Committed to Responsible Action

Interim Report to 30 June 2013

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements

This Interim Report as at and for the six months ended 30 June 2013 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. The forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 20 August 2013. If the assumptions upon which the forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

Disclaimer

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

OVERVIEW OF THE BKS BANK GROUP

Income account, €m	H1 2011	H1 2012	H1 2013
Net interest income	70.8	71.7	70.5
Impairment charge on loans and advances	(22.5)	(18.6)	(21.9)
Net fee and commission income	21.0	22.0	22.3
General administrative expenses	(46.6)	(49.5)	(50.2)
Profit for the period before tax	24.3	25.3	23.3
Profit for the period after tax	21.9	22.1	20.8

Balance sheet data, €m	31/12/2011	31/12/2012	30/6/2013
Assets	6,456.0	6,654.4	6,700.5
Receivables from customers after impairment charge	4,647.8	4,794.2	4,828.5
Primary deposit balances	4,251.4	4,362.4	4,463.7
– Of which savings deposit balances	1,786.3	1,797.9	1,790.9
– Of which liabilities evidenced by paper, including subordinated debt capital	715.7	816.5	808.0
Equity	644.9	688.3	701.8
Customer assets under management	10,025.5	10,674.9	10,877.4
– Of which in customers' securities accounts	5,774.1	6,312.5	6,413.7

Own funds within the meaning of BWG, €m	31/12/2011	31/12/2012	30/6/2013
Risk-weighted assets	4,415.2	4,457.9	4,437.8
Own funds	681.9	709.5	689.1
– Of which Tier 1 capital	599.5	630.7	630.0
Surplus own funds before operational risk	328.7	352.9	334.1
Surplus own funds after operational risk	301.9	325.8	307.1
Tier 1 ratio, %	12.46	13.10	13.14
Own funds ratio, %	15.44	15.92	15.53

Performance, %	2011	2012	H1 2013
Return on equity before tax [1]	6.1	7.6	6.5
Return on assets before tax	0.6	0.8	0.7
Cost:income ratio	46.7	53.8	53.9
Risk:earnings ratio (credit risk in per cent of net interest income)	22.1	27.0	31.1

Resources	2011	2012	H1 2013
Average number of staff	901	930	919
Branches	55	55	56

BKS Bank's shares	2011	2012	H1 2013
No. of ordinary no-par shares	30,960,000	30,960,000	30,960,000
No. of no-par preference shares	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	18.6/15.6	17.6/15.5	17.5/15.1
Low: ordinary/preference share, €	17.6/14.8	17.2/14.9	17.0/14.5
Close: ordinary/preference share, €	17.6/15.5	17.3/15.0	17.35/15.0
Market capitalization, €m	572.8	562.6	564.2

[1] Figures have been restated in accordance with IAS 19 (revised).

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

We are pleased to be able to report that the BKS Bank Group's performance in the period up to mid-year was good overall and lived up to our expectations. Building on its broad commercial and geographical presence in the market, BKS Bank made a profit for the period before tax of €20.8 million in the first six months of 2013. This means that we only just fell short of our profit in the first half of 2012. Once again, conditions were anything but simple for the banking industry during the period under review. Above all, historically low interest rates depressed interest earnings and the credit demand from our customers was distinctly weak, significantly denting consolidated net profit. Our balance sheet total grew slightly during the six months under review, increasing by 0.7 per cent to roughly €6.70 billion. On the assets side of the Balance Sheet, this was due to the moderate increase in receivables from customers, which grew by 0.9 per cent to more than €5.00 billion. On the equity and liabilities side of the account, it was caused by a solid increase in so-called *primary* deposit balances, which grew by 2.3 per cent to roughly €4.46 billion. On the assets side, receivables from other banks fell by €22.9 million to €128.4 million during the first half. This compared with payables to other banks of €1.39 billion at 30 June. Simultaneously, we achieved a respectable return on equity of 6.5 per cent in a competitive business environment. The charge for impairment losses was €3.3 million higher than in the same period of 2012 at €21.9 million. We would like to mention BKS Bank's good own funds position. At the end of the period under review, we had a Tier 1 ratio of 13.14 per cent and an own funds ratio of 15.53 per cent. Following the finalization of the Basel III regulatory regime for banks (the Capital Requirements Regulation or CRR and the Capital Requirements Directive or CRD 4) at the end of June, we can now focus intensively on implementing the regime's requirements in a targeted manner.

We expect the market environment to stay weak over the next few months of this year. In line with our responsible strategy for growth, we will therefore be concentrating on core operations where our profits can be sustained as well as on maintaining cost discipline and on reducing risks.

Group Management Report for the Six Months Ended 30 June 2013

The Economic Setting in which Banks are Operating

The global economic uptrend continued during the first half of 2013, but it was both sluggish and regionally fragmented. It mainly favoured the United States, Japan and the threshold countries in Southeastern Asia, South America and Africa. According to the Federal Reserve's Beige Book, the US economy grew moderately again despite the automatic budget cuts (sequester) after suffering a growth dent at the end of 2012. The Federal Reserve System's monetary policy actions remained expansionary, leading to recovery of the propensity to invest, private consumption and the home and property markets as well as inventory restocking. Real GDP in the United States was growing at an annualized rate of 1.8 per cent during the past two quarters. On the other hand, the eurozone economy failed to emerge from the shadow of the recession during the first half. Against the backdrop of serious cutbacks in public sector demand, the recession still exerted a particularly tight grip on peripheral countries like Spain, Italy, Portugal, Greece and Cyprus. The German economy was alone among the eurozone's four largest in growing, achieving seasonally adjusted growth of 0.1 per cent in the first quarter and about 0.5 per cent in the second. However, the recovery trends in Italy and France continued. Given the improvement in the leading indicators for the second half, the eurozone economy should soon move back to a modest growth path. The economic performances of countries in Eastern and Southeastern Europe differed. Economies contracted in some countries (including the Czech Republic, Slovenia and Croatia) and stagnated in Poland but continued to grow robustly in Latvia and Lithuania. Whereas the jobless rate in the United States was static at about 7.5 per cent during the last three months of the period under review, unemployment in the EU-27 countries and the eurozone rose to new record highs in June. It reached 12.1 per cent across the eurozone and came to 10.9 per cent in the EU-27. According to *Eurostat* estimates, 26.4 million people were unemployed in the EU-27 at the end of June and 19.3 million of them lived in the eurozone.

Export and investment growth in Austria were weak during the period under review as neither domestic nor foreign demand provided any appreciable stimulus. The economy was primarily braked by the weakness of the transportation and goods production sectors and public sector demand. Inflation remained slow, dropping to below the 2 per cent mark in June. The rise in real incomes was modest. This and private households' increasing efforts to save had a knock-on effect on consumer demand, whose growth is likely to flatten to 0.2 per cent over 2013 following growth of 0.4 per cent in 2012. According to WIFO research, Austria's real GDP will grow by just 0.4 per cent this year.

The low interest environment is likely to persist for the time being in the United States, Japan and the eurozone. At the end of July 2013, the Federal Reserve's Open Market Committee announced that it would leave its overnight interest rate target corridor at between 0 per cent and 0.25 per cent. The Fed chief Ben Bernanke signalled that the zero rate policy would continue for a long time but that the Fed wants to gradually cut back its purchases of American bonds. On this side of the Atlantic, the ECB Council decided during its meeting on 1 August 2013 to leave the ECB's minimum bid rate on main refinancing operations, deposit facility rate and peak refinancing rate unchanged at the rates that had applied since 8 May, these being 0.5 per cent, 0.0 per cent and 1.0 per cent, respectively. At the end of June, the 3-month and 12-month Euribor rates were 0.22 per cent and 0.53 per cent, respectively. Benchmark yields on long-term AAA rated government bonds stood at 1.73 per cent, as against 1.31 per cent at the beginning of the year. As for movements in exchange rates during the first half of 2013, the euro fell marginally versus the US dollar, dropping by 0.9 per cent to US$1.3080/€. On the other hand, the euro strengthened against most of the currencies of the other EU Member States, key threshold countries and raw material exporters. Because of Switzerland's minimum exchange rate, the euro's exchange rate versus the Swiss france stayed within a narrow range to end the period under review at SFr1.2338/€. The Croatian kuna, whose exchange rate is of importance to our bank, was trading at HRK7.4495/€ at the end of June.

The uptrend in the international equity markets continued during the first half. It was favoured by heartening company numbers. However, the positive mood was dampened time and again by upsets in the wake of the European sovereign debt crisis, by concern about China's financial stability and by fears that central banks might soon abandon their cheap money policies. The MSCI World Index stood at 112.62 points at the end of June after gaining 8.6 per cent in euro terms during the first half. On the Vienna Stock Exchange, the ATX stood at just 2,223.98 points at the end of June, which was 9.3 per cent less than at the end of 2012. The BKS Bank ordinary no-par share closed 30 June at €17.35, and the BKS Bank no-par preference share was trading at €15.0. BKS Bank had market capitalization of €564.2 million at the end of the first half. This was slightly up on the end of 2012.

Crude oil and precious metal prices continued to dominate the international commodities markets during the first half. Benchmark Brent crude was trading at US$102.10 a barrel at the end of June, as against US$112.3 at the beginning of the year. In response to geopolitical worries, oil began trading in a range between US$100 and US$108 at the end of April. Among other things, this was because car makers in the major industrial nations had shifted down a gear and the threshold countries were already using gas and coal to meet most of their immense energy needs. There was a dramatic drop in precious metal prices, including, above all, the price of the crisis commodity gold. Massive speculation by big investors in particular depressed the price of a fine ounce from US$1,675.20 at the beginning of the year to US$1,234.20 at the end of June.

