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Semi-annual Financial Report

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements

This Interim Report as at and for the six months ended 30 June 2014 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are assessments made by us on the basis of all the information available to us on the copy deadline date, which was 19 August 2014. If the assumptions upon which those forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

Disclaimer

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

Overview of the BKS Bank Group

THREE-YEAR COMPARISON

Income account, €m	H1 2012	H1 2013	H1 2014
Net interest income	71.7	70.5	78.3
Impairment charge on loans and advances	(18.6)	(21.9)	(27.0)
Net fee and commission income	22.0	22.3	23.6
General administrative expenses	(49.5)	(50.2)	(52.0)
Profit for the period before tax	25.3	23.3	24.6
Profit for the period after tax	22.1	20.8	21.1

Balance sheet data, €m	31/12/2012	31/12/2013	30/6/2014
Assets	6,654.4	6,743.8	6,900.0
Receivables from customers after impairment charge	4,794.2	4,874.2	4,873.0
Primary deposit balances	4,362.4	4,597.5	4,943.7
– Of which savings deposit balances	1,797.9	1,741.2	1,721.9
– Of which liabilities evidenced by paper, including subordinated debt capital	816.5	813.9	839.3
Equity	688.3	714.2	732.8
Customer assets under management	10,674.9	11,383.4	12,634.4
– Of which in customers’ securities accounts	6,312.5	6,785.9	7,690.7

Own funds within the meaning of BWG, €m (2014: Basel III)	31/12/2012	31/12/2013	30/6/2014
Risk-weighted assets	4,457.9	4,423.3	4,912.8
Own funds	709.5	707.6	738.5
– Of which Tier 1 capital (common equity Tier 1 in conformity with Basel III from 1/1/2014)	630.7	662.5	606.7
Surplus own funds before operational risk	352.9	353.8	—
Surplus own funds after operational risk	325.8	326.8	—
Surplus own funds for the purposes of Basel III	—	—	345.5
Tier 1 ratio, % (common equity Tier 1 in conformity with Basel III from 1/1/2014)	13.1	13.9	12.4
Own funds ratio, % (own funds ratio in conformity with Basel III from 1/1/2014)	15.9	16.0	15.0

Performance, %	31/12/2012	31/12/2013	H1 2014
Return on equity before tax	7.5	6.5	6.9
Return on equity after tax	6.5	5.8	6.1
Cost:income ratio	54.1	54.3	51.4
Risk:earnings ratio (credit risk in % of net interest income)	27.0	29.2	34.5

Resources	2012	2013	H1 2014
Average number of staff	930	910	915
Branches	55	56	56

BKS Bank’s shares	2012	2013	H1 2014
No. of ordinary no-par shares (ISIN: AT0000624705)	30,960,000	30,960,000	30,960,000
No. of no-par preference shares (ISIN: AT0000624739)	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	17.6/15.5	17.6/15.3	17.8/15.6
Low: ordinary/preference share, €	17.2/14.9	17.0/14.5	17.2/15.0
Close: ordinary/preference share, €	17.3/15.0	17.5/15.3	17.4/15.2
Market capitalization, €m	562.6	569.3	566.0

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

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

We welcome you very warmly to our second Shareholders Letter in 2014 and invite you to discover more about your bank's business performance during the first six months of this year. The tables section in this report presents the BKS Bank Group's operational results as well as core data for the *3 Banken Group*.

Despite adverse conditions in the banking industry, we are able to report a respectable semi-annual result. Profit before tax was 5.5 per cent up on the first half of 2013 to €24.6 million. The Group's assets grew by 2.3 per cent to roughly 6.9 billion during the first six months of 2014. We continued to be uncompromising in our liquidity and risk management activities. In addition, at mid-2014, we also had a solid capital base for the purposes of Basel III. BKS Bank thus continued to have ample own funds under the new regulatory regime with a common equity Tier 1 ratio of 12.4 per cent, an own funds ratio of 15.0 per cent and surplus own funds of €345.5 million. In order to secure its prudent and sustainable expansion path, BKS Bank announced plans for a increase in its capital (probably by way of a 1-for-10 share entitlement issue) to about €72 million on 5 August. It will be carried out to further reinforce the company's Tier 1 capital and safeguard growth in its core operations. To this end, we have passed an appropriate basic resolution based on the share capital authorized by the AGM in 2011. The remaining board decisions by the Management Board and Supervisory Board of BKS Bank and the preparation, approval and publication of a capital market prospectus in accordance with the legislative requirements are still outstanding. Based on the current stock exchange price, the proceeds from the issue will be about €50 million.

Consolidated Management Report for the Six Months Ended 30 June 2014

The Economic Setting in which Banks are Operating

The global economy continued to recover, although the pace of growth slowed slightly during the first half of 2014 as a result of temporary factors affecting mainly the United States and China. Growth was braked by an unusually harsh winter in the United States and closures of heavy industrial plants in China carried out to curtail runaway air pollution. At the moment, the underlying trend is a shift in economic growth in favour of the industrialized countries. However, overall, the global recovery during 2014 is likely to be modest, with real GDP growing by 3.3 per cent. Weak domestic demand, bigger capital outflows and the sagging propensity to invest have flattened economic growth in the threshold and the developing countries. The US central bank's announcement that it would be gradually reducing its bond purchases has hit currencies and growth in, among others, Turkey, India and Indonesia. Real growth in the United States is expected to come to 2.2 per cent in 2014, and growth is likely to increase further to 3.1 per cent in 2015. As solid retail revenues and the rise in consumer confidence show, private consumption is still growing robustly. Industrial output, foreign trade and orders received by manufacturers of consumer goods have picked up again after a weak first quarter. The Fed's sustained accommodating monetary policy and the abrupt recovery of the property and job markets in the wake of the fracking-driven boom in the energy sector suggest that the economy will revive in the medium term. However, the persistently large number of long-term unemployed and part-time workers is a concern.

Following a moderate 0.2 per cent increase in GDP in the first quarter of 2014 that was driven by the German economic motor, the overall economic forecast for the eurozone at the middle of 2014 was one of rising wage growth, a downtrend in energy prices, cheaper financing terms, progress carrying out structural reforms and a gradual solidification of foreign demand. Averaged over the year, real GDP in the eurozone is expected to grow by 1.0 per cent in 2014, 1.6 per cent in 2015 and 1.8 per cent in 2016. On the other hand, the jobless rate in the eurozone is still worryingly high (June: 11.5 per cent according to *Eurostat*). It should be noted that the economic outlook in the crisis regions of southern Europe is proving slow to brighten despite isolated reports of success because a great deal of consolidation is still needed in the private and pubic sectors, unemployment is high and there are unused capacities.

So far this year, the Austrian economy has been affected by the marked weakening of the economies of the threshold countries and a eurozone recovery that remained very fragile. The growth in private household consumption was only marginal, though public sector consumption grew more. Gross fixed capital formation continued to stagnate. Although the improvement in financing terms increased investment in residential construction, property prices rose and the demand for residential property was high, the cyclically sensitive investments in capital equipment fell again. The growth of Austria's GDP in the first quarter of 2014 was only slow, at 0.2 per cent, but a number of leading indicators — including, in particular, orders received and on hand in the industrial sector — suggest that there will be a return to a slightly steeper growth path in quarters to come. The Austrian economy having grown by a total of 0.3 per cent in 2013, growth is likely to accelerate to 1.4 per cent in 2014 and 1.7 per cent in 2015. However, we face incalculable risks in the foreign trade and geopolitical environment against the backdrop of spiralling and indescribable atrocities in eastern Ukraine and the Middle East — and, above all, the outlook for Austrian exporters is being affected by uncertainty about the future political direction in Austria's southern and eastern neighbours. Because of the underutilization of capacities and rapid growth in the labour supply, there is still considerable strain in the labour market. Nonetheless, Austria's jobless rate of 5.0 per cent in June was well below the EU average of 10.2 per cent.

The European banking sector had a relatively quiet first half of 2014, but it came under temporary strain because of the crisis in the Ukraine. In most eurozone countries, loan portfolios grew just slowly or actually shrank. Deposit operations were hit by persistently low interest rates, but on the other hand, they profited from the growth in private household incomes and good corporate profits. Reflecting the trend away from balance sheet growth and the low level of interest rates, banks' issuances in the capital markets were still well below the historical average. At the moment, the ECB and national regulatory authorities are carrying out an extensive asset quality review of significant banking groups, including six Austrian institutions, and a stress test based on it. The aim is to boost transparency and confidence in the banking sector.

There were no major movements in exchange rates in the second quarter or over the first half of 2014. Above all, they mirrored expectations regarding the future direction of the ECB's monetary policy and market participants' appraisals of the eurozone's economic outlook versus the outlooks of other economies. The euro was static versus the US dollar between the beginning of the year and the end of the period under review, gaining marginally, by 0.7 per cent, to US$1.3658/€, in the second quarter. Because of the minimum exchange rate, the euro's exchange rate versus the Swiss franc also moved within a narrow range to stand at SFr 1.2156/€ at the end of June. The exchange rate of the Japanese yen flattened marginally to €1.3844/¥100 during the first half. The Croatian kuna, which is of importance to our bank, was trading at HRK 7.5760/€ at the end of June. Movements in the euro versus the currencies of the threshold countries in Asia and the raw material exporting countries lacked homogeneity during the period under review. However, they did mirror the trend of shifting capital from threshold countries to industrial regions and, therefore, *inter alia*, of re-investing it in eurozone countries.

