customers are only offered a selection of banking products and services that do not necessarily involve cash transactions, and the range is then extended slowly. This strategy has proven effective in every one of BKS Bank's foreign markets.

BKS Bank has been operating in Slovenia since 1998 and has now established itself as a universal bank there. Its fifth branch opened in the year under review. Slovenia is one of Austria's immediate neighbours. It is still our most important foreign market and already has our third-largest loan portfolio behind Carinthia and Styria. Our Croatian banking subsidiary *BKS Bank d.d.* offers its retail and corporate and business banking customers a complete line of banking products and services with the exception of securities services. Both lending and deposit operations developed satisfactorily in 2012. Once again, one of the main focuses was on acquiring salary account customers as the basis for future cross-selling activities.

The branch in Bratislava, Slovakia, was set up in 2011 with a product line that had been optimized for corporate customers. It has developed well since then. It launched products and services for retail customers for the first time in the fourth quarter of 2012. The new range includes current accounts complete with overdrafts, loans and saving products.

BKS Bank's target groups are retail personal banking, retail business banking and corporate and business banking customers. In the corporate customers segment, we focus mainly on servicing small and medium-sized enterprises in the manufacturing, business and trade sectors. Since we were set up as a pure corporate and business bank, many of our relationships with corporate and business banking customers go back several generations. Cost-transparent account models, a commitment to providing high service standards, investment and export finance expertise and outstanding subsidy advice services ensure that our offerings generate a high recommendation rate.

In the retail banking segment, many customers choose BKS Bank to finance their dream home. Thanks to our solid business policy, we enjoy the trust of both savers and investors. This is crucial to business success in times like these. Primary deposit balances remain our most important source of funds.

We added private banking to our investment counselling range in 2011. We offer this service to customers investing €200,000 or more. As of 1 January 2013, BKS Bank's private banking unit became a separate organizational unit. A five-stage structured advisory process was added to its extended line of products and services. It offers its customers the *IVV – Individuelle Vermögensverwaltung* personal asset management service with its adaptable management models, special fund solutions, buy-to-let apartments, models for property investors and trust service. We took an important additional step to strengthen our securities operations by setting up a separate brokerage service for customers who already have extensive experience in the capital markets. Furthermore, we added a precious metal deposit account service and investment products to the range. Sustainability is one of the elements at the centre of the product design process. Our newest ecologically, socially and economically responsible asset management product was *AVM-Nachhaltigkeit*, which invests solely in sustainable and responsible investment funds. In addition, BKS Bank analyzed and restructured its entire securities deposit landscape so as to be able to offer its securities customers modern securities account models that are tailored to their usage patterns. Our attractive line of securities deposit accounts ranges from our *Start Depot*, which we recommend to customers aged between 18 and 30 with accounts worth not more than €20 thousand, to the *Klassik Depot* variant for value accumulation with just a few different securities in one's account to a *Komfort Depot* solution for investing regularly in various asset classes and the *Premium Depot* for high net worth clients who carry out correspondingly large securities transactions.

Communication

Transparent and open internal and external communication are very important to BKS Bank. We address our retail customers with the help of personal communication, classical advertising and the online media. Since we do not have a nationwide network of branches in any of our national markets, we do not use television advertising. When advertising on the radio, we use popular regional stations to ensure that we reach our target groups as effectively as possible. The most important instruments we use are advertisements in the printed and online media and indoor campaigns at our branches that feature displays and attractive poster material.

Our retail customers particularly appreciate our events, whether small or large. For example, in 2012, we invited customers at a number of branches to information evenings dealing with investing, inheriting, giving and cultural highlights in the region. The private banking unit's invitations to performances at *Kabarett Simpl* and the Porcia comedy theatre were special highlights for many of our clients. We celebrated two jubilees in Croatia, *BKS-leasing Croatia d.o.o.* having been founded 10 years earlier and subsidiary *BKS Bank d.d.* having been a member of the Group for five years. This was celebrated at a big event held in the Mimara Museum in Zagreb, where some 300 guests enjoyed the music of Barbara Helfgott and well-known Croatian musician Mario Bocic in a summer setting. In the autumn, *BKS Bank d.d.* invited customers to the Kvarner Festival, which we were sponsoring for the first time.

There were a lot of changes to our online communication activities in 2012. Every BKS Bank website was relaunched, and this was achieved smoothly without any day-long downtime. In addition, we decided to have a corporate presence in various social media channels such as Facebook and XING from 2013. We began preparing this presence during the 2012 financial year. We want to increase awareness of the BKS Bank brand and reach younger target groups.

Since their individual requirements are paramount, we make little use of the mass media to communicate with our corporate and business banking customers. Instead, we communicate with them in a targeted manner within the scope of workshops, information events or personal advice sessions. Our biggest events for corporate and business banking customers included the award ceremonies for the *TRIGOS Kärnten* (Carinthia) and *TRIGOS Steiermark* (Styria) awards and lectures by Hans Reitz in Velden, Baden and Graz. This charismatic Bavarian is creative advisor to the Nobel Peace Laureate Muhammad Yunus, who invented microcredits. Naturally we also offer our corporate and business banking customers a broad range of information on our website at http://www.bks.at.

We used press conferences and press releases to actively dialogue with journalists and we responded to numerous press enquiries. We keep our equity holders informed during our annual general meetings and with the help of publications and reports like our quarterly Shareholders Letters. These can be accessed online.

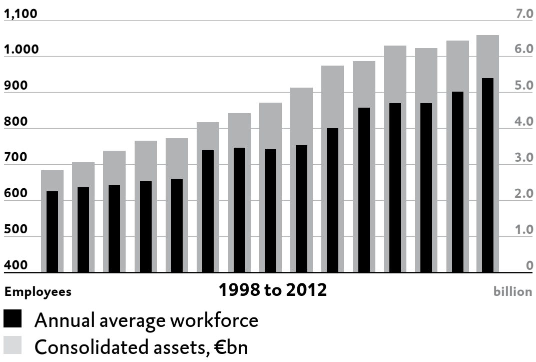
Our main medium for internal communication is the Intranet, which provides staff members with essential information about the enterprise round-the-clock, and this portal can also be used by the Staff Council. A relatively new instrument known as the 'Pop-up' that appears automatically each day when a computer is switched on tells people any particularly good news about the company as well as staff news. These pop-ups are both striking and appreciative. Our regular staff magazine, *Cocktail*, is also published in English. It provides a well-rounded review of the numerous professional and personal aspects of BKS Bank and the activities that take place within it. We also attach considerable importance to personal communication. The Management Board presents the enterprise's key strategies and numbers as well as the progress of projects and any innovations twice a year. The lively exchange of ideas and information within BKS Bank is rounded off by *jours fixes* that take place at the department or branch level as well as regular discussions with staff.

Staff

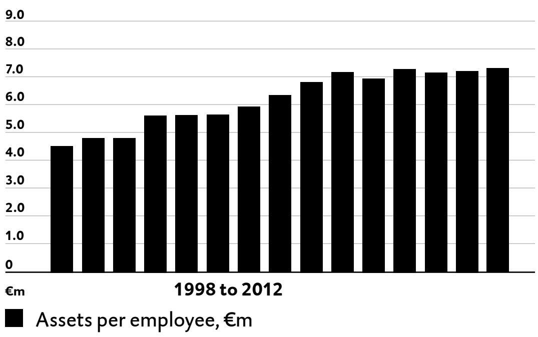
One of our key aims is to be an attractive employer. In other words, a high level of job security, above-average corporate social responsibility, intensive efforts to make it possible for staff to combine having a career with having a family and extensive basic and advanced training programmes are particularly important to BKS Bank.

In 2012, the entire banking sector saw itself compelled to undertake far-reaching rationalization, and this often involved laying off staff. Although BKS Bank too took action to improve efficiency and cut costs, it is part of our vision always to prioritize protecting jobs. In 2012, BKS Bank employed an average of 930 people (full-time equivalents), which was 29 more than in 2011. Most of the increase took place in our

SIZE OF WORKFORCE AND BALANCE SHEET ASSETS



BALANCE SHEET ASSETS PER EMPLOYEE



growth markets abroad. Within Austria, we were able to hire a number of highly qualified employees for Head Office and sales activities. The lasting success of our personnel strategy is evidenced (as the chart above shows) by the increase in efficiency (in terms of the relationship between the size of the workforce and our balance sheet assets) that we have achieved.

We are proud of our extremely loyal workforce and the high level of commitment and outstanding know-how of our employees. This feeling is mutual, as is demonstrated an average period of service with us of 14.9 years, 162 employees who have already been with us for more than 30 years and, not least, 1,416 unsolicited job applications in the year under review. Two members of our Management Board — Heimo Penker and Dieter Krassnitzer — celebrated jubilees that very few Austrian management board members ever reach. Heimo Penker had been working for BKS Bank for 40 years and had been a member of the Management Board for 28 of them. Dieter Krassnitzer had been working for us for 25 years and had been a member of the Management Board since 1 September 2010.

An extensive training programme

BKS Bank attaches great importance to basic and advanced training. In 2012, the training programme consisted of about 200 different professional and personality development modules. The focus during the year under review was on data protection and compliance. Every member of staff attended a three-hour workshop about data protection and data security where he or she was given information about handling customer data and personal data with even greater sensitivity, about general security regulations and much more. A multifaceted e-learning programme was added to our regular compliance courses in the third quarter and had demonstrably been completed by every employee by year-end. One of the milestones in 2012 was the introduction of a women's career programme called *Frauen.Perspektiven.Zukunft* (Women. Prospects.Future). Please see the Sustainability Report for details.

We reconceived our assessment and promotion interviews and introduced them throughout the Group. Thanks to their increased precision, they can now be used to sound out possible career moves with a staff member. We investigated what people need these assessment and promotion interviews to deliver in the course of telephone interviews held with employees and management personnel. The model was discussed with BKS Bank management personnel during workshops and the process was supported by an external consultant.

We continued implementing the measures to make it easier for employees to combine having a career and a family that had been developed during the *berufundfamilie* (JobAndFamily) audit process. One innovation was a parenthood leave guide. Parents on parenthood leave are now systematically invited to internal information events. Particular emphasis was also placed on giving careful psychological support to employees in crisis situations. Please see the Sustainability Report for more detailed information about all of BKS Bank's other CSR activities during the year under review. We have been pushing ahead with our *Durch die Bank gesund* (banking on health) scheme across the Group for a number of years and were awarded the Quality Seal for Workplace Health Promotion for doing so. The scheme continued to encourage employees to actively think about core areas of preventative medicine in the year under review. The focal point of our health promotion activities during 2012 was vision. The motto that suggested itself was therefore *Mit Weitblick durch die Bank* (banking on vision).

Organization, Construction and IT

A failsafe IT system and modern branches are essential to BKS Bank's success. IT costs totalled about €15 million in 2012, and BKS Bank spent €5.8 million on construction projects and other investments during the year.

Far-reaching organizational changes

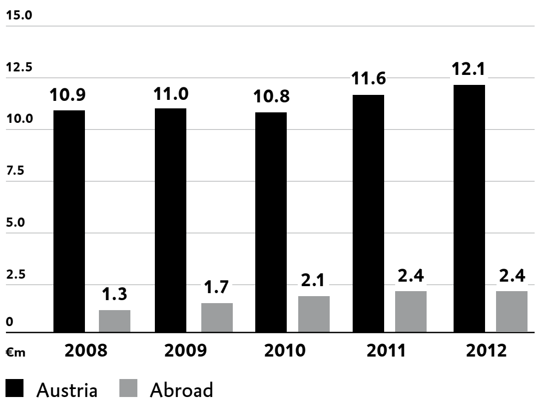
Our activities focused on the continuation of joint resource-intensive *3 Banken* IT projects and the implementation of an internal BKS Bank project designed to increase the efficiency of financial transaction processing. *3-Banken-EDV Gesellschaft mbH* (3BEG) — a joint venture of BKS Bank and its sister banks — is responsible for BKS Bank's IT projects. Important steps were taken to create a smooth SEPA (euro payments) interface while, at the same time, replacing the existing payment format, which had been based on 3,270 transaction types. A graphic user interface for payment instructions was implemented to capture all decentralized payment processes, removing a gap in the system that had been noticeable to many employees.

At the beginning of 2012, a piece of software was put into operation in close cooperation with *Geldservice Austria* (GSA) to permit a smooth transition to clearing payments through GSA. As a result, clearing within Austria is now effected with a single partner, ensuring strict adherence to SEPA time limits.

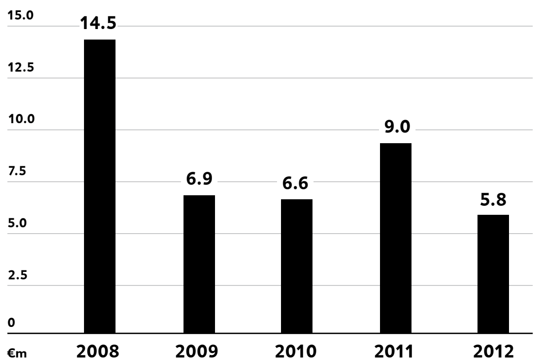
In addition, an extended transaction screen was implemented within the KKNEU core banking system at the beginning of the year as a precursor to the next step towards real-time processing. In addition, an analytical database with flatter structures was created to make data analysis more efficient. The first application systems for the actual analysis process inclusive of authorization management were completed. The conversion of the interfaces to the KKNEU database took us a decisive step closer to finally replacing KKALT.

We also put a much improved version of the bank's internal rating system into operation at the beginning of the year. By doing so, we made the transition from an expert-based model to a statistical model, meeting the financial market regulators' demand for a better distribution between the rating classes and, in the

IT COSTS



INVESTMENT OUTLAY



final analysis, greater selectivity. Our other activities in the IT field ranged from implementing an application that supports the processing of covered bonds in connection with home construction mortgages to installing a new version of GEOS with a tool for deducting withholding tax (mandatory from April 2012) to updating the contents of the BKS Bank website at http://www.bks.at. The focus in the data protection and data security fields was on preventing unauthorized access to IT information and its unauthorized use and transmission. We began creating a technical infrastructure in the digital communication field and replacing the online banking system with a development of our own. The next developmental steps will be the design of the e-box, adding extensions to create a customer portal and developing a payments application tailored to our customers' requirements for use on mobile devices. Finally, Windows 7 was introduced as an additional variant alongside the Windows Vista operating system (which had been specially adapted to the needs of our bank).

During a project supported by external advisors, we defined our basic pathway towards the more efficient processing of loan transactions and, in turn, towards the future structure of BKS Bank's Head Office. It already went into effect at the beginning of 2013. Extensive changes to our organizational structure were essential in order to change our system of responsibilities, carry out improvements to our IT applications and streamline banking and standard processes. Retail Banking Operations and Corporate and Business Banking Operations — two Head Office departments — were therefore amalgamated to create a single Head Office department called *Firmen- und Retailkundengeschäft* (corporate, business and retail banking operations). This new department is now responsible for sales management, product design for retail and corporate and business banking customers, corporate banking, payments and leasing operations. A new Head Office department called *Private Banking und Wertpapiergeschäft* (private banking and securities operations) was created to underscore the importance of securities operations and our new private banking division. This department, which has since been extended to include a brokerage service, now develops and manages all the investment activities of our high net worth customers.

Areas of responsibility at the Credit Management and Credit Back Office departments at Head Office were restructured in parallel. In future, Credit Management will be responsible for risk analysis in the corporate and business banking, retail business and retail personal banking segments as well as risk management and international operations. Similarly, the Credit Back Office department at Head Office will be responsible for back office processing for all customer groups, branch services, legal affairs and credit processes. Since similar activities will now be concentrated within one single department, we are expecting much shorter processing times and corresponding staff savings as well as a perceptible increase in the quality of the work done.

Extensive IT investments and construction activities

Most of the IT investments completed in 2012 were handled by 3BEG and accounted for by way of that company's invoices for its services. When branches were rebuilt, new self-service equipment was purchased for customer self-service and counter areas. A large amount was also spent on modernizing the infrastructure of existing and new workstations. This money was spend on PCs, notebooks, flat screen monitors, workstation printers and software.

Among other things, our extensive building activities in Austria focused on completing the smooth relocation of the Eben and Welz branches to their new Klagenfurt-Ost location, the complete renovation of the Bad St. Leonhard branch, the adaptation of our private banking premises in Klagenfurt, the relocation as planned of our Vienna Regional Head Office to its attractive new location in *Renngasse* and, not least, the renovation of a large part of the third storey of BKS Bank's Head Office. Our biggest construction project in Slovenia during the financial year was the completion of our new branch in Domžale, which took place on schedule. Otherwise, ongoing building works and inventory purchasing in Slovenia were very limited. Similarly, we were able to keep our software costs (including, above all, the licence costs associated with new employees and outlay on additional developments required in the core banking system) low. IT, construction and inventory costs in Croatia and Slovakia were below budget. In particular, building costs at our new premises in Bratislava were comparatively low.

Important Equity Investments

EQUITY INVESTMENTS IN BANKS AND OTHER FINANCIAL SERVICES PROVIDERS

Equity Interest	>50%	20%–50%	10%–20%	<10%
BKS-Leasing GmbH	100.00%			
BKS-Immobilienleasing GmbH	100.00%			
BKS-leasing d.o.o.	100.00%			
BKS-leasing Croatia d.o.o.	100.00%			
BKS-Leasing a.s.	100.00%			
BKS Bank d.d.	100.00%			
Alpenländische Garantie-GmbH		25.00%		
Oberbank AG			16.95%	
Bank für Tirol und Vorarlberg AG			13.59%	
3 Banken-Generali Investment-GmbH			15.43%	
Drei-Banken Versicherungs-AG		20.00%		
Oesterreichische Kontrollbank AG				3.06%
BWA Beteiligungs- und Verwaltungs AG				0.89%
PayLife Bank GmbH				1.44%
3-Banken Wohnbaubank AG			10.00%	

OTHER EQUITY INVESTMENTS (SUBSIDIARIES AND ASSOCIATES)

Equity Interest	>50%	20%–50%	10%–20%	<10%
BKS Immobilien-Service GmbH	100.00%			
IEV Immobilien GmbH	100.00%			
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	100.00%			
BKS Zentrale-Errichtungs- u. Vermietungs GmbH	100.00%			
VBG Verwaltungs- und Beteiligungs GmbH	100.00%			
VBG-CH Verwaltungs- und Beteiligungs GmbH	100.00%			
BKS Hybrid alpha GmbH	100.00%			
BKS Hybrid beta GmbH	100.00%			
BKS 2000 Beteiligungsverwaltungs GmbH	100.00%			
– Beteiligungsverwaltung GmbH		30.00%		
– Generali 3 Banken Holding AG			16.40%	
– 3-Banken Beteiligung GmbH		30.00%		

OTHER EQUITY INVESTMENTS (NON-BANKS)

Equity Interest	>50%	20%–50%	10%–20%	<10%
Drei-Banken-EDV Gesellschaft mbH		30.00%		
Einlagensicherung der Banken & Bankiers GmbH				3.10%
CEESEG AG (formerly *Wiener Börse AG*)				0.38%

Notes on the Scope of Consolidation

BKS Bank has been preparing its financial statements in accordance with the International Financial Reporting Standards since 2005. These Consolidated Financial Statements were likewise prepared in accordance with the IFRSs as adopted by the EU.

The members of the Group

The overview that follows lists the entities required by the International Financial Reporting Standards to be classified as members of the BKS Bank Group in the 2012 reporting year. The scope of consolidation did not change during the 2012 financial year. It also meets the requirements of *§§ 59a BWG* and *245a UGB* regarding exempting consolidated financial statements prepared according to internationally accepted financial reporting standards.

The consolidated group on which Group analyses are based consisted of 18 banks and other financial service providers and entities rendering banking-related ancillary services. These entities included our

THE MEMBERS OF THE CONSOLIDATED GROUP

Banks and Other Financial Service Providers

BKS Bank AG, Klagenfurt	*BKS-Leasing Gesellschaft mbH*, Klagenfurt	*Oberbank AG*, Linz
BKS-Immobilienleasing Gesellschaft mbH, Klagenfurt	*BKS-leasing d.o.o.*, Ljubljana	*Bank für Tirol und Vorarlberg AG*, Innsbruck
BKS-leasing Croatia d.o.o., Zagreb	*BKS-Leasing a.s.*, Bratislava[1]	*Alpenländische Garantie-GmbH*, Linz
BKS Bank d.d., Rijeka		*Drei-Banken Versicherungs-Aktiengesellschaft*, Linz

Consolidated
Accounted for using the equity method

Other Consolidated Entities

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

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

leasing companies in Austria and abroad as well as *Alpenländische Garantie-GmbH* and *Drei-Banken Versicherungs-Aktiengesellschaft*. Given the sizes of the various entities in the Group, its consolidated net profit was predominantly generated by *BKS Bank AG*. The consolidated members of the BKS Bank Group comprised the banks and other financial service providers and entities rendering banking-related services that were controlled by *BKS Bank AG*. During the elimination of investments in and equity of subsidiaries on consolidation, an entity's cost was compared with the Group's interest in the entity's measured equity, materiality being judged applying common, Group-wide criteria. The principal criteria of materiality were the assets, profit for the year and size of workforce of the entity concerned. These Consolidated Financial Statements are thus based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies. Investments in material associates were accounted for using the equity method. All other equity investments were classified as available for- sale and, if their fair value could not be reliably measured, valued at their carrying amount. The carrying amount of an equity investment was adjusted according to the change in the net assets of the entity in question.

Our investments in our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG* — which make up the *3 Banken Group* together with *BKS Bank AG* — were also accounted for in the Consolidated Financial Statements, using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of these banks, holding stakes of 18.51 per cent and 15.10 per cent, respectively, the exercise of voting rights is regulated by syndicate agreements. This allows participation in those two banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. Consolidated net profit for the 12 months ended 31 December 2012 included BKS Bank's interests in those banks' profits for the year. The other consolidated entities, most of which were designated as real estate companies, rendered banking-related ancillary services.

Banks and other financial service providers

BKS Bank AG

The parent of the BKS Bank Group is *BKS Bank AG*, which is headquartered in Klagenfurt. *BKS Bank AG* recorded profit from ordinary activities of €29.9 million, making a substantial contribution to consolidated net profit in 2012. Assets of roughly €6.33 billion also underlined its dominant role. The BKS Bank Group had an average of 930 employees during the year, 854 of whom were working for *BKS Bank AG*.

BKS-Leasing Gesellschaft mbH

This Group subsidiary is headquartered in Klagenfurt am Wörthersee. It has been carrying on motor vehicle and movable property leasing business in BKS Bank's core operating territories in Austria since 1988. As a wholly owned subsidiary of *BKS Bank AG* — with share capital of €40.0 thousand — that has been regarded as one fiscal entity with BKS Bank AG since 1996, it makes up a group as defined by *KStG* (Austrian corporation tax act) together with *BKS-Immobilienservice Gesellschaft m.b.H.* *BKS Bank AG* acts as group parent and also provides the 10 employees and back office infrastructure used in the sale and management of leases.

BKS-Immobilienleasing Gesellschaft mbH

Also a Group subsidiary, *BKS-Immobilienleasing Gesellschaft m.b.H.*, which was founded in 1989 and is headquartered in Klagenfurt am Wörthersee, specializes in real estate leasing. Its business operations comprise the acquisition, construction, renting, letting and management of real estate. 99.75 per cent of its share capital of €40.0 thousand is held by *BKS-Leasing Gesellschaft mbH*, described above, and *Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG*, Klagenfurt, holds 0.25 per cent.

BKS-leasing d.o.o.
BKS-leasing Croatia d.o.o.

BKS Bank entered the Slovenian market when it acquired the company now called *BKS-leasing d.o.o.* in 1998. *BKS-leasing d.o.o.* is headquartered in Ljubljana and has share capital of €260,000. Within BKS Bank's organizational structure, it is responsible for working the Slovenian market, where it focuses on motor vehicle, movable property and real estate leasing. *BKS-leasing Croatia d.o.o.*, which was set up in 2002, is headquartered in Zagreb and has share capital of HRK9.0 million, has also successfully profited from BKS Bank's historical business links with the so-called *Alpe-Adria* region and the potential of the Croatian market.

BKS-Leasing a.s.

BKS Bank acquired the company now called *BKS-Leasing a.s.* and previously called *KOFIS Leasing a.s.* in 2007. It is headquartered in Bratislava and also has branches in Banská Bystrica and Žilina.

BKS Bank d.d.

BKS Bank entered the Croatian banking market in 2006 when it acquired a majority shareholding in *Kvarner banka d.d.* Subsequently, it gradually increased its stake to 100 per cent. This bank is registered as a stock corporation. In 2008, it was renamed as *BKS Bank d.d.* and opened a branch in Zagreb. *BKS Bank d.d.* specializes mainly in lending to small and medium-sized manufacturers and businesses. It now possesses the infrastructure of a fully fledged bank. It had share capital of HRK 200 million on the reporting date. This company with its 59 employees had assets of HRK 1,201 million at the end of the year under review. A share capital increase of €10.6 million (HRK 80.0 million) took place in 2012.

Oberbank

Oberbank was set up in 1869 as *Bank für Oberösterreich und Salzburg.* It is headquartered in Linz. As we have already mentioned, it is accounted for in the Consolidated Financial Statements of BKS Bank using the equity method. It is a leading independent provider of banking services to industrial and medium-sized enterprises in its core regional markets, which are Upper Austria and Salzburg Province. It has branches in Vienna, Lower Austria, Bavaria, the Czech Republic, Hungary and Slovakia. It had an average workforce of 2,020, ended the year with consolidated assets of €17.7 billion and posted a profit for the year before tax of €132.4 million, making it, once again, one of Austria's most profitable banks in 2012. This company, which has been listed on the Vienna Stock Exchange since 1986, had market capitalization of roughly €1.35 billion at the end of 2012.

Bank für Tirol und Vorarlberg

Bank für Tirol und Vorarlberg (BTV) was founded in 1904. It is anchored in its core markets of Tirol and Vorarlberg provinces, which are in Western Austria. It is the third independent bank in the *3 Banken Group*, on an equal footing with *Oberbank* and BKS Bank. It has been operating as *BTV VIER LÄNDER BANK* since 2011. Besides its original branches in Tirol and Vorarlberg, this bank now has a local presence through branches in Vienna, Bavaria, Baden-Württemberg, eastern Switzerland and northern Italy. Its 779 employees succeeded in increasing its assets to roughly €9.5 billion in 2012. The BTV Group's profit for the year before tax came to €67.1 million. BTV had market capitalization of about €421 million at the end of 2012.

Alpenländische Garantie-GmbH

Alpenländische Garantie-GmbH (ALGAR) is headquartered in Linz. It was set up as a *3 Banken Group* joint venture in the form of a bank in 1983. ALGAR is not profit-orientated. Its object is to mitigate the large loan risks of the three banks that are its equity holders. It does so by issuing guarantees and letters of indemnity and assuming liability in other ways for loans and advances. Fifty per cent of ALGAR's share capital of €3.0 million is held by *Oberbank*. Twenty-five per cent stakes are held by BTV and BKS Bank. The BKS Bank Group accounts for its investment in ALGAR using the equity method.

Drei-Banken Versicherungs-Aktiengesellschaft

Insurer *Drei-Banken Versicherungs-Aktiengesellschaft* (3BV-AG), Linz, was set up in 1988. It sells its own risk insurance products and brokers endowment and property insurance products as an insurance agent for *Generali Versicherung AG*. This long-standing ally of the *3 Banken Group* has a 20 per cent stake in 3BV-AG. *Oberbank* holds a stake of 40 per cent in the company's share capital of €7.5 million. BTV and BKS Bank hold 20 per cent each.

Other consolidated entities

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H.

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H., Klagenfurt, built and now lets BKS Bank's Head Office building on *St. Veiter Ring*. *BKS Bank AG* holds an indirect stake of 100 per cent in this company through *BKS-Leasing GmbH* and *VBG Verwaltungs- und Beteiligungs GmbH*. It has share capital of €36.4 thousand.

Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG
IEV Immobilien GmbH

Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG purchases, lets and sells land and buildings and carries out construction projects of all kinds. As a BKS Bank subsidiary, it is primarily responsible for building and letting business premises within the BKS Bank Group. It is managed by *IEV Immobilien GmbH* as a general partner. *BKS Bank AG* holds direct stakes of 100 per cent in these companies, both of which are headquartered in Klagenfurt.

BKS Hybrid alpha GmbH
BKS Hybrid beta GmbH

The principal object of *BKS Hybrid alpha GmbH*, which was set up in September 2008, and of *BKS Hybrid beta GmbH*, which was set up in April 2009, both of which are headquartered in Klagenfurt am Wörthersee, is to issue hybrid bonds and use the proceeds from such issuances to purchase the supplementary capital bonds (*Ergänzungskapitalanleihe*) of *BKS Bank AG*. According to the provisions of *BWG* (Austrian banking act), the proceeds from the issuance of hybrid capital instruments have the character of equity and thus qualify as core Tier 1 capital of the *Kreditinstitutsgruppe* (credit institution group).

VBG-CH Verwaltungs- und Beteiligungs GmbH
LVM Beteiligungs Gesellschaft mbH

BKS Bank AG also holds 100 per cent of the shares in *VBG-CH Verwaltungs- und Beteiligungs GmbH*, which is headquartered in Klagenfurt am Wörthersee. It in turn holds 100 per cent of the shares in *LVM Beteiligungs Gesellschaft mbH*. The principal object of both these companies is to finance foreign subsidiaries of BKS Bank.

Profit

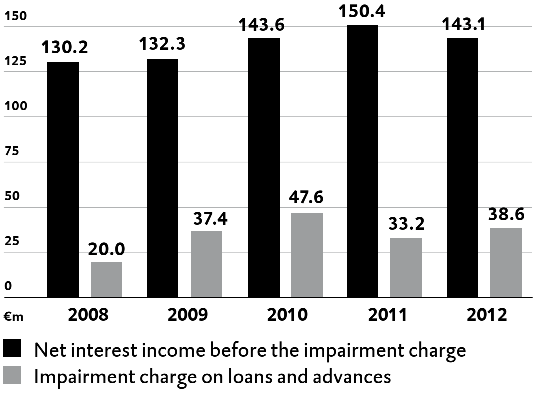
Satisfactory profit despite the adverse banking environment

As expected, BKS Bank's business development was still being affected by the challenging banking environment during 2012. Firstly, it was impacted by Europe's stubborn sovereign debt crisis. Secondly, the population's loss of confidence in the European Union and the banking sector was being rekindled. In particular, in the summer months, Jean-Claude Juncker, the Chairman of the euro group of finance ministers, and other high-ranking representatives and institutions of the eurozone made unusually direct reference to the portents of a break-up of the eurozone in the light of the crises in Greece, Italy and Spain. Together with the less than positive economic scenario and falling interest rates, this prompted our customers to exercise noticeable restraint in their business activities.