Notes on the Scope of Consolidation

The overview that follows lists the entities whose assignment to the BKS Bank Group was required by international financial reporting standards in the first half of 2013. The scope of consolidation did not change during the 2012 financial year or in the first half of 2013. Among other things, it 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. Those entities included our leasing companies in Austria and abroad as well as *Alpenländische Garantie-Gesellschaft mbH* and *Drei-Banken Versicherungs-Aktiengesellschaft*. Given the sizes of the various entities in the Group, its profit was predominantly generated by *BKS Bank AG*. The consolidated members of the BKS Bank Group comprised the banks and other financial service providers and entities rendering banking-related ancillary services that were controlled by *BKS Bank AG*. During the elimination of investments in and equity of subsidiaries upon consolidation, an entity's cost was compared with the Group's interest in that entity's measured equity, materiality being judged applying common, Group-wide criteria. The principal criteria of materiality were the assets, profit for the year, revenues and size of workforce of the entity in question. These Interim 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. The carrying amount of an equity investment was adjusted according to the change in the net assets of the entity in question.

THE MEMBERS OF THE GROUP

Consolidated
Accounted for using the equity method

Banks and Other Financial Service Providers

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

Other Consolidated Entities

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

Our investments in our sister banks *Oberbank AG* und *Bank für Tirol und Vorarlberg AG*—which make up the *3 Banken Group* together with *BKS Bank AG*—are 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. These allow 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 six months ended 30 June 2013 includes BKS Bank's interests in those banks' profit for the period. The other consolidated entities, most of which are designated as real estate companies, render banking-related ancillary services.

Assets, Liabilities, Financial Position

Assets

The BKS Bank Group had assets of €6.70 billion at 30 June 2013. This was 0.7 per cent more than at the end of 2012. *Receivables from customers* increased by €43.7 billion or 0.9 per cent to €5.00 billion. IFRSs require an impairment allowance to be deducted from receivables from customers. During the period under review, the impairment allowance balance was increased by €9.4 billion to €177.5 million. The line item *Financial assets* also grew, increasing by 2.1 per cent to total €1.55 billion at the end of June.

Once again, the driving force in the Group's corporate and business banking and retail banking segments was *BKS Bank AG*, which contributed about €4.59 billion of receivables from customers to the Semi-Annual Consolidated Financial Statements. However, as the comparatively modest net increase of €43.7 million versus the end of 2012 shows, the economic slump remained the predominant factor, and this was particularly true in Carinthia and Styria. The growth in receivables from customers at our Slovenian branches was again outstanding, especially in the retail customers segment. We continued to reduce the foreign currency loan portfolio, cutting Swiss franc receivables by SFr25.3 million during the first half of 2013. This was done to meet the FMA's minimum standards on granting foreign currency loans, which were revised on 2 January 2013. Among other things, they focus on reducing volumes of foreign currency borrowings.

During the period under review, the lease finance operations carried on through our Austrian and foreign leasing subsidiaries in Klagenfurt, Ljubljana, Zagreb and Bratislava were governed by a minimum-risk lending policy. Overall, though, the receivable portfolios at *BKS Leasing GmbH* and *BKS Immobilienleasing GmbH* built on their good development in prior years to total €144.7 million, and so too did the portfolios of our foreign leasing subsidiaries, which came to €153.3 million. *BKS Bank d.d.* in Croatia, which is headquartered in Rijeka, contributed €112.8 million of customer receivables to the semi-annual balance sheet. New business during the first six months—which was acquired on the basis of a very cautious growth path—came to €6.4 million.

Investments increased the line item *Financial assets* by €31.8 million to €1.55 billion. *Financial assets designated as at fair value through profit or loss* ended the first half of 2013 at €201.1 million, which was slightly down on the end of 2012. *Held-to-maturity financial assets (HTM)* came to €736.8 million at the end of June. Investments in this category came to €59.6 million, while redemptions came to €25.0 million, with the majority of the new investments being made in European government bonds. On the other hand, the portfolio of *Available-for-sale (AFS) financial assets* shrank by €12.1 million to €253.2 million between the beginning of the year and the end of the period under review. Because of the historically low interest rates—the yield on 10-year German *bunds* had now dropped to about 1.50 per cent—new investments did not make up for the redemptions. *Investments in entities accounted for using the equity method* increased by €14.0 million to €355.2 million.

Equity and liabilities

Developments on the equity and liabilities side of the Balance Sheet were primarily a reflection of the pleasing inflow of so-called *primary deposits*. At the end of June, the funds made available to us by our customers—these being both essential to our liquidity management activities and a clear sign of the confidence placed in our crisis-resistant business model — came to €4.46 billion, which was roughly 67 per cent of our consolidated balance sheet total. Adding subordinated debt capital, our primary funds sufficed to fund about 89.2 per cent of the loans and advances to customers in the portfolio. Reflecting developments in the market, where investors were still searching for attractive investments in, above all, the property sector, our bank too found it hard to attract savings deposits during the first half. This was evidenced by a small, 0.4 per cent drop in savings deposit balances to €1.79 billion. On the other hand, sight and time deposit balances grew significantly. The increase of €116.9 million or 6.7 per cent to a total of €1.86 billion was attributable to the deep-seated uncertainty among private and institutional investors in the Slovenian marketplace. It proved possible to sustain liabilities evidenced by paper and subordinated debt capital at a total of €808.0 million during the first half. However, the historically low interest rates affected issuances of our own bonds. On the other hand, we were able to increase our cover pool of mortgage loans for covered bonds, enlarging it by nearly €10 million to €87.5 million during the first half. This cover pool compared with issuances worth €57.9 million.

At the end of the period under review and after the addition of profit for the period, gains and losses taken to equity and exchange differences, the BKS Bank Group had equity €701.8 million, as against €671.8 million at the end of 2012. We point out that the application, with retroactive effect, of IAS 19 (revised) both as at 1 January 2012 and as at 1 January 2013 caused a shift between the equity line items *Retained Earnings* and *Profit for the Period*. Details of our equity are provided in the table entitled *Statement of Changes in Equity* on page 20.

Own Funds

BKS Bank calculated its own funds ratio and basis of assessment in accordance with the solvency regime established by Basel II. The own funds requirement was computed using the standardized approach. Despite the 0.7 per cent increase in our balance sheet total, the basis for assessment fell slightly compared with the end of 2012, decreasing by €20.1 million to €4.44 billion. This reduction related to receivables in the retail customer and corporate and business banking segments.

OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE

€m	31/12/2011	31/12/2012	30/6/2013
Share capital	65.5	65.5	65.5
Hybrid capital	40.0	40.0	40.0
Reserves net of intangible assets	494.0	525.2	524.5
Tier 1 capital	**599.5**	**630.7**	**630.0**
Tier 1 ratio	12.46%	13.10%	13.14%
Hidden reserves within the meaning of § 57 *BWG*	5.6	5.6	5.6
Eligible supplementary capital	134.6	109.6	101.9
Balance of gains and losses taken to equity	19.9	38.9	29.2
Eligible subordinated liabilities	20.7	18.4	16.0
Supplementary own funds (Tier 2)	**180.8**	**172.5**	**152.8**
Deductions from Tier 1 and Tier 2	98.4	93.7	93.7
Eligible own funds	**681.9**	**709.5**	**689.1**
Own funds ratio	15.44%	15.92%	15.53%
Basis of assessment for the banking book	4,415.2	4,457.9	4,437.8
Own funds requirement	**353.2**	**356.6**	**355.0**
Own funds requirement for market risk	2.4	2.0	2.3
– Of which arising from open currency positions	1.4	1.2	1.3
Own funds requirement for operational risk	26.8	27.1	26.9
Surplus own funds (disregarding operational risk)	**328.7**	**352.9**	334.1
Surplus own funds (taking account of operational risk)	**301.9**	**325.8**	307.1

Our eligible own funds decreased by €20.4 million to €689.1 million during the first half. This was due to drops in eligible supplementary own funds and the balance of gains and losses taken to equity. Our Tier 1 ratio calculated on this basis as at 30 June 2013 was unchanged compared with the end of 2012 at 13.1 per cent. The own funds ratio was 15.5 per cent, compared with 15.9 per cent at 31 December 2012. 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 remained solid, coming to €334.1 million. Surplus own funds after taking account of operational risk came to €307.1 million, providing the basis for a corresponding amount of lending growth requiring capital charges during the rest of the year.

We have already reported regularly on the debate about regulatory own funds. Because of the volatile nature of the issue, they have remained a focus of media reports in recent weeks under the heading of *Basel III*. The Capital Requirements Regulation (CRR) concerning regulatory requirements for banks and securities firms and the Capital Requirement Directive (CRD) 4 were published in the European Union's Official Journal on 27 June 2013. According to CRR Article 521, paragraph 1, the regulation shall apply from the day after its publication in the Official Journal. Under Article 165 in conjunction with Article 162 CRD 4, the Member States must transpose the directive into national law by not later than 31 December 2013. The new requirements will apply throughout the European Union from 1 January 2014.