As for developments in the money and capital markets, it should be noted that the ECB Council adopted during its meeting on 5 June 2014 a series of measures to further ease its monetary policy and promote lending to the real economy. The interest rate on main refinancing operations in the euro system was cut by 10 basis points to 0.15 per cent and the peak refinancing rate was cut by 35 basis points to 0.40 per cent with effect from 11 June. The deposit facility rate was cut by 10 basis points to — for the first time — minus 0.10 per cent. Since then, the negative interest rate has also applied to reserve balances in excess of the minimum reserve and some other deposits in the euro system. At the end of June, the Euribor rates for one-month, three-month, six-month and 12-month deposits were 0.10 per cent, 0.21 per cent, 0.30 per cent and 0.49 per cent, respectively. This was about seven to 12 basis points below their levels at 31 March and 31 December 2013. The yields on AAA-rated government bonds in the eurozone and in the United States continued to fall in the first half of 2014. Benchmark yields in the eurozone fell by about 68 basis points to a historical low of 1.25 per cent; they fell by 50 basis points to 2.53 per cent in the United States; and they flattened from 0.74 per cent to 0.57 per cent in Japan. It is worth noting that the yield gaps between the government debt securities of a number of eurozone countries narrowed as investor confidence grew. This was evidenced by the strong demand for newly issued Spanish and Portuguese government bonds.

The uptrend in the international equity markets was given wings by encouraging company numbers, higher investor confidence, the big central banks' easing of their monetary policies and, not least, by the ECB's latest package of measures. It took key indices like the DJIA, S&P 500 and DAX to all-time highs. However, the positive mood was temporarily dampened by fears of a premature departure from the central banks' cheap money policy, worries about China's financial stability and the geopolitical hot spots in Eastern Europe and the Middle East. On the other hand, uncertainty in the equity markets expressed in terms of implicit volatilities fell to its lowest level since the end of 2005 or the beginning of 2007, respectively, coming to 14 per cent in the eurozone and just 9 per cent in the United States. Overall, share prices in the eurozone expressed in terms of the broad Dow Jones Euro STOXX index had risen 3.8 per cent to 3,228.24 points by the end of June. The DAX gained 4.6 per cent to 9,833.07 points during the period under review, while the Standard & Poor's 500 index in the United States gained about 6.1 per cent to 1,960.23 points. The Dow Jones Industrial Average rose 1.5 per cent to 16,956.07 points. The MSCI World Equity Index in euros stood at 130.03 points at the end of June, having gained 5.6 per cent since during the first half. On the Vienna Stock Exchange, the ATX stood at just 2,500.85 points at the end of June and was therefore 1.8 per cent down on the end of 2013. The BKS Bank ordinary no-par share closed 30 June at €17.40, and the BKS Bank no-par preference share was trading at €15.15. At the end of the first half, BKS Bank had market capitalization of about €566 million, which was just down on the close of 2013.

Notes on the Scope of Consolidation

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

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

Our investments in our sister banks *Oberbank AG* und *Bank für Tirol und Vorarlberg AG* — which make up the *3 Banken Group* together with *BKS Bank AG* — were also accounted for in the Consolidated Financial Statements, using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of those banks, holding stakes of 18.51 per cent and 15.10 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those two banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. Consolidated net profit for the period in the six months ended 30 June 2014 included BKS Bank's interests in those banks' profit for the period. The other consolidated entities, most of which were designated as real estate companies, rendered banking-related ancillary services.

THE MEMBERS OF THE GROUP

Consolidated
Accounted for using the equity method

Banks and Other Financial Service Providers

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

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

Other Consolidated Entities

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

Assets, Liabilities, Financial Position

Assets

Small increase in balance sheet total, credit demand begins to grow

The BKS Bank Group's assets increased by €156.2 million or 2.3 per cent versus 31 December 2013 to total €6.90 billion at the end of the period under review. This was due to increases in the line items *Cash and balances with the central bank* and *Receivables from other banks*. A net total of €12.5 million was added to the balance of impairment allowances for receivables from customers, which totalled €188.6 million at the end of the first half.

The short-term investment of surplus liquidity with banks of high credit standing increased the line item *Receivables from other banks* by €92.5 million to €209.4 million. The line item *Cash and balances with the central bank* was increased to €152.9 million, compared with €104.8 million at the end of 2013.

It proved possible to keep *Receivables from customers* at roughly the same high level as at the end of 2013, at €5.06 billion. Although the recovery of the economic environment has been sluggish to date, current business growth gives us confidence. The volume of new business in the corporate and business banking segment in Austria was now only just below expectations at €314.0 million. Meanwhile, new business in the retail banking segment came to €69.1 million, meaning that its growth in the first half was as planned.

After the elimination of intragroup balances, *BKS Bank AG* accounted for €4.60 billion of the consolidated loan portfolio. This was only marginally down on the end of 2013 following a decrease of €5.6 million. However, there had still been an increase of €46.2 million in the same period of the previous year. In other words, the economic situation in Austria and Slovenia was still gloomy. Nonetheless, growth in the personal banking customer base at our Slovenian branches remained excellent, even if it was primarily driven by new depositors.

Leasing operations in Austria developed better than expected. New business volumes in the corporate and business banking segment were well above target in the first half of 2014. The present value of the receivables of our leasing subsidiaries abroad — in Slovenia, Slovakia and Croatia — came to €149.0 million, which was just above the figure of €146.8 million recorded at the end of 2013. While there was growth in Slovenia and Slovakia, the portfolio in Croatia shrank.

BKS Bank d.d. remained on its steady and cautious growth path during the first and second quarters of 2014. At 30 June 2014, its receivables from customers came to €124.8 million, which was €12.9 million up on 31 December 2013. Our strategic focus at *BKS Bank d.d.* continued to be on the development of retail customer operations.

We went on reducing the portfolio of foreign currency loans. Overall, the portfolio of Swiss franc loans shrank by 145 loans with a value of SFr 42.1 million during the first half of 2014. This was in conformity with bank regulator recommendations regarding the reduction of foreign exchange and repayment vehicle risks. As in prior periods, we encouraged switches from Swiss franc bullet loans to instalment loans or euro loans. By 30 June 2014, the proportion of foreign currency loans in relation to total loans in the portfolio had fallen to just 10.3 per cent, compared with 10.6 per cent at the end of the previous quarter and 10.9 per cent at 31 December 2013.

Inhomogeneous development of financial assets

During the half year under review, the line item *Financial assets* increased by €13.6 million or 0.9 per cent to €1.53 billion. Whereas the held to maturity portfolio of fixed-interest securities grew by €23.1 million, the available for sale portfolio was reduced by €16.4 million and the portfolio of assets designated as at fair value through profit or loss shrank by €10.7 million. Because interest rates had fallen to historical lows, returns on investments were unattractive. The secondary market yield on Austrian federal bonds fell from 1.23 per cent at the beginning of the year to just 0.94 per cent at the end of June, and it went on dropping, reaching 0.85 per cent at the time of writing.

Investments in entities accounted for using the equity method increased by €17.6 million to €378.7 million. The increase was mainly attributable to our interests in our sister banks Oberbank and BTV.

Equity and liabilities

Marked inflow of primary deposits

Developments on the equity and liabilities side of the account were primarily a reflection of the pleasing inflow of so-called 'primary' deposits. At the end of June, the primary deposit balances entrusted to us by customers came to €4.94 billion and thus accounted for roughly 72 per cent of the total consolidated balance sheet total. Because of the low level of interest rates and flat interest structure curve, there was a significant increase in call deposits. Reflecting developments in the market, our bank too found it extremely difficult to attract savings deposits during the first half. However, we were able to keep the decline in savings deposit balances within narrow boundaries, resulting in a fall of €19.3 million or 1.1 per cent to €1.72 billion. In contrast, the line item *Other liabilities*, comprising sight and time deposit balances, grew strikingly, increasing by €340.1 million or 16.7 per cent to a total of €2.38 billion. This line item was strengthened mainly by institutional clients. The big increase in deposits in Slovenia is also noteworthy, with deposit balances there growing by €94.2 million or 26.3 per cent to total €452.8 million at the end of June.

The historically low capital market rates made it more difficult to issue one's own bonds. Nonetheless, as we had budgeted for, we were able to increase the line item *Liabilities evidenced by paper* by €31.0 million or 5.2 per cent to €622.1 million during the first half of 2014. A series of new issuances — including the 2.4 per cent *BKS Bank-Obligation 2014 – 2021/1* and the *BKS Bank-Stufenzins-Obligation 2014 – 2021/3* — made up for scheduled redemptions totalling €50.0 million. Covered bank bonds were also an important long-term source of funds. In the course of the half year, we increased the cover pool by €5.9 million to €159.1 million. This compared with issuances that raised proceeds of €102.4 million. Between the beginning of the year and the end of the period under review, our subordinated debt capital was reduced to €217.3 million following a new issuance — the 5 per cent *BKS Bank Nachrangige Obligation 2014 – 2023/2* — and scheduled redemptions.