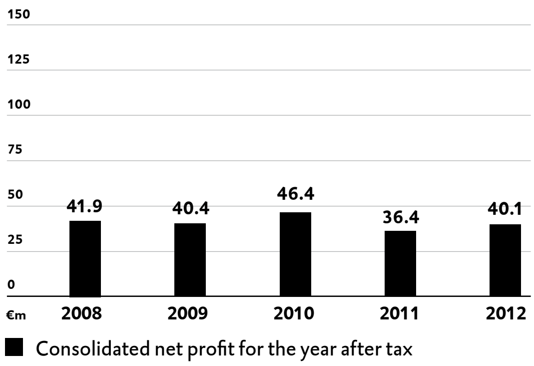
BKS Bank proved to be well positioned in this volatile environment thanks to the restructuring and cost savings achieved during the year under review alongside a business policy that has always been conservative and a risk position that was still perfectly respectable. Although we did not make a record profit in 2012, we are satisfied with our results under the circumstances. Profit for the year after tax was 10.1 per cent up on the previous year to €40.1 million, and profit for the year before tax was actually roughly one fifth up on the previous year, growing from €38.6 million to €45.9 million. This was mainly thanks to the absence of the big write-downs of Greek government bonds that had been necessary in 2011 and the resultant robust increase in profit from financial assets. Interest rates were significantly lower even than in the previous year, and this had a perceptible impact on earnings in the year under review. In addition, the capital markets were still volatile, which had a corresponding effect on earnings from both interest rate operations and fee and commission business.

BKS Bank's development during the year was overshadowed by the hard competition for so-called *primary deposits* and massive interest rate cuts in the consumer credit segment caused by the applicable sliding rate of interest clauses. Virtually every interest-bearing component of our operations, including, above all, credit operations, showed a drop in interest income, which fell by 3.4 per cent to €215.3 million overall. At the same time, as the 3.0 per cent increase in interest expenses to €94.5 million shows, BKS Bank was unable to fully escape the terms-based competition for customer deposits. Net interest income fell by 4.9 per cent to €143.1 million. Because of the drop in funding rates, profit from investments in entities accounted for using the equity method, including, in particular, *Oberbank* and BTV, increased from €19.3

NET INTEREST INCOME AND IMPAIRMENT CHARGE ON LOANS AND ADVANCES



CONSOLIDATED NET PROFIT AFTER TAX



IMPAIRMENT CHARGE ON LOANS AND ADVANCES

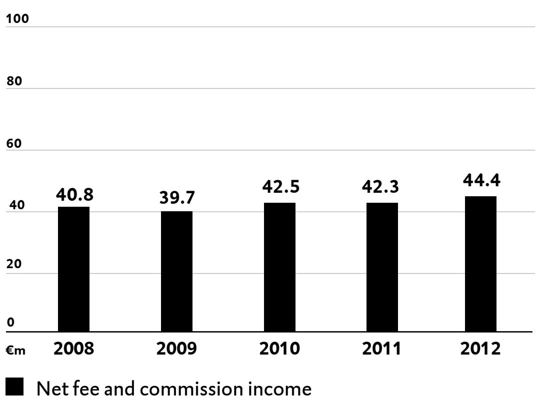
€m	2010	2011	2012
Direct write-offs	2.2	0.9	0.7
Impairment allowances	50.0	39.6	45.4
Impairment reversals	(4.3)	(6.9)	(7.1)
Recoveries on receivables previously written off	(0.4)	(0.3)	(0.4)
Impairment charge on loans and advances	**47.6**	**33.2**	**38.6**

million in 2011 to €22.3 million in the year under review. An impairment charge on loans and advances of €38.6 million was needed to allow for the turbulent market environment in 2012, as against €33.2 million in 2011. Looked at in detail, this line item is the sum of impairment allowances and reversals thereof, subsequent recoveries of written-off receivables, direct write-offs and commission payments to ALGAR — the *3 Banken Group* joint venture set up to guarantee large loan risks — as well as collective assessments of impairments of portfolios carried out in accordance with IAS 39 para. 64 and the charge for country risks. Direct write-offs fell slightly to €0.7 million in the year under review. Impairment allowances came to €45.4 million, but we were able to carry out impairment reversals totalling €7.1 million. Because our internal rules had become stricter, the charge for country risks contained in the line item *Impairment allowances* was increased from €0.8 million to €2.4 million. The impairment charges on loans and advances at our subsidiaries in Austria and abroad accounted for 6.2 per cent of the Group's total risk allowances. Net interest income after the impairment charge on loans and advances was 10.9 per cent down on the very good figure of €117.2 million recorded in 2011, coming to €104.5 million.

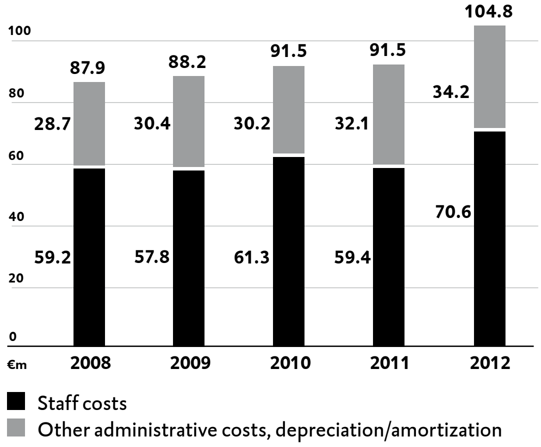
Net fee and commission income above expectations

Net fee and commission income grew more strongly than expected during the year. Group-wide, it increased by €2.1 million or 5 per cent compared with the total of €42.3 million recorded in 2011, coming to €44.4 million. As you can see from note (3) on page 107, the main contributors were increases in net fee and commission income from credit operations and payment services. Switches out of foreign currency loans (welcome, above all, from a risk point of view) resulted in solid net fee and commission income from foreign payments. On the other hand, because of the risk aversion among securities customers that we were seeing into the summer months, fee and commission earnings from securities operations remained €0.3 million down on the previous year. The value of the securities deposit accounts in the portfolio was still just under €6 billion at the end of June 2012, coming to €5.99 billion, but markets in general having steadied, it had increased to a pleasing €6.31 billion by the end of 2012.

NET FEE AND COMMISSION INCOME



GENERAL ADMINISTRATIVE EXPENSES



Net trading income, which consists of earnings from foreign exchange trading and trading in derivatives, stayed up on the previous year at €2.3 million. However, proprietary trading is a minor part of our business activities, so trading activities make only a small contribution to total profit.

Financial assets make a positive contribution to profit

Following a difficult 2011, when it came to negative €32.5 million (having been dented, above all, by the requisite write-down to our holdings of Greek government bonds), *Profit/(loss) from financial assets* came to positive €3.0 million in the year under review. This line item consists of the sub-items *Profit/(loss) from financial assets designated as at fair value through profit or loss*, *Profit/(loss) from available-for-sale financial assets* and *Profit/(loss) from held-to-maturity financial assets*. The profit from financial assets designated as at fair value through profit or loss came to €2.4 million. Revaluation gains on line items valued similarly using the fair value option came to €4.5 million, whereas there were revaluation losses on derivatives in the amount of €2.1 million. We also recorded a profit from available-for-sale financial assets in the 2012 financial year. It came to €2.8 million, impairments of €1.6 million having had to be deducted from realized gains of €4.4 million. As we have already mentioned, the portfolio of held-to-maturity financial assets was hit by the dramatic developments in the market for Greek government bonds in 2011. The loss in the value of this portfolio came to just €2.2 million during 2012, as against €33.2 million during 2011.

Staff costs increased by adjustments to social capital

A shown in note (5) on page 108, staff costs were 18.8 per cent up on the prior year total of €59.4 million to €70.6 million. Because of the historically low interest rates, the interest rate used to calculate our provisions for so-called 'social capital' (*Sozialkapitalrückstellung*) was reduced from 4.75 per cent to 3.75 per cent during the preparation of the financial statements. The change in the factor applied when discounting provisions for staff benefits increased outlay on provisions for post-employment, termination, jubilee and mortality benefits by a total of €5.9 million. In 2011, this line item included provision releases, so about €7.9 million of the increase in staff costs can be attributed to this factor. The rise in the average number of people employed in the Group from 901 at the end of 2011 to 930 in the period under review (full-time equivalents) also increased costs. The workforce increased most at our foreign branches in Slovenia and Slovakia. Given the troubled market environment, we will be focusing more closely on the future development of the workforce during 2013.

KEY COMPONENTS OF THE INCOME STATEMENT

€m	2010	2011	2012
Net interest income	143.6	150.4	143.1
Impairment charge on loans and advances	(47.6)	(33.2)	(38.6)
Net fee and commission income	42.5	42.3	44.4
Net trading income	1.6	1.3	2.3
Profit/(loss) from financial assets	5.1	(32.5)	3.0
General administrative expenses	(91.5)	(91.5)	(104.8)
Profit for the year before tax	53.6	38.6	45.9
Income tax expense	(7.2)	(2.2)	(5.8)
Consolidated net profit	46.4	36.4	40.1

Other administrative costs and *Depreciation/amortization* during the period under review totalled €34.2 million, compared with €32.1 million in 2011. We also trimmed other administrative costs. As they have a permanent positive impact on profit, all the necessary investments in our infrastructure such as equipping branches with modern IT systems and renovating branches or building new ones were carried out as planned. However, the big 7.9 per cent increase in other administrative costs has prompted us to include clear reduction targets in the budget for 2013. Construction and infrastructure measures increased depreciation/amortization marginally by 2.7 per cent to €6.7 million.

Other operating income net of other operating expenses came to negative €3.6 million. This was primarily due to a revaluation of the goodwill of our Croatian banking subsidiary *BKS Bank d.d.* The stability levy (bank tax), which was payable for the first time in 2011 and increased in 2012, reduced profit by €2.1 million, having reduced it by €17 million in 2011. It is included in the line item *Other operating expenses*.

Increase in profit for the year

Including all income and expenses and the impairment charge on loans and advances, the BKS Bank Group posted profit for the year before tax of €45.9 million, compared with €38.6 million in 2011. After allowing for current and deferred tax expenses, which increased from €2.2 million to €5.8 million, profit for the year after tax came to €40.1 million. The increase in income tax expense was not just due to the increase in profit. It was also partly due to non tax-deductible expenses such as the cost of adjusting our so-called *social capital*.

Profit Appropriation Proposal

Distributable profit is determined on the basis of the annual financial statements of Group parent *BKS Bank AG*. This company posted profit for the financial year from 1 January through 31 December 2012 of €20.3 million, as against €23.6 million in 2011. €12.3 million of this profit for the year was taken to reserves, and €0.65 million thereof was taken to the liability reserve (*Haftrücklage*). Allowing for a profit carryforward of €0.3 million, *BKS Bank AG* posted net profit of €8,352,383.68. We will be recommending to the 74th Annual General Meeting on 15 May 2013 that this profit should be used to distribute the same high dividend as for the previous year, that is €0.25 per ordinary and preference share, and that the remainder, €0.2 million, should be carried forward to a new account.

Ratios signal stability

The key profit ratios are calculated on the basis of profit for the year, assets and equity. Based on BKS Bank's fundamental numbers, they signal that our enterprise was sometimes in a slightly troubled state because of the persistently difficult banking environment but stable overall. As you can see from the section on *Own Funds* from page 79, BKS Bank has always had a very solid own funds base and, as a consequence, correspondingly good ratios. The return on assets before tax — the gauge of the total return on our assets — increased by 9 basis points to 0.7 per cent in the year under review. The return on equity before tax was also better than in 2011 at 6.9 per cent, although it did not yet match the rather good returns recorded in prior periods. Because of the adjustments to social capital that we have already commented on and the unsatisfactory development of our resource-intensive retail banking segment, our cost:income ratio (the ratio of general administrative expenses to total earnings without deducting the charge for impairment losses on loans and advances) worsened by nearly 10 percentage points to 56.3 per cent, putting it back above our internal 55 per cent benchmark for the first time in years. The risk situation in the corporate and business banking segment remained tense, and this was mirrored by our risk:earnings

KEY CORPORATE PERFORMANCE INDICATORS

	2010	2011	2012
ROE before tax (profit for the year in % of average equity)	8.9%	6.1%	6.9%
ROE after tax	7.7%	5.7%	6.0%
ROA before tax (profit for the year in % of average assets)	0.9%	0.6%	0.7%
Cost:income ratio	48.8%	46.7%	56.3%
Risk:earnings ratio (credit risk in % of net interest income)	33.1%	22.1%	27.0%
Tier 1 ratio	9.6%	12.5%	13.1%
Own funds ratio	13.1%	15.4%	15.9%
IFRS earnings per share in issue, €	1.44	1.13	1.25

ratio, which rose slightly from 22.1 per cent in 2011 to 27.0 per cent in 2012. This reflected both the slightly higher charge for impairment losses on loans and advances that had become necessary and the increases in our allowances for country risks and incurred but not reported loss reserves. In the longer term, our Group-wide benchmark is a risk:earnings ratio of 20 per cent.

Assets, Liabilities and Financial Position

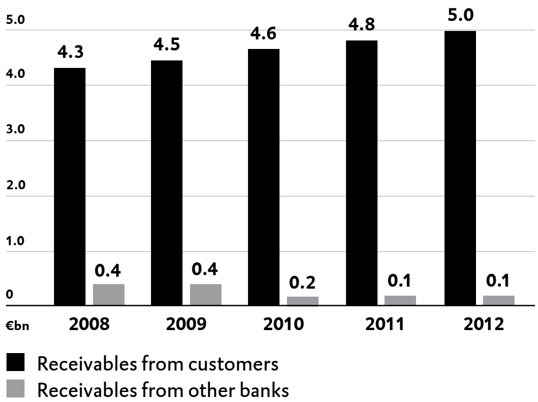
Despite the burden that the debt crises on both sides of the Atlantic imposed on the global financial markets, the banking sector and the real economy, our consolidated assets grew by 3.1 per cent to more than €6.65 billion during the year under review.

Balance Sheet Assets

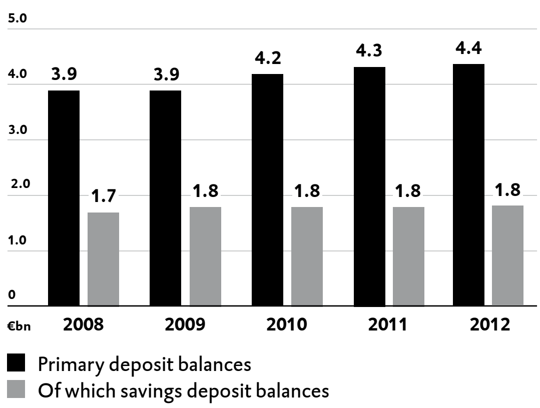
Steady increase in receivables from customers

On the assets side of the account, receivables from customers increased by €161.2 million or 3.4 per cent to €4.96 billion. The impairment allowance balance (whose deduction from receivables from customers is required by IFRSs) was increased by €14.9 million to €168.1 million during the year. Financial assets totalled €1,514.4 million at 31 December 2012, compared with €1,463.4 at the end of 2011. This translates into a total increase of €51.0 million in the period under review. The biggest increases were in the line

LOAN PORTFOLIO



PRIMARY DEPOSIT BALANCES



items *Financial assets designated as at fair value through profit or loss* and *Investments in entities accounted for using the equity method*. Redemptions of securities in the available-for-sale and held-to-maturity portfolios reduced the values of those portfolios by 10.1 per cent and 4.9 per cent, respectively. While receivables from other banks were increased by 10.2 per cent to €0.13 billion, payables to other banks stood at €1.45 billion at the end of December.

After the elimination of intragroup customer receivables, *BKS Bank AG* accounted for €4.55 billion of the consolidated loan portfolio. Although most of the increase in receivables — which grew by €145 million to €1.09 billion — was generated by new business with corporate and business banking customers, there was also an increase of €16 million to €1.09 billion in the retail banking segment. We closely observed macroeconomic and political developments in Slovenia and deliberately reduced the volume of new business to allow for the increasingly difficult macroeconomic conditions. New business in Slovenia averaged roughly €4 million a month until the end of July, but it fell to an average of roughly €2.9 million a month in the months that followed. Our Slovenian branches accounted for 12.2 per cent of our total cash loan portfolio at the end of 2012. The effectiveness of our business model is demonstrated by the pleasing fact that the worrying wave of insolvencies in Slovenia hardly affected us.

BKS Bank gained ground in Slovakia, but we did not want to incur any larger exposures in this development phase so our business growth was restrained. The volume of new business in the corporate and business banking segment was respectable, and we will be pressing ahead accordingly with the acquisition of new customers and loan sales in the retail banking segment in the current 2013 financial year.

The dominant feature of our foreign currency loan operations was the steady reduction of receivables denominated in Swiss francs carried out to further mitigate our customers' currency induced credit risks. As a result, our Swiss franc loan portfolio shrank by about SFr 200 million during the year under review. This means that the proportion of foreign currency loans in relation to the total loan portfolio had fallen to just 13.0 per cent by the end of 2012.

The lease portfolios of our Austrian leasing companies *BKS-Leasing GmbH* and *BKS-Immobilienleasing GmbH* were worth slightly less than at 31 December 2011, coming to €152.6 million. This was mainly because of the fall-off in new business. In other words, they too were affected by the general trend. Although the Austrian leasing market showed some growth in the motor vehicle leasing segment, there were severe contractions in the movable property and real estate leasing segments. Our leasing companies abroad — *BKS-Leasing a.s.*, Bratislava, *BKS-leasing d.o.o.*, Ljubljana, and *BKS-leasing Croatia d.o.o.*, Zagreb — ended the 2012 financial year with a total lease portfolio worth €154.3 million. *BKS Bank d.d.* in Croatia also developed satisfactorily, increasing its receivables by €6.7 million to €106.4 million. This financial year, one of our main focuses will be on rapidly developing its retail banking operations.

The line item *Financial assets* consists of the sub-items financial assets designated as at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and investments in entities accounted for using the equity method. It increased by €51.0 million to €1.51 billion between the end of 2011 and the reporting date. *Financial assets designated as at fair value through profit or loss* came to €205.7 million, which was 72.0 per cent or €86.1 million up on the end of 2011. Among other things, we hedged fixed-interest loans totalling €49.3 million against interest rate risk using the fair value option. The portfolio of held-to-maturity (HTM) financial assets totalled €702.3 million at the end of 2012. New investments totalled €98.0 million, while redemptions came to €100.0 million and we sold investments worth €31.4 million. The majority of the new investments were in European government bonds. Investments in entities accounted for using the equity method, most of which comprised our interests in the equity of

Oberbank AG and *BTV AG*, increased to €341.2 million. That was €31.2 million more than at the end of December 2011.

Cash and balances with the central bank came to €81.7 million at 31 December 2012, compared with €85.8 million at the end of 2011. This line item comprises the cash and cash equivalents presented in greater detail in the Cash Flow Statement in the Notes on page 101.

Balance Sheet Equity and Liabilities

A robust increase in primary funds

Our so-called *primary funds*—comprising savings, sight and time deposits and liabilities evidenced by paper—were pleasingly high, at €4.36 billion. We see this as a clear sign of the sustained confidence placed in our crisis-resistant business policy by our customers. Including subordinated debt capital, our primary funds, which are the key pillar of our sustainable liquidity management activities, accounting for approximately 66 per cent of our balance sheet assets, sufficed to fund roughly 90 per cent of the loans and advances to customers in the portfolio. While the increase in customer deposit balances was relatively small, at 0.3 per cent, taking them from €3.54 billion to €3.55 billion, liabilities evidenced by paper increased by 27.5 per cent to €0.58 billion.

It proved extremely difficult to attract savings deposits during the 2012 financial year. On the other hand, doing so was a strategic focus across the banking industry. In particular, competition was stoked by the configuration of the liquidity coverage ratio, which will be the short-term liquidity ratio required by Basel III. In addition, low interest rates were making investors look for alternatives. As a result, savings deposit balances at the end of 2012 were only just up on the end of the previous year to €1.80 billion. However, in view of the way our supraregional markets performed, we still see this as a success given that savings deposit balances in Austria had dropped by 0.5 per cent by the close of the fourth quarter of 2012. It was achieved with the help of attractive customer-orientated offerings. Some two thirds of all savings deposit balances at BKS Bank were already held in *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts. The steady inflow of deposits in our Slovenian market was remarkable, with deposit balances climbing from €55.7 million to €86.3 million.

The line item *Other liabilities*, which consists of sight and time deposit balances, came to €1.75 billion at year-end, building on our good numbers in 2011. Whereas sight and time deposits from corporate and business banking customers came to €55.4 million, inflows of deposits from retail customers came to €54.0 million.

Long-term loans can only be financed by funds that are available long-term on a matched maturity basis. This means that our own issuances are an essential part of our liquidity management activities. As a result, one of our main focuses in the year under review was on raising liquidity through our own issuances. Despite the extremely low market interest rates, with 10-year German *bunds* sometimes yielding just 1.21 per cent, BKS Bank grew very successfully in this area. In the course of 2012, total liabilities evidenced by paper inclusive of subordinated debt capital increased by €100.8 million to €0.82 billion. We emphasize that we were able to raise €75.0 million through private placements and €35.0 million through covered bonds. We issued securities worth a total of about €162 million during the year under review. On the other hand, we intentionally reduced our supplementary capital by 9.2 per cent to €0.24 billion. Since its eligibility is going to be very restricted under Basel III, we did not issue any new supplementary capital bonds in 2012.

As the Statement of Changes in Equity on page 100 shows, the line item *Equity* increased by €43.4 million to €688.3 million. This was mainly due to the addition of profit for the period.

Own Funds

BKS Bank calculates its own funds ratio and basis of assessment in accordance with the solvency regime established by Basel II. BKS Bank uses the standardized approach to calculate its own funds requirement.

Because of the increase in receivables from customers, the basis of assessment for the banking book increased by €42.7 million to roughly €4.46 billion during 2012. Eligible own funds were €27.6 million up on the end of 2011 to €709.5 million. Additions to Tier 1 capital, including in particular an increase of €31.2 million in reserves and an increase of about €19 million in the balance of gains and losses taken to equity, coincided with outflows of eligible supplementary capital in the amount of roughly €27.3 million. The reduction in supplementary capital as assets matured was intentional because this class of own funds will be of very little importance under the new Basel III regime. In future, there will have to be a clear focus on the 'hard' elements of Tier 1. For some time, BKS Bank has been examining within the scope of an ongoing Basel III project the effects of the draft Capital Requirements Directive (CRD) 4 and draft Capital Requirements Regulation (CRR) 1 published by the European Commission in July 2011. Consequently, our main focus in 2012 was on the management of our own funds and liquidity ratios. We saw an informal preliminary draft of an amendment to *BWG* (Austrian banking act), and the material differences between the old legal situation and the new one became apparent. We carried out trial calculations of our liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) within the scope of a QIS (quantitative impact study) and prepared information for account managers to explain the new interdependencies that will exist in bank management. We did so even though neither CRD 4 nor CRR 1 have as yet entered into force at the European level.

OWN FUNDS

Calculated in accordance with Basel II	31/12/2010	31/12/2011	31/12/2012
Share capital	65.5	65.5	65.5
Hybrid capital	40.0	40.0	40.0
Reserves net of intangible assets	311.1	494.0	525.2
Tier 1 capital	**416.6**	**599.5**	**630.7**
Tier 1 ratio [1]	9.59%	12.46%	13.10%
Hidden reserves within the meaning of § 57 *BWG*	10.3	5.6	5.6
Eligible supplementary capital	155.8	134.6	109.6
Balance of gains and losses taken to equity	65.2	19.9	38.9
Eligible subordinated liabilities	12.9	20.7	18.4
Supplementary own funds (Tier 2)	**244.2**	**180.8**	**172.5**
Deductions from Tier 1 and Tier 2	93.3	98.4	93.7
Eligible own funds	**567.4**	**681.9**	**709.5**
Own funds ratio	13.06%	15.44%	15.92%
Basis of assessment for the banking book	4,345.1	4,415.2	4,457.9
Own funds requirement	**347.6**	**353.2**	**356.6**
Own funds requirement for market risk	2.9	2.4	2.0
– Of which arising from open currency positions	2.2	1.4	1.2
Own funds requirement for operational risk	25.0	26.8	27.1
Surplus own funds (before operational risk)	**219.8**	**328.7**	**352.9**
Surplus own funds (after operational risk)	**194.8**	**301.9**	**325.8**

[1] In the year under review, 50 per cent of the stakes held in other banks was deducted when calculating this ratio.

Our Tier 1 ratio stayed well above the figure of 12.5 per cent recorded in 2011 to end the year under review at 13.1 per cent. Our total capital ratio was 15.9 per cent, compared with 15.4 per cent at the end of 2011. These ratios were well above the legal minima of 8.0 per cent for own funds and 4.0 per cent for Tier 1 capital. Our surplus own funds also continued to grow, reaching a high €352.9 million. After making allowance for operational risk, €325.8 million remained, giving us an adequate basis for future lending growth for which capital charges will be required. We refer you to the note on page 44 regarding the resolutions passed at the 73rd Annual General Meeting, including, in particular, the authorization of the Management Board to buy treasury shares.

Segmental Reports

Having been founded in 1922 and a listed company since 1986, BKS Bank has been able to position itself and make its mark over decades as a major regional bank in southern Austria, working in association with its Group members and the *3 Banken Group*. BKS Bank's values are conservative: independence, autonomy

The Corporate and Business Banking Segment

About 13,000 customers were being serviced in the corporate and business banking segment. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and the Group's leasing companies insofar as they arose from business done with corporates and businesses. The corporate and business banking segment is the most important operational business segment by far within the BKS Bank Group.

The Retail Banking Segment

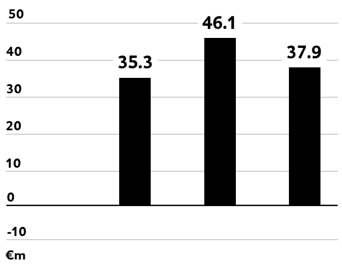
Roughly 127,000 customers of *BKS Bank AG*, *BKS Bank d.d.* and all the leasing companies in the Group (*BKS-Leasing GmbH*, *BKS-leasing d.o.o.*, *BKS-leasing Croatia d.o.o.*, *BKS-Leasing a.s.*) were being serviced in the retail banking segment. In addition to personal banking customers and jobholders, the retail banking segment also included small business owners, doctors and self-employed customers.

The Financial Markets Segment

The financial markets segment encompassed the profits from equity investments, securities held in BKS Bank's own portfolios and receivables from and payables to other banks as well as earnings from BKS Bank's interest rate term structure management activities.

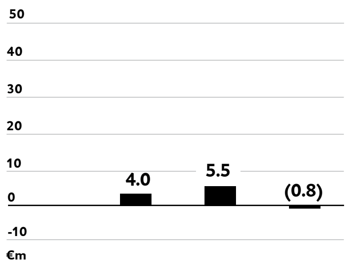
PROFIT FOR THE YEAR BEFORE TAX, BY SEGMENT

CORPORATE AND BUSINESS BANKING



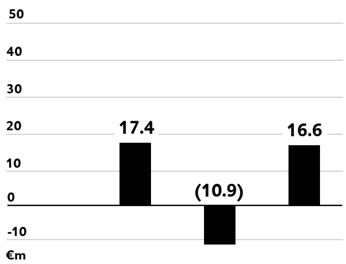
	2010	2011	2012
ROE	14.2%	18.3%	14.7%
CIR	29.8%	32.1%	34.7%
RER	49.9%	34.6%	40.9%

RETAIL BANKING



	2010	2011	2012
ROE	8.8%	12.2%	(1.8%)
CIR	90.6%	87.4%	100.2%
RER	3.2%	3.6%	2.4%

FINANCIAL MARKETS



	2010	2011	2012
ROE	5.8%	(3.3%)	4.6%
CIR	32.1%	18.9%	29.2%
RER	—	2.9%	6.9%

and commercial farsightedness are the business policy foundations on which all its decisions are based. Our demanding personal banking customers and our export-orientated medium-sized corporate and business banking customers alike appreciate this.

The sales network is geared to regional exigencies and customers' needs. At year-end, it consisted of 55 branches and four representative offices. Besides the usual banking products, the broad range of financial services also includes the associated banking related services like leasing, insurance and building society accounts provided through our subsidiaries, equity investments within the *3 Banken Group* and lasting and successful alliances with other long-standing partners.

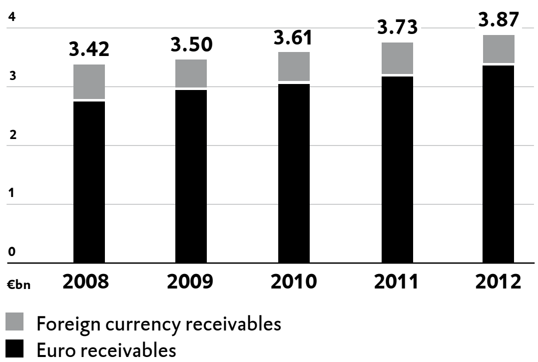
In order to meet our customers' needs as fully as possible and complete investment projects effectively and transparently, we have divided BKS Bank's operational activities into three segments. They are the corporate and business banking segment, the retail banking segment and the financial markets segment. BKS Bank's segmental reporting is based on the organizational structure of the Group underlying its internal management reporting system. This segmentation is also used as the basis for the internal management of the BKS Bank Group.

We measure the performance of each segment on the basis of its profit before tax and the ratios return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). Return on equity is calculated on the basis of the relationship between profit for the year and average equity employed. Note (38) from page 118 details the segments' numbers.