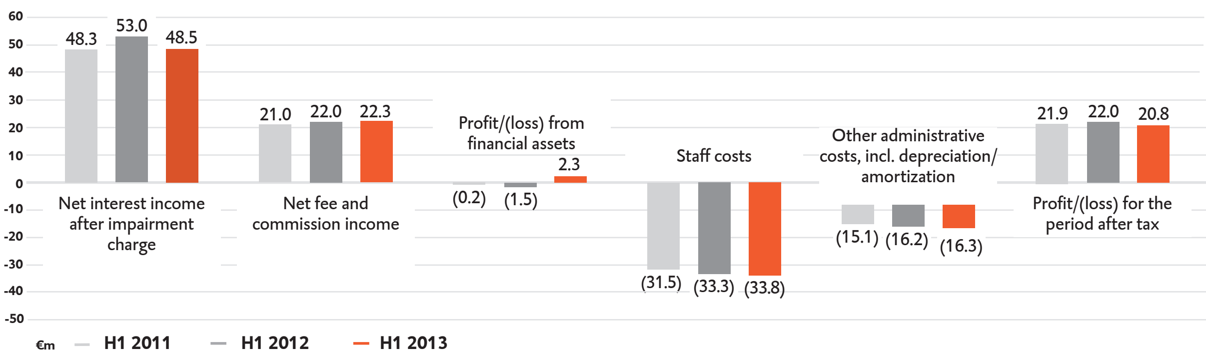
Performance

BKS Bank made another solid and better-than-expected profit in the first half of 2013. Profit for the period after tax was only just down on the first half of 2012 to €20.8 million. In view of the persistently difficult economic situation affecting our market territories, this was a very good result, and every one of our subsidiaries in Austria and abroad contributed to it. Once again, net interest income before the impairment charge proved to be a stable cornerstone of our earning power and the most important pillar of profit. Despite the extremely low interest rates, it fell by just €1.2 million or 1.7 per cent to €70.5 million. Nonetheless, the first half was still challenging, especially from a risk point of view. Because of the severe economic slump affecting Austria and Southeastern Europe, the impairment charge on loans and advances had to be increased to €21.9 million. This was €3.3 million more than in the first half of 2012. Net interest income after the impairment charge fell to €48.5 million as a result.

On the other hand, we have good news to report about the development of our fee and commission operations. Net fee and commission income was 1.2 per cent up on the first half of 2012 to €22.3 million. This solid result was achieved despite the pressure on margins and the low interest rates environment and was facilitated by an increase in volumes. It was, above all, fuelled by an advance in our earnings from securities and credit operations. However, the sharp drop in the price of gold led to revaluation losses in our foreign exchange and notes-and-coin operations and below-expectation earnings in that area. The renewed upturn in the international stock markets we saw in the second quarter of 2013 was mirrored by the value of our customers' securities deposit accounts, which was 1.6 per cent up on the end of 2012 to €6.41 billion.

Profit/(loss) from financial assets came to a total of positive €2.3 million. *Profit/(loss) from financial assets designated as at fair value through profit or loss* came to positive €0.7 million, compared with positive €1.7 million in the same period of 2012. This profit was the result of revaluation gains on derivatives.

Components of the Income Statement



In 2012, the line item *Profit/(loss) from held-to-maturity financial assets* still included restructuring losses on Greek government bonds. The loss as at 30 June 2012 totalled €3.0 million. In contrast, this category of assets was unimpaired in the same reporting period of 2013.

General administrative expenses increased by just 1.4 per cent to €50.2 million. This was much less than expected, showing that additional progress had been made in increasing our efficiency. *Staff costs* increased by 1.5 per cent to €33.8 million. In view of the average 2.5 per cent hike in salaries under collective agreements that took place on 1 April 2013, this was well within budget. The Group's average workforce fell from 930 staff years in the first half of 2012 to 919 staff years in the six months up to the reporting date. We are aiming for another reasonable reduction in the workforce, so Personnel Management is critically reviewing all our staff needs and personnel changes. Similarly, the Group-wide process of reducing unused vacation time and flexitime credits and restricting the accumulation of overtime remains a high priority.

We were able to keep both *Other administrative costs* and *Depreciation/amortization* close to the low levels achieved in the same period of 2012, at €13.2 million and €3.1 million, respectively. The main contributors to this success were our enterprise-wide cost discipline, the careful management of current office and operating costs and our moderate programme of investments. Income tax in the period under review came to €2.5 million, and we also paid €1.04 million in bank tax.

Ratios

The business barometer of key operational ratios at the middle of 2013 indicated that the climate was overcast in places but friendly overall. Both our return on equity before tax (ROE) and our return on assets before tax (ROA) based on our business performance during the first half built on our satisfactory ratios in prior periods, coming to 6.5 per cent and 0.7 per cent, respectively. At this juncture, we must point out that the ROE figures for 2012 have been restated to reflect the changes introduced by the revision of IAS 19. Our cost:income ratio of 53.9 per cent was still just above our internal benchmark of 50 per cent. We will do everything we can to widen the gap between our rising general administrative expenses and our falling net interest income. Our risk:earnings ratio rose from 27.0 per cent to 31.1 per cent between the beginning of 2013 and the end of the period under review. As it shows, we too are not immune to the still tense risk situation in the corporate and business banking segment. This ratio means that nearly a third of our net interest income is already being used to cover our consistent capital charges for credit risk. There was little sign of new beginnings for the economy, which will frustrate our efforts to get this ratio back to below our internal benchmark target of 20 per cent in the foreseeable future.

CORPORATE PERFORMANCE RATIOS

Per cent	2011	2012	H1 2013
Tier 1 ratio	12.5	13.1	13.1
Own funds ratio	15.4	15.9	15.5
ROE (before tax)	6.1	7.6	6.5
ROA (before tax)	0.6	0.8	0.7
Cost:income ratio	46.7	53.8	53.9
Risk:earnings ratio	22.1	27.0	31.1

Segmental Reports

BKS Bank's segmental reporting is based on the organizational structure of the Group underlying its internal management reporting system. BKS Bank focuses its activities on three large business divisions, namely *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. It is on that basis that we assess the financial development of each segment and make decisions regarding the allocation of our enterprise's resources. We measure the performance of each segment on the basis of its profit before tax, return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). No material organizational changes affecting the structure of our business segments were carried out during the first half of 2013.

Corporate and Business Banking

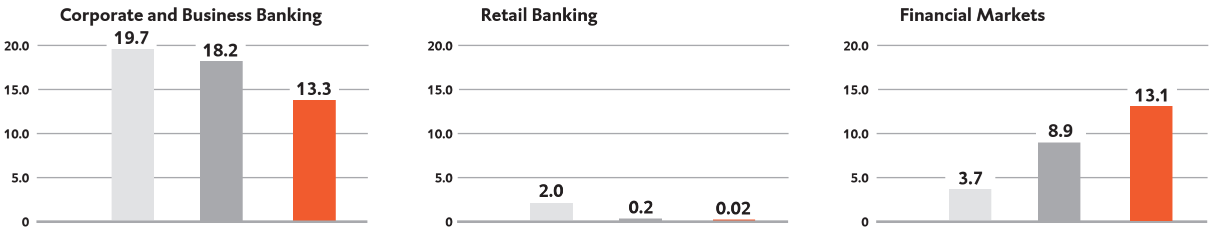
The corporate and business banking segment is the most important operating business unit by far within the BKS Bank Group. Roughly 13,370 customers were being serviced in this segment at 30 June 2013. The most important target groups in our corporate and business banking segment are small and medium-sized export-orientated enterprises in the manufacturing, service and trading sectors. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and the Group's leasing companies insofar as they arose from customer business done with companies. The portfolio of loans to corporate and business banking customers was worth €3.91 billion at the end of June 2013 (31 December 2012: €3.87 billion). In other words, over three quarters of all lending by the BKS Bank Group had taken place in this segment.

Against the backdrop of a sluggish economy suffering from weak consumption and investment, the contribution to this segment's profit made by net interest income fell from €44.0 million in the first half of 2012 to €40.5 million in the period under review. In a persistently tough economic environment, the impairment charge on loans and advances in this segment was increased by €2.1 million to €20.3 million. We were very pleased with the advance in net fee and commission income, which grew by €0.7 million or 5.8 per cent to €12.0 million. This was mainly attributable to an increase in credit commission income earned on new business. After deducting general administrative expenses—which, thanks to our strict cost discipline, increased just marginally compared with the same period of 2012, rising to €19.7 million—the corporate and business banking segment closed the first half of 2013 with profit for the period before tax of €13.3 million. This compared with €18.2 million in the first half of 2012. The segment's risk:earnings ratio (RER) worsened from 41.5 per cent in the first half of 2012 to 50.3 per cent in the period under review. Its return on equity (ROE in relation to profit for the period) calculated on the basis of capital employed of €263.1 million fell from 14.2 per cent to 10.1 per cent. Similarly, its cost:income ratio, although generally satisfactory, deteriorated marginally to 36.9 per cent. It remains to be seen whether there will be a sustained upturn in new lending to corporate and business banking customers in the next few months. Scepticism dominates both assessments of the current situation and the corporate sector's expectations. As a result, we will be keeping a particularly close eye on the development of margins and risks in the coming quarters.

Retail Banking

Approximately 129,100 customers of *BKS Bank AG*, *BKS Bank d.d.* and the leasing companies within 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 jobholders, this segment also encompassed small business owners and self-employed customers. Because it is highly dependent on branch operations, it is very resource and cost intensive. However, it is also indispensable to us because it is our most important source of funds. At the end of June, about 86.3 per cent of savings deposit balances and nearly a third (31.2 per cent) of sight and time deposit balances held at BKS Bank—that is, roughly 58.2 per cent per cent of its payables to customers—had been generated by retail banking operations. In addition, the retail banking segment accounted for over one fifth of its loan portfolio, namely €1.10 billion.