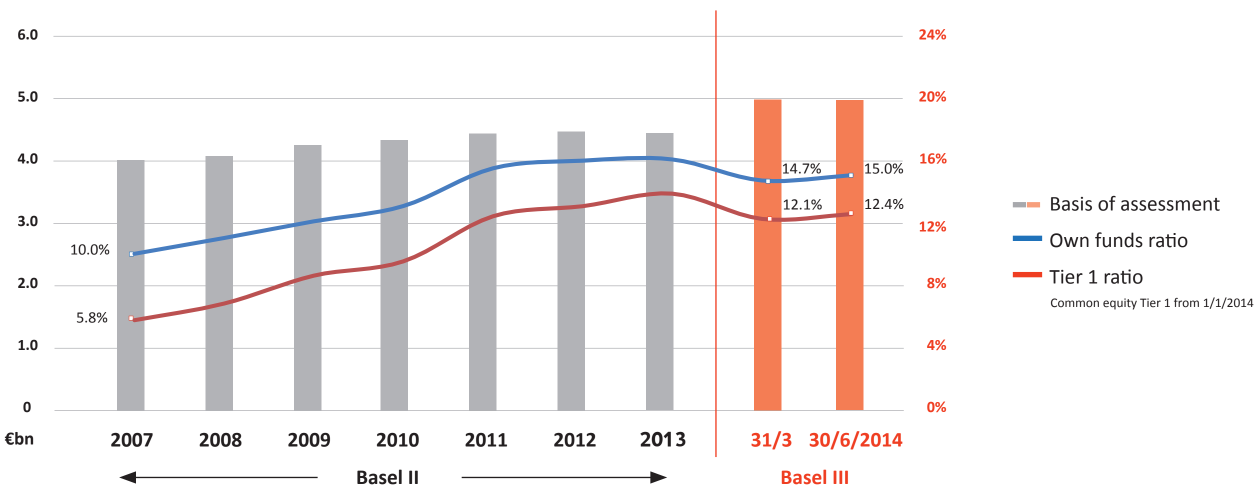
Satisfactory equity growth

The line item *Equity* increased by €18.6 million to €732.8 million during the first half of 2014. The increase was mainly due to the addition of profit for the period.

Own Funds

The way we calculate our own funds changed fundamentally when Basel III was implemented by the new EU legislation (CRD IV and CRR) and to conform to the amended *Bankwesengesetz* (BWG: Austrian banking act). Our bank submitted the required data and calculations to the bank regulators on schedule. This was made possible by a well executed project and the outstanding expertise of the staff who were involved.

OWN FUNDS



BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS FOR THE PURPOSES OF BASEL III		
€m	31/3/2014	30/6/2014
Share capital	64.8	64.8
Reserves less intangible assets	541.8	541.9
Deductions	0	0
Common equity Tier 1	**606.6**	**606.7**
Common equity Tier 1 ratio	12.1%	12.4%
Hybrid capital	32.0	32.0
Deductions	(22.2)	(22.4)
Additional Tier 1	**9.8**	**9.6**
Tier 1	**616.4**	**616.4**
Tier 1 ratio (including additional Tier 1 capital)	12.3%	12.6%
Ancillary capital items and instruments	128.4	131.3
Deductions	(9.1)	(9.1)
Ancillary capital	**119.3**	**122.2**
Total own funds	**735.7**	**738.5**
Own funds ratio	14.7%	15.0%
Basis of assessment	**4,996.5**	**4,912.8**
Surplus own funds	**336.0**	**345.5**

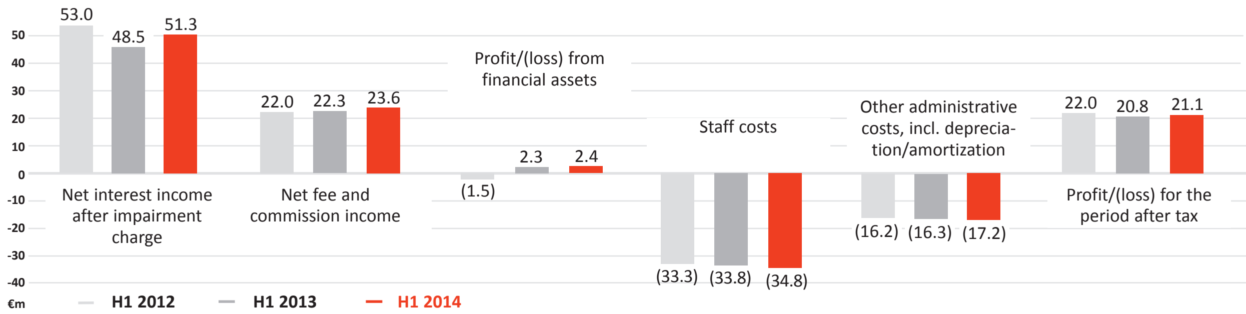
BKS Bank now calculated its own funds ratio and basis of assessment in accordance with the own funds regime established by Basel III. The own funds requirement was computed in line with the requirements of the standardized approach. At the end of 2013, the basis of assessment — still computed in conformity with Basel II — was €4.42 billion. The requisite new additions arising from, among others, credit, market and operational risk increased it to €4.91 billion by the end of June. This gave BKS Bank common equity Tier 1 capital of €606.7 million, own funds of €738.5 million and surplus own funds of €345.5 million at the end of the first half. Its own funds ratio for the purposes of CRR was 15.0 per cent and its common equity Tier 1 ratio came to 12.4 per cent. The minimum common equity Tier 1 ratio in 2014 will 4 per cent, and the minimum total capital requirement will be 8 per cent.

Performance

Satisfactory profit growth

Overall, the uncertainty among our customers and participants in the money and capital markets has eased somewhat this year. *Profit for the period before tax* in the first half of 2014 came to a satisfactory €24.6 million, compared with €23.3 million in the same period of 2013. This was a reflection of our bank's stable development. *Consolidated profit for the period* grew by €279.2 thousand or 1.3 per cent to €21.1 million, with every subsidiary in Austria and abroad contributing to its stabilization. This growth mirrored above all a significant improvement in *Net interest income before the impairment charge*, which increased by 11.1 per cent or €7.8 million compared with the first half of 2013 to total €78.3 million. The historically low level of market interest rates reduced interest expenses by €6.3 million or 16.4 per cent to €32.1 million. This was primarily attributable to the low interest rates paid on savings deposits. On the other hand, interest income increased to €98.0 million and was therefore slightly up on the same period of 2013. We were also pleased with the development of our *Profit from investments in entities accounted for using the equity method*, which grew by €1.3 million or 12.1 per cent to €12.4 million.

Components of the Income Statement



The generally positive overall picture was marred solely by the need to increase our impairment charge on loans and advances by 5.1 million to €27.0 million in the first half as we applied our usual strict risk standards in both Austria and Slovenia to allow for the persistent gloom on the economic horizon.

Net fee and commission income in the first half came to €23.6 million, as against €22.3 million in the first six months of 2013. Once again, it built on its good development in the pre-crisis years. Earnings from payment services (up 5.1 per cent to €9.4 million), securities services (up 5.5 per cent to €6.0 million), foreign currency and notes and coin operations (up 36.1 per cent to €1.0 million) and credit operations (up 3.5 per cent to €6.6 million) were all very satisfactory given the intensity of the competitive environment in our principal markets. Looking at our earnings from securities operations, we point out that the benefits for our Slovenian branch of taking over the securities operations of *Factor banka* came to €100 thousand in June alone. Group-wide, securities portfolios were worth €7.69 billion in the middle of 2014, compared with €6.79 billion at the end of the first half of 2013.

Contrary to the rather pessimistic expectations, our *Profit from financial assets* increased significantly, growing by €132 thousand or 5.7 per cent to €2.44 billion. *Profit/(loss) from financial assets designated as at fair value through profit or loss* came to positive €0.8 million. Use was made of the uptrend in the capital markets in the available for sale segment, generating earnings of €1.6 million.

General administrative expenses in the six months to the middle of 2014 remained a reflection of our continued consistent cost management activities in recent quarters, coming to €52.0 million. The increase of five in the workforce to 915 (full time equivalents) — caused primarily by our takeover of *Factor banka*'s securities operations — increased *Staff costs* by just 2.8 per cent compared with the same period of 2013 to €34.8 million.

Other administrative costs also painted a harmonious picture, increasing from €13.2 million in the first half of 2013 to €14.0 million in the period under review. We again maintained particularly strict cost discipline when it came to discretionary expenses.

Other operating expenses were significantly higher than in the same period of 2013, increasing by roughly €1.5 million or 60.2 per cent to €3.9 million. This was because the bank tax payable to the inland revenue increased by €0.6 million and we had to create provisions for possible damages payments in the securities segment.

Segmental Reports

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

Corporate and Business Banking

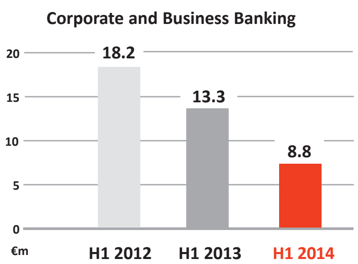
We were servicing over 14,000 corporate and business banking customers in this segment at the end of June. Alongside major customers, they mainly consisted of small and medium-sized enterprises in the manufacturing, business and trading sectors. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed 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. Because the demand for credit was still slow, the portfolio of loans to corporate and business banking customers at 30 June 2014 was virtually unchanged compared with the end of 2013 at €3.93 billion. As before, roughly 78 per cent of all loans and advances to customers in the Group had thus been granted to this group of customers at the end of June 2014.