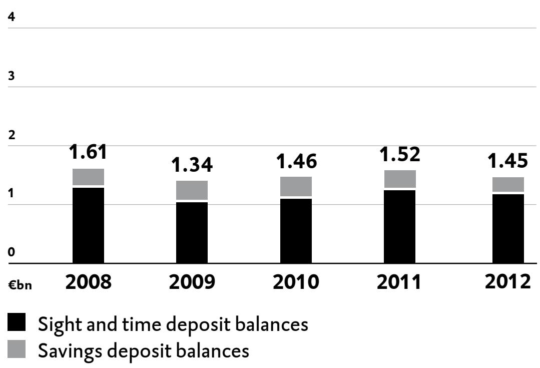
The Corporate and Business Banking Segment

The corporate and business banking segment is the most important operational business unit by far within the BKS Bank Group. Despite a market environment affected more and more by the eurozone's weakness, business in this segment was pleasingly stable during the 2012 financial year. The most important target groups in our corporate and business banking segment are small and medium-sized export-orientated industrial manufacturers, businesses and trading enterprises. These companies see BKS Bank as a reputable and reliable partner able to offer them a close relationship, profound knowledge of the market and prompt and unbureaucratic decisions even when economic times are tough. The portfolio of loans to corporate and business banking customers was worth €3.87 billion at the end of the year under review. In other words, over three quarters of all lending by the BKS Bank Group had taken place in this segment, which is a clear indication of BKS Bank's strong position as a partner in the realization of Austrian companies' investment

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



PAYABLES TO CORPORATE AND BUSINESS BANKING CUSTOMERS



CORPORATE AND BUSINESS BANKING

€k	2010	2011	2012
Net interest income	93,343	90,261	88,606
Impairment charge on loans and advances	(46,567)	(31,222)	(36,258)
Net fee and commission income	21,338	22,341	23,732
General administrative expenses	(34,758)	(36,595)	(39,399)
Other operating profit	1,945	1,316	1,240
Profit for the year before tax	**35,301**	**46,101**	**37,921**
ROE before tax	14.2%	18.3%	14.7%
Risk:earnings ratio	49.9%	34.6%	40.9%
Cost:income ratio	29.8%	32.1%	34.7%

plans. Corporate and business banking customers are offered a broad range that includes all the usual loan products. The appropriate package of working capital and project finance, lease and export finance, guarantees and subsidized loans is carefully tailored to the customer's needs in the course of exploratory talks and structured advice sessions.

Corporate and business loans are still BKS Bank's most important offerings for its corporate and business banking customers. However, deposit and investment products are also increasingly in demand. Business with corporate and business banking customers generated roughly €0.25 billion of savings deposits, as against €0.26 billion in 2011. The balance of sight and time deposits also fell slightly as interest rates eroded in the course of the year, taking it to €1.21 billion at the end of the year compared with €1.26 billion at the close of 2011. Gradually increasing one's cross-selling rate is a legitimate goal of policy in the corporate and business banking segment. BKS Bank continued to succeed doing so in the savings deposit, time deposit and insurance fields. In insurance, it drew upon the services of the *3 Banken* joint ventures *3-Banken Versicherungs-G* and *3 Banken Versicherungsmakler GmbH*. Corporate pension products and, of course, products that provide adequate protection against business risks like business interruptions and directors' and officers' liability were particularly in demand. In the payments field, we were able to convince our corporate and business banking customers of the benefits of our attractive account models (*Business Klassik*, *Business Komfort* and *Business Premium*) and our low-cost electronic banking (ELBA) service.

While the contribution to net interest income made by deposit operations continued to fall because of the historically low margins, lending volumes in both the existing portfolio and in the new business sector grew, leading to net interest income of €88.6 million. This was almost as high as the prior year figure of €90.3 million. The challenging state of the economy increased risk costs by €5.0 million to €36.3 million. At the same time, net fee and commission income increased by €1.4 million or 6.2 per cent to €23.7 million on the back of the increases in net earnings from loan operations and payment services. After deducting general administrative expenses, which increased by 7.7 per cent to €39.4 million, the corporate and business banking segment closed the year with profit before tax of €37.9 million, as against €46.1 million in 2011.

Because of the slight increase in the impairment charge on loans and advances in the corporate and business banking segment, its risk:earnings ratio (RER) worsened by 6.3 percentage points to 40.9 per cent. Based on equity employed in this segment of €257.8 million, its return on equity (based on profit for the year before tax) fell by 3.6 percentage points to 14.7 per cent. Its respectable cost:income ratio rose marginally from 32.1 per cent to 34.7 per cent. Since the gloomy economic horizon is going to be slow to brighten in the coming weeks and months, we will continue to keep a particularly close eye on the development of lending margins and risks in the current 2013 financial year.

The Retail Banking Segment

Our retail banking segment was still facing a challenging market environment in 2012. Securities operations, which had been one of the supporting pillars of net fee and commission income before the financial crisis, appear to have bottomed out in 2012. However, the financial and capital markets are still volatile, so it will be some time before their usual strength is restored. Because retail customer deposits will play an essential role in meeting the new liquidity requirements associated with the Basel III regime, the savings deposit and issuances markets were also hotly contested in the year under review. As every bank based its funding activities mainly on so-called *primary funds*, competition reduced margins — which have already been eroding for years — to a level that is hardly commercially viable any more. At the end of the reporting period, the deposit margin at *BKS Bank AG* averaged 0.14 per cent, compared with 0.47 per cent at 31 December 2011. In addition, a lot of customers in this segment are covered by consumer protection regulations. This means that it was virtually impossible to adjust margins in the retail loan portfolio so as to pass on the rise in the premiums charged to us when raising funds. At the same time, maintenance costs were continually being incurred to ensure that our branches stayed up to date. We are fully aware how dependent this resource and cost intensive segment is on branch operations, but we also believe that the retail banking segment is indispensable because retail customers account for over 86 per cent of savings deposit balances and roughly one third of sight and time deposit balances — that is 59.1 per cent of payables to customers — making them far and away our bank's most important source of funds. Moreover, about 22 per cent of our lending to customers during the period under review was to retail customers.

In a persistently difficult market environment, we were very pleased to see the meticulousness and dedication with which BKS Bank's retail customer advisors worked even in a tough banking year. We were able to acquire roughly 5,000 new account holders, providing us with important foundations for our future business operations. The broad spectrum of accounts is tailored to the needs of every age group, ranging from a pocket money account to youth and student accounts, comfort accounts and classical accounts. As a so-called *universal bank*, BKS Bank naturally also had a presence in the cashless credit card market. It offered its customers all the usual credit cards of its partners, including VISA, MasterCard and Diners, at all its branches. Savings deposit balances generated by the retail banking segment came to €1.55 billion, or €27.1 million more than at the end of the previous year. The trend towards secure forms of investment continued in 2012, so customer interest in, above all, *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts with durations of between one and two years, the BKS Bank online savings account and the on-demand BKS *Sparcard* saving card account was undiminished. Classical building society agreements were also still among the saving products that attracted brisk demand. As usual, BKS Bank cooperated with *Wüstenrot* in this field, signing some 4,100 new contracts in the period under review.

RETAIL BANKING SEGMENT

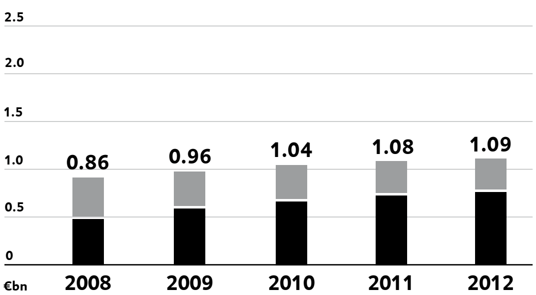
€k	2010	2011	2012
Net interest income	31,394	33,980	30,756
Impairment charge on loans and advances	(993)	(1,230)	(742)
Net fee and commission income	20,192	18,607	20,035
General administrative expenses	(47,902)	(46,832)	(51,947)
Other operating profit	1,282	983	1,062
Profit for the year before tax	**3,973**	**5,508**	**(836)**
ROE before tax	8.8%	12.2%	(1.8%)
Risk:earnings ratio	3.2%	3.6%	2.4%
Cost:income ratio	90.6%	87.4%	100.2%

While the saving market firmed up in an atmosphere of risk aversion and traditional savings products thrived visibly, securities operations remained on hold. International share prices did indeed rise in the second half, increasing the value of our customers' securities accounts to €6.31 billion, but fresh investment in securities eligible for trading in the capital markets was slow to develop, reducing our fee and commission income in this segment by 3 per cent. However, we felt a new lease of life in our Private Banking Division (a separate securities services unit within BKS Bank that gives analytical and clearly structured advice designed to meet the demands of our high net worth clients with liquid assets of over €200,000). We have private banking centres in Klagenfurt, Graz, Mattersburg and Vienna. Among other things, we offer private banking clients asset management services tailored to their individual needs, brokerage services, a trust service, lucrative investments in buy to let apartments and models for property investors. In the words of our advertising slogan, "When it comes to money, I only talk to BKS Bank."

3 Banken-Generali Investment-Gesellschaft—the investment fund company of the *3 Banken Group* and *Generali Holding*—performed solidly in performance comparisons with its competitors during 2012. Funds under management by this company increased by 21.5 per cent to €6.06 billion. This was nearly three times the growth rate of the market as a whole. The company's innovative management concepts, such as investing more in high-dividend equities and implementing a predefined fund duration, were much in demand. Its tangible asset strategy with its focus on equities, commodities, gold and property investments remained popular with both 'public' and 'special' funds. The *3 Banken Österreich-Fonds* was again the best fund in its class, delivering a performance of 33.3 per cent. A number of Austrian and international awards also confirmed the quality of our fund management services. Austrian Lipper Fund Awards went to the *3 Banken Inflationsschutzfonds* and the *3 Banken Österreich-Fonds*, and Germany's EURO Magazine gave the *3 Banken Österreich-Fonds* first place in the Austrian equity funds category.

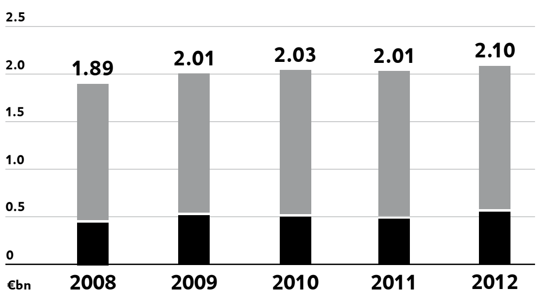
The portfolio of loans in the construction and residential sector (serviced within the scope of BKS Bank's *WohnCoach* home coach service), consumer loans and finance leases granted to retail customers was worth a high €1.09 billion, which was 1.5 per cent up on the end of 2011. One of our focuses in 2012 was on extending the line of products and services, especially in BKS Bank's markets close to the border in Slovenia, Croatia and Slovakia. New business in Austria declined slightly compared with 2011. On the positive side, credit risk attributable to this segment came to just €0.7 million, which was well below the already very low figure of €1.2 million recorded in 2011. As a result, the segment's risk:earnings ratio fell from 3.6 per cent to just 2.4 per cent at year-end. In view of the 9,629 private insolvencies reported by KSV1870 in 2012, these figures mirrored the responsible role played by BKS Bank as a lender that carries out careful credit checks to stop its customers overborrowing. We point out that all new loans granted by BKS Bank since the autumn of 2008 have been euro loans and that we continued to take measures to mitigate our customers' foreign currency risks during the year under review. At year-end, roughly 73 per cent of all loans in the retail customer portfolio were euro loans (31 December 2011: roughly 63 per cent).

RECEIVABLES FROM RETAIL BANKING CUSTOMERS



Foreign currency receivables
Euro receivables

PAYABLES TO RETAIL BANKING CUSTOMERS



Sight and time deposit balances
Savings deposit balances

Private pension and risk insurance policies are a solid way of saving for old age. At the same time, they are part of the ambitious initiatives and advisory focuses that we have put in place to encourage our retail customers to take personal control of their own provisions for the future and those of their close relatives. Most of the products that are typically used to provide for the future are insurance products. We provided these products via our close collaboration with *3-Banken Versicherungs-AG*, which is a joint venture of the *3 Banken Group* and *Generali Versicherung AG*. We were, in particular, very successful placing classical regular-premium endowment insurance policies in cooperation with *Generali*. *3-Banken Versicherungs-AG* sold a total of 38,391 policies (2011: 41,296), 31,514 of which (2011: 34,364) were risk insurance policies underwritten by *3-Banken Versicherungs-AG* and 5,309 of which (2011: 5,481) were *Generali* endowment insurance policies. Insurance brokered by *3 Banken Versicherungsmakler GmbH* generated premium income of €68.8 million (2011: €69.3 million), with BKS Bank accounting for 23.0 per cent or €15.8 million thereof (2011: €16.4 million). Despite the low interest rates, the gradual increase in pension and risk insurance sales in the retail banking segment continued unbroken. However, single-premium life insurance policies are unlikely to regain their attractiveness until there is a permanent rise in interest rates.

Despite the intensive cross-selling activities described above, which benefited our customers, our successes were not reflected by our earnings in the retail banking segment. Profit for the year before tax fell from €5.5 million in 2011 to negative €0.8 million in the year under review. Because of the increase in staff costs and other administrative costs, costs charged to this segment were €5.1 million up on the previous year to €51.9 million. The segment's cost:income ratio was correspondingly unsatisfactory, coming to 100.2 per cent. Its return on equity slumped from 12.2 per cent to negative 1.8 per cent. We believe that this means that the segment has already bottomed out and that the positive effects of a series of ambitious projects will help produce a powerful revival of our retail banking operations. Among other things, we aim to gradually streamline the customer base, and we want to exploit the stronger population growth in Vienna and its environs.

The Financial Markets Segment

Against the backdrop of the financial crisis, which continued to smoulder in the year under review and actually flared up again, especially in the second quarter, the responsibility for and forward-looking management of so-called *structural income* earned in the financial markets segment were in the hands of BKS Bank's Asset Liability Management (ALM) Committee. Structural income includes earnings from interbank trading, proprietary securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements.

FINANCIAL MARKETS SEGMENT

€k	2010	2011	2012
Net interest income	19,150	25,560	23,133
Impairment charge on loans and advances	0	(752)	(1,602)
Net fee and commission income	755	615	421
Net trading income	1,568	1,325	2,348
General administrative expenses	(5,831)	(5,222)	(6,234)
Other operating income net of other operating expenses	(3,318)	118	(4,551)
Profit/(loss) from financial assets	5,102	(32,516)	3,036
Profit for the year before tax	**17,426**	**(10,872)**	**16,551**
ROE before tax	5.8%	(3.3%)	4.6%
Risk:earnings ratio	—	2.9%	6.9%
Cost:income ratio	32.1%	18.9%	29.2%

Terms and conditions mirrored the downtrend in reference interest rates, especially in the loans segment. This trend stayed with us throughout the year. Although action taken by the European Central Bank helped bring about some recovery in the markets and customer activity during the third quarter, the debt crisis was still a dominant issue for, among others, BKS Bank. Savings deposit balances already bottomed out at mid-year. The applicable sliding rate of interest clauses accelerated the drop in customer interest rates in the consumer credit segment and increased the pressure on profits as result. At the same time, since the competition for customer funds, which was intensive, was primarily interest rate based, we had to offer our customers competitive terms and conditions in order to raise so-called *primary funds*. The management of our challenging interest rate operations took place on the basis of an extended proactive funds transfer pricing process that was used to ascertain the costs that arise when funding financial products. The marginal costs of raising funds were included in our calculations, giving us the appropriate loan rate markups and bonuses for deposit products.

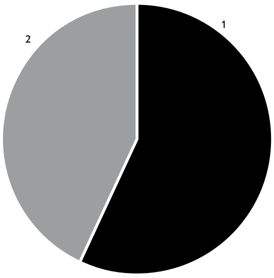
The perceptible drop in structural income led to a decline of about 9.5 per cent in the segment's net interest income, which came to €23.1 million. However, this segment achieved a much better profit for the year than the figure of negative €10.9 million recorded in 2011, namely positive €16.6 million. Profit was fed by a revaluation gain caused by use of the fair value option. On the other hand, earnings in 2011 had been hard hit by write-downs of Greek government bonds. The profit contributed by our investments in our sister banks *Oberbank* and BTV, which were accounted for using the equity method, were again an important pillar of earnings in our financial markets segment in 2012. Thanks to the drop in funding costs, profit from investments in entities accounted for using the equity method increased from €19.3 million to €22.3 million. We also have good news to report about BKS Bank's PIIGS exposure. As presented on page 131, we have small exposures in Italy and Spain totalling €35.1 million and €1.8 million, respectively, and we have no exposures in Portugal, Ireland or Greece. In addition, a large part of the exposure is secured by tangible collateral. Because we have tightened up our internal rules on calculating country risk, the impairment allowance was €1.6 million higher than in 2011. We were able to keep the increase in general administrative expenses within carefully defined boundaries; it rose by about 1.0 million to 6.2 million. On the other hand, revaluation of the goodwill of *BKS bank d.d.* in Croatia resulted in *Other operating income net of other operating expenses* of negative €3.6 million. This segment's cost:income ratio worsened from 18.9 per cent to a still respectable 29.2 per cent. Its risk:earnings ratio was 6.9 per cent, compared with 2.9 per cent in 2011. Its return on equity leapt from negative 3.3 per cent to 4.6 per cent.

BKS BANK NOTES ORIGINATED IN 2012[1]

Name	ISIN	Nominal Amount, €m
3% BKS Bank Obligation 2012-2017/1	AT0000A0U4N5	21.0
BKS Bank Stufenzins-Obligation 2012-2017/2	AT0000A0V7F3	28.8
2 5/8% BKS Bank Obligation 2012-2018/3	AT0000A0W4F9	27.1
2% BKS Bank Obligation 2012-2017/4	AT0000A0XHK6	7.0
3.25% fundierte BKS Bank Obligation 2012-2020/1/PP	AT0000A0UC80	1.0
3% fundierte BKS Bank Obligation 2012-2020/2/PP	AT0000A0V610	2.0
1% fundierte BKS Bank Obligation 2012-2014/3/PP	AT0000A0W436	3.0
2.75% fundierte BKS Bank Obligation 2012-2022/4/PP	AT0000A0W4B8	2.0
3.7% fundierte BKS Bank Obligation 2012-2032/5/PP	AT0000A0X8T0	6.0
4.3% BKS Bank Obligation 2012-2027/6/PP	AT0000A0XH25	25.0
1.7% BKS Bank Obligation 2012-2015/7/PP	AT0000A0XMY7	10.0
2.55% fundierte BKS Bank Obligation 2012-2022/8/PP	AT0000A0XP66	15.0
3.35% fundierte BKS Bank Obligation 2012-2027/9/PP	AT0000A0XPM5	6.0
1.7% BKS Bank Obligation 2012-2015/10/PP	AT0000A0XQH3	5.0

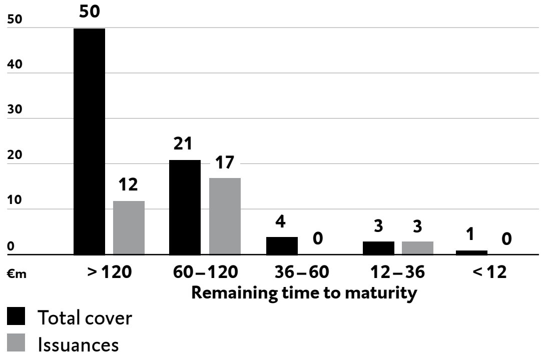
[1] This does not constitute an offer or an inducement to buy or sell the notes mentioned. Nor does it constitute a recommendation to buy or sell. These issuances took place during the 2012 reporting year on the basis of the base prospectus published by BKS Bank and approved by the FMA on 8 March 2012 together with all supplements and the final terms and conditions published in each case. These are available from the issuer's website at www.bks.at or free of charge from the branches of *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt, Austria, during normal business hours.

MORTGAGE COVER POOL, BY CURRENCY



1 Primary cover, € 57%
2 Primary cover, SFr 43%

MORTGAGE COVER POOL BY MATURITY AND MATURITY MATCHING



In order to reduce the need to enter into liabilities in the money market to raise funds, we stepped up our acquisition of so-called *primary funds* by way of issuances of our own securities in 2012. We satisfied BKS Bank's long-term funding needs by issuing 14 tranches of our own securities for €158.9 million. One of our focuses was on placing covered bonds. These issuances totalled €35 million (covered by a mortgage cover pool worth €32.0 million and a cover pool of public-sector assets worth €3.0 million). Institutional investors were particularly interested in these covered bonds. These securities are among the bank issuances that will qualify as highly liquid assets under the forthcoming Basel III regime and will therefore make it possible for us to meet the regime's restrictive liquidity rules.

Risk Report

Risk Management Organization

Risks at BKS Bank are analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. Our risk policy and risk management principles are the responsibility of a Management Board member who is not involved in market operations. The Management Board approves the limits set for all relevant risks and the procedures used to monitor and manage those risks. We refer you to the Risk Report in note (49) from page 122 for more details about our financial instrument strategies and risks.

BKS Bank's risk strategy is reviewed, approved by the Management Board as a whole and discussed with the Supervisory Board once a year. Close attention is paid to risk concentrations and risk bearing capacity. The appropriateness and reliability of the strategy and our monitoring procedures are constantly reviewed and adapted as necessary to changing market conditions.

Risk Management Processes

The goal of BKS Bank's risk policy is to detect operational and other banking risks early and to actively manage and limit them using effective risk management techniques. The available capital is 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 is constantly optimized. As a general principle, the precept that we only enter into risks that we can bear without outside help is anchored in our risk strategy.

Internal Control System

The principal purposes of our internal control system (ICS) are to secure our assets, increase BKS Bank's profitability, ensure that we adhere to laws, business policy guidelines and internal rules and prevent damage that might be caused by our own staff or by third parties. In addition, the ICS ensures the reliability of corporate reporting, including, in particular, financial reporting. The documentation of the material financial reporting processes in the form, among other things, of a Group Manual and the internal risk allowance guideline, is an important part of the ICS. Internal Audit audits the ICS annually on the basis of an audit plan approved by the Management Board and a Group-wide assessment of the risks associated with all of the enterprise's activities. The Supervisory Board's Audit Committee is responsible for monitoring the effectiveness of the ICS.

Risk Bearing Capacity Analysis

Risk bearing capacity analysis, which is carried out on the basis of the Internal Capital Adequacy Assessment Process (ICAAP), is an essential component of BKS Bank's overall bank risk management process. We assess our internal capital adequacy as conceived in Basel II (second pillar) once a quarter on the basis of our risks as measured using internal models. The materiality of the respective risks is taken into account when those models are chosen. The aim is 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 occur.

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 is BKS Bank's biggest risk category by far. Monitoring and analysis take place at the product and single customer level, at the level of groups of related customers and at the portfolio level.

Rating is an important support. Our rating procedures create the basis for effective risk control, decision-making processes and risk management within the BKS Bank Group. The bank's internal rating models are subject to regular (annual) quantitative and qualitative validation reviews during which each rating model is audited to check whether it accurately captures the risks being measured. In all, six different rating procedures are used.

The management and measurement of credit risk are based on the principle that loans can only be granted on a know-your-customer basis, which means that loans are only granted after thorough personal and credit checks and on a dual-control or 'four-eyes' basis (front office and back office). Collateral requirements are based on the rating class and the product concerned. Collateral is valued on the basis of average proceeds from liquidation achieved in the past. We do not grant loans for speculation purposes. Lending in markets outside Austria is regulated by guidelines that are fine tuned to suit the specific features of the country concerned. They will, in particular, depend on the economic setting and the higher risk involved in realizing the collateral.

Credit Management — a Head Office department — has central responsibility for risk management. Independent risk control at the portfolio level is carried out by Controlling/Group Risk Controlling, which is likewise a Head Office department.

Equity Investment Risk

Equity investment risk encompasses the risk of lost dividends, impairments and realized losses and the risk of a decline in the value of hidden reserves caused by the possibility of poor financial performance on the part of entities in which BKS Bank holds equity investments. Equity interests are only acquired if they serve our banking operations. When investing in subsidiaries, we focus on the acquisition of strategic partners in the banking and financial institution sectors and ancillary, banking-related service industries. We do not focus on acquiring equity investments in countries whose legal, political or economic situations are judged to be risky or trading on a regular basis in such investments.

BKS Bank has both strategic and operational equity investment management mechanisms. Laying down equity investment strategy is the responsibility of the Management Board. Operational equity investment management is the responsibility of the Office of the Management Board. Risk control is the responsibility of Controlling/Group Risk Controlling, which is a Head Office department.

Market Risk

BKS Bank defines market risk as the risk of losses caused by movements in market prices (e.g. equity and bond prices, foreign exchange rates, interest rates) and variables that influence prices (e.g. volatilities and credit spreads).

BKS Bank differentiates between three kinds of market risk, namely interest rate risk, other price risks and currency risk. In our definition, the other prices risks consist mainly of equity price risk, but they also include the general risk that fair values or future payment flows from financial instruments could change because of fluctuations in market prices caused by interest rate or currency risks.

Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always kept its currency risks low. Consequently, open currency positions are only held in small amounts and for short periods. Generally, all loans and deposit balances denominated in a foreign currency are funded or invested in the same currency.

Limits have been set for proprietary trading transactions requiring assignment to the trading book. Adherence to limits is checked by Risk Controlling on a daily basis and limit breaches are reported to the Management Board. A special Treasury Rulebook documents in detail all the proprietary trading rules.

Managing interest rate risk in the banking book is one of the responsibilities of the Asset Liability Management (ALM) Committee. This committee is made up of the Management Board and the heads of the relevant banking departments. The ALM Committee analyzes the results of present value and duration analyses, value-at-risk analyses and simulations of changes in interest rates once a month.

Currency positions and adherence to the own funds requirement are monitored by Risk Controlling in conformity with *§ 223 SolvaV* (Austrian solvency directive). Equity price risk in the banking book is managed by the ALM Committee. Proprietary trading in equities ceased in the year under review.

Liquidity Risk

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

Diversifying our funding profile to achieve a mix of investor categories, products and maturities is an essential part of our liquidity management activities. To help it manage terms and conditions policy, BKS Bank is allowing for today's more stringent liquidity risk management standards by making use of an extensive funds transfer pricing process. This is employed to ascertain the costs that arise when funding financial products. The management of medium-term and longer-term liquidity is carried out by Asset Liability Management. The Risk Controlling Group is responsible for liquidity risk control. The measurement of liquidity risk on a going concern basis and on a liquidation basis is carried out by calculating the present values of all net gaps on the basis of an assumed increase in funding costs.

Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people or systems or from external events. Such risks can increase costs or reduce profits.

BKS Bank's operational risks are limited by an appropriate and continually refined internal control system. It includes a raft of organizational measures ranging from the suitable separation of functions during processes (separation of front office from back office activities, dual-control or 'four-eyes' principle) to extensive internal rules and regular inspections to emergency plans and self-auditing systems. We combat IT risks with the help of professional IT security management carried out by *3Banken-EDV Gesellschaft* — which is a joint venture with our sister banks — and extensive data protection and data security measures. We also take possible disasters like floods and fires into account. The effectiveness of these precautions is regularly reviewed by Internal Audit. System weaknesses detected in audit immediately undergo remedial action.

All processes in the enterprise involve IT, so IT governance is very important. IT governance encompasses the principles, procedures and measures that ensure that business targets can be reached, resources can be responsibly used and risks can be adequately monitored with the IT that is in use.

An Operational Risk Committee exists to carry out the integrated management of operational risks at the overall bank level. It meets quarterly in order to do so. The core team consists of the Management Board member responsible for risk, the Head of Internal Audit, which is a Head Office department, the Head of Controlling, likewise a Head Office department, and a member of the Risk Controlling Group. Each quarter, an operational risk report is distributed to the relevant decision makers. Risk Controlling is responsible for carrying out measurements and for defining the operational risk framework. Implementation is the responsibility of the risk-taking units.

We use a variety of techniques to ensure the effective management of operational risk. They include
- carrying out self-assessments on a bottom-up basis; these can be used to derive a specific risk profile for each business segment;
- documenting operational risk losses in a loss database;
- developing risk mitigating measures on the basis of risk analyses carried out within the scope of such self-assessments and analyses of actual losses.

The Compliance Management System

Ensuring our trustworthiness in the long term is essential to our sustained business success. We define compliance risk as the risk to the bank that laws, other regulations, codes of conduct or proper business standards might not be meticulously adhered to. The foremost goal of the compliance management system is therefore to prevent breaches of laws and rules at the outset and to safeguard the BKS Bank Group, its boards and officers, its employees and its owners from compliance risks. BKS Bank's Management Board as a whole is responsible for setting up the Compliance Organization and suitable communication channels in order to ensure that we achieve our compliance targets. It defines the standards underlying a corporate culture based on honesty, integrity and behaviour by our staff and, above all, our management personnel that complies with legislation and rules. The latter are responsible for ensuring adherence to and the application of legislation and internal rules in their respective departments and business divisions. Management personnel who are responsible for processes at BKS Bank's Head Office are the responsible parties for the purposes of administrative penal law in accordance with *§ 9 Absatz 2 VStG* (Austrian administrative penal law act) and will be held liable to the authorities in respect of the consequences of any breach.

The remits of the organizational unit called *Compliance & Recht* (compliance and legal affairs) derive, above all, from *WAG 2007* (Austrian securities supervision act), *Börsegesetz* (Austrian stock exchange act), *Emittenten-Compliance-Verordnung* (Austrian issuer compliance directive) and the banks' Standard Code of Compliance as well as the recommendations of the Financial Action Task Force on Money Laundering (FATF). They cover money laundering, capital markets compliance and general compliance. Among other things, they encompass measures to combat corruption and fraud. In addition, they include implementing and continuously updating compliance and anti money-laundering guidelines and rules and regulations, giving employees further training on compliance with the valid laws, rules and regulations, codes of conduct and standards, assessing compliance risks at regular intervals and preparing independent reports for the Management Board, Supervisory Board and Financial Market Authority.

BKS Bank's Compliance Management System is based on three elements: recognition (risk identification and assessment, continuous monitoring); prevention (training, consultation desk, measures to raise awareness); and action (professional management of risk events, zero tolerance principle). In the year under view, prevention was the primary focus of our compliance agenda. Wide-ranging communication and training measures gave our employees what they needed to comply with the law and rules and regulations. New user-friendly eLearning modules dealing with compliance in the capital markets and money laundering prevention that were distributed throughout the Group proved to be an essential aid to orientation, making it easier to understand the sometimes complex body of rules and regulations. In addition, we set up a Consultation Desk in 2012 that is revising our Compliance Code and drawing up a Compliance Charter.