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



€m	H1 2011	H1 2012	H1 2013
ROE	15.6%	14.2%	10.1%
CIR	33.2%	34.8%	36.9%
RER	39.4%	41.5%	50.3%

€m	H1 2011	H1 2012	H1 2013
ROE	8.6%	0.7%	0.1%
CIR	91.4%	98.0%	97.1%
RER	1.7%	2.4%	4.7%

€m	H1 2011	H1 2012	H1 2013
ROE	2.2%	5.1%	6.9%
CIR	23.3%	20.3%	21.6%
RER	24.1%	0.0%	6.0%

A detailed segmental breakdown is presented in the Notes from page 29.

Retail customer operations continued to progress unsatisfactorily during the first half. This was because of the historically low interest rates, a level of competition one could already describe as excessive in some areas and the reserve of our customers in the capital markets that resulted from their risk aversion. The segment's profit for the period before tax fell from €150 thousand in the first half of 2012 to €19 thousand in the period under review. Net interest income stabilized at €15.8 million. This was thanks to pleasing growth in our credit portfolio and in deposit balances held at BKS Bank, which grew by 0.6 per cent to €1.10 billion and by 1.5 per cent to €2.13 billion, respectively. Net fee and commission income remained static on the same period of 2012 at €10.1 million. Rigorous cost discipline slightly reduced the burden of costs. General administrative expenses in this segment came to €25.6 million, which was €0.2 million down on the six months ended 30 June 2012. The risk situation was a positive factor, with the charge for impairment losses coming to just €0.7 million, compared with €0.4 million in the same period of 2012. The segment's risk:earnings ratio was still outstanding, increasing marginally to 4.7 per cent. This was a reflection of the minimal impairment losses it incurred. It was the fruit both of our risk-aware management of new business and of the high level of collateralization in the retail banking segment. On the other hand, the segment's cost:income ratio stayed high at 97.1 per cent.

Financial Markets

The financial markets segment encompassed our profits from equity investments, securities held in our own portfolios and receivables from and payables to other banks as well as earnings from our interest rate term structure management activities. The responsibility for and forward-looking management of so-called *structural income* earned in the financial markets segment were in the hands of BKS Bank's Asset Liability Management (ALM) Committee. Structural income includes earnings from interbank trading, securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements. Terms and conditions mirrored the downtrend in reference interest rates, especially in the loans segment. This phenomenon has been with us since the beginning of the 2012 financial year. Savings deposit balances already hit a trough in the middle of 2012, and the sliding rate of interest clauses that apply in the consumer credit segment accelerated the drop in customer interest rates, in turn exacerbating the pressure on earnings.

Profit for the period before tax in the financial markets segment came to €13.1 million. This was €8.9 million or 46.6 per cent more than in the first half of 2012. The portfolio of financial assets had the biggest impact on the segment's results, profit in the financial markets segment having still been seriously dented by restructuring losses in the amount of €3.0 million on Greek government bonds in the first half of 2012. Net interest income in this segment also grew well, increasing by €2.2 million or 19.1 per cent to €13.9 million. The charge for impairment losses in this segment also included the charge for country risks. Following a small impairment reversal of €41 thousand in 2012, our calculations in the first half of 2013 resulted in an impairment charge of €0.8 million. This was due to the downgrading of Slovenia, which now has a Standard & Poor's rating of A-.

Looking at this segment's ratios, its return on equity based on average allocated equity of €379.9 million was 6.9 per cent, compared with 5.1 per cent in the first half of 2012. Because, above all, of a slight increase in general administrative expenses, its cost:income ratio increased from 20.3 per cent in the first half of 2012 to 21.6 per cent in the period under review. Thanks to the minimal charge for impairment losses, its risk:earnings ratio was just 6.0 per cent.

Risk Report

The goals of BKS Bank's risk management activities are to ensure that we remain liquid, avoid loan losses and limit market risks and are able to return the customer assets entrusted to us as well as to ensure that the capital invested in us by our equity holders continues to increase in value. Given the diversity of our business activities as a so-called *universal bank*, it is therefore essential for us to effectively identify, measure, aggregate and manage risks and to allocate an appropriate amount of equity to each of our various business processes. Making as efficient use as possible of available capital in the light of medium-term and long-term strategic goals is at the centre of our risk management activities. One of the main focuses is on optimizing the trade-off between risk and return and only entering into risks that BKS Bank can bear without outside help. Another of our goals is to ensure that our bank always has sufficient capital to support its risk profile.

We manage our risks and our capital with the help of a framework of principles, organizational structures and measurement and monitoring processes. BKS Bank defines risk as the possibility of losses or profits foregone that may be caused by internal or external factors. The goal of our risk policy is to detect, at the outset, the operational and other banking risks that are quantifiable (e.g. normally measurable in annual (periodic) financial statements or caused by capital commitments) or not quantifiable (e.g. reputational and compliance risks) and to manage and limit them using effective risk management techniques. The areas of risk of most importance to BKS Bank are credit risk (which includes equity investment risk), market risk, liquidity risk and operational risk. The large loan risks incurred by BKS Bank and the *3 Banken Group* are secured by *Alpenländische Garantie-Gesellschaft mbH*, which is accounted for in the Consolidated Financial Statements of the BKS Bank Group.

In general, the focus of our risk and capital management activities during the first six months of 2013 was still on keeping our risk profile within the bounds of our risk strategy, strengthening our capital base and giving support to our strategic initiatives.

Credit risk

Credit risk (also called default risk) affects not only classical banking products (e.g. credit products und guarantees) but also certain trades (e.g. forwards, futures, swaps and options). Credit risk is the risk of partial or total non-payment of contractually agreed payments. It may result, among other things, from a counterparty's poor credit standing or may arise indirectly from country risk as a consequence of a counterparty's domicile. Throughout the BKS Bank Group, credit risk is monitored and analyzed at the product and single customer level, at the level of groups of related customers and at the portfolio level.

CHARGE FOR IMPAIRMENT LOSSES

€m	30/6/2012	30/6/2013
Direct write-offs	0.3	0.6
Impairment allowances	20.6	24.9
Impairment reversals	(2.1)	(3.4)
Subsequent recoveries	(0.2)	(0.2)
Charge for impairment losses	**18.6**	**21.9**

Our bank employs a 13-class rating system based on the use of statistical methods. On the reporting date of 30 June 2013, roughly 70 per cent of all loans to corporate and business banking customers and roughly 90 per cent of all loans to retail banking customers were in the prime classes from 1a to 3b, which means that the associated default risks were very low. The net charge for impairment losses in the first half was €21.9 million, as against €18.6 million in the same period of 2012. Impairment allowances came to €24.9 million. They comprised impairment allowances recognized on an item-by-item basis, commission payments to ALGAR, collective assessments of impairments carried out in accordance with IAS 39 and the allowance for country risk exposure (among other things resulting from Standard & Poor's downgrading of Slovenia to A-). Because the distribution of ratings stayed stable and the increase in volumes was not large, the risk allowance for incurred but not reported losses was small. The requisite charge for the risks of our foreign subsidiaries stayed stable at the same level as in the first half of 2012, at €0.8 million. The charge for impairment losses was highest at *BKS Bank d.d.*, where it came to €0.4 million. Given the difficult economic environment in the Croatian market, this is still a good figure. Looking at our credit risk in terms of non-performing loans, such loans accounted for just 5.7 per cent of the total exposure at 30 June 2013. This figure was calculated on the basis of the non-performing loans contained in the classes 5a – 5c of BKS Bank's rating system. The divisor was gross customer loan receivables inclusive of corporate bonds, guarantees and unused credit lines.

Market risk

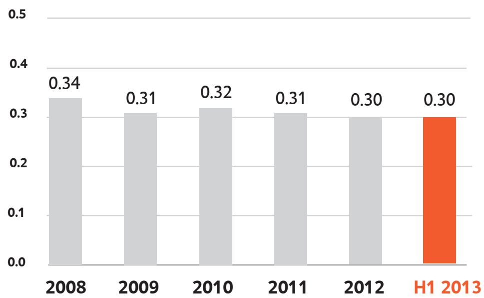
Market risk is the risk of financial losses that might arise from movements in market prices and rates (e.g. interest rates, commodity prices, credit spreads, foreign exchange rates, equity prices) or other parameters that influence prices (e.g. volatilities, correlations). In this risk category, we differentiate between interest rate risk, currency risk and equity price risk. Within the bank, we manage these risks using value at risk (VaR) limits, duration limits and volume limits. The VaR approach is employed to measure the maximum possible loss that could be incurred applying a previously defined confidence interval. Our Asset Liability Management (ALM) Committee reviews our market risk once a month on the basis of present value, duration and value at risk calculations. We use a combination of different proven ways of gauging risk (value at risk, modified duration, volumes and stress testing) to effectively manage market risks and set limits. According to our interest rate statistics, the ratio of our interest rate risks to our own funds fell to 0.26 per cent during the first half of 2013 and thus remained well below the critical 20 per cent mark. Part of the change in our investment portfolio resulted from €45 million of new investments in receiver interest rate swaps used to hedge against the interest rate risks associated with our own fixed rate issuances. At the same time, we purchased €39.4 million worth of fixed-rate Austrian federal bonds to reinforce our liquidity buffer. As for currency risk, we were able to keep the value of our open currency positions nearly static compared with 30 June 2011 (€18.1 million) and 30 June 2012 (€14.5 million), at €15.8 million. Following the sale of units of a stock fund, our portfolio of shares and similar financial instruments shrank from €40.8 million at the end of the first quarter to €37.0 million at the end of the first half. The equity value at risk, which was calculated using a historical simulation model, was €2.5 million at the end of June, compared with €1.4 million at the end of 2012.