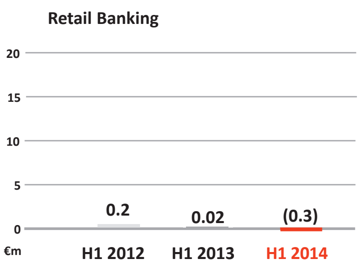
Although net interest income in this segment totalled €40.4 million in the six months to the end of the first half and was therefore in line with its satisfactory level in the first half of 2013, when it came to €40.5 million, it was still below our expectations in the face of slack new business and eroding margins. On the other hand, net fee and commission income grew by €0.2 million or 2.0 per cent to €12.2 million. Thanks to synergistic effects, we were able to reduce general administrative expenses in this segment by €0.5 million or 2.6 per cent compared with the same period of 2013 to €19.2 million. The impairment charge in the corporate and business banking segment went up by €5.1 million to €25.4 million. This was a necessary measure that increased the segment's risk:earnings ratio by 12.7 percentage points to 63.0 per cent. As a result, the segment's profit for the period before tax was €4.5 million down on the same period of 2013 to €8.8 million. The cost:income ratio management indicator improved by 100 basis points to 35.9 per cent, but the return on equity in this segment based on profit for the period fell from 10.1 per cent to 6.8 per cent.

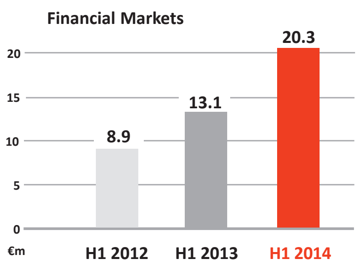
Retail Banking

Approximately 133,700 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies were being serviced in the retail banking segment. They included some 2,800 securities customers absorbed by our branch in Ljubljana during the takeover of the securities operations of *Factor banka* in Slovenia. Net interest income was considerably up on the first half of 2013, increasing by €1.5 million or 9.6 per cent to €17.3 million. Similarly, net fee and commission income increased by €0.8 million or 8 per cent to €10.9 million. An impairment charge of €1.2 million was required in the first half. The result was a risk:earnings ratio of 7.1 per cent, as against 4.7 per cent in the six months up to the end of June 2013. The assignment of costs to each segment led to a rise in general administrative expenses in this segment whose dimensions had not been anticipated, increasing them by about €2.0 million or 7.7 per cent to €27.6 million. This compared with €25.6 million in the first half of 2013. Consequently, the segment's profit for the period reversed from positive €19 thousand in the first half of 2013 to negative €0.3 million in the period under review. Its ROE fell from 0.1 per cent to negative 1.3 per cent. Although its cost:income ratio improved by 40 basis points to 96.7 per cent, it was still at a level that we see as being unsatisfactorily high. As a result of our many remedial measures, we expect this segment's profit to be roughly as good in the second half, when provisions for staff benefits will continue to dent earnings.

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT







%	H1 2012	H1 2013	H1 2014
ROE	14.2%	10.1%	6.8%
CIR	34.8%	36.9%	35.9%
RER	41.5%	50.3%	63.0%

%	H1 2012	H1 2013	H1 2014
ROE	0.7%	0.1%	(1.3%)
CIR	98.0%	97.1%	96.7%
RER	2.4%	4.7%	7.1%

%	H1 2012	H1 2013	H1 2014
ROE	5.1%	6.9%	9.9%
CIR	20.3%	21.6%	15.3%
RER	0.0%	6.0%	1.6%

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

Financial Markets

Profit for the period before tax in this segment came to €20.3 million. This was substantially (i.e. €7.2 million or 54.8 per cent) up on the profit recorded in the first half of 2013, . It was a reflection, on the one hand, of a sharp increase in so-called 'structural' income. This is recognized in net interest income, which increased from €13.9 million in the first half of 2013 to €20.3 million in the period under review. On the other, the increase in general administrative expenses was marginal, taking it to €3.3 million, and the segment's profit from financial assets was again solid at €2.4 million. Among other things, we also exploited positive sentiment in the stock markets to achieve this profit. The risk costs allocated to this segment came to €0.3 million. They consisted of the collective allowance for country risk exposure required by IAS 39, giving it a risk:earnings ratio of 1.6 per cent. The segment's ROE based on profit for the period increased by 300 basis points to 9.9 per cent, and its cost:income ratio improved considerably, falling to 15.3 per cent.

Key Ratios

All ratios other than risk:earnings ratio on course
Overall, the BKS Bank Group's key operational performance ratios developed satisfactorily during the first half of 2014. This was, above all, thanks to the pleasing increase in profit we have already described. Both our return on equity and the total return on assets lived up to our expectations, coming to 6.9 per cent and 0.7 per cent, respectively. Having been 54.3 per cent in 2013, the cost:income ratio improved substantially to 51.4 per cent in the period under review. This was a reflection of our efforts to explore potential new sources of profit and the fruit of our consistent cost management activities. The risk:earnings ratio — the gauge of the proportion of net interest income used to cover credit risk — rose from 29.2 per cent to 34.5 per cent. This was due to increases in the necessary impairment charges in the first and second quarter. We expect the risk situation to ease somewhat over the rest of this year.

CORPORATE PERFORMANCE RATIOS

Per cent	2012	2013	H1 2014
ROE (before tax)	7.5	6.5	6.9
ROA (before tax)	0.8	0.7	0.7
Cost:income ratio	54.1	54.3	51.4
Risk:earnings ratio	27.0	29.2	34.5
Tier 1 ratio*	13.1	13.9	12.6
Own funds ratio*	15.9	16.0	15.0

* Since 1 January 2014, the common equity Tier 1 and own funds ratios have been calculated in conformity with Basel III.

Risk Report

BKS Bank defines risk as the possibility of losses or profits foregone as a result of internal or external factors. The goal of our risk policy is to detect quantifiable and non-quantifiable operational and other banking risks at the outset and to actively manage and limit them using effective risk management techniques. Making as efficient use as possible of available capital in the light of medium-term and long-term strategic goals remained at the centre of our risk management activities during the half year under review. The aim was to optimize the trade-off between risk and return and only to enter into risks that BKS Bank can bear without outside help. Another goal was to ensure that BKS Bank always has adequate capital to support its risk profile.

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

Credit Risk

Credit risk (also called default risk) is the risk of a partial or complete loss of contractually agreed loan payments. This risk can, among other things, be caused by a business counterparty's credit standing or, indirectly, by country risk as the result of a counterparty's domicile or place of residence. It arises not only from classical banking products (e.g. credit products und guarantees) but also from certain trades (e.g. forwards, futures, swaps and options). 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. Our bank employs a 13-class rating system that is based on statistical methods.

RATING CLASSES

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

As before, we are upbeat about the fact that roughly 73 per cent of all loans to corporate and business banking customers and 90 per cent of all loans to retail banking customers were in the rating classes from AA to 3b. These are prime to good rating classes where the default risks are low.

The charge for impairment losses in the first half of 2014 was €27.0 million, compared with €21.9 million in the same period of 2013. This translates into an increase of €5.1 million or 23.2 per cent. Impairment allowances increased by €4.4 million to €29.3 million. This figure includes impairment allowances recognized on an item-by-item basis, commission payments to ALGAR, collective assessments of impairments carried out in accordance with IAS 39 and the collective allowance for country risk exposure. At the same time, impairment reversals fell by €1.0 million to €2.4 million. The requisite charge for the risks of our foreign subsidiaries was just €0.8 million. The necessary charge for impairment losses was highest at *BKS Bank d.d.*, where it came to €0.4 million, followed by €0.3 million at *BKS Leasing* in Croatia.

CHARGE FOR IMPAIRMENT LOSSES

€m	31/3/2013	30/6/2014	+/(–) Change, %
Direct write-offs	0.6	0.3	(53.0)
Impairment allowances	24.9	29.3	17.6
– Of which at Slovenian branch	2.2	7.1	>100
Impairment reversals	(3.4)	(2.4)	(30.7)
– Of which at Slovenian branch	(0.2)	0.0	—
Subsequent recoveries	(0.2)	(0.2)	28.8
Charge for impairment losses	**21.9**	**27.0**	**23.2**

When assessing risks in our foreign markets, we pay particular attention to economic and political developments. At this juncture, we point out that we do not have exposures in Russia or the Ukraine and have not been affected by the questionable write-off of the subordinated debt capital of *Hypo Alpe Adria Bank*. Nor does BKS Bank have any business dealings with Portugal's severely battered *Banco Espirito Santo*.