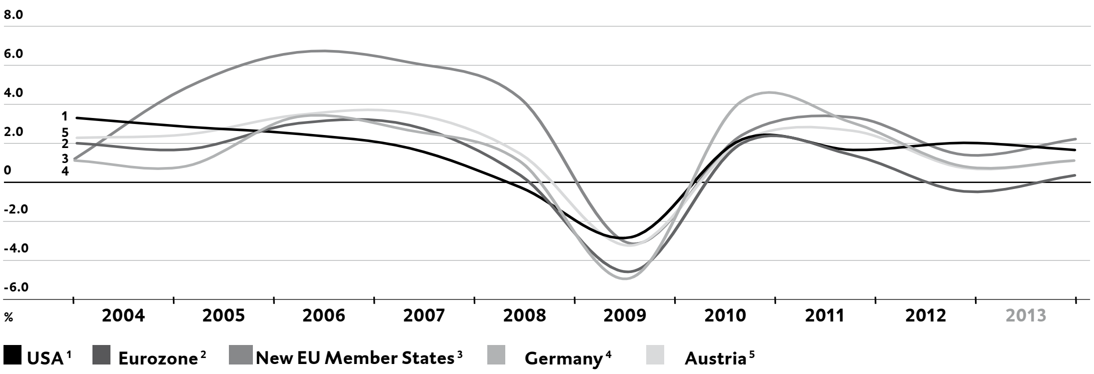
Outlook for 2013

The world economy is currently growing at a moderate speed. However, the pace of recovery differs from economic region to economic region and there is still a great deal of uncertainty. What is certain is that the economies of the United States and the eurozone have recently stabilized at a low level and are now likely to follow a flat growth path.

Real GDP in the United States is expected to grow by about 1.8 per cent in 2013. This will be thanks to stimulus provided by accommodating monetary policy action by the Federal Reserve aimed at improving conditions in the labour market. The Open Market Committee has signalled that it will continue to purchase US$45 billion a month of longer-term US government bonds and prolong the purchasing of US$40 billion a month of mortgage-backed securities even after the end of *Operation Twist* (the name of a programme to increase the average maturity of the securities held by the Federal Reserve). The political dispute about limiting US public sector debt, which was getting out of hand, escalated on 1 March 2013. If the public sector debt ceiling is still not raised in time and the 'sequester' — the automatic across-the-board cut in spending — takes effect, the US Treasury Department will no longer be able to fulfil its obligations to stimulate the economy as already agreed. Budget cuts in 2013 alone will then come to about US$85 billion, half of which would affect defence spending and discretionary spending in areas like education and the infrastructure.

For the time being, the world economy's biggest problem child remains the eurozone. The mood has improved a little after decisions by the European heads of state and government on Greece and Spain and the single supervision mechanism. However, despite the fact that the euro continued to gain ground versus the US dollar up to the end of February 2013, the eurozone's economic weakness is likely to persist into the second half of the year because, above all, of the precarious state of the labour markets in crisis-ridden Greece, Portugal, Spain and Italy. That having been said, the eurozone's real GDP should grow by 0.2 per cent over 2013 as a whole thanks to the robust economic performances of Germany, France, the Benelux countries, Finland, Austria and the EU Member States in Eastern Europe. Inflation is not being seen as a possible threat to the eurozone's economic stability at the moment, but worryingly high long-term unemployment rates in a number of peripheral countries certainly are.

GDP GROWTH BY ECONOMIC REGION



Percentage change in real GDP versus previous year.

Source: WIFO.

The good basic health of the Austrian economy suggests that it will, like Germany's, manage to cope with this temporary period of weakness without suffering serious damage, especially in the labour market. If there is no significant worsening of the sovereign debt crisis, WIFO expects exports to increase by 3.8 per cent in real terms in 2013. At the same time, imports are expected to increase by 3.5 per cent in real terms, there is likely to be a small real increase of 0.7 per cent in private consumption, and the real investment growth rate is likely to remain low at 1.5 per cent. As a result, the modest real GDP increase of 0.6 per cent in 2012 could be followed by slightly stronger growth rates of 1.0 per cent in 2013 and 1.8 per cent in 2014.

We assume that the ECB's willingness to buy the government bonds of the European peripheral countries that have got into financial difficulties will progressively calm the situation in the financial markets and that the serious doubts of private households and the corporate sector regarding the survival of the single currency will gradually disappear. Although inflation has now exceeded the 2 per cent limit that is acceptable to the ECB for a number of quarters, the ECB left its main refinancing operations rate at 0.75 per cent during its latest monetary policy meeting on 7 February.

In view of the recent escalation of geopolitical tensions in North Africa and the Gulf Region and the associated concern in the West and, above all, China that the supply situation could worsen, experts expect the commodity and energy markets to remain volatile in 2013. At the time of writing, Brent crude was trading at US$111.20, compared with US$110.49 at the beginning of the year. On the other hand, the performance of the equity markets on both sides of the Atlantic suggests that appraisals of the state of the economy are much more optimistic. Share prices in the eurozone have risen, with the broad Dow Jones EuroStoxx 50 rising from 2,635.93 points at the beginning of the year to 2,749.27 points at the time of writing, while the Standard & Poor's 500 Index gained about 7.3 per cent to 1,530.94 points. This progress has recently been slowed by the outcome of the parliamentary elections in Italy and investors' fears of another US deadline in the haggling about America's horrific sovereign debt. The United States is likely to have reached its debt ceiling of US$16.4 billion again on 19 May.

The Austrian and international banking industries are still under substantial regulatory and political pressure. As the Management Board of BKS Bank, we do not for the time being anticipate any lasting change in the state of the economy or the capital markets. Coping with the extra work caused by the new regulatory requirements — the Capital Requirements Directive (CRD) 4 and the Capital Requirements Regulation (CRR) 1—whose introduction had originally been scheduled for the beginning of 2013 will be particularly challenging. The final versions thereof have yet to be adopted at the European level. We believe that these new banking regulations cannot enter into force until 2014, which means that the corresponding revision of Austria's *Bankwesengesetz* (*BWG*: banking act) has also been greatly delayed. The introduction of the financial transaction tax in 2013 will also use up a great deal of resources.

It is still too early to sound the all-clear in the enervating banking environment. Burdens like, above all, the low interest rates, the unabatedly aggressive, margin-eroding competition for primary deposits (the cornerstone of funding if one is not to depend on the interbank market) and customers' visible restraint when it comes to trading in securities and borrowing are likely to continue to dent profits in the 2013 financial year. However, the number of companies complaining that they do not have enough access to bank loans is still very small. At this juncture, we can assure you that BKS Bank is excellently prepared to cope with the difficult market conditions and is in a position to react to unexpected one-off effects both promptly and in an appropriate manner. To date, our strategy of gradually extending our line of products and services as our customers' creditworthiness and the risks permit has worked very well.

Having carried out a number of important organizational improvements, we are strategically ideally placed to meet any challenge. We want to continue to strengthen BKS Bank's reputation as an expert bank dedicated strictly to the needs of its customers. We will do so by providing tailor-made advice and offering them attractive products and services. As for the competition for customer deposits, we want to increase our funding strength by, above all, continuing to attract inflows of savings deposits and carrying out attractive issuances in the capital markets.

We will go on enlarging our branch network in Vienna and the surrounding area during 2013 so as to benefit from the stronger growth of the population in the region. On the other hand, expansion in Slovenia and Croatia will slow to allow for the difficult economic environment in those countries. In addition, we want to solidify private banking as an additional but essential line of business, make greater use of interaction in the social media to communicate with customers and do everything we can to continue to enlarge the customer base. We are cautiously optimistic and firmly believe that BKS Bank with its proven business model, good and stable own funds position and established market position in its core business segments will be able to overcome all the hurdles of a challenging 2013 financial year. It will be a reliable partner to its customers and its shareholders. We can state that no material or reportable events occurred between the end of the financial year and the preparation of the annual financial statements or its certification by the Auditor.

We will continue to cultivate BKS Bank's image as a responsible bank, strengthen its profitability and productivity in its core segments and consistently optimize its cost management activities. In the 2013 financial year, we will again strive for profit for the year that will enable *BKS Bank AG* to submit an attractive dividend distribution proposal to the AGM, as in prior years, and to push ahead with increasing its enterprise value, in the interests of its equity holders, by augmenting its reserves.

Klagenfurt am Wörthersee
14 March 2013

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

IFRS-compliant Consolidated Financial Statements

CONTENTS OF THE NOTES

NOTES ON IFRS-COMPLIANT FINANCIAL REPORTING

BKS Bank prepared its Consolidated Financial Statements for the 2012 financial year in accordance with the provisions of the IFRSs and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as exempting consolidated financial statements within the meaning of *§ 59a BWG* (Austrian banking act) in conjunction with *§ 245a UGB* (Austrian enterprises code). During the preparation of these Consolidated Financial Statements, the standards whose application was mandatory for the financial year were applied. Comparative figures for the previous year were also based on the relevant standards.

With the exception of the revised standards and interpretations whose application was mandatory for the year under review, the financial reporting policies used in the 2011 financial year were retained. Comparative figures for the previous year were also based on the relevant standards. Standards that had been announced but whose application was not mandatory for the financial year were not applied ahead of time.

The application of the following revised standards was mandatory for annual periods beginning on or after 1 January 2012:
IFRS 7: Financial Instruments – Disclosure – Transfers of Financial Assets

The application of the revised standards did no have any material effect on BKS Bank's recognition and measurement policies.

Austrian company law is founded on the principle of business prudence. It focuses primarily on maintaining capital value and protecting creditors. The IFRSs, whose application has also been mandatory for listed enterprises within the EU since 2005, give priority to the information needs of investors rather than the protection of creditors. Consequently, annual financial statements prepared in accordance with IFRSs present an entity's assets, liabilities, financial position and profit or loss and its cash inflows and outflows according to actual circumstances. Such annual financial statements comprise a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, statements regarding recognition and measurement policies and explanatory notes, inclusive of segmental reports. To enhance the informational value of annual financial statements, the IASB (International Accounting Standards Board) is placing growing emphasis on measurement to fair value. This measurement principle represents a weakening of the prudence principle in favour of the measurement of profit or loss on an accrual basis and adherence to the going-concern principle, the main focuses being on intelligibility, relevance and comparability.

Unless stated otherwise, all figures in the Notes to the Consolidated Financial Statements that follow are in thousands of euros (€k).

Comprehensive Income Statement of the BKS Bank Group for the 2012 Financial Year

INCOME STATEMENT (FULL YEAR)

€k	Note	2011	2012	+/(-) Change, %
Interest income		222,853	215,344	(3.4)
Interest expenses		(91,733)	(94,506)	3.0
Profit from investments in entities accounted for using the equity method		19,301	22,259	15.3
Net interest income	(1)	**150,421**	**143,097**	**(4.9)**
Impairment charge on loans and advances	(2)	(33,204)	(38,602)	16.3
Net interest income after impairment charge		**117,217**	**104,495**	**(10.9)**
Fee and commission income		45,212	47,399	4.8
Fee and commission expenses		(2,908)	(2,969)	2.1
Net fee and commission income	(3)	42,304	44,430	5.0
Net trading income	(4)	1,325	2,348	77.2
General administrative expenses	(5)	(91,460)	(104,814)	14.6
Other operating income net of other operating expenses	(6)	1,737	(3,613)	>100
Profit/(loss) from financial assets (FV)	(7)	(2,730)	2,406	>100
Profit from financial assets (AFS)	(8)	3,399	2,784	(18.1)
Profit/(loss) from financial assets (HTM)	(9)	(33,185)	(2,154)	(93.5)
Profit for the year before tax		**38,607**	**45,882**	**18.8**
Income tax expense	(10)	(2,162)	(5,750)	>100
Profit for the period		**36,445**	**40,132**	**10.1**
Minority interests in profit for the period		(4)	(3)	(25.0)
Consolidated net profit for the year after minority interests		**36,441**	**40,129**	**10.1**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit for the year after minority interests	36,445	40,132	10.1
Gains and losses not recognized in profit or loss			
– Exchange differences	(402)	(53)	(86.8)
– Available-for-sale reserve	(13,410)	1,372	>100
– Arising from investments in entities accounted for using the equity method	155	7,898	>100
– Deferred taxes on items taken directly to equity	3,179	(853)	>100
Comprehensive income	**25,967**	**48,496**	**86.8**
Minority interests in comprehensive income	(4)	(3)	(25.0)
Comprehensive income after minority interests	**25,963**	**48,493**	**86.8**

QUARTERLY REVIEW

€k	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Interest income	60,101	56,181	55,055	52,871	51,237
Interest expenses	(24,809)	(25,333)	(24,347)	(23,950)	(20,876)
Profit from investments in entities accounted for using the equity method	4,991	3,613	6,490	6,178	5,978
Net interest income	**40,283**	**34,461**	**37,198**	**35,099**	**36,339**
Impairment charge on loans and advances	(4,423)	(8,948)	(9,663)	(8,799)	(11,192)
Net interest income after impairment charge	**35,860**	**25,513**	**27,535**	**26,300**	**25,147**
Net fee and commission income	10,659	11,205	10,808	10,872	11,545
Net trading income	(71)	326	743	60	1,219
General administrative expenses	(22,250)	(24,430)	(25,061)	(26,059)	(29,264)
Other operating income net of other operating expenses	(61)	87	70	(2,325)	(1,445)
Profit/(loss) from financial assets (FV)	(322)	528	1,214	424	240
Profit/(loss) from financial assets (AFS)	4,447	100	(318)	105	2,897
Profit/(loss) from financial assets (HTM)	(16,035)	(1,519)	(1,466)	338	493
Profit for the period before tax	**12,227**	**11,810**	**13,525**	**9,715**	**10,832**
Income tax expense	(1,633)	(1,750)	(1,528)	(1,337)	(1,135)
Profit for the period	**10,594**	**10,060**	**11,997**	**8,378**	**9,697**
Minority interests in profit for the period	(1)	(1)	(2)	0	0
Consolidated net profit for the period after minority interests	**10,593**	**10,059**	**11,995**	**8,378**	**9,697**

Balance Sheet of the BKS Bank Group as at 31 December 2012

ASSETS

€k	Note	31/12/2011	31/12/2012	+/(-) Change, %
Cash and balances with the central bank	(11)	85,819	81,749	(4.7)
Receivables from other banks	(12)	116,503	128,417	10.2
Receivables from customers	(13)	4,801,095	4,962,336	3.4
– Impairment allowance balance	(14)	(153,246)	(168,101)	9.7
Trading assets	(15)	344	237	(31.1)
Financial assets designated as at fair value through profit or loss	(16)	119,614	205,713	72.0
Available-for-sale financial assets	(17)	295,115	265,224	(10.1)
Held-to-maturity financial assets	(18)	738,732	702,314	(4.9)
Investments in entities accounted for using the equity method	(19)	309,929	341,176	10.1
Intangible assets	(20)	12,022	7,959	(33.8)
Property and equipment	(21)	62,610	62,176	(0.7)
Investment property	(22)	16,978	16,492	(2.9)
Deferred tax assets	(23)	17,104	19,825	15.9
Other assets	(24)	33,374	28,898	(13.4)
Total assets		**6,455,993**	**6,654,415**	**3.1**

EQUITY AND LIABILITIES

€k	Note	31/12/2011	31/12/2012	+/(-) Change, %
Payables to other banks	(25)	1,386,250	1,446,411	4.3
Payables to customers	(26)	3,535,614	3,545,790	0.3
Liabilities evidenced by paper	(27)	455,016	579,944	27.5
Trading liabilities	(28)	391	282	(27.9)
Provisions	(29)	77,444	81,289	5.0
Deferred tax liabilities	(30)	9,274	10,871	17.2
Other liabilities	(31)	86,349	64,880	(24.9)
Subordinated debt capital	(32)	260,730	236,655	(9.2)
Equity		644,925	688,293	6.7
Total minority interests and equity		644,922	688,286	6.7
Minority interests in equity		3	7	>100
Total equity and liabilities		**6,455,993**	**6,654,415**	**3.1**

EARNINGS AND DIVIDEND PER SHARE

	2011	2012
Average number of shares in issue (ordinary and preference shares)	32,214,469	32,211,703
Dividend per share, € (ordinary and preference shares)	0.25	0.25
Earnings per ordinary and preference share, € (diluted and undiluted)	1.13	1.25

Earnings per share compares consolidated net profit for the period 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	Profit for the Year	Equity
At 1 January 2012	65,520	97,929	(661)	5,987	439,702	36,445	644,922
Distribution						(8,034)	(8,034)
Taken to retained earnings					28,411	(28,411)	0
Profit for the year						40,132	40,132
Gains and losses taken directly to equity			(53)	8,714	(297)		8,364
Increase in share capital							
Other changes					2,902		2,902
– Arising from use of the equity method					612		
– Arising from changes in treasury shares					1,897		
At 30 December 2012	**65,520**	**97,929**	**(714)**	**14,701**	**470,718**	**40,132**	**688,286**
Available-for-sale reserve							15,094
Deferred tax reserve							(393)

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Profit for the Year	Equity
At 1 January 2011	65,520	97,929	(259)	16,571	401,628	46,429	627,818
Distribution						(8,048)	(8,048)
Taken to retained earnings					38,381	(38,381)	0
Profit for the year						36,445	36,445
Gains and losses taken directly to equity			(402)	(10,584)	508		(10,478)
Increase in share capital							
Other changes					(815)		(815)
– Arising from use of the equity method					1,450		
– Arising from changes in treasury shares					(2,268)		
At 31 December 2011	**65,520**	**97,929**	**(661)**	**5,987**	**439,702**	**36,445**	**644,922**
Available-for-sale reserve							5,527
Deferred tax reserve							460

Minority interests are of secondary importance in the BKS Bank Group's Statement of Changes in Equity (2012: €6.8 thousand; 2011: €3.3 thousand). At the end of 2012, BKS Bank held 476,258 ordinary no-par treasury shares and no-par preference treasury shares (31 December 2011: 620,336 shares) with a market value of €7.8 million (31 December 2011: €8.2 million) in its own portfolio.

The 72nd AGM on 18 May 2011 authorized the Management Board within five years from the time of registration in the companies register (*Firmenbuch*) of the pertinent change to the Memorandum and Articles of Association (*Satzung*) pursuant to *§ 169 AktG* and with the consent of the Supervisory Board to increase the company's share capital by up to €13,104,000 through the issuance of up to 6,552,000 ordinary no-par bearer shares and to set the issue price and lay down the terms and conditions of issue in consultation with the Supervisory Board. The Supervisory Board is authorized to adopt amendments to the Memorandum and Articles of Association arising from the issuance of shares within the limits of the authorized capital.

Cash Flow Statement

CASH FLOWS

€k	2011	2012
Profit for the year before minority interests	**36,445**	**40,132**
Non-cash positions in profit for the year:		
– Depreciation, amortization and impairment charge on receivables and property and equipment	36,475	42,017
– Changes in provisions	(1,628)	7,516
– Gains and losses on disposals	(4,510)	(1,965)
– Change in other non-cash items	13,054	(12,281)
Subtotal	**79,836**	**75,419**
Change in assets and liabilities arising from operating activities after correction for non-cash items:		
– Receivables from customers and other banks, effect of using the fair value option	(126,271)	(279,668)
– Trading assets	64	107
– Other assets	(14,648)	4,476
– Payables to customers and other banks	146,895	70,337
– Liabilities evidenced by paper	50,815	124,928
– Trading liabilities	(99)	(109)
– Provisions and other liabilities	7,065	(29,223)
Net cash from/(used in) operating activities	**143,657**	**(33,733)**
Proceeds from:		
– Sales of financial assets and property and equipment	130,781	269,506
Outlay on:		
– Purchases of financial assets and property and equipment	(290,504)	(208,248)
– Acquisition of subsidiaries	0	0
Net cash from/(used in) investing activities	**(159,723)**	**61,258**
Increases in share capital	0	0
Dividend distributions	(8,048)	(8,034)
Subordinated liabilities and other financing activities	(5,278)	(23,722)
Net cash from/(used in) financing activities	**(13,326)**	**(31,756)**
Cash and cash equivalents at end of previous year	**114,922**	**85,819**
Net cash from/(used in) operating activities	143,657	(33,733)
Net cash from/(used in) investing activities	(159,723)	61,258
Net cash from/(used in) financing activities	(13,326)	(31,756)
Effect of exchange rate changes on cash and cash equivalents	289	161
Cash and cash equivalents at end of year under review	**85,819**	**81,749**
Taxes, interest and dividends		
– Income tax paid	6,015	7,460
– Interest received	214,223	211,093
– Interest paid	87,051	94,064
– Dividends received	904	1,018

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

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

I. General information

The Annual Financial Statements of the BKS Bank Group were prepared in accordance with the provisions of the IFRS standards issued by the IASB (International Accounting Standards Board) applicable as 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). The Management Board of *BKS Bank AG* signed the Consolidated Financial Statements on 14 March 2013 and approved them for submission to the Supervisory Board. The Supervisory Board has the task of examining the Consolidated Financial Statements and stating whether it approves the Consolidated Financial Statements.

II. Recognition and measurement

Scope of consolidation

Consolidated:
- *BKS Bank AG*, Klagenfurt
- *BKS Bank d.d.*, Rijeka
- *BKS-Leasing Gesellschaft mbH*, Klagenfurt
- *BKS-Immobilienleasing Gesellschaft mbH*, Klagenfurt
- *BKS-leasing d.o.o.*, Ljubljana
- *BKS-leasing Croatia d.o.o.*, Zagreb
- *BKS-Leasing a.s.*, Bratislava[1]
- *IEV Immobilien GmbH*, Klagenfurt
- *Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG*, Klagenfurt
- *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH*, Klagenfurt
- *BKS Hybrid alpha GmbH*, Klagenfurt
- *VBG-CH Verwaltungs- und Beteiligungs GmbH*, Klagenfurt
- *LVM Beteiligungs Gesellschaft mbH*, Vienna
- *BKS Hybrid beta GmbH*, Klagenfurt

Entities accounted for using the equity method:
- *Oberbank AG*, Linz
- *Bank für Tirol und Vorarlberg AG*, Innsbruck
- *Alpenländische Garantie-GmbH*, Linz
- *Drei-Banken Versicherungs-Aktiengesellschaft*, Linz

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

Consolidation policies

All material subsidiaries directly or indirectly under the control of BKS Bank were included in the Consolidated Financial Statements. During first-time consolidation, an entity's cost was compared with (the Group's interest in) the entity's remeasured equity. Materiality was judged applying common, Group-wide criteria. The principal criteria of materiality were the assets, earnings and size of workforce of the entity concerned. These Consolidated Financial Statements are thus based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies. Investments in material associates were accounted for using the equity method. All other equity investments were classified as available-for-sale financial assets and, if their fair value could not be reliably measured, recognized at cost.

Foreign currency translation

The Annual Financial Statements were prepared in euros (the functional currency). 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 modified closing rate method. Assets and liabilities were translated at the closing exchange rates ruling on their balance sheet dates. Expenses and income were translated applying average rates of exchange in the respective financial year. Exchange differences were recognized as a component of equity.

Impairment allowance balance

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis (in the case of material exposures, these were calculated on the basis of the *discounted cash flow method*), by recognizing allowances for individual positions on an item-by-item basis applying class-specific criteria and by collective assessment of impairment of the portfolio carried out in accordance with IAS 39 para. 64. The latter included incurred but not yet identified losses. Provisions for contingent liabilities were recognized in accordance with IAS 37. An assessment of impairment of the portfolio for 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).

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 date.

Derivatives

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

Receivables

Receivables were recognized on the Balance Sheet at amortized cost before impairment charges.

Property, equipment and intangible assets (non-current)

Property, equipment and intangible assets (non-current) were recognized at cost of acquisition or conversion less ordinary depreciation or amortization. Depreciation and amortization rates lay within the following bands:
– immovable assets: 1.5 to 3.0 per cent;
– office furniture and equipment: 10 to 25 per cent;
– software: 25 per cent.

Ordinary depreciation and amortization are linear based on an asset's estimated useful life. Impairments are allowed for by recognizing extraordinary depreciation or amortization. If an impairment no longer exists, a write-back is made up to the asset's amortized cost. No extraordinary depreciation or amortization was recognized during the period under review.

Calculation of goodwill

A goodwill impairment test is performed periodically. When goodwill on the Balance Sheet is tested for impairment, its carrying amount is compared with the present value of the company's interest in all future cash flows (value in use). Present value is measured on the basis of a discounted cash flow model. A two-phase mathematical model is used.

Phase 1: In phase 1, cash flows in the ensuing five years are calculated and discounted on the basis of the company's budgets.
Phase 2: In phase 2, a perpetual annuity is calculated on the basis of cash flow in the most recent plan year.
The parameters used for discounting purposes are the yield on 10-year government bonds in the eurozone, a premium for equity risk and an extra premium for country risk.

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.

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

The measurement of certain positions took place under the collective designation *as at fair value through profit or loss* using the fair value option (FV). Their inclusion in this category was decided by the Asset Liability Management Committee. 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 a an asset designated as at fair value through profit or loss. They were generally measured applying 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 for the impairment 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 at cost.

Held-to-maturity financial assets

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

Investments in entities accounted for using the equity method

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 the 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.

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 our investment properties is disclosed in the Notes. It was mainly based on estimates (external expert reports). Depreciation rates lay between 1.5 per cent and 3.0 per cent.

Other assets

The line item *Other assets* accounts for receivables not arising directly from banking business.

Payables

Payables were mainly recognized at the amounts payable. This did not apply to payables measured at their fair values in the same way as assets or derivatives using the fair value option.

Tax

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 current tax 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 be causing additional tax burdens or reducing tax burdens in the future.

Equity

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

Provisions

Provisions were created if there was a reliably determinable legal or actual obligation to a third party arising from an event in the past likely to cause a drain of assets.

Provisions for so-called 'social capital' (*Sozialkapitalrückstellung*) were calculated in accordance with the requirements of IAS 19. An interest rate of 3.75 per cent was applied when calculating provisions for post-employment, termination and jubilee benefits (31 December 2011: 4.75 per cent). In addition, we applied a salary trend of 2.00 per cent (31 December 2011: 2.25 per cent) and a career trend of 0.25 per cent (31 December 2011: 0.25 per cent). The overall net discount factor was 1.5 per cent (31 December 2011: 2.25 per cent).

Actuarial gains and losses were recognized immediately through profit or loss in the Income Statement.

The provision for mortality benefits was also calculated in accordance with IFRS principles. In the 2011 financial year, the provisions for post-employment, termination, jubilee and mortality benefits were calculated applying IFRS principles according to the *AVÖ 2008* table using the *projected unit credit method*.

Net interest income

Interest income and interest expenses were accounted for on an accrual basis. This line item also includes profit from equity investments. Profit from 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 direct write-offs (additions to and deductions from the impairment allowance balance). 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.

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 notes

Forward-looking assumptions and estimates regarding yield curves and foreign exchange rates were made as required.

The Consolidated Financial Statements of *BKS Bank AG* for the 2012 financial year were prepared in accordance with the applicable provisions of the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the EU. The following standards that had already been published but whose application was not yet mandatory were not applied ahead of time. They are first effective for annual periods beginning on or after 1 January 2013 or for annual periods beginning on or after 1 January 2014:

STANDARDS AND INTERPRETATIONS

Effective for Annual Periods Beginning on or after 1 January 2013

IFRS 1:	First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IAS 12:	Income Tax: Deferred Tax: Recovery of Underlying Assets
IAS 1:	Presentation of Items of Other Comprehensive Income
IAS 19:	Employee Benefits
IFRS 13:	Fair Value Measurement
IFRS 7:	Financial Instruments – Disclosure – Offsetting Financial Assets and Financial Liabilities

STANDARDS AND INTERPRETATIONS

Effective for Annual Periods Beginning on or after 1 January 2014

IFRS 10:	Consolidated Financial Statements
IFRS 11:	Joint Arrangements
IFRS 12:	Disclosure of Interests in Other Entities
IAS 27:	Consolidated and Separate Financial Statements
IAS 28:	Investments in Associates
IFRS 9:	Financial Instruments

Details of the Income Statement

(1) NET INTEREST INCOME

€k	2011	2012	+/(-) Change, %
Interest income from:			
Credit operations	166,682	160,253	(3.9)
Fixed-interest securities designated as at fair value through profit or loss	2,954	2,917	(1.3)
Fixed-interest securities classified as available-for-sale	6,355	5,787	(8.9)
Fixed-interest securities classified as held-to-maturity	24,388	26,263	7.7
Lease receivables	11,815	10,353	(12.4)
Shares	3,668	3,206	(12.6)
Investment property	1,036	1,083	4.5
Investments in 'other' subsidiaries	1,657	652	(60.7)
Other equity investments	4,298	4,830	12.4)
Total interest income	**222,853**	**215,344**	**(3.4)**
Interest expenses on:			
Deposits from customers and other banks [1]	64,991	67,301	3.6
Liabilities evidenced by paper	26,385	26,887	1.9
Investment property	357	318	(10.9)
Total interest expenses	**91,733**	**94,506**	**3.0**
Profit from investments in entities accounted for using the equity method	22,801	22,736	(0.3)
Financing costs of investments in entities accounted for using the equity method [2]	(3,500)	(477)	(86.4)
Profit from investments in entities accounted for using the equity method	**19,301**	**22,259**	**15.3**
Net interest income	**150,421**	**143,097**	**(4.9)**

[1] Net of financing costs of investments in entities accounted for using the equity method.
[2] Based on the average 3-month Euribor.

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	2011	2012	+/(-) Change, %
Impairment allowances	39,555	45,431	14.9
Impairment reversals	(6,904)	(7,079)	2.5
Direct write-offs	867	651	(24.9)
Recoveries on receivables previously written off	(314)	(401)	27.7
Impairment charge on loans and advances	**33,204**	**38,602**	**16.3**

This line item contains impairment charges on lease receivables in the amount of €2.2 million (2011: €2.2 million).

(3) NET FEE AND COMMISSION INCOME

€k	2011	2012	+/(-) Change, %
Fee and commission income from:			
Payment services	18,058	18,793	4.1
Securities operations	11,546	11,203	(3.0)
Credit operations	11,322	13,006	14.9
International operations	3,179	3,194	0.5
Other services	1,107	1,203	8.7
Total fee and commission income	**45,212**	**47,399**	**4.8**
Fee and commission expenses arising from:			
Payment services	1,305	1,349	3.4
Securities operations	848	781	(7.9)
Credit operations	379	434	14.5
International operations	156	232	48.7
Other services	220	173	(21.4)
Total fee and commission expenses	**2,908**	**2,969**	**2.1**
Net fee and commission income	**42,304**	**44,430**	**5.0**

(4) NET TRADING INCOME

€k	2011	2012	+/(-) Change, %
Price-based contracts	47	11	(76.6)
Interest rate and currency contracts	1,278	2,337	82.9
Net trading income	**1,325**	**2,348**	**77.2**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	2011	2012	+/(-) Change, %
Staff costs	59,401	70,570	18.8
– Wages and salaries	44,197	47,623	7.8
– Social security costs	12,235	12,912	5.5
– Costs of old-age benefits	2,969	10,035	>100
Other administrative costs	25,487	27,496	7.9
Depreciation/amortization	6,572	6,748	2.7
General administrative expenses	**91,460**	**104,814**	**14.6**

Expenditure on old-age benefits included defined contribution plan payments to a pension fund in the amount of €1.5 million (2011: €1.3 million).