Liquidity risk

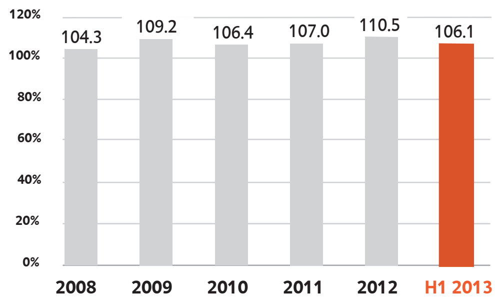
We define liquidity risk as comprising both the risk that our bank may be unable to meet its present or future financial obligations in full or in time and the risk that, in the event of a liquidity crisis, it may only be able to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk). At BKS Bank, liquidity management and, therefore, ensuring solvency at all times, is done with the help of a daily maturity gap analysis for each main currency. Limits have been defined at the short end to set liquidity risk boundaries. Regular stress test analyses are carried out to ensure that we always have sufficient cash reserves and liquid assets to close any funding gaps that might arise as a result of idiosyncractic and/or systemic stress scenarios. For this purpose, we hold liquid reserves in the form of cash and cash equivalents, highly liquid securities (including government bonds, state guaranteed bonds and bonds issued by public sector entities) and other unencumbered assets that are eligible for refinancing at central banks. We continued to meet all the minimum liquidity requirements laid down in BWG during the half year under review. We held our surplus liquidity as calculated in accordance with *§ 25 BWG* at an average of roughly €168 million during the period under review.

Material liquidity risk management decisions are made and liquidity risk monitoring is carried out by the Asset Liability Management Committee, which meets regularly. BKS Bank's liquidity buffer came to €1.04 billion at the end of June 2013, compared with €945.2 million at the end of 2012. The deposit concentration presented in the chart below helps us estimate the deposit withdrawal risk associated with the possibility of a run on deposits. Above all, it highlights the dangers that come with relying on large deposits. All customer deposit balances are broken down into predefined size bands and the relative amounts thereof, and weighting factors of between 0 and 1 are applied to them. In the first half of 2013, we were able to reduce the resulting figure, which plays an important part in our liquidity management activities, to a low of 0.30. The loan:deposit ratio is another useful liquidity management indicator, showing the relationship between the loan portfolio and primary deposit balances. Our medium-term benchmark is a balanced ratio of 100 per cent. The improvement in the period under review from 110.5 per cent to 106.1 per cent—and therefore to a figure last achieved in 2010—resulted from a significant increase in deposit balances in Slovenia.

DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



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. A total of 139 loss events were reported at BKS Bank in the six months up to the end of June 2013. Allowing for reimbursed losses, the cost was relatively small, at €349.1 thousand. We point out that this figure does not include any operational risk losses arising from credit operations.

Outlook for the Year as a Whole

The world economy continued to recover in the period up to the middle of 2013, but it still failed to repeat the growth rates achieved in the years before the crisis. Exports have recently picked up particularly strongly in the big industrial countries, but they have gradually lost momentum in the Asian threshold countries. The stubborn recession seems to be giving way to a gradually more confident economic outlook in the eurozone. However, we think it is still too soon to sound the all-clear for the environment in which banks are operating, which is still a difficult one. Although monetary policy action by the big central banks and political measures in Europe are still having a stabilizing effect, the role of market prices as a reliable and regulatory gauge of risk is becoming increasingly diluted. The uses for the ample supply of central bank money on the assets side of the bank's balance sheet are limited when it comes to mitigating risk. As a result, the factors that are denting our earnings, including, in particular, the margin eroding low level of interest rates and the competition-prone and subdued demand for credit, will be with us for the time being. In addition, a great deal of uncertainty has recently been created in the money and capital markets by the American Federal Reserve's announcement that it will gradually be abandoning its highly expansionary monetary policy, by systemic risks within the Chinese banking system and by new worries regarding the debt bearing capacities of a number of peripheral countries in the eurozone.

At this point, we can assure you that BKS Bank is excellently prepared to cope with these challenging market conditions and is in a position to react to unexpected one-off effects both promptly and in an appropriate manner. As a universal bank with strong regional roots in Austria and abroad, BKS Bank will continue to apply its proven business model unchanged in the months to come; to strengthen its earning power in its core business segments; to employ restrictive cost management; and to optimize its already comfortable own funds base against the backdrop of the requirements of the CRR and CRD 4 associated with Basel III. During this difficult 2013 reporting year, we have again responded to the pressure to reform that is being generated by competition, structural change and regulation by initiating and largely completing a number of important organizational changes. The main focus has been on operations in the corporate and business banking and retail banking segments. If we are spared any unusual market turbulence in the markets that are of importance to us and are not confronted with unexpectedly poor global, national or regional economic conditions, we will stick to our declared goal for 2013, which is to give our equity holders another annual balance sheet that is free from surprises and a dividend proposal to match our results.

We remain,

Yours faithfully,

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Overview of the 3 Banken Group

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	**H1 2012**	**H1 2013**	**H1 2012**	**H1 2013**	**H1 2012**	**H1 2013**
Net interest income	71.7	70.5	145.2	167.8	83.7	89.6
Impairment charge on loans and advances	(18.6)	(21.9)	(24.7)	(32.3)	(19.0)	(21.9)
Net fee and commission income	22.0	22.3	55.1	58.1	21.4	22.6
General administrative expenses	(49.5)	(50.2)	(116.1)	(119.8)	(47.1)	(48.0)
Profit for the period before tax	25.3	23.3	73.5	78.5	38.4	45.5
Profit for the period after tax	22.1	20.8	59.8	66.4	31.8	37.8
Balance sheet data, €m	**31/12/2012**	**30/6/2013**	**31/12/2012**	**30/6/2013**	**31/12/2012**	**30/6/2013**
Assets	6,654.4	6,700.5	17,675.1	17,547.1	9,496.4	9,374.8
Receivables from customers after impairment charge	4,794.2	4,828.5	10,877.0	11,295.5	6,193.0	6,040.8
Primary deposit balances	4,362.4	4,463.7	11,607.9	11,738.8	6,582.9	6,386.2
– Of which savings deposit balances	1,797.9	1,790.9	3,380.1	3,331.3	1,272.9	1,221.4
– Of which liabilities evidenced by paper	816.5	808.0	2,208.8	2,195.2	1,187.8	1,220.5
Equity	688.3	701.8	1,342.4	1,375.5	845.5	867.2
Customer assets under management	10,674.9	10,877.4	21,558.0	21,642.6	11,368.8	11,088.8
– Of which in customers' securities accounts	6,312.5	6,413.7	9,950.1	9,903.8	4,785.9	4,702.6
Own funds within the meaning of BWG, €m	**31/12/2012**	**30/6/2013**	**31/12/2012**	**30/6/2013**	**31/12/2012**	**30/6/2013**
Risk-weighted assets	4,457.9	4,437.8	10,481.9	10,704.0	5,665.0	5,511.0
Own funds	709.5	689.1	1,762.5	1,754.3	995.4	956.2
– Of which Tier 1 capital	630.7	630.0	1,245.4	1,242.2	806.0	805.8
Surplus own funds before operational risk	352.9	334.1	922.8	897.4	542.1	515.2
Surplus own funds after operational risk	325.8	307.1	857.9	832.4	516.0	489.1
Tier 1 ratio, %	13.10	13.14	11.88	11.61	13.17	13.54
Own funds ratio, %	15.92	15.53	16.81	16.39	17.57	17.35
Performance, %	**2012**	**H1 2013**	**2012**	**H1 2013**	**2012**	**H1 2013**
Return on equity before tax	7.57	6.46	10.59	11.58	8.65	10.72
Return on equity after tax	6.53	5.85	8.67	9.79	7.58	8.90
Cost:income ratio	53.82	53.91	54.64	51.94	44.44	42.72
Risk:earnings ratio	26.98	31.10	19.11	19.23	24.30	24.47
Resources	**2012**	**H1 2013**	**2012**	**H1 2013**	**2012**	**H1 2013**
Average number of staff	930	919	2,020	2,000	779	767
Branches and other business units	55	56	147	148	37	37

Consolidated Financial Statements as at and for the Six Months Ended 30 June 2013

Page

Comprehensive Income Statement of the BKS Bank Group for the Period from 1 January to 30 June 2013

INCOME STATEMENT

€k	Note	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Interest income		111,236	97,809	(12.1)
Interest expenses		(49,680)	(38,393)	(22.7)
Profit/(loss) from investments in entities accounted for using the equity method		10,103	11,041	9.3
Net interest income	(1)	**71,659**	**70,457**	**(1.7)**
Impairment charge on loans and advances	(2)	(18,611)	(21,914)	17.7
Net interest income after impairment charge		**53,048**	**48,543**	**(8.5)**
Fee and commission income		23,421	23,940	2.2
Fee and commission expenses		(1,408)	(1,671)	18.7
Net fee and commission income	(3)	22,013	22,269	1.2
Net trading income	(4)	1,069	814	(23.9)
General administrative expenses	(5)	(49,491)	(50,162)	1.4
Other operating income net of other operating expenses	(6)	157	(484)	(>100)
Profit/(loss) from financial assets (FV)	(7)	1,742	688	(60.5)
Profit/(loss) from financial assets (AFS)	(8)	(218)	1,624	(>100)
Profit/(loss) from financial assets (HTM)	(9)	(2,985)	0	(100.0)
Profit for the period before tax		**25,335**	**23,292**	**(8.1)**
Income tax expense	(10)	(3,278)	(2,507)	(23.5)
Profit for the period after tax		**22,057**	**20,785**	**(5.8)**
Minority interests in profit for the period		(3)	(1)	(66.7)
Profit for the period after minority interests		**22,054**	**20,784**	**(5.8)**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Profit for the period before minority interests	22,057	20,785	(5.8)
Gains and losses not recognized in profit or loss			
– Exchange differences	50	437	>100
– Available-for-sale reserve	3,564	(1,610)	(>100)
– Arising from investments in entities accounted for using the equity method	9,278	1,364	(85.3)
– Deferred taxes on items taken directly to equity	(947)	587	(>100)
Comprehensive income before minority interests	**34,002**	**21,563**	**(36.6)**
Less minority interests	(3)	(1)	(66.7)
Comprehensive income after minority interests	**33,999**	**21,562**	**(36.6)**