Market Risk

Market risk is the risk of financial losses that might arise from movements in market prices and rates (interest rates, commodity prices, credit spreads, foreign exchange rates, equity prices) or other parameters that influence prices (volatilities, correlations). BKS Bank distinguishes between interest rate risk, foreign exchange risk and equity price risk. We manage these risks within the bank using value at risk (VaR) limits, duration limits and volume limits. The VaR approach is employed to measure the maximum possible loss that could be incurred applying a previously defined confidence interval. Our Asset Liability Management (ALM) Committee manages market risk monthly on the basis of our present value, duration and value at risk calculations. At the end of

BKS BANK AG'S INTEREST RATE RISK

€k	31/12/2012	31/12/2013	30/6/2014
Modified duration	0.17	0.05	(0.07)
Absolute duration risk	702	2,572	(4,728)
Risk ratio (100 basis points), % of own funds	0.13	0.49	(0.85)
Interest rate risk according to interest rate risk statistics (200 basis points), % of own funds	0.91	0.32	1.73

EQUITY PRICE RISK AND FOREIGN EXCHANGE RISK

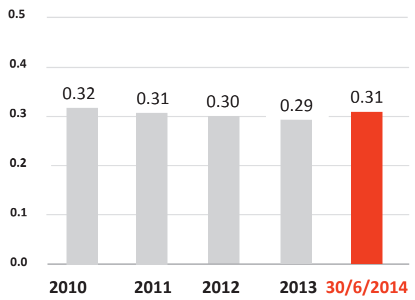
€m	31/12/2012	31/12/2013	30/6/2014
FX risk			
Open currency positions	14,489	18,178	1,253
Value at risk	932	579	664
Equity price risk			
Equity positions	40,792	37,850	42,793
Value at risk	1,370	1,163	1,534

the second quarter of 2014, the ratio of BKS Bank's interest rate risk to its eligible own funds assuming a shift in interest rates of 200 basis points as reportable to OeNB in our interest rate statistics was 1.73 per cent, as against 0.32 per cent at the end of 2013. Interest rates were still low, so they did not provide any incentive to make long-term fixed-income investments. As a result, our bank stayed well below the critical 20 per cent mark in the period under review. Our open currency positions fell by €16.9 million to just €1.3 million during the first half of 2014. This big decrease was due to the fact that the foreign currency components of fund holdings in the banking book no longer have to be counted towards open currency positions under CRR. Equities and equity-like instruments in the banking book increased to €42.8 million during the first half of 2014. This was €4.9 million more than at the end of 2013, when they totalled €37.9 million. The equity value at risk, which was calculated using a historical simulation model, was €1.5 million, compared with €1.2 million at the beginning of the year.

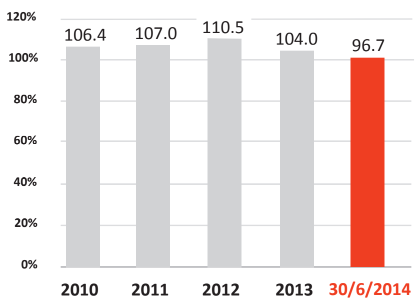
Liquidity Risk

We define liquidity risk as the risk that BKS Bank might no be able to meet its future financial obligations in full, in time or in the right currency or might only be able to raise funds at higher than usual market rates (funding risk) or liquidate assets at significantly below normal market rates or prices (market liquidity risk) in a crisis situation. We point out that BKS Bank continued to have unrestricted access to the money and capital markets during the first half of 2014, and we were at all times able to raise the funds we needed to achieve a balanced funding mix. Consequently, we always had the liquidity and solvency required by BWG (Austrian banking act). At BKS Bank, liquidity management to ensure solvency at all times was carried out with the help of a daily maturity gap analysis for each main currency. Limits were defined at the short end to set liquidity risk boundaries. We mainly held as a liquidity buffer highly liquid securities that were eligible for refinancing with the ECB and eligible customer accounts. Material liquidity risk management decisions were made and liquidity risk monitoring was carried out by the Asset Liability Management Committee (ALM), which met regularly. The Management Board as a whole was involved in this process. As a result, our group had a solid liquidity buffer of €1.09 billion at 30 June 2014, compared with €1.00 billion at the end of 2013.

DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



To quantify the deposit withdrawal risk caused by the possibility of a run on deposits, including, in particular, the risk associated with large deposits, all customer deposit balances were broken down into predefined size classes and the relative amounts thereof and weighting factors of between 0 and 1 were applied to them. The resulting deposit concentration ratio, which is a key indicator for liquidity management, stayed at the unproblematic level of 0.31 during the first half of 2014. The ratio of receivables from customers to primary deposit balances (the loan:deposit ratio) has established itself as a useful liquidity management indicator. It stood at 96.7 per cent at the middle of 2014, which was the lowest ratio on the time axis we present here and already well below our internal benchmark of 100 per cent. This was the fruit of our intensive efforts to attract primary deposits and of the trust of our customers, which has grown over many years.

Operational Risk

In line with CRR, we define operational risk as the risk of losses arising primarily in BKS Bank's operational domain and resulting from inadequate or failed internal processes, people or systems or from external factors. At BKS Bank, operational risk management is the responsibility of the respective operating departments and responsible individuals (so-called *risk-taking units*). 102 loss events (without credit risk losses) were reported during the first half of 2014. After the deduction of reimbursements for those losses, they cost roughly €0.5 million.

Outlook for the Year as a Whole

According to the results of the latest WIFO forecast, we believe that the world economy's real growth will exceed 3 per cent over 2014 as a whole and might accelerate to nearly 4 per cent next year. It will be driven by a marked economic recovery in the United States and the core European countries. In the eurozone, the positive underlying trend is being mirrored by better sentiment and improved domestic economic indicators — including, for instance, higher utilization of production capacities and an increase in incoming orders in the manufacturing sector. On the other hand, growth in the developing and threshold countries is likely to be very modest this year despite the fact that the turbulence in the financial markets was relatively quick to ebb at the beginning of the year.

The recovery in Austria, which has been sluggish so far, is still being driven predominantly by exports. These have benefited from the gradual recovery in the eurozone as well as the world economy's moderate recovery path. Growth should accelerate to 1.4 per cent and 1.7 per cent, respectively, in 2014 and 2015, with domestic components of demand increasingly acting as growth pillars. Having shrunk in 2013, private investment will be revived both by the need for replacement investments and by an improving sales outlook and growing confidence in the economy. However, persistent uncertainty means that the growth in capital expenditure on plant and machinery will be relatively modest. On the other hand, financing terms are still favourable and property prices are rising, so the uptrend in residential construction investment is likely to continue to accelerate. Lower inflation, sustained rapid growth in the number of jobs and the stronger growth in incomes that will go hand-in-hand with economic recovery will lead to a continuous rise in real available household incomes in the years from 2014 to 2016 and stimulate the real growth of private consumption.

As in prior years, the Austrian labour market has been shaped by a marked increase in the labour supply and the number of jobs. The *Eurostat* jobless rate will worsen to 5.2 per cent this year, as against 4.9 per cent in 2013. Nonetheless, Austria currently has the European Union's lowest jobless rate. Falling energy and raw material prices will prolong the inflation slowdown. As a result, Austria's inflation rate over 2014 as a whole will flatten to 1.8 per cent.

However, conflict in the Middle East, the escalating crisis in the Ukraine, the associated EU sanctions and the counter-sanctions by Russia are currently tending to brake the economy. This could be a threat to Europe's and Austria's economic performance.

Regardless of the Isis offensive in Iraq, the raging conflict between Israelis and Palestinians and warlike conflicts in eastern Ukraine and Libya, the price of oil has been falling since the middle of June. A barrel of North Sea Brent cost US$101.61 at the time of writing. Market participants also expect the price of oil to stay low in the medium term. For instance, Brent crude oil futures for delivery in December 2015 were trading at US$104 a barrel. According to information from the International Energy Agency, growth in the global demand for oil remains restrained in line with the modest growth of global GDP.

The climate in the European banking industry has gradually brightened during 2014 after a difficult start. Assuming that the economic recovery will continue, the signs are that credit operations in the eurozone will bottom out. At the same time, there has yet to be any appreciable increase in credit volumes in most countries. Deposit operations are being hit by the persistently low level of interest rates. The outlook in the fixed-income segment is rather gloomy, but equity operations could develop relatively well again following portfolio restructuring and the consolidation of recent weeks. The US central bank can be expected to gradually abandon its unusually loose monetary policy of recent years. This and the economic upturn should have an impact on performance in the coming months.

As for our bank's medium-term outlook, we will remain consistent in the application of our customer-focused strategy, which is characterized by closeness to the customer, flexibility and speed, earnings diversification and risk and cost discipline. We are aware that the competition for primary deposits will stay just as intense in the months to come and that margins will remain unsatisfactory for the time being. However, based on the economic forecasts and the rising number of credit applications that we are now receiving, we expect a steady recovery in the credit market and in new leasing business. Thanks to its comfortable liquidity position, a number of rapidly implemented process optimizations in the corporate and business banking and retail banking segments and our focus on opportunities for growth both in Austria and abroad, BKS Bank is in a good position to continue to exploit business opportunities in its core business segments in the future. Although BKS Bank has not been directly affected in any way, we view with some concern the Ukraine crisis and the Russian reaction that is to be expected in the wake of the spiral of Western sanctions that has already been initiated. Their impact on the economy and the European banking landscape is not yet foreseeable.

However, as in prior periods, we believe that our targeted profit for the year will enable us to adequately augment our reserves, leading to another increase in our enterprise value. The capital increase planned for the autumn of 2014 should further strengthen BKS Bank's Tier 1 capital on a sustainable basis and secure further growth in our core operations. We see the additional hike in the bank tax in the second half as a bitter downside. Together with the costs associated with the re-regulation of the banking industry, it will dent profit.