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	2011	2012	+/(-) Change, %
Other operating income	5,602	3,931	(29.8)
Other operating expenses	(3,865)	(7,544)	95.2
Other operating income net of other operating expenses	1,737	(3,613)	(>100)

The annual goodwill impairment test at *BKS Bank d.d.* revealed an impairment of €3.5 million (2011: €0 million). This line item included income taxes in the amount of €0.2 million (2011: €0.4 million).

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

€k	2011	2012	+/(-) Change, %
Revaluation gains and losses on derivatives	(2,244)	(2,106)	(6.1)
Gain/(loss) as a result of using the fair value option	(486)	4,512	(>100)
Profit/(loss) from financial assets designated as at fair value through profit or loss	(2,730)	2,406	(>100)

Fixed-interest loans to customers in the amount of €113.0 million (31 December 2011: €60.9 million), bonds in the asset portfolio in the amount of €92.7 million (31 December 2011: €58.7 million) and BKS Bank’s own issuances in the amount of €83.3 million (31 December 2011: €97.9 million) were hedged by means of appropriate interest rate swaps using the fair value option. The effect of these hedges totalled €4,512 thousand (2011: negative €486 thousand). The effect of the fair value option is essentially the amount that can be attributed to counterparty risk rather than changes in market risk.

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

€k	2011	2012	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	3,399	2,784	(18.1)
Profit from available-for-sale financial assets	3,399	2,784	(18.1)

Negative €1,627 thousand of revaluation gains and losses and realized gains and losses was attributable to impairments (2011: negative €1,227 thousand). €4,411 thousand was attributable to the sale of assets (2011: €4,626 thousand).

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

€k	2011	2012	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(33,185)	(2,154)	(93.5)
Profit/(loss) from held-to-maturity financial assets	(33,185)	(2,154)	(93.5)

(10) INCOME TAX EXPENSE

€k	2011	2012	+/(-) Change, %
Current tax	(3,099)	(7,824)	>100
Deferred tax	937	2,074	>100
Income tax expense	**(2,162)**	**(5,750)**	**>100**

RECONCILIATION

€k	2011	2012
Profit for the year before tax	38,607	45,882
Applicable tax rate	25%	25%
Computed tax expense	9,652	11,471
Effect of differing tax rates	(391)	(199)
Tax savings		
– arising from tax-exempt profit from equity investments	(7,143)	(7,264)
– arising from other tax-exempt income	(1,018)	(1,373)
– arising from other valuation adjustments	(170)	(514)
Additional tax incurred		
– as a result of non-allowable expenses	513	2,169
– arising from other tax effects	904	1,152
Aperiodic tax expenses	(185)	309
Income tax expense in period	**2,162**	**5,750**
Effective tax rate	5.6%	12.5%

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2011	31/12/2012	+/(-) Change, %
Cash in hand	31,453	34,537	9.8
Credit balances with central banks of issue	54,366	47,212	(13.2)
Cash and balances with the central bank	**85,819**	**81,749**	**(4.7)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Receivables from Austrian banks	22,505	66,377	>100
Receivables from foreign banks	93,998	62,040	(34.0)
Receivables from other banks	**116,503**	**128,417**	**10.2**

RECEIVABLES FROM OTHER BANKS, BY REMAINING TERM TO MATURITY

€k	31/12/2011	31/12/2012	+/(-) Change, %
Due on demand	68,922	66,445	(3.6)
Up to 3 months	13,992	49,300	>100
From 3 months to 1 year	24,922	5,597	(77.5)
From 1 year to 5 years	8,667	7,000	(19.2)
From 5 years and over	0	75	100.0
Receivables from other banks	**116,503**	**128,417**	**10.2**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Corporate and business banking customers	3,726,078	3,871,029	3.9
Retail banking customers	1,075,017	1,091,307	1.5
Receivables from customers	**4,801,095**	**4,962,336**	**3.4**

The line item *Receivables from customers* includes receivables arising from finance leases in the amount of €303.5 million (31 December 2011: €313.6 million). No material sale and leaseback transactions took place during the year under review.

RECEIVABLES FROM CUSTOMERS, BY REMAINING TERM TO MATURITY

€k	2011	2012	+/(-) Change, %
Due on demand	250,917	262,365	4.6
Up to 3 months	744,739	687,783	(7.6)
From 3 months to 1 year	693,018	813,825	17.4
From 1 year to 5 years	1,279,722	1,364,025	6.6
From 5 years and over	1,832,699	1,834,338	0.1
Receivables from customers	**4,801,095**	**4,962,336**	**3.4**

The bulk of lease assets had a remaining term to maturity of more than one year.

RECEIVABLES ARISING FROM FINANCE LEASES, BY REMAINING TERM TO MATURITY

€k	2011	< 1 Year	1 – 5 Years	> 5 Years	2012	+/(-) Change, %
Gross value of investments	188,259	45,663	73,396	50,134	169,193	(10.1)
Unrealized financial gains	30,221	5,569	9,825	6,562	21,956	(27.3)
Net value of investments	158,038	40,094	63,571	43,572	147,237	(6.8)

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	2011	2012	+/(-) Change, %
At beginning of year under review	149,149	153,246	2.7
+ Added	36,796	42,348	15.1
– Reversed	(6,893)	(7,079)	2.7
– Used	(25,664)	(20,392)	(20.5)
+ Exchange differences	(142)	(22)	(84.5)
At end of year under review	**153,246**	**168,101**	**9.7**

The impairment allowance balance includes provisions for the economic risks arising in connection with leasing operations and impairment charges on lease receivables in the amount of €18.7 million (31 December 2011: €18.5 million).

(15) TRADING ASSETS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Bonds and other fixed-interest securities	0	0	—
Positive fair values of derivative financial instruments			
– Currency contracts	344	237	(31.1)
– Interest rate contracts	0	0	—
Trading assets	**344**	**237**	**(31.1)**

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

€k	31/12/2011	31/12/2012	+/(-) Change, %
Bonds and other fixed-interest securities	58,722	92,735	57.9
Loans	60,892	112,978	85.5
Financial assets designated as at fair value through profit or loss	**119,614**	**205,713**	**72.0**

FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS, BY REMAINING TERM TO MATURITY

€k	31/12/2011	31/12/2012	+/(-) Change, %
Up to 3 months	7,936	3,215	(59.5)
From 3 months to 1 year	1,151	13,556	>100
From 1 year to 5 years	84,639	119,239	40.9
From 5 years and over	25,888	69,703	>100
Financial assets designated as at fair value through profit or loss	**119,614**	**205,713**	**72.0**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Bonds and other fixed-interest securities	158,765	131,325	(17.3)
Shares and other variable-yield securities	88,096	87,222	(1.0)
Investments in other associates and in subsidiaries	33,105	31,869	(3.7)
Other equity investments	15,149	14,808	(2.3)
Available-for-sale financial assets	**295,115**	**265,224**	**(10.1)**

AVAILABLE-FOR-SALE FINANCIAL ASSETS, BY REMAINING TERM TO MATURITY

€k	31/12/2011	31/12/2012	+/(-) Change, %
Bonds and other fixed-interest securities			
Up to 3 months	1,522	3,842	>100
From 3 months to 1 year	51,472	47,098	(8.5)
From 1 year to 5 years	84,375	76,555	(9.3)
From 5 years and over	21,396	3,830	(82.1)
Available-for-sale financial assets	**158,765**	**131,325**	**(17.3)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Bonds and other fixed-interest securities	738,732	702,314	(4.9)
Held-to-maturity financial assets	**738,732**	**702,314**	**(4.9)**

HELD-TO-MATURITY FINANCIAL ASSETS, BY REMAINING TERM TO MATURITY

€k	31/12/2011	31/12/2012	+/(-) Change, %
Up to 3 months	34,597	38,598	11.6
From 3 months to 1 year	90,003	69,899	(22.3)
From 1 year to 5 years	323,420	301,263	(6.9)
From 5 years and over	290,712	292,554	0.6
Held-to-maturity financial assets	**738,732**	**702,314**	**(4.9)**

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

€k	31/12/2011	31/12/2012	+/(-) Change, %
Oberbank AG	207,699	224,167	7.9
Bank für Tirol und Vorarlberg AG	97,267	111,892	15.0
Alpenländische Garantie-GmbH	964	964	0.0
Drei-Banken Versicherungs-AG	3,999	4,153	3.9
Investments in entities accounted for using the equity method	**309,929**	**341,176**	**10.1**

(20) INTANGIBLE ASSETS, GOODWILL

€k	31/12/2011	31/12/2012	+/(-) Change, %
Goodwill	8,888	5,414	(39.1)
Other intangible assets	3,134	2,545	(18.8)
Intangible assets	**12,022**	**7,959**	**(33.8)**

The line item *Goodwill* contains goodwill resulting from the first-time consolidation of *BKS Bank d.d.* in the amount of €5.4 million (31 December 2011: €8.9 million). The parameters and data used to test goodwill for impairment can change in unforeseen ways. They were significantly affected by the economic environment in general and by market conditions in Croatia. In Phase 2 of the valuation process, 1.5 per cent was deducted from the interest rate to represent the growth rate. In 2012, the company's goodwill underwent adjustment on the basis of its calculated enterprise value. As a result, there was no need to carry out sensitivity analysis based on the key parameters. The results of the impairment test led to a write-down of €3.5 million. Including the write-down of the goodwill of *BKS-Leasing a.s.*, goodwill was written down by a total of €6.8 million (2011: €3.3 million).

(21) PROPERTY AND EQUIPMENT

€k	31/12/2011	31/12/2012	+/(-) Change, %
Land	2,802	2,774	(1.0)
Buildings	49,805	48,093	(3.4)
Other	10,003	11,309	13.1
Property and equipment	**62,610**	**62,176**	**(0.7)**

(22) INVESTMENT PROPERTY

€k	31/12/2011	31/12/2012	+/(-) Change, %
Land	8,167	8,167	0.0
Buildings	8,811	8,325	(5.5)
Investment property	**16,978**	**16,492**	**(2.9)**

At 31 December 2012, the fair value of our investment property totalled €24.4 million (31 December 2011: €25.4 million).

Rental income during the year under review came to €1.1 million (2011: €1.0 million). Expenses associated with this rental income came to €0.3 million (2011: €0.4 million).

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (NON-CURRENT) AND INVESTMENT PROPERTY

€k	Equipment	Intangible Assets[1]	Property[2]	Total
Cost at 1 January 2012	124,503	8,252	29,289	162,044
Added	4,536	801	145	5,482
Disposals	3,834	7	0	3,841
Exchange differences	(14)	(8)	0	(22)
Reclassification	0	0	0	0
Cost at 31 December 2012	**125,191**	**9,038**	**29,434**	**163,663**
Accumulated depreciation/amortization	63,015	6,493	12,942	82,450
Carrying amount at 31 December 2012	**62,176**	**2,545**	**16,492**	**81,213**
Carrying amount at 31 December 2011	62,610	3,134	16,978	82,722
Depreciation/amortization in 2012	4,739	1,378	631	6,748

[1] 'Other' intangible assets.
[2] Investment property.

(23) DEFERRED TAX ASSETS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Receivables from customers	490	478	(2.4)
Trading assets and trading liabilities	38	20	(47.4)
Impairment allowances	5,122	6,378	24.5
Available-for-sale financial assets	565	45	(92.0)
Held-to-maturity financial assets	318	340	6.9
Property and equipment	318	296	(6.9)
Other assets and liabilities	5,757	6,101	6.0
Liabilities evidenced by paper	0	784	100.0
Provisions (for post-employment and termination benefits, other provisions)	4,402	5,383	22.3
Tax loss carryforwards	94	0	(100.0)
Deferred tax assets	**17,104**	**19,825**	**15.9**

(24) OTHER ASSETS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Positive fair values of derivative financial instruments	14,521	8,737	(39.8)
Other items	16,296	17,548	7.7
Deferred items	2,557	2,613	2.2
Other assets	**33,374**	**28,898**	**(13.4)**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Payables to Austrian banks	1,011,595	1,111,156	9.8
Payables to foreign banks	374,655	335,255	(10.5)
Payables to other banks	**1,386,250**	**1,446,411**	**4.3**

PAYABLES TO OTHER BANKS, BY REMAINING TERM TO MATURITY

€k	31/12/2011	31/12/2012	+/(-) Change, %
Due on demand	29,616	25,659	(13.4)
Up to 3 months	880,109	905,444	2.9
From 3 months to 1 year	184,116	223,699	21.5
From 1 year to 5 years	273,566	275,098	0.6
From 5 years and over	18,843	16,511	(12.4)
Payables to other banks	**1,386,250**	**1,446,411**	**4.3**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Savings deposit balances	**1,786,344**	**1,797,864**	**0.6**
Corporate and business banking customers	260,189	244,645	(6.0)
Retail banking customers	1,526,155	1,553,219	1.8
Other payables	**1,749,270**	**1,747,926**	**(0.1)**
Corporate and business banking customers	1,261,040	1,205,649	(4.4)
Retail banking customers	488,230	542,277	11.1
Payables to customers	**3,535,614**	**3,545,790**	**0.3**

PAYABLES TO CUSTOMERS, BY REMAINING TERM TO MATURITY

€k	31/12/2011	31/12/2012	+/(-) Change, %
Due on demand	1,119,733	1,186,330	5.9
Up to 3 months	841,794	606,271	(28.0)
From 3 months to 1 year	1,163,706	1,254,919	7.8
From 1 year to 5 years	346,332	415,733	20.0
From 5 years and over	64,049	82,537	28.9
Payables to customers	**3,535,614**	**3,545,790**	**0.3**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2011	31/12/2012	+/(-) Change, %
Issued bonds	316,926	402,398	27.0
Other liabilities evidenced by paper	138,090	177,546	28.6
Liabilities evidenced by paper	**455,016**	**579,944**	**27.5**

LIABILITIES EVIDENCED BY PAPER, BY REMAINING TERM TO MATURITY

€k	31/12/2011	31/12/2012	+/(-) Change, %
Up to 3 months	7,091	86,059	>100
From 3 months to 1 year	38,794	35,574	(8.3)
From 1 year to 5 years	334,270	319,340	(4.5)
From 5 years and over	74,861	138,971	85.6
Liabilities evidenced by paper	**455,016**	**579,944**	**27.5**

(28) TRADING LIABILITIES

€k	31/12/2011	31/12/2012	+/(-) Change, %
Interest rate contracts	391	282	(27.9)
Trading liabilities	**391**	**282**	**(27.9)**

(29) PROVISIONS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	66,238	70,359	6.2
Provisions for taxes (current tax)	958	129	(86.5)
Other provisions	10,248	10,801	5.4
Provisions	**77,444**	**81,289**	**5.0**

During the year under review, the calculation of so-called ‘social capital’ was based on an interest rate of 3.75 per cent (2011: 4.75 per cent). *Other provisions* consists essentially of staff related provisions and provisions for stepped coupon products.

PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Provision balance at 1 January	69,082	66,238	(4.1)
+ Interest cost	2,538	2,696	6.2
+ Service cost	1,051	1,125	7.0
– Payments during the year under review	(4,780)	(4,262)	(10.8)
± Actuarial gain/(loss)	(1,653)	4,562	(>100)
– Reversal/transfer of provisions for former employees	0	0	—
Provision balance at 31 December	**66,238**	**70,359**	**6.2**

BREAKDOWN OF PROVISIONS

€k	Total in 2011	Post-emp. Benefits & Similar Obligations	Taxes and Other	Total in 2012	+/(-) Change, %
Provision balance at 1 January	82,642	66,238	11,206	77,444	(6.3)
+ Changes in scope of consolidation	—	—	—	—	—
+ Exchange differences	(9)	(1)	0	(1)	(88.9)
+ Added	3,607	6,151	4,412	10,563	>100
– Used	4,503	1,419	4,229	5,648	25.4
– Reversed	4,293	610	459	1,069	(75.1)
± Transferred	—	—	—	—	—
Provision balance at 31 December	**77,444**	**70,359**	**10,930**	**81,289**	**5.0**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2011	31/12/2012	+/(-) Change, %
Receivables from customers	814	1,074	31.9
Trading assets and trading liabilities	41	26	(36.6)
Financial assets and liabilities designated as at fair value through profit or loss	2,545	4,671	83.5
Available-for-sale financial assets and liabilities	2,426	1,408	(42.0)
Held-to-maturity financial assets and liabilities	641	762	18.9
Property and equipment	0	0	—
Other assets and liabilities	1,573	1,658	5.4
Liabilities evidenced by paper	361	0	(100.0)
Provisions (for post-employment and termination benefits) and other liabilities	873	1,272	45.7
Deferred tax liabilities	**9,274**	**10,871**	**17.2**

Deferred taxes totalling €0.9 million (2011: €3.2 million) were taken directly to equity (*AFS Reserve*).

(31) OTHER LIABILITIES

€k	31/12/2011	31/12/2012	+/(-) Change, %
Negative fair values of derivative financial instruments	70,497	47,620	(32.5)
Other items	14,379	15,641	8.8
Deferred items	1,473	1,619	9.9
Other liabilities	**86,349**	**64,880**	**(24.9)**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2011	31/12/2012	+/(-) Change, %
Supplementary capital	220,730	196,655	(10.9)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**260,730**	**236,655**	**(9.2)**

SUBORDINATED DEBT CAPITAL, BY REMAINING TERM TO MATURITY

€k	31/12/2011	31/12/2012	+/(-) Change, %
From 3 months to 1 year	24,548	19,933	(18.8)
From 1 year to 5 years	94,256	123,409	30.9
From 5 years and over	141,926	93,313	(34.3)
Subordinated debt capital	**260,730**	**236,655**	**(9.2)**

Supplementary capital notes in the amount of €20.0 million will mature during the 2013 financial year (2012: €24.7 million).

DETAILS OF BKS BANK'S SUBORDINATED DEBT CAPITAL (NOMINAL VALUES) [1]

€k	31/12/2011	31/12/2012	Full Term
4¼% Ergänzungskapital-Obligation 2004-2012/2	14,700	—	8 years
4¼% Ergänzungskapital-Obligation 2004-2012/4	10,000	—	8 years
Stufenzins-Ergänzungskapital-Obligation 2005-2013/2	10,000	10,000	8 years
3¾% Ergänzungskapital-Obligation 2005-2013/4	10,000	10,000	8 years
Variable *Ergänzungskapital-Obligation 2006-2014/1*	22,000	22,000	8 years
Variable *Ergänzungskapital-Obligation 2006-2021/PP*	2,350	2,350	15 years
4½% Ergänzungskapital-Obligation 2006-2014/3	5,600	5,600	8 years
Variable *Ergänzungskapital-Obligation 2006-2014/4*	25,000	25,000	8 years
4¾% Ergänzungskapital-Obligation 2007-2015/1	10,000	10,000	8 years
5% Ergänzungskapital-Obligation 2007-2017/3	9,100	9,100	10 years
5% Ergänzungskapital-Obligation 2007-2015/6	15,000	15,000	8 years
4½% Ergänzungskapital-Obligation 2008-2016/2	7,700	7,700	8 years
Stufenzins-Ergänzungskapital-Obligation 2008-2020/4	15,000	15,000	12 years
5% Ergänzungskapital-Obligation 2009-2017/3	20,000	20,000	8 years
4¾% Ergänzungskapital-Obligation 2009-2017/8	19,500	19,500	8 years
Stufenzins-Ergänzungskapital-Obligation 2010-2020/2	16,000	16,000	10 years
4¾% Ergänzungskapital-Obligation 2011-2019/3	20,000	20,000	8 years
7.35% Hybridanleihe der BKS Hybrid alpha GmbH 2008	20,000	20,000	Unlimited
6% Hybridanleihe der BKS Hybrid beta GmbH 2010	20,000	20,000	Unlimited
Total subordinated debt capital	**271,950**	**247,250**	

[1] This does not constitute an offer or invitation to buy or sell the notes mentioned herein. Nor does it constitute a recommendation to buy or sell. Since May 2009, issuances have taken place on the basis of the base prospectus published by BKS Bank in each case, all supplements and the final terms and conditions published in each case. These are available from the issuer's website at www.bks.at or free of charge from the branches of *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt, Austria, during normal business hours.

(33) SHAREHOLDERS' EQUITY AFTER MINORITIES

€k	31/12/2011	31/12/2012	+/(-) Change, %
Subscribed capital	65,520	65,520	0.0
– Share capital	65,520	65,520	0.0
Capital reserves	97,929	97,929	0.0
Retained earnings and other reserves	481,476	524,844	9.0
Equity before minority interests	644,925	688,293	6.7
Minority interests	(3)	(7)	>100
Shareholders' equity after minorities	**644,922**	**688,286**	**6.7**

The share capital was represented by 30,960,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share had a nominal value of €2.0. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. At year-end, eligible own funds came to €709.5 million (31 December 2011: €681.9 million). BKS Bank had €352.9 million of surplus own funds (31 December 2011: €328.7 million).

The external capital adequacy requirements were met throughout the year under review.

Additional disclosures required by IFRSs

(34) FAIR VALUES

€k	LEVEL 1 Fair Values (Market Values)	LEVEL 2 Fair Values (Other)	31/12/2011 Fair Values (Total)	Carrying Amounts	Difference in 2011
Assets					
Receivables from other banks	—	116,724	116,724	116,503	221
Receivables from customers	—	4,854,518	4,854,518	4,801,095	53,423
Financial assets designated as at fair value through profit or loss	58,722	60,892	119,614	119,614	—
Available-for-sale financial assets	277,537	17,578	295,115	295,115	—
Held-to-maturity financial assets	771,204	—	771,204	738,732	32,472
Investments in entities accounted for using the equity method	296,512	4,963	301,475	309,929	(8,454)
Equity and liabilities					
Payables to other banks	—	1,390,609	1,390,609	1,386,250	4,359
Payables to customers	—	3,538,667	3,538,667	3,535,614	3,053
Liabilities evidenced by paper	316,928	137,557	454,485	455,016	(531)
Subordinated debt capital	256,765	2,350	259,115	260,730	(1,615)

€k	LEVEL 1 Fair Values (Market Values)	LEVEL 2 Fair Values (Other)	31/12/2012 Fair Values (Total)	Carrying Amounts	Difference in 2012
Assets					
Receivables from other banks	—	128,500	128,500	128,417	83
Receivables from customers	—	5,029,388	5,029,388	4,962,336	67,052
Financial assets designated as at fair value through profit or loss	92,735	112,978	205,713	205,713	—
Available-for-sale financial assets	247,489	17,735	265,224	265,224	—
Held-to-maturity financial assets	773,600	—	773,600	702,314	71,286
Investments in entities accounted for using the equity method	290,899	5,117	296,016	341,176	(45,160)
Equity and liabilities					
Payables to other banks	—	1,450,209	1,450,209	1,446,411	3,798
Payables to customers	—	3,576,223	3,576,223	3,545,790	30,433
Liabilities evidenced by paper	404,736	176,729	581,465	579,944	1,521
Subordinated debt capital	234,013	2,350	236,363	236,655	(292)

The tables above present the fair values of the respective balance sheet items. Fair values are the amounts for which financial instruments could be exchanged between knowledgeable, willing parties in an arm's length transaction on the balance sheet date. The fair values shown in the *Market Values* column were determined on the basis of prices quoted on active markets. In general, the fair values shown in the *Other* column were determined using input factors that were observable for the respective assets and liabilities (e.g. the yield curve), and the *Other* column also includes assets in the amount of €22,852 thousand (31 December 2011: €22.541 thousand) in the line items *Available-for-sale financial assets* and *Investments in entities accounted for using the equity method* whose value was determined using internal valuation methods. In general, other items were measured using present value techniques. Available-for-sale equity investments were also recognized at their carrying amounts if their fair value could not be reliably measured. The *Difference* column shows the respective differences between the *Fair Values (Total)* and *Carrying Amounts* columns.

(35) INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2011

	Method*	Percentage Held	Assets, €k	Profit/(Loss) for the Year, €k
Alpenländische Garantie-GmbH	E	25.00	208,882	18
Oberbank AG	E	16.95	17,061,258	79,676
Bank für Tirol und Vorarlberg AG	E	13.59	8,988,540	83,321
Drei-Banken Versicherungs-AG	E	20.00	179,709	578
Drei-Banken-EDV Gesellschaft mbH	N	30.00	22,602	21

INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2012

	Method*	Percentage Held	Assets, €k	Profit/(Loss) for the Year, €k
Alpenländische Garantie-GmbH	E	25.00	208,778	0
Oberbank AG	E	16.95	17,157,022	80,597
Bank für Tirol und Vorarlberg AG	E	13.59	9,129,155	20,663
Drei-Banken Versicherungs-AG	E	20.00	162,398	1,177
Drei-Banken-EDV Gesellschaft mbH	N	30.00	21,611	60

* E = accounted for using the equity method; N = not included.

Of the entities accounted for using the equity method, *Oberbank AG* and *BTV AG* were, for the following reasons, thus accounted for in the Consolidated Financial Statements even though a stake of at least 20 per cent was not held: A syndicate agreement is in place between *BKS Bank AG*, *BTV AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* in respect of their equity investments in *Oberbank AG*, and a syndicate agreement is in place between *BKS Bank AG*, *Oberbank AG*, *Generali 3 Banken Holding AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* in respect of their equity investments in *BTV AG*. At year-end, the market value of *BKS Bank AG*'s listed equity investments in *Oberbank AG* and *BTV AG* was €290.9 million (31 December 2011: €296.5 million). In turn, *Oberbank AG* and *BTV AG* held a total of 12,259,083 shares in *BKS Bank AG* (31 December 2011: 12,259,083 shares).

Alpenländische Garantie-GmbH (ALGAR), which is headquartered in Linz, is a *3 Banken Group* joint venture. It was set up in the form of a bank in 1983. ALGAR is not profit-orientated. Its purpose is to mitigate the large loan risks of the three banks that are its equity holders. It does so by guaranteeing loans and advances and by assuming liability in other ways. Fifty per cent of ALGAR's share capital of €3.0 million is held by *Oberbank*, and BTV and BKS Bank each hold a 25 per cent stake. Guarantee fees totalled €3.0 million (2011: €2.9 million).

Drei-Banken-EDV Gesellschaft mbH is the IT service provider to the *3 Banken Group*. *BKS Bank AG*'s payments to this company during the year under review came to €8.0 million (2011: €7.5 million).

(36) TRANSACTIONS WITH ASSOCIATES

€k	31/12/2011	31/12/2012	+/(-) Change, %
Assets			
Receivables from other banks	1,435	5,941	>100
Receivables from customers	6,174	6,176	0.0
Liabilities			
Payables to other banks	235,241	240,967	2.4
Payables to customers	11,995	37,373	>100

(37) TRANSACTIONS WITH SUBSIDIARIES

€k	31/12/2011	31/12/2012	+/(-) Change, %
Assets			
Receivables from customers	17,766	17,613	(0.9)
Other assets	460	452	(1.7)
Liabilities			
Payables to customers	2,184	2,931	34.2

(38) SEGMENTAL REPORTING

Method: Net interest income was allocated using the *market interest rate method*. Incurred costs were allocated to 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 valued applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income*. The performance of each business segment was gauged in terms of the profit before tax recorded in that segment. Alongside the cost:income ratio, return on equity was one of the principal benchmarks for managing business segments. Our segmental reporting is based on our internal management processes.

SEGMENTAL BREAKDOWN

€k	Retail Banking 2011	Retail Banking 2012	Corporate and Business Banking 2011	Corporate and Business Banking 2012	Financial Markets 2011	Financial Markets 2012
Net interest income	33,980	30,756	90,261	88,606	25,560	23,133
– Of which from investments in entities accounted for using the equity method					19,301	22,259
Impairment charge on loans and advances	(1,230)	(742)	(31,222)	(36,258)	(752)	(1,602)
Net fee and commission income	18,607	20,035	22,341	23,732	615	421
Net trading income	0	0	0	0	1,325	2,348
General administrative expenses	(46,832)	(51,947)	(36,595)	(39,399)	(5,222)	(6,234)
Other operating income net of other operating expenses	983	1,062	1,316	1,240	118	(4,551)
Profit/(loss) from financial assets	0	0	0	0	(32,516)	3,036
Profit for the year before tax	**5,508**	**(836)**	**46,101**	**37,921**	**(10,872)**	**16,551**
Average risk-weighted assets	563,473	566,564	3,147,363	3,222,946	616,106	603,930
Average allocated equity	45,078	45,325	251,789	257,836	331,779	356,979
Segment liabilities	2,601,568	2,689,919	1,902,229	1,931,954	1,772,479	1,869,214
ROE based on profit for the year	**12.2%**	**(1.8%)**	**18.3%**	**14.7%**	**(3.3%)**	**4.6%**
Cost:income ratio	**87.4%**	**100.2%**	**32.1%**	**34.7%**	**18.9%**	**29.2%**
Risk:earnings ratio	**3.6%**	**2.4%**	**34.6%**	**40.9%**	**2.9%**	**6.9%**

€k	Other 2011	Other 2012	Total 2011	Total 2012
Net interest income	620	602	150,421	143,097
– Of which from investments in entities accounted for using the equity method			19,301	22,259
Impairment charge on loans and advances	0	0	(33,204)	(38,602)
Net fee and commission income	741	242	42,304	44,430
Net trading income	0	0	1,325	2,348
General administrative expenses	(2,811)	(7,234)	(91,460)	(104,814)
Other operating income net of other operating expenses	(680)	(1,364)	1,737	(3,613)
Profit/(loss) from financial assets	0	0	(32,516)	3,036
Profit for the year before tax	**(2,130)**	**(7,754)**	**38,607**	**45,882**
Average risk-weighted assets	53,207	43,118	4,380,149	4,436,558
Average allocated equity	7,724	6,468	636,370	666,608
Segment liabilities	179,717	163,335	6,455,993	6,654,415
ROE based on profit for the year	**—**	**—**	**6.1%**	**6.9%**
Cost:income ratio	**—**	**—**	**46.7%**	**56.3%**
Risk:earnings ratio	**—**	**—**	**22.1%**	**27.0%**

During the financial year, we based our segmental reporting on internal management arrangements (the *management approach* based on IFRS figures) in accordance with the provisions of IFRS 8. *Other operating income net of other operating expenses* in the financial markets segment included the write-down of the goodwill of *BKS Bank d.d.* in the amount of €3.5 million.