QUARTERLY REVIEW

€k	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Interest income	55,055	52,871	51,237	47,872	49,937
Interest expenses	(24,347)	(23,950)	(20,876)	(19,437)	(18,956)
Profit/(loss) from investments in entities accounted for using the equity method	6,490	6,178	5,978	4,058	6,983
Net interest income	**37,198**	**35,099**	**36,339**	**32,493**	**37,964**
Impairment charge on loans and advances	(9,663)	(8,799)	(11,192)	(9,670)	(12,244)
Net interest income after impairment charge	**27,535**	**26,300**	**25,147**	**22,823**	**25,720**
Net fee and commission income	10,808	10,872	11,545	11,478	10,791
Net trading income	743	60	1,219	391	423
General administrative expenses	(25,061)	(26,059)	(24,702)	(24,774)	(25,388)
Other operating income net of other operating expenses	70	(2,325)	(1,445)	(86)	(398)
Profit/(loss) from financial assets (FV)	1,214	424	240	808	(120)
Profit/(loss) from financial assets (AFS)	(318)	105	2,897	1,198	426
Profit/(loss) from financial assets (HTM)	(1,466)	338	493	0	0
Profit for the period before tax	**13,525**	**9,715**	**15,394**	**11,838**	**11,454**
Income tax expense	(1,528)	(1,337)	(2,276)	(1,457)	(1,050)
Profit for the period after tax	**11,997**	**8,378**	**13,118**	**10,381**	**10,404**
Minority interests in profit for the period	(2)	0	0	(1)	0
Profit for the period after minority interests	**11,995**	**8,378**	**13,118**	**10,380**	**10,404**

Balance Sheet of the BKS Bank Group as at 30 June 2013

ASSETS

€k	Note	31/12/2012	30/6/2013	+/(-) Change, %
Cash and balances with the central bank	(11)	81,749	78,711	(3.7)
Receivables from other banks	(12)	128,417	105,480	(17.9)
Receivables from customers	(13)	4,962,336	5,005,994	0.9
– Impairment allowance balance	(14)	(168,101)	(177,527)	5.6
Trading assets	(15)	237	380	60.3
Financial assets designated as at fair value through profit or loss	(16)	205,713	201,081	(2.3)
Available-for-sale financial assets	(17)	265,224	253,254	(4.5)
Held-to-maturity financial assets	(18)	702,314	736,802	4.9
Investments in entities accounted for using the equity method	(19)	341,176	355,200	4.1
Intangible assets	(20)	7,959	7,563	(5.0)
Property and equipment	(21)	62,176	59,874	(3.7)
Investment property	(22)	16,492	17,128	3.9
Deferred tax assets	(23)	19,825	21,068	6.3
Other assets	(24)	28,898	35,519	22.9
Total assets		**6,654,415**	**6,700,527**	**0.7**

EQUITY AND LIABILITIES

€k	Note	31/12/2012	30/6/2013	+/(-) Change, %
Payables to other banks	(25)	1,446,411	1,391,460	(3.8)
Payables to customers	(26)	3,545,790	3,655,747	3.1
Liabilities evidenced by paper	(27)	579,944	571,396	(1.5)
Trading liabilities	(28)	282	441	56.4
Provisions	(29)	81,289	82,647	1.7
Deferred tax liabilities	(30)	10,871	11,583	6.5
Other liabilities	(31)	64,880	48,854	(24.7)
Subordinated debt capital	(32)	236,655	236,600	0.0
Equity		688,293	701,799	2.0
Of which total minority interests and equity		688,286	701,791	2.0
Of which minority interests in equity		7	8	14.3
Total equity and liabilities		**6,654,415**	**6,700,527**	**0.7**

EARNINGS AND DIVIDEND PER SHARE

	H1 2012	H1 2013
Average number of shares in issue	32,104,033	32,241,756
Dividend per share, €	0.25	0.25
Earnings per share, € (diluted and undiluted)	1.37	1.29

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[1] Earnings	Profit/(loss) for the Period[1]	Equity
At 1 January 2013	**65,520**	**97,929**	**(714)**	**14,701**	**467,297**	**43,553**	**688,286**
Distribution						(8,063)	(8,063)
Taken to retained earnings					35,490	(35,490)	0
Profit/(loss) for the period						20,785	20,785
Gains and losses taken directly to equity			437	269	72		778
Increase in share capital							
Other changes					5		5
– Arising from use of the equity method					1,317		
– Arising from changes in treasury shares					(1,398)		
At 30 June 2013	**65,520**	**97,929**	**(277)**	**14,970**	**502,864**	**20,785**	**701,791**
Available-for-sale reserve							14,776
Deferred tax reserve							194

[1] Restated because of a revision to IAS 19: *Retained Earnings* was reduced by €3.4 million while *Profit/(loss) for the Period* was increased by the same amount.

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained[1] Earnings	Profit/(loss) for the Period[1]	Equity
At 1 January 2012	**65,520**	**97,929**	**(661)**	**5,987**	**440,942**	**35,205**	**644,922**
Distribution						(8,034)	(8,034)
Taken to retained earnings					27,171	(27,171)	0
Profit/(loss) for the period						22,057	22,057
Gains and losses taken directly to equity			50	12,251	(356)		11,945
Increase in share capital							
Other changes					954		954
– Arising from use of the equity method					663		
– Arising from changes in treasury shares					(1,257)		
At 30 June 2012	**65,520**	**97,929**	**(611)**	**18,238**	**468,711**	**22,057**	**671,844**
Available-for-sale reserve							18,725
Deferred tax reserve							(487)

[1] Restated because of a revision to IAS 19: *Retained Earnings* was increased by €1.2 million while *Profit/(loss) for the Period* was reduced by the same amount.

Cash Flow Statement

CASH FLOWS

€k	H1 2012	H1 2013
Cash and cash equivalents at end of previous period	**85,819**	**81,749**
Net cash from operating activities	50,806	30,106
Net cash from/(used in) investing activities	(39,728)	(23,376)
Net cash from/(used in) financing activities	(25,008)	(9,558)
Effect of exchange rate changes on cash and cash equivalents	90	(210)
Cash and cash equivalents at end of period	**71,979**	**78,711**

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 Interim Financial Statements of the BKS Bank Group as at and for the six months ended 30 June 2013 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) effective at the reporting date and as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

II. Recognition and measurement

Scope of consolidation

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

Accounted for using the equity method:

- *Oberbank AG*, Linz
- *Bank für Tirol und Vorarlberg AG*, Innsbruck
- *Alpenländische Garantie-Gesellschaft mbH*, 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 Interim 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 Interim Consolidated Financial Statements are thus based on the separate interim 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

These semi-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 reporting date exchange rates. 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 impairment charges on an item-by-item basis applying class-specific criteria and by carrying out collective portfolio impairment assessments in accordance with IAS 39 para. 64. The latter captured incurred but not yet identified losses. Provisions for risks arising from contingent liabilities were made in accordance with IAS 37. A portfolio impairment assessment for country risks was carried out as 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.

Measurement 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 enterprise's budgets.

Phase 2: In phase 2, a perpetual annuity is calculated on the basis of the 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 an asset designated as at fair value through profit or loss. They were generally measured applying stock exchange prices. If these were not available, values of interest rate products were measured using present value techniques. Revaluation gains and losses were recognized in the AFS reserve and not through profit or loss. If such securities were sold, the corresponding part of the AFS reserve was released through profit or loss.

In the event of impairment (e.g. a debtor in severe financial difficulties or a measurable decline in the expected future cash flows), a charge 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 on a cost basis.

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 in the same way as assets or derivatives measured at fair value using the fair value option.

Tax

The reporting and calculation of income taxes 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 cause additional tax burdens or reduce tax burdens in the future.

Equity

Equity consists of paid-in capital and earned capital (retained earnings, reserves made in accordance with IAS 39 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. The calculation parameters were unchanged compared with the end of 2012.

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 period under review, 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/(loss) 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 and for the first half of 2013 were prepared in accordance with the effective International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board and as adopted by the EU. The assumptions and estimates made for the purposes of the Interim Consolidated Financial Statements were made on the basis of the knowledge and information available at the copy deadline date.