We remain,

Yours faithfully,

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

Overview of the 3 Banken Group

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014
Net interest income	70.5	78.3	167.8	172.5	89.6	89.4
Impairment charge on loans and advances	(21.9)	(27.0)	(32.3)	(35.8)	(21.9)	(17.3)
Net fee and commission income	22.3	23.6	58.1	59.5	22.6	21.7
General administrative expenses	(50.2)	(52.0)	(114.2)	(116.4)	(48.0)	(76.0)
Other operating income net of other operating expenses	(0.5)	(1.8)	(3.2)	5.5	(1.0)	31.3
Profit for the period before tax	23.3	24.6	78.5	87.2	45.5	49.2
Profit for the period after tax	20.8	21.1	66.4	73.6	37.8	40.3
Balance sheet data, €m	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014
Assets	6,743.8	6,900.0	17,531.8	17,543.8	9,588.5	9,341.7
Receivables from customers after impairment charge	4,874.2	4,873.0	11,277.9	11,655.1	6,197.4	6,071.6
Primary deposit balances	4,597.5	4,943.7	12,250.4	11,742.5	6,715.9	6,384.0
– Of which savings deposit balances	1,741.2	1,721.9	3,352.1	3,203.5	1,175.8	1,147.7
– Of which liabilities evidenced by paper	813.9	839.3	2,224.4	2,301.1	1,288.3	1,365.2
Equity	714.2	732.8	1,421.0	1,489.3	913.1	956.8
Customer assets under management	11,383.4	12,634.4	22,787.5	22,766.8	11,545.8	11,541.5
– Of which in customers' securities accounts	6,785.9	7,690.7	10,537.1	11,024.3	4,829.9	5,157.5
Own funds within the meaning of CRR, €m (2013: BWG)	31/12/2013	30/6/2014	31/12/2013	30/6/2014	31/12/2013	30/6/2014
Basis of assessment of own funds	4,423.3	4,912.8	10,734.0	11,748.8	6,055.4	6,242.7
Own funds	707.6	738.5	1,824.8	1,852.9	964.4	1,115.1
– Of which common equity Tier 1 (CET1)	n/a	606.7	n/a	1,225.2	n/a	783.4
– Of which total Tier 1 capital (CET1 and	662.5	616.4	1,320.6	1,283.5	807.0	848.2
Common equity Tier 1 ratio, %	n/a	12.4	n/a	10.4	n/a	12.6
Tier 1 ratio, % (2013: Basel II)	13.9	12.6	12.3	10.9	13.3	13.6
Own funds ratio, % (2013: Basel II)	16.0	15.0	17.0	15.8	15.9	17.9
Performance, %	2013	H1 2014	2013	H1 2014	2013	H1 2014
Return on equity before tax	6.5	6.9	10.3	12.1	9.3	10.6
Return on equity after tax	5.8	6.1	8.9	10.2	7.3	8.7
Cost:income ratio	54.3	51.4	52.1	48.6	43.7	53.4
Risk:earnings ratio	29.2	34.5	21.1	20.8	26.7	19.3
Resources	2013	H1 2014	2013	H1 2014	2013	H1 2014
Average number of staff	910	915	2,001	2,010	793	1,328
Branches	56	56	150	153	37	37

BKS Bank makes up the *3 Banks Group* with *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*, which are autonomous regional banks. These banks have mutual shareholdings in each other. Together with other strategic shareholders that have joined forces through syndicates as well as other shareholders, they have a lasting interest in the independence of the three banks. All three banks continued on their sustainable business policy path during the first half of 2014. Their aggregate profit for the period before tax grew by €13.7 million or 9.3 per cent to €161.0 million. Their aggregate assets stabilized at a level of €33.8 billion, their loan portfolios net of impairment allowance balances came to €22.6 billion, and primary deposit balances at the three banks in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated liabilities came to €23.1 billion. At the end of June, the three banks employed some 4,250 people and had a network of 246 branches servicing corporate and business banking and retail banking customers.

Consolidated Financial Statements as at and for the Six Months Ended 30 June 2014

Page

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

INCOME STATEMENT

€k	Note	H1 2013	H1 2014	+/(–) Change, %
Interest income		97,809	97,990	0.2
Interest expenses		(38,393)	(32,105)	(16.4)
Profit/(loss) from investments in entities accounted for using the equity method		11,041	12,382	12.1
Net interest income	(1)	**70,457**	**78,267**	**11.1**
Impairment charge on loans and advances	(2)	(21,914)	(27,001)	23.2
Net interest income after impairment charge		**48,543**	**51,266**	**5.6**
Fee and commission income		23,940	24,946	4.2
Fee and commission expenses		(1,671)	(1,382)	(17.3)
Net fee and commission income	(3)	22,269	**23,564**	**5.8**
Net trading income	(4)	814	1,064	30.7
General administrative expenses	(5)	(50.162)	(51.991)	3.6
Other operating income	(6)	1,950	2,124	8.9
Other operating expenses	(6)	(2,434)	(3,900)	60.2
Profit/(loss) from financial assets		2,312	2,443	5.7
– Profit/(loss) from financial assets (FV)	(7)	688	818	18.9
– Profit/(loss) from financial assets (AFS)	(8)	1,624	1,625	0.1
– Profit/(loss) from financial assets (HTM)	(9)	0	0	—
Profit for the period before tax		**23,292**	**24,570**	**5.5**
Income tax expense	(10)	(2,507)	(3,506)	39.8
Profit for the period after tax		**20,785**	**21,064**	**1.3**
Minority interests in profit for the period		(1)	(1)	0.0
Profit for the period after tax and minority interests		**20,784**	**21,063**	**1.3**

OTHER COMPREHENSIVE INCOME (OCI)

€k	H1 2013	H1 2014	+/(–) Change, %
Profit for the period after tax	**20,785**	**21,064**	**1.3**
Items not reclassified to consolidated profit or loss			
+/(–) Actuarial gains less losses in conformity with IAS 19	0	0	
+/(–) Deferred taxes in conformity with IAS 19	0	0	
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	(454)	85	(>100)
Items reclassified to consolidated profit or loss			
+/(–) Exchange differences	437	(151)	(>100)
+/(–) Available-for-sale reserve	(1,610)	2,301	(>100)
+/(–) Deferred taxes taken to AFS reserve items	587	(767)	(>100)
+/(–) Gains less losses arising from use of the equity method	1,818	4,599	>100
Total income and expenses taken directly to equity	**778**	**6,067**	**>100**
Comprehensive income before minority interests	**21,563**	27,131	**25.8**
Of which minority interests	(1)	(1)	—
Comprehensive income after minority interests	**21,562**	**27,130**	**25.8**

QUARTERLY REVIEW

€k	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Interest income	49,937	47,683	49,129	50,053	47,937
Interest expenses	(18,956)	(17,889)	(17,198)	(15,889)	(16,216)
Profit/(loss) from investments in entities accounted for using the equity method	6,983	7,502	6,520	4,889	7,493
Net interest income	**37,964**	**37,296**	**38,451**	**39,053**	**39,214**
Impairment charge on loans and advances	(12,244)	(8,755)	(12,041)	(13,913)	(13.088)
Net interest income after impairment charge	**25,720**	**28,541**	**26,410**	**25,140**	**26,126**
Fee and commission income	11,698	12,188	12,201	12,403	12,543
Fee and commission expenses	(907)	(830)	(406)	(716)	(666)
Net fee and commission income	**10,791**	**11,358**	**11,795**	**11,687**	**11,877**
Net trading income	423	399	310	321	743
General administrative expenses	(25,388)	(24,333)	(26,318)	(25,930)	(26,061)
Other operating income	1,121	887	730	869	1,255
Other operating expenses	(1,519)	(6,654)	(1,798)	(859)	(3,041)
Profit/(loss) from financial assets	306	1,077	(167)	1,091	1,352
– Profit/(loss) from financial assets (FV)	(120)	424	469	673	145
– Profit/(loss) from financial assets (AFS)	426	653	(636)	418	1,207
– Profit/(loss) from financial assets (HTM)	0	0	0	0	0
Profit for the period before tax	**11,454**	**11,275**	**10,962**	**12,319**	**12,251**
Income tax expense	(1,050)	(1,188)	(1,238)	(1,798)	(1,708)
Profit for the period after tax	**10,404**	**10,087**	**9,724**	**10,521**	**10,543**
Minority interests in profit for the period after tax	0	(1)	(1)	(1)	0
Consolidated profit for the period after tax and minority interests	**10,404**	**10,086**	**9,723**	**10,520**	**10,543**

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

ASSETS

€k	Note	31/12/2013	30/6/2014	+/(–) Change, %
Cash and balances with the central bank	(11)	104,815	152,940	45.9
Receivables from other banks	(12)	116,917	209,392	79.1
Receivables from customers	(13)	5,050,314	5,061,591	0.2
– Impairment allowance balance	(14)	(176,109)	(188,563)	7.1
Trading assets	(15)	352	236	(33.0)
Financial assets		1,516,783	1,530,390	0.9
Financial assets designated as at fair value through profit or loss	(16)	188,626	177,966	(5.7)
Available-for-sale financial assets	(17)	251,483	235,058	(6.5)
Held-to-maturity financial assets	(18)	715,548	738,690	3.2
Investments in entities accounted for using the equity method	(19)	361,126	378,676	4.9
Intangible assets	(20)	1,907	2,061	8.1
Property and equipment	(21)	63,251	63,016	(0.4)
Investment property	(22)	22,814	22,556	(1.1)
Deferred tax assets	(23)	17,109	17,526	2.4
Other assets	(24)	25,607	28,858	12.7
Total assets		**6,743,760**	**6,900,003**	**2.3**

EQUITY AND LIABILITIES

€k	Note	31/12/2013	30/6/2014	+/(–) Change, %
Payables to other banks	(25)	1,302,332	1,076,715	(17.3)
Payables to customers	(26)	3,783,595	4,104,373	8.5
Liabilities evidenced by paper	(27)	591,083	622,071	5.2
Trading liabilities	(28)	404	286	(29.2)
Provisions	(29)	83,992	84,986	1.2
Deferred tax liabilities	(30)	5,593	10,883	94.6
Other liabilities	(31)	39,788	50,618	27.2
Subordinated debt capital	(32)	222,809	217,263	(2.5)
Equity		714,164	732,808	2.6
Of which total minority interests and equity		714,154	732,797	2.6
Of which minority interests in equity		10	11	10.0
Total equity and liabilities		**6,743,760**	**6,900,003**	**2.3**