(39) NON-INTEREST ASSETS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Non-interest assets	**193,002**	**220,116**	**14.0**

Non-interest receivables from customers less impairments came to €109.0 million (31 December 2011: €107.1 million).

(40) SUBORDINATED ASSETS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Receivables from customers	19,068	13,831	(27.5)
Bonds and other fixed-interest securities	5,075	5,280	4.0
Shares and other variable-yield securities	7,075	7,184	1.5

(41) BALANCES IN FOREIGN CURRENCIES

€k	31/12/2011	31/12/2012	+/(-) Change, %
Assets	919,786	747,900	(18.7)
Liabilities	353,634	240,776	(31.9)

(42) ADMINISTRATION AND AGENCY SERVICES

€k	31/12/2011	31/12/2012	+/(-) Change, %
Administration and agency services	**1,723**	**1,566**	**(9.1)**

(43) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2011	31/12/2012	+/(-) Change, %
Guarantees	407,658	391,831	(3.9)
Letters of credit	3,235	3,122	(3.5)
Contingent liabilities	**410,893**	**394,953**	**(3.9)**
Other commitments	634,395	588,249	(7.3)
Commitments	**634,395**	**588,249**	**(7.3)**

Other commitments consists mainly of credit facilities already on record but not yet utilized.

(44) INVESTMENTS IN SUBSIDIARIES AND SELECTED OTHER EQUITY INVESTMENTS

		Equity, €m		Percentage Held by BKS Bank		Profit/(Loss) for the Year, €m	
	K[1]	2011	2012	Directly	Indirectly	2011	2012
BKS-Leasing Gesellschaft mbH, Klagenfurt	C	0.49	0.49	100.00		0.01	0.10
BKS-Immobilienleasing Gesellschaft mbH, Klagenfurt	C	1.61	1.57		100.00	0.69	(0.04)
Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG, Klagenfurt	C	3.54	3.68	100.00		0.23	0.14
BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt [2]	C	2.17	2.51		100.00	0.41	0.34
BKS Immobilien-Service Gesellschaft mbH, Klagenfurt	N	0.22	0.22	100.00		0.46	0.45
BKS 2000-Beteiligungsverwaltungsgesellschaft mbH, Klagenfurt	N	19.51	20.47	100.00		(0.14)	0.81
Oberbank AG, Linz	E	964.09	1.031.69	16.95		79.68	80.60
Bank für Tirol und Vorarlberg AG, Innsbruck	E	548.55	561.86	13.59		83.32	20.66
Alpenländische Garantie-GmbH, Linz	E	3.86	3.86	25.00		0.02	0.00
Drei-Banken-EDV Gesellschaft mbH, Linz	N	3.50	3.56	30.00		0.02	0.06
3-Banken Beteiligung Gesellschaft mbH, Linz	N	21.22	21.29		30.00	0.04	0.07
Drei-Banken Versicherungs-Aktiengesellschaft, Linz	E	19.39	20.12	20.00		0.58	1.18
BKS-leasing d.o.o., Ljubljana	C	3.95	4.37	100.00		0.71	0.42
BKS-leasing Croatia d.o.o., Zagreb	C	1.28	1.09	100.00		0.32	0.38
E 2000 Liegenschaftsverwertungs-GmbH, Klagenfurt	N	0.07	0.10	99.00	1.00	0.03	0.03
VBG Verwaltungs- und Beteiligungsgesellschaft mbH, Klagenfurt	N	0.08	0.11	100.00		(0.98)	(0.47)
BKS Bank d.d., Rijeka	C	17.86	27.69	100.00		0.05	(0.74)
BKS-Leasing a.s., Bratislava	C	17.54	18.49	100.00		(0.20)	(0.38)
IEV Immobilien GmbH, Klagenfurt	C	0.04	0.04	100.00		0.00	0.00
BKS Hybrid alpha GmbH, Klagenfurt	C	0.06	0.07	100.00		0.01	0.01
BKS Hybrid beta GmbH, Klagenfurt	C	0.04	0.05	100.00		0.01	0.01
VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt	C	100.83	100.83	100.00		1.54	0.90
LVM Beteiligungs Gesellschaft mbH, Vienna	C	100.82	100.82		100.00	1.54	0.91

[1] Method: C = consolidated; E = accounted for using the equity method; N = not included on the grounds of immateriality in accordance with § 59 *Abs. 3 BWG* (these companies being immaterial given the specific nature of the BKS Bank Group's banking operations).
[2] Equity includes a subordinated *Genussrecht* (profit participation note) in the amount of €3.63 million (31 December 2011: €3.63 million).

BKS Bank's portfolio of equity investments consisted largely of strategic equity investments in banks (syndicate partners). Its investments in subsidiaries consisted primarily of investments in its strategic partners in the banking and other financial service sectors and banking-related ancillary service industries. The overview of equity investments presents the equity investments and investments in subsidiaries that are intended to give lasting support to BKS Bank's business operations. Those equity investments were largely carried at cost less any impairment charge. We did not record any gains or losses on the disposal of equity investment items during the 2012 financial year.

(45) EVENTS AFTER THE BALANCE SHEET DATE

No material, reportable events took place between the end of the financial year and the preparation of the Annual Financial Statements and their certification by the Auditor

(46) ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2011	31/12/2012
Money held in trust pursuant to § 230 *a ABGB*	Securities	9,976	12,974
Arrangement deposit for stock exchange trading	Securities	1,596	1,598
Deposit for EUREX trading	Securities	50	50
Xetra collateral	Securities	1,215	1,222
Euroclear pledge	Securities	14,992	15,068
SEPA collateral for the Slovenia branch	Securities	529	542
Repos margin	Securities	1,002	1,002
Financial futures margin	Banks	—	13,620
Collateral for *OeNB* loans	Securities	160,076	—
Collateral for *OeNB* loans	Loans	110,007	272,813
Collateral for funds provided to *Banka Slovenije*	Loans	33,000	33,000
Cover pool of mortgage loans for covered bonds	Loans	—	77,884
Cover pool of public sector assets for covered bonds	Loans	—	16,741

Disclosures required by Austrian law

(47) EMPLOYEES, BOARDS AND OFFICERS

	BKS Bank: 2011	BKS Bank: 2012
Average number of salaried (white collar) staff:		
Salaried staff working for BKS Bank	793	821
Salaried staff working within BKS for entities considered to be related parties	31	40
Salaried staff working at entities considered to be related parties	99	100
Salaried staff of the BKS Bank Group	923	961
– Salaried staff working for entities considered to be related parties from the Group's standpoint	22	31
Average number of non-salaried (blue-collar) staff	47	48
Emoluments of the Management Board, €k	1,166	1,450
Retirement pensions paid to former members of the Management Board and their surviving dependants, €k	739	749
Expenditure on termination and post-employment benefits for members of the Management Board, €k	604	571
Expenditure on termination and post-employment benefits for former members of the Management Board and their surviving dependants, €k	262	1,013
Expenditure on termination and post-employment benefits for employees (including former employees and their surviving dependants), €k	2,319	8,671
Remuneration paid to members of the Supervisory Board, €k	107	124
Advances and loans granted to members of the Management Board and Supervisory Board and close relatives, €k	218	478
Deposit balances of members of the Management Board and Supervisory Board and close relatives, €k	5,256	2,123

All advances and loans granted to and deposits accepted from members of the Management Board and Supervisory Board were granted or accepted on normal commercial terms and conditions.

(48) FEES PAID TO THE BANK AUDITOR

€k	BKS Bank: 2011	BKS Bank: 2012
Fees for statutory audits	360	353
Other fees	218	112
Total fees	**578**	**465**

Risk Report

We refer you to the risk notes in the Management Report for an introduction and concerning definitions and processes and other risks that are not connected with financial instruments.

(49) MANAGEMENT OF OVERALL BANK RISK

The goal of BKS Bank's risk policy is to detect operational and other banking risks early and to actively manage and limit them using effective risk management techniques. BKS Bank's risk strategy centres on the conservative handling of risks.

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis, by recognizing impairment charges on an item-by-item basis applying class-specific criteria, by carrying out a collective assessment of impairment of the portfolio in accordance with IAS 39 para. 64 and by making suitable provisions in accordance with IAS 37.

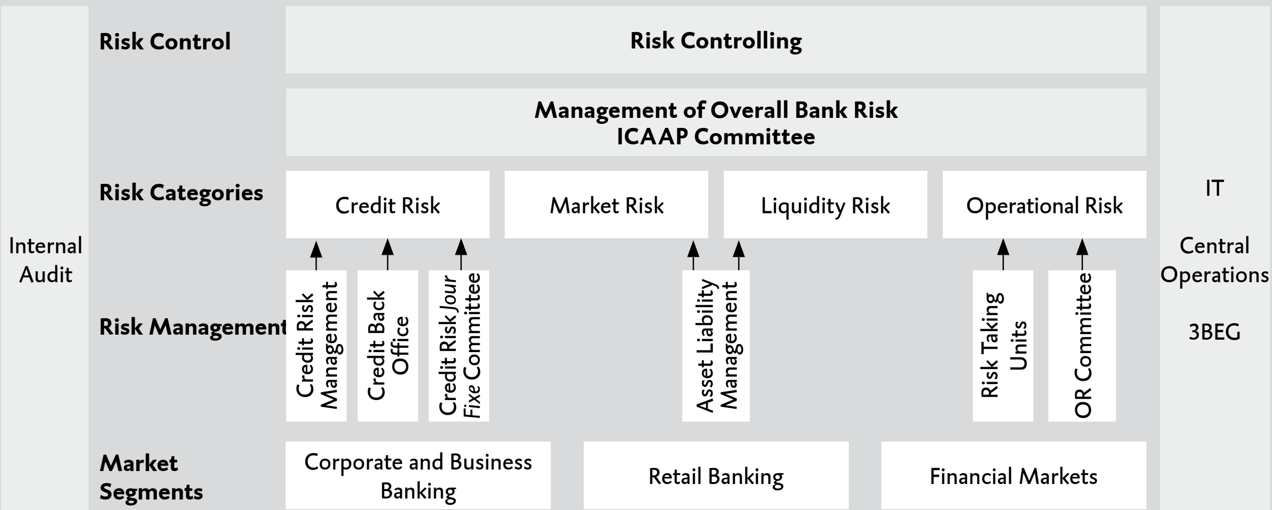
Pursuant to the capital adequacy requirements under Basel II and *§ 39a BWG*, banks are required to introduced suitable procedures and systems to ensure that they have sufficient capital in the light of all their material risks. These procedures, which are derived from the ICAAP (Internal Capital Adequacy Assessment) process, are applied by BKS Bank in the course of its risk bearing capacity calculations.

The ICAAP Committee is the superordinate authority responsible for identifying risk covering potential, assessing the current risk situation and measures that need to be derived from it, setting overall bank limits and setting limits for individual risks. In addition, it continuously refines and adapts risk definitions and measurement methods. The ICAAP Committee is made up of the Management Board as whole, the Head of ZCR and the Head of the Risk Controlling Group. The Management Board has overall responsibility. Calculations and reporting are the responsibility of Risk Controlling.

Structure and organization

Risk Controlling—a central, autonomous controlling unit—supports the Management Board in the performance of these tasks. This department reports regularly to the Management Board and those responsible for risk management and assesses the bank's current risk position in the light of the corresponding risk limits and its risk bearing capacity. As an independent watchdog, Risk Controlling ensures that all risks lie within the limits set by the Management Board. It is responsible for the development and implementation of risk measurement methods, the ongoing development and refinement

THE ORGANIZATIONAL FOUNDATIONS OF RISK MANAGEMENT



of management instruments, independent and neutral risk profile reporting and the development and maintenance of BKS Bank's basic regulatory framework.

As an independent internal watchdog, BKS Bank's Internal Audit Division audits all operational and business processes, the appropriateness and effectiveness of the measures taken by Risk Management and Risk Controlling and the bank's internal control systems.

Since restructuring in 2012, credit risk management as a whole and risk analysis in the corporate and business banking segment have been taking place centrally within the Credit Management Department. This amalgamation of areas of responsibility makes even more efficient risk management possible.

An organizational firewall is in place between Credit Risk Management and the Sales Division. This means that the primary responsibility for risk lies with the unit servicing the customer, whereas the secondary responsibility for risk — and, as a result, the second vote — lies with the Credit Management Department. Monitoring and reporting at the portfolio level are carried out separately by Risk Controlling. This unit's credit risk reports include regular reports on the credit portfolio, making possible the continuous monitoring of risk and the formulation of management measures by Management. Collateral management is also the responsibility of the central Credit Management Department. We hold credit risk *jours fixes* to develop essential credit risk management measures and actions based on the credit risk reports.

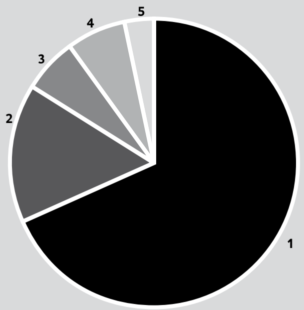
The Asset Liability Management Committee analyzes and manages the structure of the balance sheet from a market and liquidity risk point of view and, at the same time, performs essential funding planning tasks and specifies hedging measures.

Management of overall bank risk

The focus of the Internal Capital Adequacy Assessment Process (ICAAP) is on developing an overall bank risk management process and an internal capital management process. All of a bank's material risks must be taken into account as set out in the second pillar of Basel II. All identified and measured unexpected risks are aggregated to obtain a figure for overall bank risk. The overall bank risk is the equivalent of our economic capital, which is the smallest amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from liquidity risk and credit risk are factored into prices as risk premiums (standard risk costs, liquidity premiums) and are therefore incorporated into the terms and conditions imposed on customers.

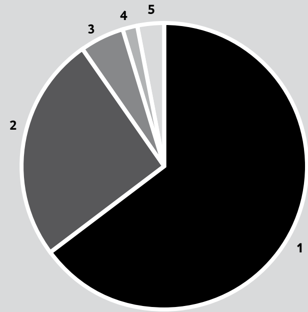
This aggregated total potential loss is compared with the assets available to cover such a potential loss. The purpose of the comparison is to ascertain whether the bank is in a position to detect and cover any possible unexpected losses without suffering serious detriment to its business operations and without outside help. The risk covering capacity of the resources available to cover risks is allocated to individual loss-making items and ranked according to commercial usability. Rankings also take account of disposability, liquidity and publicity effects. In the course of 2012, we worked on the further

BREAKDOWN OF OVERALL BANK RISK BY RISK CLASS (GOING CONCERN BASIS)



2011

		2011	2012
1	Credit risk	68.5%	64.8%
2	Market risk	15.4%	25.7%
3	Operational risk	6.2%	5.0%
4	Liquidity risk	6.8%	1.6%
5	Other risks	3.1%	2.9%



2012

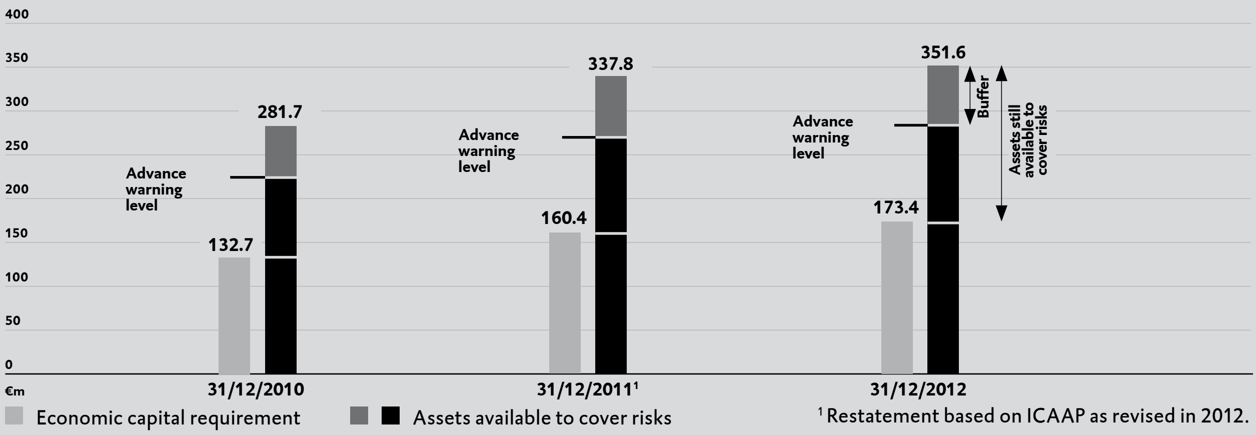
development and refinement of the bank's material risk definitions. For instance, the definition of overall bank risk was extended to include, among other things, FX induced credit risk and country risk. We calculated FX-induced credit risk in the foreign currency loan portfolio for *BKS Bank AG*'s main currencies (SFr, ¥, US$) and for euro loans to customers in non-euro countries to cover the potential risk of exchange rate changes. Country or transfer risk is the risk that a counterparty might fail to meet obligations because, for instance, the central bank of that counterparty's domicile fails to supply the necessary currency. In addition, further steps and measures were taken to permit detailed monitoring and management of the individual categories of risk and the assets available to cover risks and account was taken of the growing challenges faced by Overall Bank Risk Management.

Our economic capital requirement calculated on a going concern basis was €173.4 million at 31 December 2012, compared with €160.4 million at the end of 2011. The corresponding assets available to cover risks came to €351.6 million, compared with €337.8 million at the end of 2011.

As in the previous year, the economic capital requirement for credit risk was BKS Bank's biggest risk capital requirement. Credit risk in the corporate and business banking segment accounted for about 82.5 per cent of our total credit risk (2011: 87.8 per cent). Credit risk was responsible for about 64.8 per cent of our total potential loss (2011: 68.5 per cent). Market risk was responsible for 25.7 per cent (2011: 15.4 per cent). The economic capital requirement for market risk calculated on a going concern basis was €44.5 million at 31 December 2012 (31 December 2011: €24.7 million).

At BKS Bank, unexpected losses within a period of observation of one year are predicted on a going concern basis with a confidence interval of 95 per cent and on a liquidation basis with a confidence interval of 99.9 per cent. A capital adequacy target set on a liquidation basis is a regulatory requirement. It serves to protect creditors. The capital adequacy target set on a going concern basis must balance risk potential and risk bearing capacity in such a way that the bank is in a position to absorb an adverse burden while continuing to conduct business in an orderly manner. To ensure that this is the case and to enable us to initiate countermeasures early, the risk bearing capacity monitoring process includes an advance warning threshold of 80 per cent of the assets available to cover risks on a going concern basis (2011: 80 per cent).

CALCULATION OF RISK BEARING CAPACITY ON A GOING CONCERN BASIS



¹ Restatement based on ICAAP as revised in 2012.

Stress test scenarios

Macroeconomic stress scenarios are used to assess risk bearing capacity assuming adverse changes in the economic environment. The underlying scenarios describe an unusual but plausible deterioration in the national economy. BKS Bank's risk bearing capacity sufficed in every stress scenario in 2012. Continuing to develop BKS Bank's risk bearing capacity and stress testing concept remains a focus of our attention.

One of the next steps will be the further refinement of our stress scenarios for changes in the national economy.

The purpose of stress test scenarios is to improve estimates of the effects of possible extreme market movements and to make it possible to initiate risk mitigating action early. Our stress scenarios differentiate between *mild recession, worst case* and *greatest relevance* scenarios. The greatest relevance scenario is reviewed once a quarter. The other scenarios are reviewed once a year.

The results of risk bearing capacity calculations together with analysis of the development of risks and covering asset balances, the utilization of the risk limits and stress test evaluations are reported to the Management Board and risk management units on a quarterly basis. Economic capital is an important instrument of Group risk management: The overall bank limit derived from the calculation of economic capital is distributed between the individual risk categories and business segments during the annual budgeting process.

Credit Risk

Credit risk is the BKS Bank Group's biggest risk category by far, as is evident when one looks at its internal and regulatory capital requirements. Adequate collateralization and adherence to minimum rating class requirements are fundamental objectives when acquiring risk positions. The customer loan portfolio of €5.6 billion accounted for roughly 81.5 per cent of the Group's total credit risk.

CREDIT RISK IN ICAAP

€m	Receivables at 31/12/2011[1]	Receivables at 31/12/2012[1]
Customer loan portfolio	5,342	5,592
Contingent liabilities	—	55
Receivables from other banks	209	217
Securities and funds	945	903
Equity interests	119	119
Total	**6,615**	**6,886**

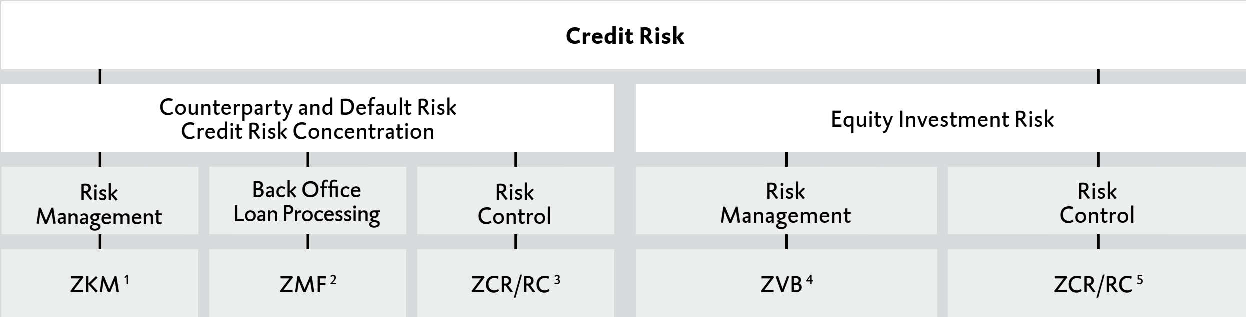
[1] Figures for the *Kreditinstitutsgruppe* (credit institution group) in accordance with UGB.

Total credit risk inclusive of contingent liability risk increased by €271 million to €6.9 billion during the year under review (31 December 2011: €6.6 billion).

CREDIT RISK

Carrying Amount/Maximum Default Risk per Category €m	Financial Instruments that are Neither in Default nor Impaired 2011	2012	Financial Instruments in Default 2011	2012	Impaired Financial instruments 2011	2012
Customer loan portfolio	4,807	5,047	535	545	305	291
Contingent liabilities	—	46	—	9	—	0
Receivables from other banks	209	217	—	0	—	0
Securities and funds	933	903	12	0	14	0
Equity interests	119	119	—	0	—	0
Total	**6,068**	**6,332**	**547**	**554**	**319**	**291**

The early detection and systematic processing of risk events are among the focuses of our credit management activities. A risk exists if a customer's credit standing is such that one can no longer rule out a loan loss in the near future. The goal is to rapidly identify any need for rehabilitation and take action to have the loan rehabilitated efficiently, promptly and in a structured manner. An account manager's responsibility ends completely as soon as an exposure is found to be at risk. From a certain exposure amount, the customer is then serviced by our central Credit Risk Management Department. Looking at our credit risk in terms of non-performing loans, such loans accounted for 5.3 per cent of the total portfolio at year-end 2012 (31 December 2011: 5.8 per cent). This figure was calculated on the basis of the non-performing loans contained in the classes 5a – 5c of BKS Bank's rating system net of recognized impairment allowances and collateral. The divisor was gross customer loan receivables inclusive of corporate bonds, guarantees and unused credit lines.



[1] Central Credit Management Department.
[2] Central Back Office Department.
[3] Central Controlling/Risk Controlling Department.
[4] Central Office of the Management Board.
[5] Central Controlling/Risk Controlling Department.

Objective evidence of impairment of a receivable is deemed to exist in the BKS Bank Group if the Basel II default criteria are met. This means that a material obligation of the debtor to the bank is more than 90 days overdue.

Impairment losses were calculated using a standardized process during which impairment charges were recognized on impaired receivables in respect of the collateral shortfalls. Charges were recognized on an item-by-item basis on loans to corporate and business banking customers and to other banks if the customer in question had a collateral shortfall of €70,000 or more. In the case of retail and personal banking customers, charges were recognized on an item-by-item basis if the customer in question had a collateral shortfall of €35,000 or more. Impairment losses on significant receivables were calculated using the *discounted cash flow method*. Impairments of loans to customers who were at risk of default but whose collateral shortfalls were smaller were assessed applying class-specific criteria. Impairments were assessed collectively for exposures where there was a country risk. In addition, BKS Bank recognized an allowance for incurred but not yet reported losses on the basis of portfolio analysis in accordance with the International Financial Reporting Standards (IAS 39 para. 64). The impairment process is regulated by a Group-wide guideline.

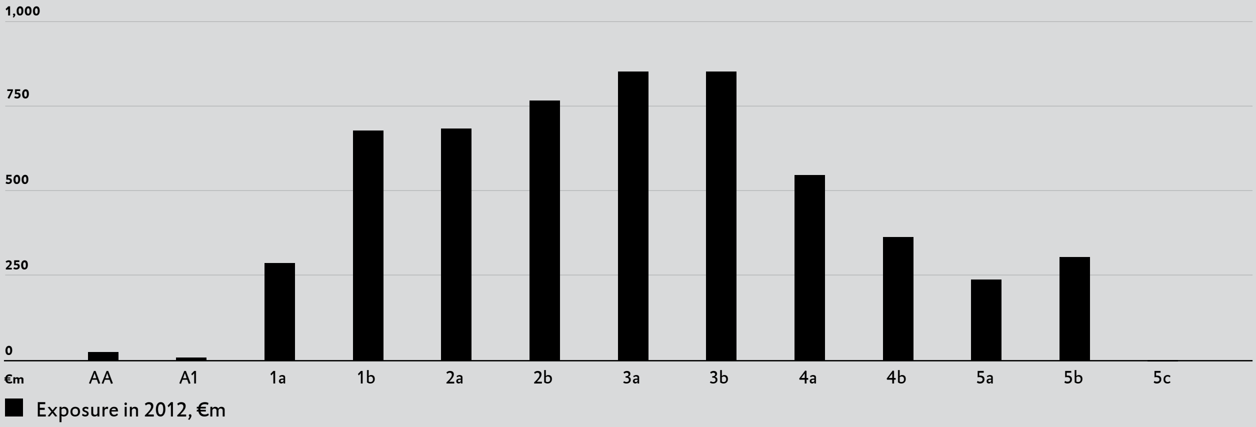
Breakdown into rating classes
In 2012, BKS Bank introduced a new 13-class internal rating system (a 10-class internal rating system having been used until the end of 2011). Rating classes AA to 2b accounted for approximately 44 per cent of the loan portfolio. In these rating classes, the capacity of borrowers to repay their borrowings is good to very good. When acquiring new business, the focus was on customers in these rating classes.

RATING CLASSES

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

According to insolvency statistics published by *Creditreform*, the number of private bankruptcies fell slightly, by 2.9 per cent, during the financial year. However, business bankruptcies increased by 1.2 per cent. BKS Bank takes its responsibilities as a lender seriously and tries to protect its customers from overindebtedness by meticulously checking their credit standing.

RECEIVABLES FROM CUSTOMERS, BY RATING CLASS[1]



[1] Includes off-balance sheet items.
The rating system having been changed in January 2012, this chart does not include any prior year figures.

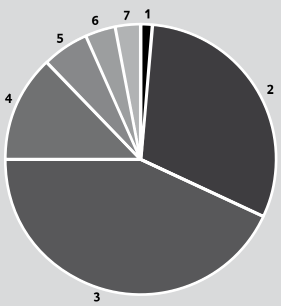
LOAN QUALITY, BY CLASS OF RECEIVABLE

Receivables by BKS Bank Rating €m	AA–A1	1a–1b	2a–2b	3a–3b	4a–4b
Customer loan portfolio	26	962	1,445	1,685	929
Contingent liabilities	0	4	7	23	12
Receivables from other banks	69	121	20	5	2
Securities	746	46	42	0	69
Equity investments	75	41	1	1	1
Total	**916**	**1,174**	**1,515**	**1,714**	**1,013**

Financial markets

The chart below presents a breakdown of receivables from other banks based on BKS Bank's 13-class rating system. At year-end, 96.9 per cent of BKS Bank's exposures to the banking sector were in the best to good rating classes (AA to 2b). Our network of correspondents consists of some 350 banks with which we have money dealings.

RECEIVABLES FROM OTHER BANKS, BY BKS BANK RATING



1	Rating class AA	**1.4%**
2	Rating class A1	**30.6%**
3	Rating class 1a	**43.2%**
4	Rating class 1b	**12.7%**
5	Rating class 2a	**5.6%**
6	Rating class 2b	**3.5%**
7	Other	**3.0%**

Credit risk concentrations

Concentrations of credit risk are managed at the portfolio level. We aim for a balanced distribution of credit exposures by size. Limits have also been set for individual geographical regions, these being expressed in percentages of BKS Bank's assets. Developments in individual sectors and industries are closely monitored and regularly evaluated, and a clear strategic focus is defined accordingly. Concentrations of credit risk are managed by way of appropriate limits.

BREAKDOWN OF CREDIT EXPOSURES AT 31 DECEMBER

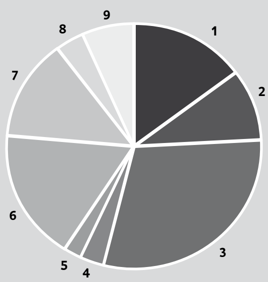
Credit Exposure by Size Class	Exposure in 2011,€	Distribution, %	Exposure in 2012, €	Distribution, %
< €400k	1,380	25.8%	1,438	25.7%
€400k to €1.2m	527	9.9%	514	9.2%
€1.2m to €10.0m	1,615	30.2%	1,786	31.9%
> €10.0m	1,820	34.1%	1,854	33.2%
Total	**5,342**	**100%**	**5,592**	**100%**

As in prior years, the main sector and industry focuses in the loan portfolio in 2012 were *Gewerbe* businesses, the industrial sector and private households. These accounted for roughly 62.5 % per cent of our total risk exposure (31 December 2011: 65.7 per cent). They were followed, in percentage terms, by retailing and wholesaling and the professions. This gave BKS Bank's loan portfolio a broad and well diversified mix of regions, sectors and industries. The corporate and business banking segment accounted for over three quarters of the loan portfolio under management.

The large loan risks incurred by BKS Bank are secured by a cover pool at *Alpenländische Garantie-GmbH* (ALGAR). ALGAR is a *3 Banken Group* joint venture set up to provide security for the large loans granted by the three banks in that group. It does so by issuing guarantees and assuming liability in other ways for loans, advances and leases.