Standards and interpretations effective in the EU for annual periods beginning on or after 1 January 2013 were applied in these Interim Consolidated Financial Statements. In particular, the application of *IFRS 13: Fair Value Measurement* considerably broadened the disclosures regarding fair value measurement. The retroactive application of the revision to IAS 19 led to shifts between the equity line items *Retained Earnings* and *Profit/(loss) for the Period* as at 1 January 2012 and 1 January 2013. This was because actuarial gains and losses could no longer be recognized through profit or loss. The line items *Retained Earnings* and *Profit/(loss) for the Period* had to be restated accordingly.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Interest income from:			
Credit operations	83,026	73,445	(11.5)
Fixed-interest securities	17,547	15,097	(14.0)
Lease receivables	5,468	4,240	(22.5)
Shares and investments in other entities	4,610	4,459	(3.3)
Investment property	585	568	(2.9)
Total interest income	**111,236**	**97,809**	**(12.1)**
Interest expenses on:			
Deposits from customers and other banks [1]	36,005	24,744	(31.3)
Liabilities evidenced by paper	13,464	13,457	(0.1)
Investment property	211	192	(9.0)
Total interest expenses	**49,680**	**38,393**	**(22.7)**
Profit/(loss) from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	10,925	11,344	3.8
Financing costs of investments in entities accounted for using the equity method [2]	(822)	(303)	(63.1)
Profit/(loss) from investments in entities accounted for using the equity method	10,103	11,041	9.3
Net interest income	**71,659**	**70,457**	**(1.7)**

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

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

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Impairment allowances	20,625	24,937	20.9
Impairment reversals	(2,140)	(3,409)	59.3
Direct write-offs	334	570	70.7
Recoveries on receivables previously written off	(208)	(184)	(11.5)
Impairment charge on loans and advances	**18,611**	**21,914**	**17.7**

(3) NET FEE AND COMMISSION INCOME

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Fee and commission income from:			
Payment services	9,576	9,723	1.5
Securities operations	5,718	6,025	5.4
Credit operations	5,978	6,562	9.8
International operations	1,348	941	(30.2)
Other services	801	689	(14.0)
Total fee and commission income	**23,421**	**23,940**	**2.2**
Fee and commission expenses arising from:			
Payment services	619	769	24.2
Securities operations	409	381	(6.8)
Credit operations	187	212	13.4
International operations	102	227	122.5
Other services	91	82	(9.9)
Total fee and commission expenses	**1,408**	**1,671**	**18.7**
Net fee and commission income	**22,013**	**22,269**	**1.2**

(4) NET TRADING INCOME

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Price-based contracts	(7)	79	>100
Interest rate and currency contracts	1,076	735	(31.7)
Net trading income	**1,069**	**814**	**(23.9)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Staff costs	33,303	33,816	1.5
– Wages and salaries	23,837	24,061	0.9
– Social security costs	6,387	6,402	0.2
– Costs of retirement benefits	3,079	3,353	8.9
Other administrative costs	13,001	13,211	1.6
Depreciation/amortization	3,187	3,135	(1.6)
General administrative expenses	**49,491**	**50,162**	**1.4**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Other operating income	1,661	1,950	17.4
Other operating expenses	(1,504)	(2,434)	61.8
Other operating income net of other operating expenses	**157**	**(484)**	**(>100)**

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

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Revaluation gains and losses on derivatives	(879)	1,587	>100
Gain/(loss) as a result of using the fair value option	2,621	(899)	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	**1,742**	**688**	**(60.5)**

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

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(218)	1,624	>100
Profit/(loss) from available-for-sale financial assets	**(218)**	**1,624**	**>100**

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

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(2,985)	0	(100)
Profit/(loss) from held-to-maturity financial assets	**(2,985)**	**0**	**(100)**

(10) INCOME TAX EXPENSE

€k	1/1–30/6/2012	1/1–30/6/2013	+/(-) Change, %
Current tax	(3,771)	(2,431)	(35.5)
Deferred tax	493	(76)	(>100)
Income tax expense	**(3,278)**	**(2,507)**	**(23.5)**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2012	30/6/2013	+/(-) Change, %
Cash in hand	34,537	31,435	(9.0)
Credit balances with central banks of issue	47,212	47,276	0.1
Cash and balances with the central bank	**81,749**	**78,711**	**(3.7)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Receivables from Austrian banks	66,377	39,788	(40.1)
Receivables from foreign banks	62,040	65,692	5.9
Receivables from other banks	**128,417**	**105,480**	**(17.9)**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Corporate and business banking customers	3,871,029	3,907,761	0.9
Retail banking customers	1,091,307	1,098,233	0.6
Receivables from customers	**4,962,336**	**5,005,994**	**0.9**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2012	30/6/2013	+/(-) Change, %
At beginning of period under review	153,246	168,101	9.7
+ Added	42,348	22,065	(47.9)
– Reversed	(7,079)	(3,060)	(56.8)
– Used	(20,392)	(9,712)	(52.4)
+/(–) Exchange differences	(22)	133	>100
At end of period under review	**168,101**	**177,527**	**5.6**

(15) TRADING ASSETS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Bonds and other fixed-interest securities	0	0	—
Shares and other variable-yield securities	0	0	—
Positive fair values of derivative financial instruments			
– Currency contracts	237	380	60.3
Trading assets	**237**	**380**	**60.3**

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

€k	31/12/2012	30/6/2013	+/(-) Change, %
Bonds and other fixed-interest securities	92,735	109,003	17.5
Loans	112,978	92,078	(18.5)
Financial assets designated as at fair value through profit or loss	**205,713**	**201,081**	**(2.3)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Bonds and other fixed-interest securities	131,325	124,647	(5.1)
Shares and other variable-yield securities	87,222	81,160	(7.0)
Investments in subsidiaries and associates	31,869	32,636	2.4
Other equity investments	14,808	14,811	0.0
Available-for-sale financial assets	**265,224**	**253,254**	**(4.5)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Bonds and other fixed-interest securities	702,314	736,802	4.9
Held-to-maturity financial assets	**702,314**	**736,802**	**4.9**

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

€k	31/12/2012	30/6/2013	+/(-) Change, %
Oberbank AG	224,167	233,131	4.0
Bank für Tirol und Vorarlberg AG	111,892	116,952	4.5
Alpenländische Garantie-GmbH	964	964	0.0
Drei-Banken Versicherungs-AG	4,153	4,153	0.0
Investments in entities accounted for using the equity method	**341,176**	**355,200**	**4.1**

(20) INTANGIBLE ASSETS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Goodwill	5,414	5,414	0.0
Other intangible assets	2,545	2,149	(15.69)
Intangible assets	**7,959**	**7,563**	**(5.09)**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2012	30/6/2013	+/(-) Change, %
Land	2,774	2,636	(5.09)
Buildings	48,093	47,439	(1.49)
Other	11,309	9,799	(13.49)
Property and equipment	**62,176**	**59,874**	**(3.79)**

(22) INVESTMENT PROPERTY

€k	31/12/2012	30/6/2013	+/(-) Change, %
Land	8,167	8,291	1.5
Buildings	8,325	8,837	6.2
Investment property	**16,492**	**17,128**	**3.9**

(23) DEFERRED TAX ASSETS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Deferred tax assets	**19,825**	**21,068**	**6.3**

(24) OTHER ASSETS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Positive fair values of derivative financial instruments	8,737	12,415	42.1
Other items	17,548	19,863	13.2
Deferred items	2,613	3,241	24.0
Other assets	**28,898**	**35,519**	**22.9**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Payables to Austrian banks	1,111,156	1,038,998	(6.59)
Payables to foreign banks	335,255	352,462	5.1
Payables to other banks	**1,446,411**	**1,391,460**	**(3.89)**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Savings deposit balances	**1,797,864**	**1,790,891**	**(0.4)**
Corporate and business banking customers	244,645	246,245	0.7
Retail banking customers	1,553,219	1,544,646	(0.6)
Other payables	**1,747,926**	**1,864,856**	**6.7**
Corporate and business banking customers	1,205,649	1,283,301	6.4
Retail banking customers	542,277	581,555	7.2
Payables to customers	**3,545,790**	**3,655,747**	**3.1**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2012	30/6/2013	+/(-) Change, %
Issued bonds	402,398	449,140	11.6
Other liabilities evidenced by paper	177,546	122,256	(31.1)
Liabilities evidenced by paper	**579,944**	**571,396**	**(1.5)**

(28) TRADING LIABILITIES

€k	31/12/2012	30/6/2013	+/(-) Change, %
Interest rate contracts	282	441	56.4
Trading liabilities	**282**	**441**	**56.4**

(29) PROVISIONS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	70,359	71,077	1.0
Provisions for taxes (current taxes)	129	196	51.9
Other provisions	10,801	11,374	5.3
Provisions	**81,289**	**82,647**	**1.7**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2012	30/6/2013	+/(-) Change, %
Deferred tax liabilities	**10,871**	**11,583**	**6.5**

(31) OTHER LIABILITIES

€k	31/12/2012	30/6/2013	+/(-) Change, %
Negative fair values of derivative financial instruments	47,620	25,224	(47.0)
Other items	15,641	22,990	47.0
Deferred items	1,619	640	(60.5)
Other liabilities	**64,880**	**48,854**	**(24.7)**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2012	30/6/2013	+/(-) Change, %
Supplementary capital	196,655	196,600	0.0
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**236,655**	**236,600**	**0.0**