EARNINGS AND DIVIDEND PER SHARE

	30/6/2013	30/6/2014
Average number of shares in issue	32,241,756	32,184,566
Dividend per share, €	0.25	0.25
Earnings per share (diluted and undiluted), €	1.29	1.31

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

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY IN 2014

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Equity
At 1 January 2014	**65,520**	**97,929**	**(987)**	**2,498**	**504,322**	**4,276**	**40,596**	**714,154**
Distribution							(8,044)	(8,044)
Taken to retained earnings					32,552		(32,552)	0
Profit for the period after tax							21,064	21,064
Gains and losses taken directly to equity			(151)	1,534		4,684		6,067
Increase in share capital								0
Change arising from use of the equity method						174		174
Change in treasury shares					(379)			(379)
Other changes					(228)			(228)
At 30 June 2014	**65,520**	**97,929**	**(1,138)**	**4,032**	**536,267**	**9,134**	**21,064**	**732,808**
Available-for-sale reserve								5,364
Deferred tax reserve								(1,332)

TOTAL MINORITY INTERESTS AND EQUITY IN 2013

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Equity
At 1 January 2013	**65,520**	**97,929**	**(714)**	**(118)**	**472,349**	**10,194**	**43,126**	**688,286**
Distribution							(8,063)	(8,063)
Taken to retained earnings					35,063		(35,063)	0
Profit for the period after tax							20,785	20,785
Gains and losses taken directly to equity			437	(1,023)		1,364		778
Increase in share capital								0
Change arising from use of the equity method						1,317		1,317
Change in treasury shares					(1,398)			(1,398)
Other changes					86			86
At 30 June 2013	**65,520**	**97,929**	**(277)**	**(1,141)**	**506,100**	**12,875**	**20,785**	**701,791**
Available-for-sale reserve								(1,335)
Deferred tax reserve								194

Cash Flow Statement

CASH FLOWS

€k	H1 2013	H1 2014
Cash and cash equivalents at end of previous period	**81,749**	**104,815**
Net cash from operating activities	30,106	59,994
Net cash from/(used in) investing activities	(23,376)	2,234
Net cash from/(used in) financing activities	(9,558)	(13,970)
Effect of exchange rate changes on cash and cash equivalents	(210)	(133)
Cash and cash equivalents at end of period	**78,711**	**152,940**

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

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

I. General information

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

II. Recognition and measurement

Scope of consolidation

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

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

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00	—	30/6/2014
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	30/6/2014
BKS-leasing d.o.o.	Ljubljana	100.00	—	30/6/2014
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	30/6/2014
BKS-Leasing s.r.o. (subgroup with *BKS-Finance s.r.o.*)	Bratislava	100.00	—	30/6/2014
IEV Immobilien GmbH	Klagenfurt	100.00	—	30/6/2014
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	30/6/2014
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	—	100.00	30/6/2014
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	30/6/2014
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	30/6/2014
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	30/6/2014
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00	30/6/2014
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	30/6/2014
BKS Service GmbH	Klagenfurt	100.00	—	30/6/2014
BKS 2000 Beteiligungsverwaltungs GmbH	Klagenfurt	100.00		30/6/2014

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
Oberbank AG	Linz	16.95	—	31/3/2014
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	31/3/2014
Alpenländische Garantie-GmbH	Linz	25.00	—	30/6/2014
Drei-Banken Versicherungs-Aktiengesellschaft	Linz	20.00	—	30/6/2014

FOREIGN SUBSIDIARIES AND BRANCHES AT 30 JUNE 2014

€k	Net Interest Income	Operating Profit	Number of Staff (Full Time Equivalents)	Profit/(Loss) for the Period before Tax
Branches abroad				
Slovenia Branch (banking branch)	5,408.9	6,458.5	86.4	(3,032.4)
Slovakia Branch (banking branch)	595.1	651.4	19.0	(183.3)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	877.7	1,095.5	10.6	378.7
BKS-leasing Croatia d.o.o., Zagreb	1,167.6	1,279.2	10.0	623.6
BKS-Leasing s.r.o.,Bratislava	521.4	720.9	14.0	25.7
BKS Bank d.d., Rijeka	2,237.4	2,605.5	62.0	261.3

Foreign currency translation

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

Notes on individual items on the Balance Sheet

Cash and balances with the central bank

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

Financial instruments

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

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

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

In the valuations that follow, financial instruments have been measured either to fair value or at amortized cost. BKS Bank classified and measured financial instruments in conformity with IAS 39 and IFRS 7 as follows:

CLASSIFICATION AND VALUATION OF FINANCIAL INSTRUMENTS

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

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

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

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

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

Available-for-sale financial assets

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

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

Held-to-maturity financial assets

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

Investments in entities accounted for using the equity method

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

Loans and receivables, other liabilities

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

Impairment allowance balance

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

Investment property

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

Trading assets and trading liabilities

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

Derivatives

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

Property and equipment

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

- immovable assets: 1.5 per cent to 3.0 per cent (i.e. between 33.3 and 50 years);
- office furniture and equipment: 10 per cent to 20 per cent (i.e. between 5 and 10 years).

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

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

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

No goodwill was recognized at 30 June 2014.

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

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

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

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

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

Provisions
Provisions were created in accordance with IAS 37 if there was a reliably determinable current obligation to a third party arising from an event in the past likely to cause a drain on resources. BKS Bank mainly created provisions for post-employment benefits and similar employee benefits, for taxes and for interest payments on stepped coupon

products. The provision for death benefits was also calculated in accordance with the IFRS principles contained in IAS 19. The calculation parameters were unchanged compared with the end of 2013. As of 31 December 2000, the post-employment benefit entitlements of all active employees were transferred to *VBV-Pensionskasse AG* as the legal successor to *BVP-Pensionskasse AG*.

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

Notes to individual line items in the Income Statement

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

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

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

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

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

Other operating income net of other operating expenses
This line item comprises fees, levies, damages, etc. They were accounted for on an accrual basis.

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

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

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

Details of the Income Statement

(1) NET INTEREST INCOME

€k	H1 2013	H1 2014	+/(–) Change, %
Interest income	97,809	97,990	0.2
– Of which from credit operations	73,445	73,596	0.2
– Of which from fixed-interest securities	15,097	14,128	(6.4)
– Of which from lease receivables	4,240	4,617	8.9
– Of which from shares and investments in other entities	4,459	4,392	(1.5)
– Of which from investment property	568	1,257	>100
Interest expenses	38,393	32,105	(16.4)
– Of which on deposits from customers and other banks [1]	24,744	18,187	(26.5)
– Of which on liabilities evidenced by paper	13,457	13,578	0.9
– Of which on investment property	192	340	77.1
Profit from investments in entities accounted for using the equity method	11,041	12,382	12.1
– Of which income from investments in entities accounted for using the equity method	11,344	12,692	11.9
– Financing costs of investments in entities accounted for using the equity method [2]	(303)	(310)	2.3
Net interest income	**70,457**	**78,267**	**11.1**

[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	H1 2013	H1 2014	+/(–) Change, %
Impairment allowances	24,937	29,334	17.6
Impairment reversals	(3,409)	(2,364)	(30.7)
Direct write-offs	570	268	(53.0)
Recoveries on receivables previously written off	(184)	(237)	28.8
Impairment charge on loans and advances	**21,914**	**27,001**	**23.2**

(3) NET FEE AND COMMISSION INCOME

€k	H1 2013	H1 2014	+/(–) Change, %
Fee and commission income	23,940	24,946	4.2
– Of which from payment services	9,723	10,115	4.0
– Of which from securities operations	6,025	6,421	6.6
– Of which from credit operations	6,562	6,699	2.1
– Of which from money and foreign exchange transactions	941	980	4.1
– Of which from other services	689	731	6.1
Fee and commission expenses	1,671	1,382	(17.3)
– Of which arising from payment services	769	707	(8.1)
– Of which arising from securities operations	381	467	22.6
– Of which arising from credit operations	212	128	(39.6)
– Of which arising from money and foreign exchange transactions	227	8	(96.5)
– Of which arising from other services	82	72	(12.2)
Net fee and commission income	**22,269**	**23,564**	**5.8**

(4) NET TRADING INCOME

€k	H1 2013	H1 2014	+/(–) Change, %
Price-based contracts	79	20	(74.7)
Interest rate and currency contracts	735	1,044	42.0
Net trading income	**814**	**1,064**	**30.7**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	H1 2013	H1 2014	+/(–) Change, %
Staff costs	33,816	34,761	2.8
– Of which wages and salaries	24,061	25,460	5.8
– Of which social security costs	6,402	6,260	(2.2)
– Of which costs of old-age benefits	3,353	3,041	(9.3)
Other administrative costs	13,211	13,988	5.9
Depreciation/amortization	3,135	3,242	3.4
General administrative expenses	**50,162**	**51,991**	**3.6**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	H1 2013	H1 2014	+/(–) Change, %
Other operating income	1,950	2,124	8.9
Other operating expenses	(2,434)	(3.900)	60.2
Other operating income net of other operating expenses	**(484)**	**(1,776)**	**>100**