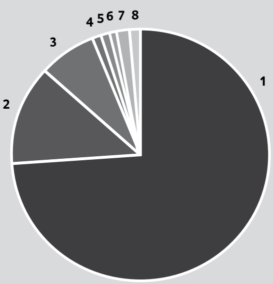
Since 2009, BKS Bank has been pursuing a strategy of steadily and permanently reducing portfolios of foreign currency and repayment vehicle loans. We talk to our customers regularly and, should the occasion arise, jointly develop tailor-made risk mitigation solutions. During 2012, the portfolio of Swiss franc foreign currency loans was cut by SFr199.9 million (2011: SFr103.5 million) to SFr713.1 million (31 December 2011: SFr913.0 million). The proportion of foreign currency loans in relation to total loans in the portfolio had fallen to 13.0 per cent by year-end (31 December 2011: 17.3 per cent).

LENDING, BY SECTOR AND INDUSTRY



		2011
1 Industry	**15.1%**	15.5%
2 Retailing, wholesaling	**9.7%**	9.6%
3 *Gewerbe* businesses	**29.9%**	32.6%
4 Transport	**3.0%**	2.2%
5 Public sector	**2.1%**	1.4%
6 Private individuals	**17.5%**	17.6%
7 Professions	**13.3%**	7.2%
8 Tourism	**3.7%**	3.8%
9 **Other**	**5.7%**	10.1%

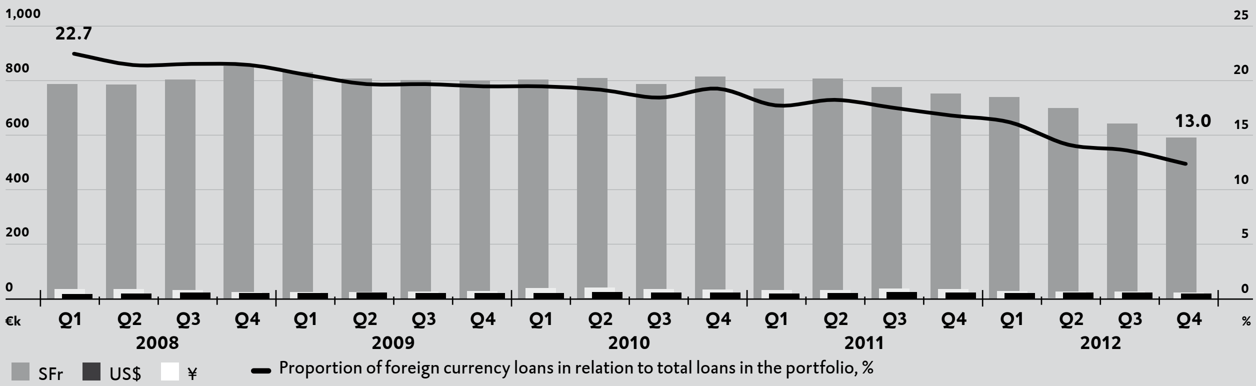
LENDING, BY COUNTRY



		2011
1 Austria	**72.7%**	74.0%
2 Slovenia	**13.4%**	13.0%
3 Croatia	**7.0%**	7.2%
4 Hungary	**0.9%**	0.9%
5 Slovakia	**1.6%**	1.1%
6 Italy	**0.4%**	0.3%
7 Germany	**2.2%**	2.1%
8 Other	**1.8%**	1.4%

Foreign Currencies

FOREIGN CURRENCY LOAN PORTFOLIO



Collateral management

Collateral management is another central pillar of risk management. Comprehensive written valuation guidance specifies which forms of collateral are permissible and how their value is to be assessed. Standardized collateral valuation policies have been defined. Generally, they are based on the average proceeds from liquidation achieved in the past. Real estate collateral is valued and regularly audited by experts from Credit Management who are not involved in the lending process.

THE PRINCIPAL CATEGORIES OF COLLATERAL

€k	Value at 31/12/2011	Value at 31/12/2012
Financial collateral	320.9	260.2
Personal collateral	179.3	224.8
Real estate collateral	1,701.5	1,762.6
Other collateral	851.6	891.3

COLLATERAL FOR IMPAIRED AND PAST DUE ACCOUNTS, BY REGION

€k

Region	Receivables[1]	Past due[2]	Item-by-item Impairment Charges	Collateral for Past Due Receivables
Austria	4,140,813	343,132	122,778	156,563
Switzerland	27,124	799	488	310
Germany	112,085	2,812	132	1,251
Croatia	416,441	62,587	16,341	34,185
Hungary	43,743	18,704	7,760	8,946
Liechtenstein	2,489	0	0	0
Romania	6,582	573	204	0
Slovenia	708,287	101,351	15,075	62,039
Slovakia	84,097	13,348	5,191	4,985
Other	50,812	1,268	97	883
Total	**5,592,473**	**544,574**	**168,066**	**269,162**

In addition, there is a provision for contingent liabilities in the amount of €350 thousand and a provision for exposures to other banks of €35 thousand.

[1] These receivables comprise receivables from customers, guarantee exposures, computed exposures associated with forwards and futures and computed exposures associated with option contracts.

[2] Past due according to BKS Bank's definition of default.

IMPAIRMENT ALLOWANCE BALANCE

€k	At 1/1/2012	Added	Reversed	Exchange Differences	Used	At 31/12/2012
Item-by-item impairment allowances	129,888	37,685	(7,079)	(22)	(20,392)	140,080
Country risks	752	1,602	—	—	—	2,354
Collective assessments of impairment of the portfolio in accordance with IAS 39	22,606	3,061	—	—	—	25,667
Impairment provisions for credit exposures		—	—	—	—	—
Total	**153,246**	**42,348**	**(7,079)**	**(22)**	**(20,392)**	**168,101**

ANALYSIS OF IMPAIRED RECEIVABLES (ITEM-BY-ITEM IMPAIRMENT ALLOWANCES)

	2011			2012		
€k	Reduction of Carrying Amount	Item-by-item Impairment Allowances	Collateral (Fair Value)	Reduction of Carrying Amount	Item-by-item Impairment Allowances	Collateral (Fair Value)
Corporate and business banking customers	362,464	116,795	150,901	332,751	127,093	158,298
Retail banking customers	27,622	13,093	11,027	27,129	12,987	11,794
Total	**390,086**	**129,888**	**161,928**	**359,880**	**140,080**	**170,092**

Risks charges for irrecoverable receivables are made by way of disclosed impairment allowances. The impairment charge on loans and advances is the sum of impairment allowances and reversals thereof, subsequent recoveries of written-off receivables, direct write-offs, commission payments to ALGAR — which is the *3 Banken Group* joint venture whose object is to guarantee large loans — and collective assessments of impairments of portfolios carried out in accordance with IAS 39 para. 64. In the year under review, direct write-offs came to €0.7 million (2011: €0.9 million) and impairment allowances came to €42.3 million (2011: €39.6 million). Impairment reversals came to €7.1 million (2011: €6.9 million). Impairment charges at our foreign subsidiaries were very low in comparison, coming to €2.9 million (2011: €2.3 million). During the period under review, the impairment allowance balance was increased by 9.7 per cent (2011: 2.7 per cent) to €168.1 million (31 December 2011: €153.2 million). This was mainly accounted for by the corporate and business loan portfolio. Impairment allowances in the corporate and business banking segment came to €36.1 million in 2012 (2011: €32.8 million), indicating that economic conditions were still difficult.

Our risk:earnings ratio in the 2012 financial year was 27.0 per cent (2011: 22.1 per cent). Whereas this ratio of risk charges to net interest income improved from 3.6 per cent to 2.4 per cent in the retail banking segment, it worsened from 34.6 per cent to 40.9 per cent in the corporate and business banking segment, where volumes are much higher.

Country risk

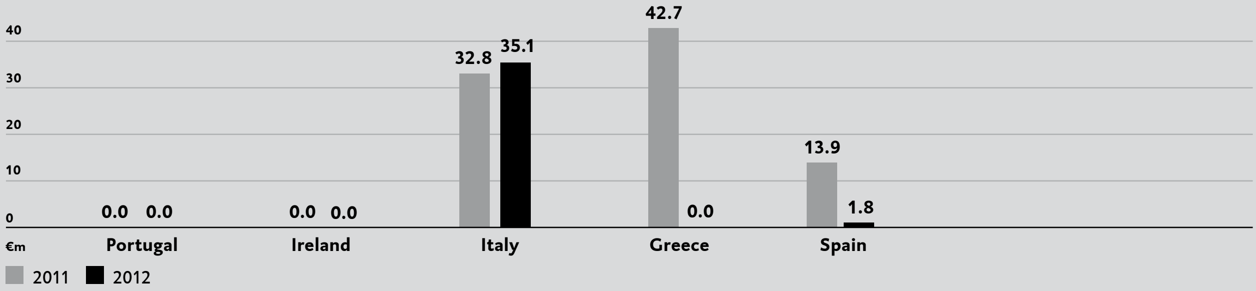
The portfolio of loans outstanding in foreign markets grew by 8.5 per cent during the year under review. Our business activities abroad focused on business centres in the regions in which we operate near the Austrian border. Slovenia, Croatia and Slovakia accounted for roughly 83 per cent (2011: 82 per cent) of our portfolio of loans to foreign borrowers. For 2012, we set a Group-wide ceiling of 28.0 per cent on the proportion of the total loan exposure that can be accounted for by lending to non-banks abroad (2011: 28 per cent). In the year under review, this proportion was 27 per cent (2011: 26 per cent). For risk management and control purposes, we apply different rating standards to domestic and foreign loans. This means that our lending guidelines abroad are more stringent and are tailored to the peculiarities of the country concerned.

We increased the balance of impairment allowances for country risk by €1.6 million during the 2012 financial year, resulting in a year-end balance of €2.4 million. Loans to non-banks accounted for 51.2 per cent of our Italian portfolio (2011: 45.3 per cent), and 68 per cent of those loans (2011: 90.5 per cent) were secured by tangible collateral. In addition, the Italian portfolio contained covered bonds worth €15.0 million (31 December 2011: €15.0 million).

Equity investment risk

The carrying amount of BKS Bank's equity investments calculated in accordance with IFRSs was €387.9 million at 31 December 2012, compared with €358.2 million at the end of 2011. This total included our interests in *Oberbank* and BTV, which had a carrying amount of €336.1 million (31 December 2011: €305.0 million). BKS Bank's other noteworthy interests included its stake in *OeKB* (3.06 per cent) and *Alpenländische Garantie-GmbH* (25.0 per cent).

OVERVIEW OF PIIGS EXPOSURES



To facilitate the management and control of individual financial risks, we prepare overall budgets for the subsidiaries in the Group on an annual basis as well as budgeting for and preparing adapted projections of the profits that are to be expected from equity investments. Monthly reports on operating subsidiaries are an integral part of our Group reporting system.

EQUITY INVESTMENTS: EXCHANGE TRADED, NON EXCHANGE TRADED, OTHER

Consolidated Net Profit, €m[1]	31/12/2011	31/12/2012
Listed banks	305.0	336.1
Unlisted banks	7.1	7.8
Other, unlisted equity investments	46.2	44.0

[1] Figures obtained from IFRS-compliant financial statements.

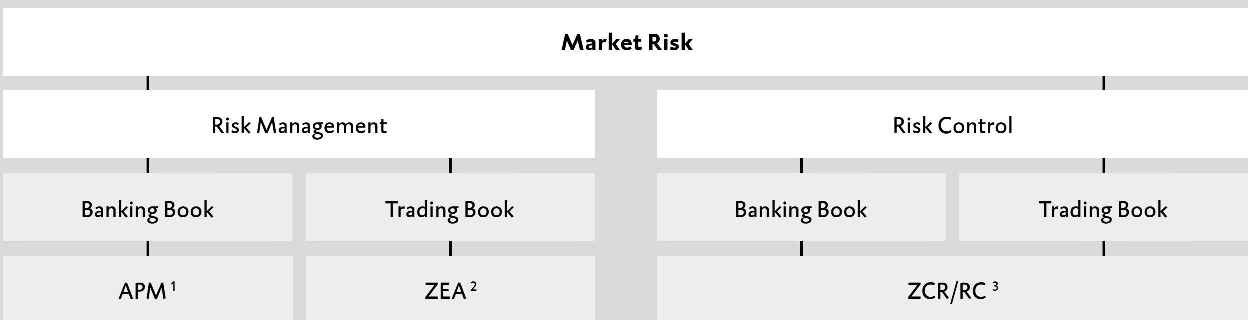
Market risk

BKS Bank defines market risk as the risk of losses caused by movements in market prices (e.g. equity and bond prices, foreign exchange rates, interest rates). Market risk affects both trading book and banking book positions. Because volumes are small, market risks in the trading book are of minor importance. We rate the market risks in our banking book as moderate.

We manage market risks and set appropriate market risk limits using a combination of different ways of measuring risk (value at risk or VaR, modified duration, volumes and economic capital stress testing). The Management Board sets the overall limit once a year during the budgeting process. In doing so, it takes account of the Group's risk bearing capacity. Risk Controlling measures the VaR due to interest rate risk, currency risk and equity price risk. The total VaR is compared with the limit that has been set and making allowance for diversification effects. The result is reported to the ALM Committee.

Value at risk due to market risk

The value-at-risk approach, based on historical simulation, is used to obtain a quantitative figure for market risks in the trading and banking books. For the purposes of risk aggregation during the risk bearing capacity analysis process, we calculate VaR on a going concern basis with a confidence interval of 95 per cent and on a liquidation basis with a confidence interval of 99.9 per cent.



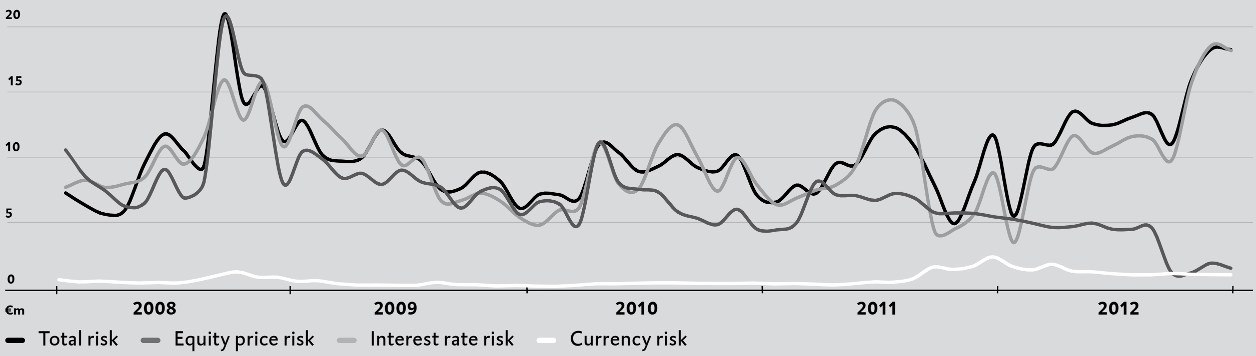
[1] Asset Liability Management.
[2] Central Proprietary Trading and International Operations Department.
[3] Central Controlling/Risk Controlling Department.

Value at risk gauges the maximum possible loss within a certain confidence interval (probability). The calculation of the VAR due to market risk was based on historical market values over the past 500 days and with holding periods of 180 days on a going concern basis and 250 days on a liquidation basis. Historical simulation was used to calculate the VaR based on market values. It was therefore assumed that market values in the coming 180 or 250 days would not fall below the most recent historical market values. One could thus conclude that losses within the next 180 or 250 days would not, with a probability of 95 per cent or 99.9 per cent, respectively, be larger than the calculated VaR. The table and chart below present values at risk at with a confidence interval of 95 per cent and a holding period of 180 days.

VALUE AT RISK

	Interest Rate Risk		FX Risk		Equity Risk		Total	
€m	2011	2012	2011	2012	2011	2012	2011	2012
In Q1	19.4	23.6	0.5	2.7	20.1	11.2	17.9	27.7
Minimum	11.5	23.6	0.5	1.3	10.8	2.5	17.9	27.7
Maximum	34.3	43.4	3.9	2.7	20.1	11.2	30.1	44.3
Average	20.9	30.5	2.4	2.0	15.3	7.0	23.1	33.6
In Q4	18.6	43.4	3.6	2.2	10.8	3.4	24.7	44.3

MARKET RISK (VALUE AT RISK BASIS)



Equity price risk

When it comes to BKS Bank's own investments in shares, we mainly invest in German and Austrian stock market securities. The proportion of shares and equity funds in the treasury portfolio is not allowed to exceed 10 per cent. At year-end 2012, they accounted for 4.02 per cent of the portfolio (31 December 2011: 4.8 per cent).

Our equity price risk at 31 December 2012 based on a holding period of 180 days and with a confidence interval of 95 per cent was €3.4 million (31 December 2011: €10.8 million). Equity price risk is quantified monthly as a value at risk and reported to the ALM Committee.

Interest rate risk

Differing maturities and interest rate adjustment periods lead to interest rate risks on the assets and liabilities side of the account. Generally, they can be hedged against by a combination of on-balance sheet and off-balance sheet transactions. At the end of the year, the ratio of BKS Bank's interest rate risk to its eligible own funds assuming a shift in rates of 200 basis points as reportable to *OeNB* came to 0.91 per cent, as against 3.98 per cent at the end of the previous year.

The internal management of interest rate risk was carried out by the ALM Committee on the basis of maturity gap analysis and present value analysis of all interest-rate-risk-bearing items inclusive of all future interest payments in the light of the term structure of interest rates on the analysis date. In addition, modified duration was calculated as a measure of sensitivity.

Interest rate statistics: change caused by a shift in interest rates of 200 basis points

REGULATORY INTEREST RATE RISK (PER CENT OF OWN FUNDS)

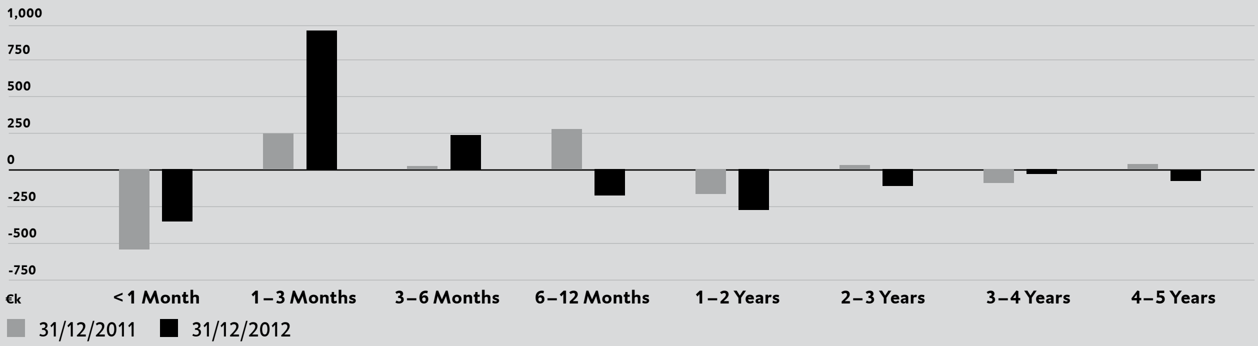
Currency (000's)	31/12/2011	31/12/2012
€	3.88%	0.81%
SFr	0.05%	0.01%
US$	0.03%	0.07%
¥	0.01%	0.01%
£	0.00%	0.00%
C$	0.00%	0.00%
Other	0.01%	0.00%
Total	**3.98%**	**0.91%**

CHANGES IN PRESENT VALUE CAUSED BY A SHIFT IN INTEREST RATES OF 200 BASIS POINTS

Currency (000's)	31/12/2011	31/12/2012
€	20,787	4,358
SFr	291	80
US$	160	353
¥	38	45
£	2	17
C$	4	0
Other	34	5
Total	**21,316**	**4,858**

BKS Bank's interest rate risk at the end of 2012 was very low. This was mainly to avoid pressures to recognize impairment losses on securities in the portfolio of current assets and the available-for-sale portfolio should interest rates rise. The highest interest rate gaps are to be found in bands of up to one year.

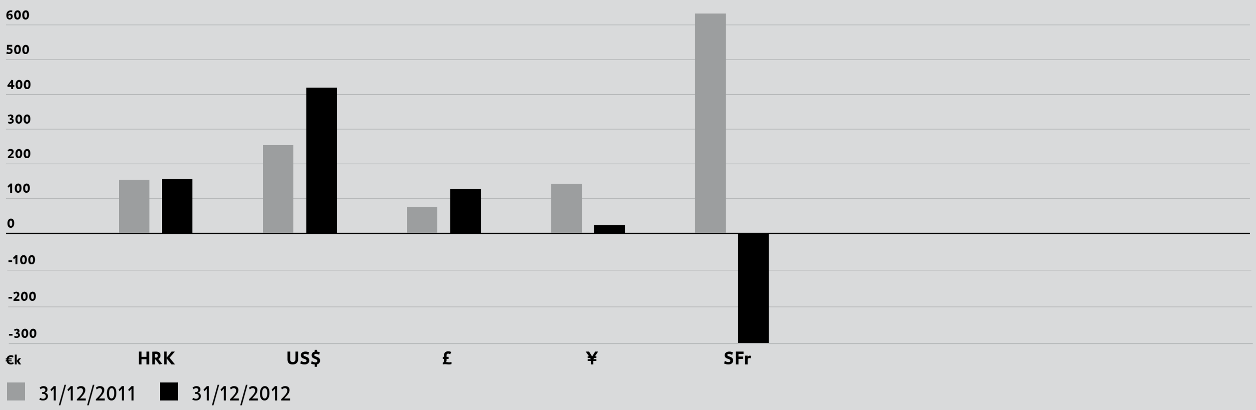
INTEREST RATE GAPS (EURO VERSUS FOREIGN CURRENCIES)



Currency risk

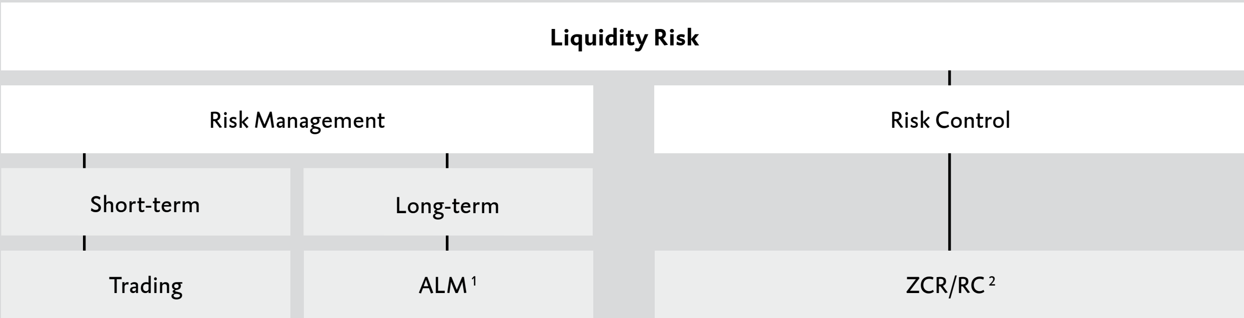
Currency risk results from acquiring foreign currency asset and liability positions that are not closed by a counter position or derivative transaction. An adverse movement in exchange rates can cause losses as a result. Open currency positions are analyzed daily to assess foreign currency risks and these are compared with the corresponding limits.

CURRENCY RISK (OPEN CURRENCY POSITIONS)



Liquidity risk

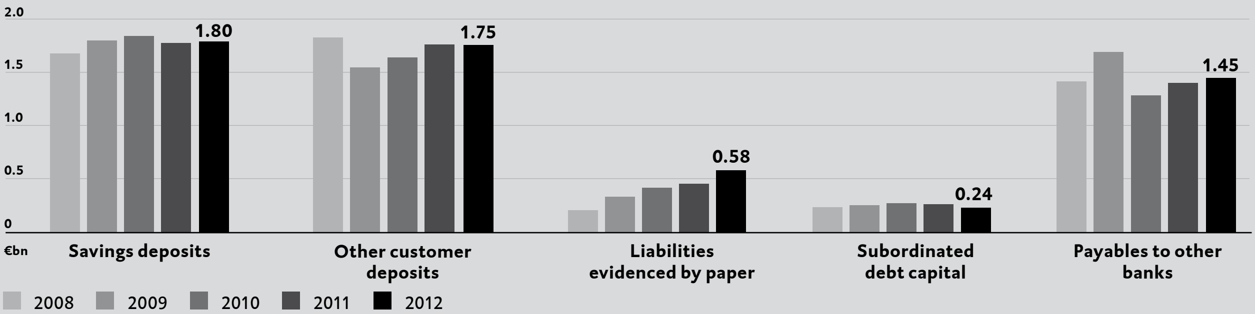
The purposes of liquidity risk management are to ensure that the bank is liquid at all times — so that the funds it needs to meet its own obligations are always available — and to optimize funding structures.



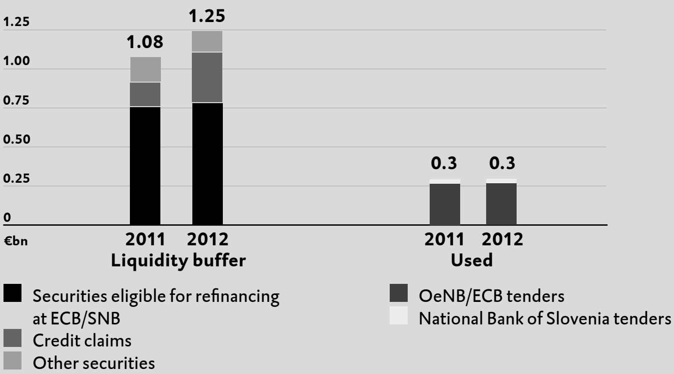
[1] Asset Liability Management.
[2] Central Controlling/Risk Controlling Department.

The management of liquidity risk is governed by clearly defined principles that are to be found in our Risk Strategy and in our liquidity management manuals. On an intraday basis, liquidity management takes the form of managing daily deposits and withdrawals. This process is based on information about the transactions that affect liquidity. It includes information about payment instructions, advance information about upcoming customer transactions provided by Sales, information about proceeds from the bank's own issuances provided by the Securities Back Office Department and information about securities and money market transactions provided by the Treasury Division. Any liquidity peaks are evened out through *OeNB*. The management of medium-term and longer-term liquidity and the liquidity buffer is carried out by Asset Liability Management. At the end of the year, BKS Bank's available liquidity buffer came to €945.2 million. It was made up of fixed interest securities and receivables from customers eligible for refinancing at *OeNB* (credit claims). It gives us a comfortable cushion of liquidity should there be further disturbances in the money and capital markets. The Risk Controlling Unit is responsible for liquidity risk control, which involves checking adherence to the principles, procedures and limits that have been laid down.

FUNDING STRUCTURES



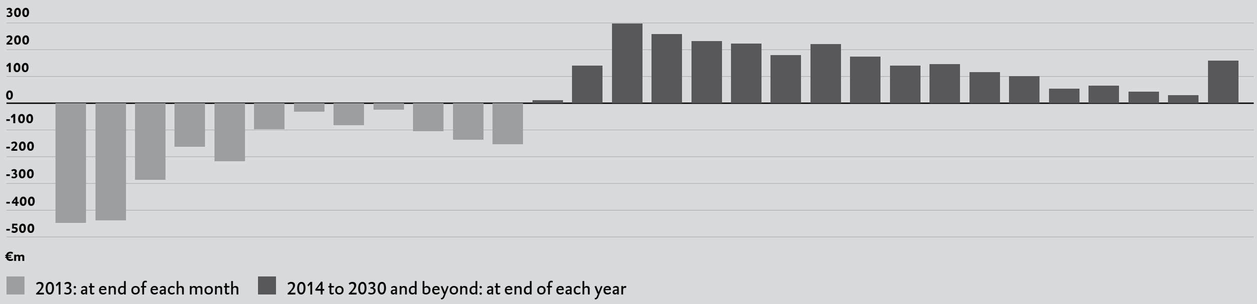
COMPOSITION OF THE LIQUIDITY BUFFER



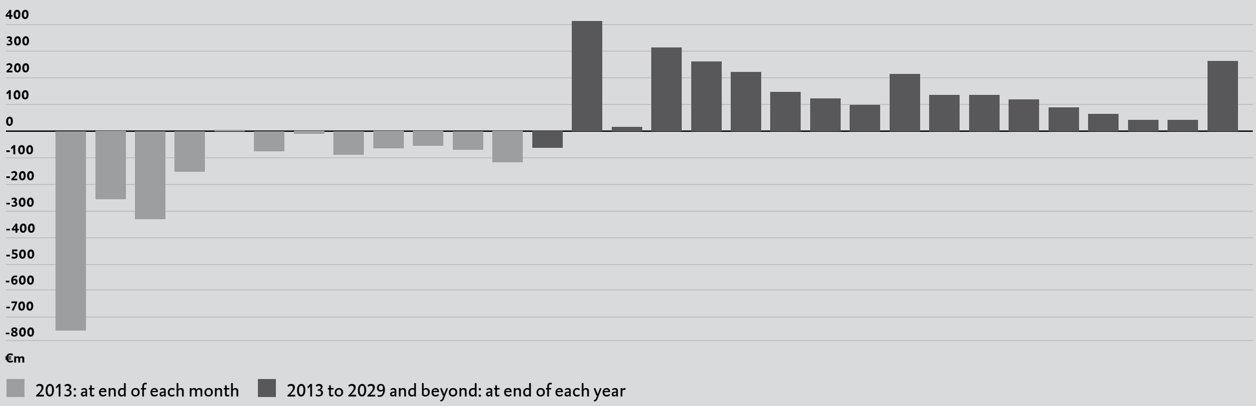
Reporting tales place on a daily, weekly, monthly and quarterly basis. If it is discovered that anything unusual has occurred or if certain early warning scores or limits have been reached, an appropriate *ad hoc* report will be prepared for the Management Board.

All the assets and liabilities of relevance to our funding profile are presented by maturity band in our daily liquidity projections. These projections present the funding surplus or shortfall in each maturity band, making it possible to manage our liquidity positions very close to real time. In addition, we have developed an extensive system of limits (limits for each maturity band, time-to-wall limits) that gives the Management Board and the responsible risk management units a quick overview of the current situation. Analyses are supplemented by reliable stress tests. Depending on the nature of the source of stress, we distinguish between general macroeconomic scenarios, banking-specific scenarios and combined stress scenarios.

LIQUIDITY PROJECTIONS (ALL CURRENCIES AT 31/12/2012)



LIQUIDITY PROJECTIONS (ALL CURRENCIES AT 31/12/2011)



Operational risk

BKS Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people or systems or from external events. Such risks can increase costs or reduce profits. Risks are assigned to one of the following categories: fraud, employment practice, business practice, property damage, system failures, processing errors. A total of 156 loss events were reported at BKS Bank in the year 2012 (2011: 235 loss events). The average loss amount after reimbursements was €2,848. Fraud accounted for 39.9 per cent of the total loss, followed by processing errors, which accounted for 39.7 per cent.