(33) SEGMENTAL REPORTING

Method: Net interest income was subdivided using the *market interest rate method*. Incurred costs were allocated to the individual business segments on a cost-by-cause basis. So-called *structural income* was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was calculated 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		Corporate and Business Banking		Financial Markets	
	H1 2012	H1 2013	H1 2012	H1 2013	H1 2012	H1 2013
Net interest income	15,737	15,787	44,043	40,479	11,642	13,862
Impairment charge on loans and advances	(370)	(736)	(18,282)	(20,349)	41	(829)
Net fee and commission income	10,207	10,128	11,348	12,007	272	108
Net trading income	0	0	0	0	1,069	814
General administrative expenses	(25,840)	(25,644)	(19,477)	(19,692)	(2,630)	(3,194)
Other operating income net of other operating expenses	416	484	567	852	2	22
Profit/(loss) from financial assets	0	0	0	0	(1,461)	2,312
Profit for the period before tax	**150**	**19**	**18,199**	**13,297**	**8,935**	**13,095**
Average risk-weighted assets	567,467	566,352	3,208,010	3,288,204	607,063	553,419
Average allocated equity	45,397	45,810	256,641	263,056	349,707	379,898
ROE based on profit for the period	**0.7%**	**0.1%**	**14.2%**	**10.1%**	**5.1%**	**6.9%**
Cost:income ratio	**98.0%**	**97.1%**	**34.8%**	**36.9%**	**20.3%**	**21.6%**
Risk:earnings ratio	**2.4%**	**4.7%**	**41.5%**	**50.3%**	**(0.4%)**	**6.0%**

€k	Other		Total	
	H1 2012	H1 2013	H1 2012	H1 2013
Net interest income	237	329	71,659	70,457
Impairment charge on loans and advances	0	0	(18,611)	(21,914)
Net fee and commission income	186	26	22,013	22,269
Net trading income	0	0	1,069	814
General administrative expenses	(1,544)	(1,632)	(49,491)	(50,162)
Other operating income net of other operating expenses	(828)	(1,842)	157	(484)
Profit/(loss) from financial assets	0	0	(1,461)	2,312
Profit/(loss) for the period before tax	**(1,949)**	**(3,119)**	**25,335**	**23,292**
Average risk-weighted assets	44,651	40,211	4,427,191	4,448,188
Average allocated equity	6,638	6,282	658,383	695,046
ROE based on profit for the period	**—**	**—**	**7.7%**	**6.5%**
Cost:income ratio	**—**	**—**	**52.2%**	**53.9%**
Risk:earnings ratio	**—**	**—**	**26.0%**	**31.1%**

(34) CONSOLIDATED EQUITY

€k	31/12/2012	30/6/2013	+/(-) Change, %
Subscribed capital	65,520	65,520	0
– Share capital	65,520	65,520	0
Capital reserves	97,929	97,929	0
Retained earnings and other reserves	524,844	538,350	2.6
Equity before minority interests	688,293	701,799	2.0
Minority interests	(7)	(8)	14.3
Consolidated equity	**688,286**	**701,791**	**2.0**

The share capital was represented by 30,960,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. The line item *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. At the end of the first half, eligible own funds came to €689.1 million (31 December 2012: €709.5 million). Surplus own funds came to €334.1 million (31 December 2012: €352.9 million). The external capital adequacy requirements were met throughout 2012 and the first half of 2013.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2012	30/6/2013	+/(-) Change, %
Guarantees	391,831	401,702	2.5
Letters of credit	3,122	2,359	(24.4)
Contingent liabilities	394,953	404,061	2.3
Other commitments	588,249	566,074	(3.8)
Commitments	**588,249**	**566,074**	**(3.8)**

(36) RELATED PARTY DISCLOSURES IN ACCORDANCE WITH IAS 24

€k	31/12/2012	30/6/2013	+/(-) Change, %
Advances and loans granted to members of the Management Board and Supervisory Board and close relatives	478	658	37.7
Deposit balances of members of the Management Board and Supervisory Board and close relatives	2,123	2,784	31.1

(37) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place at BKS Bank after the interim reporting date (30 June 2013) affecting the assets, liabilities, financial position or profit or loss as presented in this report.

(38) FAIR VALUES

30/6/2013 €k	LEVEL 1 Market Value	LEVEL 2 Based on Market Data	LEVEL 3 Internal Valuation Methodology	Total Fair Value	Carrying Amount 30/6/2013	Difference Between Fair Value and Carrying Amount
Assets						
Receivables from other banks	0	105,553	0	105,553	105,480	73
Receivables from customers	0	5,064,438	0	5,064,438	5,005,994	58,444
Financial assets designated as at fair value through profit or loss	92,078	109,003	0	201,081	201,081	0
Available-for-sale financial assets	235,517	0	17,737	253,254	253,254	0
Held-to-maturity financial assets	790,938	0	0	790,938	736,802	54,136
Investments in entities accounted for using the equity method	294,213	0	5,117	299,330	355,200	(55,870)
Equity and liabilities						
Payables to other banks	0	1,395,202	0	1,395,202	1,391,460	3,742
Payables to customers	0	3,677,876	0	3,677,876	3,655,747	22,129
Liabilities evidenced by paper	453,791	122,039	0	575,830	571,396	4,434
Subordinated debt capital	235,432	2,350	0	237,782	236,600	1,182

31/12/2012 €k	LEVEL 1 Market Value	LEVEL 2 Based on Market Data	LEVEL 3 Internal Valuation Methodology	Total Fair Value	Carrying Amount 30/6/2013	Difference Between Fair Value and Carrying Amount
Assets						
Receivables from other banks	0	128,500	0	128,500	128,417	83
Receivables from customers	0	5,029,388	0	5,029,388	4,962,336	67,052
Financial assets designated as at fair value through profit or loss	92,735	112,978	0	205,713	205,713	0
Available-for-sale financial assets	247,489	0	17,735	265,224	265,224	0
Held-to-maturity financial assets	773,600	0	0	773,600	702,314	71,286
Investments in entities accounted for using the equity method	290,899	0	5,117	296,016	341,176	(45,160)
Equity and liabilities						
Payables to other banks	0	1,450,209	0	1,450,209	1,446,411	3,798
Payables to customers	0	3,576,223	0	3,576,223	3,545,790	30,433
Liabilities evidenced by paper	404,736	176,729	0	581,465	579,944	1,521
Subordinated debt capital	234,013	2,350	0	236,363	236,655	(292)

Those two tables 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 Value* column were determined by prices quoted on active markets (stock exchange). If market values were unavailable, fair value was ascertained using customary valuation models and observable input factors and market data and presented in the category *Level 2 Based on Market Data* (e.g. by discounting future cash flows from financial instruments). In general, the fair values shown in this category were measured using market data that were observable for the asset or liability (e.g. yield curve, foreign exchange rates). In general, items in the category Level 2 were measured using present value techniques. In the category *Level 3 Internal Valuation Methodology*, the values of individual financial instruments were measured on the basis of generally accepted valuation methods. If their fair value could not be reliably ascertained, available-for-sale equity investments were recognized at their carrying amounts.

During the period under review, liabilities evidenced by paper worth roughly €40 million were reclassified from Level 2 to the category Level 1. Reclassifications between the individual categories were carried out if market values (Level 1) or reliable input factors (Level 2) were no longer available or if market values (Level 1) became newly available for individual financial instruments (e.g. because of an IPO). There were no changes to the valuation models.

Level 3: Movements in H1 2013

€k	At 31/12/2012	Income Statement	Other Gains/(Losses)	Purchased	Sold	At 30/6/2013
Available-for-sale financial assets	17,735	0	2	0	0	17,737
Investments in entities accounted for using the equity method	5,117	0	0	0	0	5,117
Total	**22,852**	**0**	**2**	**0**	**0**	**22,854**

(39) BALANCE OF DERIVATIVES OUTSTANDING

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

30/6/2013	Nominal, by Term to Maturity				Fair Value	
€k	< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**572,623**	**937,580**	**—**	**1,510,203**	**7,730**	**6,320**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**170,000**	**488,651**	**254,720**	**913,371**	**3,904**	**15,210**
– Of which in trading book	—	19,213	18,190	37,403	176	178
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**742,623**	**1,426,231**	**254,720**	**2,423,574**	**11,634**	**21,530**
– Of which in trading book	—	19,213	18,190	37,403	176	178

31/12/2012	Nominal, by Term to Maturity				Fair Value	
€k	< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**907,708**	**951,000**	**—**	**1,858,708**	**1,747**	**19,657**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**182,170**	**710,726**	**134,744**	**1,027,640**	**6,707**	**24,481**
– Of which in trading book		19,602	6,404	26,006	80	79
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,089,878**	**1,661,726**	**134,744**	**2,886,348**	**8,454**	**44,138**
– Of which in trading book		19,602	6,404	26,006	80	79

(40) MATERIAL TRANSACTIONS WITH RELATED PARTIES AND PERSONS

No transactions took place during the first six months of this financial year with related parties or persons that materially affected the enterprise's financial position or business profit or loss in that period.

Statement by BKS Bank's Management

"We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the six months ended 30 June 2013 prepared in accordance with the effective financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Group Management Report for the period from 1 January to 30 June 2013 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to the important events occurring during the first six months of the financial year and their impact on the Consolidated Interim Financial Statements with respect to the material risks and uncertainties for the remaining six months of the financial year."

Klagenfurt am Wörthersee
20 August 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 of the Management Board

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 of the Management Board

Member of the Management Board responsible for Risk Management, Risk Controlling, the Credit Back Office, Business Organization and IT and *3-Banken-EDV Gesellschaft*.

Wolfgang Mandl
Member of the Management Board

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

Financial Calendar for 2013

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
15 May 2013:	74th Ordinary General Meeting (AGM)
17 May 2013:	Ex-dividend date
21 May 2013:	Dividend payment date

BKS Bank's Interim Reports

24 May 2013:	Interim Report as at and for the 3 months ended 31 March 2013
23 August 2013:	Semi-Annual Report as at and for the 6 months ended 30 June 2013
29 November 2013:	Interim Report as at and for the 9 months ended 30 September 2013

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