As in prior years, we used the standardized approach to calculate our regulatory capital requirement for operational risk in 2012. In the year under review, it was €27.1 million (31 December 2011: €26.8 million). This compared with actual operational risk losses (allowing for reimbursed losses) of €0.43 million (2011: €0.91 million). The total loss in 2012 therefore translates into 1.6 per cent of our regulatory capital requirement for operational risk.

(50) BALANCE OF DERIVATIVES OUTSTANDING (BANKING BOOK)

	Nominal, by Term to Maturity		
€k	Less Than 1 Year	1–5 Years	Over 5 Years
Interest rate contracts	**182,170**	**691,124**	**128,340**
OTC products	182,170	691,124	128,340
Interest rate swaps	182,170	691,124	128,340
– Calls	91,085	345,562	64,170
– Puts	91,085	345,562	64,170
Interest rate options	—	—	—
– Calls	—	—	—
– Puts	—	—	—
Currency contracts	**907,708**	**951,000**	**—**
OTC products	907,708	951,000	—
Currency forwards	410,779	—	—
– Calls	204,555	—	—
– Puts	206,224	—	—
Capital market swaps	237,110	951,000	—
– Calls	114,479	471,258	—
– Puts	122,631	479,742	—
Money market swaps (currency swaps)	259,819	—	—
– Calls	130,097	—	—
– Puts	129,722	—	—
Securities contracts	**—**	**—**	**—**
Exchange traded products	—	—	—
Equity options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

BALANCE OF DERIVATIVES OUTSTANDING (TRADING BOOK)

	Nominal, by Term to Maturity		
€k	Less Than 1 Year	1–5 Years	Over 5 Years
Interest rate contracts	**—**	**19,602**	**6,404**
OTC products	—	19,602	6,404
Interest rate swaps	—	2,520	—
– Calls	—	1,260	—
– Puts	—	1,260	—
Interest rate options	—	17,082	6,404
– Calls	—	8,541	3,202
– Puts	—	8,541	3,202
Currency contracts	**—**	**—**	**—**
OTC products	—	—	—
Currency options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

FINANCIAL INSTRUMENTS (TRADING BOOK)

€k	31/12/2011	31/12/2012
Interest-bearing securities	—	—
Treasury shares	10,291	8,140

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2011	31/12/2012	31/12/2011	31/12/2012	31/12/2011	31/12/2012
957,404	**1,001,634**	**6,512**	**6,627**	**22,793**	**24,402**
957,404	1,001,634	6,512	6,627	22,793	24,402
957,404	1,001,634	6,512	6,627	22,793	24,402
478,702	500,817	—	—	18,307	23,608
478,702	500,817	6,512	6,627	4,486	794
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
2,345,811	**1,858,708**	**7,613**	**1,747**	**45,386**	**19,657**
2,345,811	1,858,708	7,613	1,747	45,386	19,657
360,877	410,779	2,343	87	749	1,795
181,327	204,555	2,343	64	537	1,786
179,550	206,224	—	23	212	9
1,462,781	1,188,110	1,040	750	39,437	17,387
712,382	585,737	—	—	—	—
750,399	602,373	1,040	750	39,437	17,387
522,153	259,819	4,230	910	5,200	475
260,539	130,097	3,637	146	6	436
261,614	129,722	593	764	5,194	39
—	**—**	**—**	**—**	**—**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2011	31/12/2012	31/12/2011	31/12/2012	31/12/2011	31/12/2012
61,090	**26,006**	**161**	**80**	**150**	**79**
61,090	26,006	161	80	150	79
33,000	2,520	88	62	77	61
16,500	1,260	28	—	59	61
16,500	1,260	60	62	18	—
28,090	23,486	73	18	73	18
14,045	11,743	73	18	—	—
14,045	11,743	—	—	73	18
—	**—**	**—**	**—**	**—**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Positions (securities and derivatives) entered into by our Money, Foreign Exchange and Securities Trading Unit to make market gains or take advantage of interest rate fluctuations were assigned to the trading book. Market value is the amount that could be obtained from the sale of a financial instrument in an active market or would need to be paid to purchase it. If a market price was available, this was taken to be a position's fair value. Where market prices were unavailable, we used internal valuation models, including in particular present value techniques.

The Company's Boards and Officers

The Management Board
Heimo Penker (CEO)
Herta Stockbauer
Dieter Krassnitzer
Wolfgang Mandl (from 1 January 2013)

Representatives of the Equity Holders on the Supervisory Board
Hermann Bell, Chairman
Peter Gaugg, 1st Vice-Chairman
Franz Gasselsberger, 2nd Vice-Chairman
Christina Fromme-Knoch (from 15 May 2012)
Reinhard Iro
Waldemar Jud
Dietrich Karner
Michael Kastner
Wolf Klammerth (to 15 May 2012)
Josef Korak
Karl Samstag

Staff Representatives on the Supervisory Board
Helmuth Binder
Josef Hebein (to 30 November 2012)
Maximilian Medwed (from 1 December 2012)
Herta Pobaschnig
Manfred Suntinger
Hanspeter Traar

Klagenfurt am Wörthersee
14 March 2013

The Management Board

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Closing Remarks by the Management Board

Management Board's Statement Pursuant to § 82 Absatz 4 BörseG

The Management Board of *BKS Bank AG* declares that these Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as applicable and as adopted by the EU as well as interpretations thereof by the International Financial Reporting Interpretations Committee (IFRIC) and that they present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group. Furthermore, it declares that the Management Report presents the BKS Bank Group's business activities as well as the results of its operations and its position in such a way as to present fairly, in all material respects, its assets, liabilities, financial position and profit or loss as well as presenting the material risks and uncertainties to which it is exposed.

Klagenfurt am Wörthersee
14 March 2013

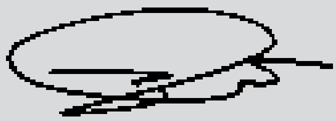
The Management Board

Heimo Penker (CEO)

Member of the Management Board responsible for the Corporate and Business Banking Segment, Human Resources, Public Relations, Marketing and Investor Relations; regional responsibility for the Carinthia and Styria regions and for Italy.

Herta Stockbauer (Member)

Member of the Management Board responsible for International Operations, Accounts and Sales Controlling, Treasury/Proprietary Trading, Capital Markets Law, Construction, Subsidiaries and Equity Investments. Within Austria, she is responsible for the Burgenland and Vienna regions; 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, the Credit Back Office, Business Organization and IT and 3BEG.

Wolfgang Mandl

Member of the Management Board jointly responsible with Heimo Penker for Retail Banking and Private Banking.

Profit Appropriation Proposal

BKS Bank AG's 2012 financial year closed with net profit of €8,352,383.68. We propose that a dividend of €0.25 per share be distributed out of the reported net profit as at 31 December 2012. The resulting distribution on 32,760,000 shares would be €8,190,000. Subject to § *65 Abs. 5 Aktiengesetz*, we propose that the remainder be carried forward to a new account.

Klagenfurt am Wörthersee
14 March 2013

The Management Board

Heimo Penker (CEO)

Herta Stockbauer (Member)

Dieter Krassnitzer (Member)

Wolfgang Mandl (Member)

Auditor's Report

(Independent Auditor's Report)
[Translation Provided by the Auditor]

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

BKS Bank AG,
Klagenfurt am Wörthersee,

as well as the accounts for the financial year from 1 January to 31 December 2012. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2012, the consolidated comprehensive income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year ended 31 December 2012 as well as the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements and the Accounts

Management is responsible for the group's accounts and the preparation of consolidated financial statements that present fairly, in all material respects, the group's assets, liabilities, financial position and profit or loss in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that present fairly, in all material respects, the group's assets, liabilities, financial position and profit or loss so that they are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of the Nature and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and other disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that present fairly, in all material respects, the entity's assets, liabilities, financial position and profit or loss in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of material accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit, in our opinion, the consolidated financial statements comply with the laws and regulations and present fairly, in all material respects, the assets, liabilities and financial position of the group as of 31 December 2012 and its profit and cash flows for the financial year from 1 January 2012 to 31 December 2012 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Group Management Report

Laws and regulations require us to perform audit procedures to ascertain whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group. The Auditor's Report must also state whether the group management report is consistent with the consolidated financial statements and whether the disclosures pursuant to *§ 243a UGB* are appropriate.

In our opinion, the group management report is consistent with the consolidated financial statements. The disclosures pursuant to *§ 243a UGB* are appropriate.

Klagenfurt
14 March 2013

KPMG Austria AG
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Bernhard Gruber
Wirtschaftsprüfer

Wilhelm Kovsca
Wirtschaftsprüfer

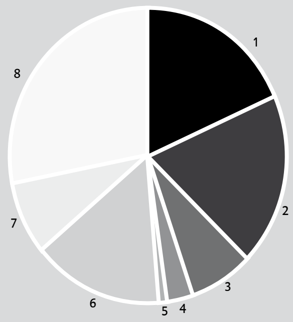
(Austrian Chartered Accountants)

Additional Notes

Overview of the 3 Banken Group

SHAREHOLDER STRUCTURE OF BKS BANK AG

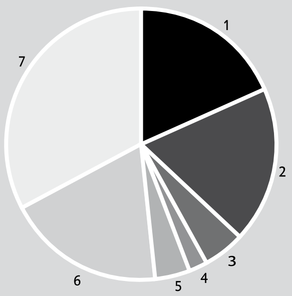
	By Voting Interest	By Capital Share
1 *Oberbank AG*	19.54%	18.52%
2 *Bank für Tirol und Vorarlberg AG*	19.65%	18.90%
3 *Generali 3 Banken Holding AG*	7.88%	7.44%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	3.11%	2.98%
5 *BKS-Belegschaftsbeteiligung-sprivatstiftung*	0.33%	0.66%
6 Free float	12.39%	15.47%
7 *UniCredit Bank Austria AG*	7.46%	8.02%
8 *CABO Beteiligungs GmbH*	29.64%	28.01%



Share capital, €:	65,520,000
Ordinary no-par shares in issue:	30,960,000
No-par preference shares in issue:	1,800,000

SHAREHOLDER STRUCTURE OF OBERBANK AG

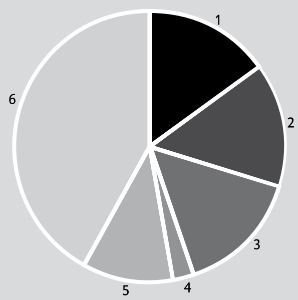
	By Voting Interest	By Capital Share
1 *BKS Bank AG*	18.51%	16.95%
2 *Bank für Tirol und Vorarlberg AG*	18.51%	17.00%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	5.13%	4.62%
4 *Generali 3 Banken Holding AG*	2.21%	1.98%
5 Staff shares	3.73%	3.46%
6 Free float	19.37%	26.84%
7 *CABO Beteiligungs GmbH*	32.54%	29.15%



Share capital, €:	86,349,375
Ordinary no-par shares in issue:	25,783,125
No-par preference shares in issue:	3,000,000

SHAREHOLDER STRUCTURE OF BANK FÜR TIROL UND VORARLBERG AG

	By Voting Interest	By Capital Share
1 *BKS Bank AG*	15.10%	13.59%
2 *Oberbank AG*	14.69%	13.22%
3 *Generali 3 Banken Holding AG*	15.12%	13.60%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	2.53%	2.28%
5 Free float	10.86%	19.78%
6 *CABO Beteiligungs GmbH*	41.70%	37.53%



Share capital, €:	50,000,000
Ordinary no-par shares in issue:	22,500,000
No-par preference shares in issue:	2,500,000

The shareholders shown on a white background in the tables have entered into syndicate agreements.

	BKS Bank Group		Oberbank Group		BTV Group	
	2011	2012	2011	2012	2011	2012
INCOME ACCOUNT, €m						
Net interest income	150.4	143.1	341.7	312.9	164.6	164.4
Impairment charge on loans and advances	(33.2)	(38.6)	(97.6)	(59.8)	(37.1)	(39.9)
Net fee and commission income	42.3	44.4	104.5	108.2	42.5	42.3
General administrative expenses	(91.5)	(104.8)	(229.5)	(239.0)	(94.8)	(95.9)
Profit for the year before tax	38.6	45.9	126.0	132.4	64.7	67.1
Consolidated net profit for the year after tax	36.4	40.1	111.2	108.6	53.5	58.5
BALANCE SHEET DATA , €m						
Assets	6,456.0	6,654.4	17,483.7	17,675.1	9,214.7	9,496.4
Receivables from customers after impairment charge	4,647.8	4,794.2	10,563.9	10,877.0	6,030.1	6,193.0
Primary deposit balances	4,251.4	4,362.4	11,315.2	11,607.9	6,627.8	6,582.9
Of which savings deposit balances	1,786.3	1,797.9	3,407.6	3,380.1	1,260.0	1,272.9
Of which liabilities evidenced by paper, including subordinated debt capital	715.7	816.6	2,250.9	2,208.8	1,255.0	1,187.8
Equity	644.9	688.3	1,222.0	1,342.4	767.4	845.5
Customer assets under management	10,025.5	10,674.9	19,764.5	21,558.0	10,970.6	11,368.8
Of which in customers’ securities accounts	5,774.1	6,312.5	8,449.3	9,950.1	4,342.8	4,785.9
OWN FUNDS WITHIN THE MEANING OF BWG, €m						
Risk-weighted assets	4,415.2	4,457.9	10,146.2	10,481.9	6,077.9	5,665.0
Own funds	681.9	709.5	1,673.1	1,762.5	934.7	995.4
Of which Tier 1	599.5	630.7	1,167.6	1,245.4	776.1	806.0
Surplus own funds before operational risk	328.7	352.9	860.2	922.8	448.0	542.1
Surplus own funds after operational risk	301.9	325.8	798.0	857.9	423.8	516.0
Tier 1 ratio, %	12.46	13.10	11.51	11.88	12.77	13.17
Own funds ratio, %	15.44	15.92	16.49	16.81	15.38	17.57
PERFORMANCE, %						
Return on equity before tax	6.07	6.88	10.56	10.32	8.96	8.32
Return on equity after tax	5.73	6.02	9.32	8.47	7.42	7.25
Cost:income ratio	46.71	56.27	50.64	55.44	45.65	45.70
Risk:earnings ratio (credit risk in % of net interest income)	22.07	26.98	28.58	19.11	22.54	24.30
RESOURCES						
Average number of staff	901	930	2,054	2,020	790	779
Branches and other business units	55	55	150	147	40	37

Key Dates in the Enterprise's 90-year History

1922	A. v. Ehrfeld enters into a limited partnership with *Bayerische Hypotheken- und Wechselbank* called *Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co.* The bank is headquartered in Klagenfurt. In the same year, it acquires branches in Villach and Spittal/Drau. A branch in Wolfsberg follows a year later. Initially, the bank only services corporate and business banking customers.
1928	Years of effort to transform the limited partnership into a stock corporation lead to the formation of *Bank für Kärnten.* Despite the global crisis, the bank develops well.
1939	The company's name is changed from *Bank für Kärnten* to *Bank für Kärnten Aktiengesellschaft.*
1964	The bank adds small personal loans to its range as a new line of business. In the years that follow, it gradually enlarges its branch network.
1965	The bank enters into its successful alliance with the *Wüstenrot* building and loan association, enabling it to offer its customers building and loan products and services.
1970	The first joint *Drei-Banken* (3 Banks) bond is issued in partnership with *Bank für Oberösterreich und Salzburg* and *Bank für Tirol und Vorarlberg.*
1983	The bank's first expansion across the Carinthian border takes place when it opens a branch in Graz. The company's name is changed to *Bank für Kärnten und Steiermark Aktiengesellschaft* (BKS: Bank for Carinthia and Styria). *Alpenländische Garantie-GmbH*, Linz (ALGAR) is set up. This company safeguards BKS Bank, *Oberbank* and *Bank für Tirol und Vorarlberg* against any losses on big loans.
1986	IPO of BKS ordinary stock, which is traded in the *Amtlicher Handel* (official trading) segment on the Vienna Stock Exchange. At the time, BKS Bank's share capital is divided into 3.0 million shares with a nominal value of öS100 each.
1988	BKS enters the leasing market and sets up insurer *Drei-Banken Versicherungs-AG* together with its sister banks.
1990	The first branch in Vienna opens.
1991	BKS and its sister banks set up IT subsidiary *Drei-Banken-EDV GmbH.* Construction of the new BKS Head Office building at *St. Veiter Ring* 43 begins to plans by architect Wilhelm Holzbauer.
1993	The new offices on *St. Veiter Ring* open on schedule in November 1993.

1998	Conclusion of a sales and cooperation agreement with the *Generali Vienna Group* covering the insurance and investment fund sectors. After the departure of the bank's long-standing shareholder *Bayerische Hypotheken- und Wechselbank AG*, the *Generali Group* acquires roughly 7.44 per cent of BKS Bank's ordinary shares. International expansion begins with the opening of a representative office in Zagreb, Croatia, and the acquisition of a leasing company in Ljubljana, Slovenia, now called *BKS-leasing d.o.o.*
2000	BKS and its sister banks make their first high-publicity joint appearance as the *3 Banken Group*.
2002	Formation of *BKS-leasing Croatia d.o.o.*, which is headquartered in Zagreb.
2003	Acquisition of a majority stake in *Die Burgenländische Anlage & Kredit Bank AG* (*Die BAnK*).
2004	The first banking branch in Slovenia opens, in Ljubljana, and a representative office is set up in Italy.
2005	*Die BAnK* is merged into BKS. A representative office is set up in Hungary. Reflecting its expansion in recent years, the company is renamed as *BKS Bank AG*.
2006	BKS acquires *Kvarner banka d.d.*, Rijeka, to enter the Croatian banking market.
2007	A representative office is set up in Bratislava and BKS acquires *KOFIS Leasing* in Slovakia. *KOFIS Leasing* is assimilated into the BKS Bank Group and renamed as *BKS-Leasing a.s.*
2008	*Kvarner banka d.d.* is renamed as *BKS Bank d.d.* and a branch is opened in Zagreb.
2009	A six-for-one split of BKS Bank's shares takes place and the company's issued share capital increases to €65.52 million in the course of a raising of share capital. Since then, BKS Bank's share capital has been represented by 30,960,000 ordinary no-par shares and 1,800,000 no-par preference shares.
2010	Securities operations begin in Slovenia, enabling BKS to provide all the products and services that are normally available from a so-called *universal bank*. Retail customer operations in Croatia are expanded.
2011	BKS enters the banking market in Slovakia, opening a branch in Bratislava.
2012	Retail customer operations are launched in Slovakia. The Vienna Regional Head Office is relocated from *Lugeck* to *Renngasse*. *BKS Bank AG* celebrates its 90th anniversary.

Glossary

Available-for-sale (AFS) financial assets are the financial assets of an entity that are designated as available for sale.

The **banking book** contains all on-balance sheet and off-balance sheet items recognized on a bank's balance sheet that are not assigned to the trading book.

The core aims of **Basel II** are to align capital requirements for banks more closely than before with financial risks and to take account of newer developments in the financial markets and banks' risk management activities. The new Accord, in force since the beginning of 2008, provides for a series of simple and advanced approaches to measuring credit and operational risks so as to determine a bank's own funds requirement.

Basel III is the name of additional recommendations made by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS) to supplement the capital adequacy framework adopted in 2004 (see also Basel II). It recommends that capital adequacy requirements for banks be increased and that capital conservation buffers be introduced. This should make banks more stable in a crisis. In addition, a regulatory framework for liquidity management is to be introduced. The new recommendations were adopted by the Basel Committee on Banking Supervision in 2010 and are to enter into force on 1 January 2014.

The **basis of assessment within the meaning of BWG** is the sum of the assets, off-balance-sheet items and special off-balance sheet items in the banking book, weighted for business and counterparty risk, as determined in accordance with Austrian bank regulators' rules.

The **Capital Requirements Directive (CRD) 4**
To date, the 'legislative technique' for European bank supervision law has primarily been contained in two directives (2006/48/EC and 2006/49/EC). Directives are not (as a rule) directly applicable and must be transposed into national law by the Member States in order to become valid. According to the Commission's draft, the two existing directives will be replaced by one normal directive (the Capital Requirements Directive) and a (directly applicable) regulation (the Capital Requirements Regulation). The directive will require transposition into national law in accordance with the Member States' draft by not later than 31 December 2013.

The **Capital Requirements Regulation (CRR) 1**
In future, CRR I will contain all the mandatory standards regulating capital adequacy requirements and capital definitions; regarding liquidity in the form of leverage ratios, liquidity coverage ratios (LCRs) and net stable funding ratios (NSFRs); and the disclosure regulations.

Consolidated entities are material, controlled entities whose assets, equity, liabilities, income and expenses net of consolidation items are accounted for in their entirety in consolidated financial statements.

Corporate social responsibility (CSR) is a concept whereby enterprises combine social justice and environmental concerns with commercial goals and do so systematically, traceably, transparently and voluntarily.

The **cost:income ratio** measures a bank's operating expenses against its operating income, comparing its general administrative expenses with its operating income in a particular year. Operating income is made up of net interest income, net fee and commission income, net trading income and other operating profit or loss. This indicator states the percentage of operating profit used up by general administrative expenses, providing information about an entity's cost management and cost efficiency. The lower the ratio, the more economically a company is operating.

Deleveraging—At the moment, the world economy is being affected by three forms of deleveraging: the decline in private debt (e.g. an increase in the propensity to save and drop in consumer borrowing); the reduction of sovereign debt in countries with high budget deficits; and banks' cutting in their risk activities by pruning their balance sheets.

Derivatives are financial instruments whose own value changes in response to changes in the market prices or expected prices of other financial instruments. They can therefore be used to hedge against falls in value and to speculate on gains in the value of the hedged item. Options, futures and swaps are the most common types of derivative.

The **discounted cash flow method** (DCF) is a method of valuing an enterprise or assets that stems from Anglo-American practice. It is replacing the *comparable earning capacity method*. Unlike the earning capacity method, it is used to calculate the present value of future cash flows applying an interest rate to match the purpose of the valuation. This method is also used to calculate impairment allowances in accordance with IAS 39.

Eligible own funds within the meaning of BWG: According to solvency rules, banks must always hold eligible own funds at least in the amounts specified in *§ 22 Abs. 1 Z 1 bis 5 BWG*. Eligible own funds are the sum of Tier 1 capital and supplementary elements (Tier 2) less deductions. Tier 3 capital is only recognizable in respect of regulatory own funds cover for the trading book and open foreign currency positions.

Entities accounted for using the equity method are entities in which equity investments are held that are not controlled but upon whose financial and business policy decisions a significant influence can be exerted. On a consolidated balance sheet, they are recognized in the amount of the group's interest in their equity. In a consolidated income statement, the group's interest in their profit for the year is recognized according to the equity interest held.

Fair value is defined as the amount for which an asset could currently be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as market prices exist on exchanges or other functioning markets, these are taken to be the fair value of an asset or liability.

FATF (Financial Action Task Force on Money Laundering) is an international anti-money laundering body whose Secretariat is housed at the OECD in Paris. Its task is to analyze money laundering and terrorism financing methods and develop means of combating them.

The **going-concern principle** is the principle according to which financial statements and risk assessments view the entity as continuing in business unless actual or legislative circumstances dictate otherwise. Among other things, this is important when measuring assets.

Hedging is used to protect existing or future positions against the exposure to risks such as currency and interest rate risks. It involves taking a counter-position to another position so as to completely or partially offset risk.

Held-to-maturity (HTM) financial assets are acquired financial instruments with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Historical simulation is a statistical means of measuring value at risk using historical time series data.

A **hybrid bond** is a deeply subordinated, long-term corporate bond. Because a hybrid bond is an equity bond, and depending on its configuration, *BWG* may allow hybrid capital to be counted towards consolidated equity. In the event of insolvency, hybrid bonds will be serviced last of the subordinated obligations, so the interest premium is usually relatively high.

ICAAP (the Internal Capital Adequacy Assessment Process) is the name of the extensive process and associated strategy with which banks decide the amount, composition and distribution of their (internal) capital resources. The distribution of economic capital steers and limits all the material operational and other banking risks to which they are exposed.

IFRS earnings per share are consolidated net profit for the year divided by the average number of an entity's shares in issue.

Under Basel II, the **internal ratings based approach** (IRB approach) is a second possible approach to calculating the minimum capital adequacy requirement for credit risk alongside the *standardized approach*. The IRB approach allows banks to use their own, internal estimates of borrowers' credit standings. However, a bank's rating processes must meet stringent requirements, and the adequacy of those processes will be constantly reviewed by the bank regulators. Banks can choose whether to adopt the *foundation IRB approach* or the *advanced IRB approach*.

The **International Financial Reporting Standards** (IFRSs) are the individual financial reporting standards issued by the International Accounting Standards Board (IASB). The purpose of IFRS-compliant annual financial statements is to give investors information of relevance to their decisions regarding an entity's assets, liabilities, financial position and profit or loss as well as changes therein over time. In contrast, annual financial statements prepared in accordance with the Austrian *Unternehmensgesetzbuch* (*UGB*: enterprises code) are primarily geared to protecting creditors.

The **International Standards on Auditing** (ISAs) are the internationally accepted standards for carrying out annual audits of financial statements requiring preparation in accordance with the International Financial Reporting Standards (IFRSs) published in the annual manual of the International Federation of Accountants (IFAC).

The **International Swaps and Derivatives Association** (ISDA) is a trade organization of participants in the market for over-the-counter derivatives. It is headquartered in New York City.

ISIN stands for *International Securities Identification Number*. The ISIN serves the unique global identification of securities. It replaced Austria's national securities codes (*WKN*: *Wertpapierkennnummer*) in 2003. An ISIN is a 12-character alphanumerical code comprising a two-character international country ID (e.g. AT for Austria), a nine-character national code and a one-digit control key. The ISIN of the ordinary *BKS Bank AG* share is AT0000624705; that of the preference share is AT0000624739.

Liquidity coverage ratio (LCR): The Basel Committee has implemented the liquidity coverage ratio to ensure that a bank always has short-term resilience to acute stress lasting for 30 days. This is to be achieved by making sure that the net cash outflows under a stress scenario — know as a bank's liquidity shortfall — are covered by a liquidity buffer consisting of highly liquid quality assets.

Market capitalization is the stock market value of an entity on a particular date. It is calculated by multiplying the number of shares in issue by the current stock market price of one share.

Maturity transformation is the professional management of differing maturities and the associated differences between the rates of interest receivable and payable on assets and liabilities on a bank's balance sheet while taking account of current and expected market rate curves and maturity structures.

MiFID (the Markets in Financial Instruments Directive) lays down common rules for securities services within the European Economic Area. MiFID's primary goals are to increase market transparency and to promote competition between providers of financial services and, therefore, to improve investor protection.

Modified duration is a measure of the sensitivity of financial investments to interest rates. It provides a means of approximating future changes in market value.

Net stable funding ratio (NSFR): This structural ratio gauges the stability of funding over a one year horizon. It is part of the new liquidity requirements under Basel III. The NSFR is designed to ensure that the amount of longer-term (stable) funding employed is at least sufficient relative to the liquidity profiles of the assets funded. The aim is to reduce banks' reliance on the proper functioning and liquidity of the interbank market.

OTC (over-the-counter) derivatives are financial instruments traded directly between participants in the market and not on an exchange.

Own funds are a bank's own capital resources, as opposed to outside capital provided by investors. Depending on their quality, one differentiates between various own fund tiers. At least half of a bank's total eligible own funds must consist of Tier 1 capital. Additional own funds are known as Tier 2. The **own funds ratio** expresses the relationship between a company's own funds and its basis of assessment for the purposes of *BWG*.

PIIGS countries: PIIGS is the rather derogatory acronym used for five eurozone members — Portugal, Italy, Ireland, Greece and Spain — during the eurozone sovereign debt crisis.

The **price/earnings ratio** (P/E) is important to investors when assessing shares. To calculate it, the share's stock market price is divided by the per-share earnings recorded or expected in the relevant period. If the P/E ratio is relatively low, the stock is felt to be cheaply priced; if it is relatively high, it is seen as expensive. The bases for comparing P/E ratios are the interest rate, the P/E ratios of comparable entities, average P/E ratios in the past and, in the case of growth stocks, the expected rate of growth.

Primary deposit balances consist of the customer assets made available to a bank in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated debt capital.

The **return on assets** (ROA) is profit (net profit for the year after minority interests) expressed as a percentage of the average balance sheet assets employed.

The **return on equity** (ROE) before or after tax expresses the relationship between profit before or after tax and average equity. The higher this figure is, the more profit the entity has made in relation to its equity.

The **risk:earnings ratio** (RER) expresses the relationship between credit risk costs and net interest income. This percentage states what proportion of net interest income has been used to cover credit risk.

The term **solvency** expresses the relationship between the own funds requirement arising from a bank's (weighted) balance sheet assets and off-balance sheet items and its eligible own funds within the meaning of *BWG*. Solvency is regulated by *§ 22 BWG*.

Parties to a **swap** exchange financial obligations, fixed-interest obligations being exchanged for variable ones (interest rate swap) or sums in various currencies being exchanged (currency swap). Interest rate swaps make it possible to hedge against interest rate risks, resulting in a fixed interest rate that provides a firm basis for calculations. Currency swaps make it possible to hedge against currency risks by swapping amounts denominated in different currencies together with the associated interest payments.

Tier: See *Eligible own funds within the meaning of BWG*.

Tier 1 capital consists of paid-in capital, hybrid capital, reserves and goodwill arising from the elimination of investments in and equity of subsidiaries on consolidation in accordance with the provisions of *BWG* less intangible non-current assets and treasury shares. The **Tier 1 ratio** is Tier 1 capital expressed in per cent of the basis of assessment (banking book).

The **trading book** contains all positions held by a bank within the scope of its proprietary trading in financial instruments that are held for re-sale or have been acquired so as to exploit, on a short-term basis, existing or expected differences between buying and selling prices or fluctuations in prices or interest rates. Positions not included in the trading book are assigned to the banking book.

Value-at-risk analysis is one means of quantifying risk. It measures the loss that, within a specified holding period and with a specific probability, will not be exceeded.

Forward-looking Statements

This Annual Report 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 1 March 2013. If the assumptions upon which these forecasts were based prove wrong or if risk events transpire, actual results may, as touched upon in the Risk Report, differ from those that are currently expected. This Annual Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

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