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

€k	H1 2013	H1 2014	+/(–) Change, %
Revaluation gains and losses on derivatives	1,587	959	(39.6)
Gain/(loss) as a result of using the fair value option	(899)	(141)	(84.3)
Profit/(loss) from financial assets designated as at fair value through profit or loss	**688**	**818**	**18.9**

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

€k	H1 2013	H1 2014	+/(–) Change, %
Revaluation gains and losses	(13)	13	(>100)
Gains and losses realized on disposal	1,637	1,612	(1.5)
Profit/(loss) from available-for-sale financial assets	**1,624**	**1,625**	**0.1**

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

€k	H1 2013	H1 2014	+/(–) Change, %
Revaluation gains and losses and gains and losses realized on disposal	0	0	—
Profit/(loss) from held-to-maturity financial assets	**0**	**0**	**—**

(10) INCOME TAX EXPENSE

€k	H1 2013	H1 2014	+/(–) Change, %
Current taxes	(2,431)	(2,962)	21.8
Deferred taxes	(76)	(544)	>100
Income tax expense	**(2,507)**	**(3,506)**	**39.8**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2013	30/6/2014	+/(–) Change, %
Cash in hand	37,016	28,347	(23.4)
Credit balances with central banks of issue	67,799	124,593	83.8
Cash and balances with the central bank	**104,815**	**152,940**	**45.9**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Receivables from Austrian banks	45,485	48,980	7.7
Receivables from foreign banks	71,432	160,412	>100
Receivables from other banks	**116,917**	**209,392**	**79.1**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Corporate and business banking customers	3,946,284	3,934,832	(0.3)
Retail banking customers	1,104,030	1,126,759	2.1
Receivables from customers	**5,050,314**	**5,061,591**	**0.2**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2013	30/6/2014	+/(–) Change, %
At beginning of period under review	168,101	176,109	4.8
+ Added	43,789	28,763	(34.3)
– Reversed	(5,364)	(2,364)	(55.9)
– Used	(30,334)	(14,018)	(53.8)
+ Exchange differences	(83)	73	(>100)
At end of period under review	176,109	**188,563**	**7.1**

(15) TRADING ASSETS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Bonds and other fixed-interest securities	0	0	—
Shares and other variable-yield securities	0	0	—
Positive fair values of derivative financial instruments	0	0	—
– Currency contracts	352	236	(33.0)
Trading assets	**352**	**236**	**(33.0)**

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

€k	31/12/2013	30/6/2014	+/(–) Change, %
Bonds and other fixed-interest securities	87,004	79,039	(9.2)
Loans	101.622	98.927	(2.7)
Financial assets designated as at fair value through profit or loss	**188.626**	**177.966**	**(5.7)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Bonds and other fixed-interest securities	117,814	108,123	(8.2)
Shares and other variable-yield securities	83,574	69,330	(17.0)
Investments in other associates and in subsidiaries	35,399	4,357	(87.7)
Other equity investments	14,696	53,248	>100
Available-for-sale financial assets	**251,483**	**235,058**	**(6.5)**

The first-time inclusion of *BKS 2000 Beteiligungsverwaltungs GmbH* in the scope of consolidation (first-time consolidation as of 31 March 2014) reduced the line item *Investments in other associates and in subsidiaries* by €31.0 million and increased the line item *Other equity investments* by €38.6 million.

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Bonds and other fixed-interest securities	715,548	738,690	3.2
Held-to-maturity financial assets	**715,548**	**738,690**	**3.2**

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

€k	31/12/2013	30/6/2014	+/(–) Change, %
Oberbank AG	237,139	246,323	3.9
Bank für Tirol und Vorarlberg AG	118,849	127,215	7.0
Alpenländische Garantie-GmbH	974	974	0.0
Drei-Banken Versicherungs-AG	4,164	4,164	0.0
Investments in entities accounted for using the equity method	**361,126**	**378,676**	**4.9**

(20) INTANGIBLE ASSETS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Goodwill	0	0	—
Other intangible assets	1,907	2,061	8.1
Intangible assets	**1,907**	**2,061**	**8.1**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2013	30/6/2014	+/(–) Change, %
Land	8,840	8,790	(0.6)
Buildings	43,365	41,861	(3.5)
Other property and equipment	11,046	12,365	11.9
Property and equipment	**63,251**	**63,016**	**(0.4)**

(22) INVESTMENT PROPERTY

€k	31/12/2013	30/6/2014	+/(–) Change, %
Land	7,679	7,947	3.5
Buildings	15,135	14,609	(3.5)
Investment property	**22,814**	**22,556**	**(1.1)**

(23) DEFERRED TAX ASSETS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Deferred tax assets	**17,109**	**17,526**	**2.4**

(24) OTHER ASSETS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Positive fair values of derivative financial instruments	8,903	8,380	(5.9)
Other items	13,716	16,936	23.5
Deferred items	2,988	3,542	18.5
Other assets	**25,607**	**28,858**	**12.7**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Payables to Austrian banks	961,493	765,099	(20.4)
Payables to foreign banks	340,839	311,616	(8.6)
Payables to other banks	**1,302,332**	**1,076,715**	**(17.3)**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Savings deposit balances	1,741,201	1,721,898	(1.1)
– Of which from corporate and business banking customers	228,814	214,533	(6.2)
– Of which from retail banking customers	1,512,387	1,507,365	(0.3)
Other payables	2,042,394	2,382,475	16.7
– Of which to corporate and business banking customers	1,394,145	1,681,862	20.6
– Of which to retail banking customers	648,249	700,613	8.1
Payables to customers	**3,783,595**	**4,104,373**	**8.5**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2013	30/6/2014	+/(–) Change, %
Issued bonds	480,382	524,120	9.1
Other liabilities evidenced by paper	110,701	97,951	(11.5)
Liabilities evidenced by paper	**591,083**	**622,071**	**5.2**

(28) TRADING LIABILITIES

€k	31/12/2013	30/6/2014	+/(–) Change, %
Interest rate contracts	404	286	(29.2)
Trading liabilities	**404**	**286**	**(29.2)**

(29) PROVISIONS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	69,814	70,551	1.1
Provisions for taxes (current tax)	178	790	>100
Other provisions	14,000	13,645	(2.5)
Provisions	**83,992**	**84,986**	**1.2**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2013	30/6/2014	+/(–) Change, %
Deferred tax liabilities	**5,593**	**10,883**	**94.6**

(31) OTHER LIABILITIES

€k	31/12/2013	30/6/2014	+/(–) Change, %
Negative fair values of derivative financial instruments	21,458	24,170	12.6
Other items	16,659	25,667	54.1
Deferred items	1,671	781	(53.3)
Other liabilities	**39,788**	**50,618**	**27.2**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2013	30/6/2014	+/(–) Change, %
Supplementary capital	182,809	177,263	(3.0)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**222,809**	**217,263**	**(2.5)**

(33) SEGMENTAL REPORTING

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

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

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

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	H1 2013	H1 2014	H1 2013	H1 2014	H1 2013	H1 2014
Net interest income	15,787	17,301	40,479	40,426	13,862	20,275
– Of which from investments in entities accounted for using the equity method	—	—	—	—	11,041	12,382
Impairment charge on loans and advances	(736)	(1,228)	(20,349)	(25,449)	(829)	(324)
Net fee and commission income	10,128	10,938	12,007	12,242	108	97
Net trading income	0	0	0	0	814	1,064
General administrative expenses	(25,644)	(27,620)	(19,692)	(19,179)	(3,194)	(3,281)
Other operating income net of other operating expenses	484	316	852	776	22	(8)
Profit from financial assets	0	0	0	0	2,312	2,443
Profit for the period before tax	**19**	**(293)**	**13,297**	**8,816**	**13,095**	**20,266**
Average risk-weighted assets	566,352	558,737	3,288,204	3,261,275	553,419	615,012
Average allocated equity	45,810	44,699	263,056	260,902	379,898	410,746
ROE based on profit for the period	**0.1%**	**(1.3%)**	**10.1%**	**6.8%**	**6.9%**	**9.9%**
Cost:income ratio	**97.1%**	**96.7%**	**36.9%**	**35.9%**	**21.6%**	**15.3%**
Risk:earnings ratio	**4.7%**	**7.1%**	**50.3%**	**63.0%**	**6.0%**	**1.6%**

€k	Other		Total	
	H1 2013	H1 2014	H1 2013	H1 2014
Net interest income	329	265	70,457	78,267
– Of which from investments in entities accounted for using the equity method	—	—	11,041	12,382
Impairment charge on loans and advances	0	0	(21,914)	(27,001)
Net fee and commission income	26	287	22,269	23,564
Net trading income	0	0	814	1,064
General administrative expenses	(1,632)	(1,911)	(50,162)	(51,991)
Other operating income net of other operating expenses	(1,842)	(2,860)	(484)	(1,776)
Profit from financial assets	0	0	2,312	2,443
Profit for the period before tax	**(3,119)**	**(4,219)**	**23,292**	**24,570**
Average risk-weighted assets	40,211	44,206	4,448,188	4,479,231
Average allocated equity	6,282	7,139	695,046	723,486
ROE based on profit for the period	—	**—**	**6.50%**	**6.90%**
Cost:income ratio	—	**—**	**53.9%**	**51.4%**
Risk:earnings ratio	—	**—**	**31.1%**	**34.5%**

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Subscribed capital	65,520	65,520	0.0
– Of which share capital	65,520	65,520	0.0
Capital reserves	97,929	97,929	0.0
Retained earnings and other reserves, current profit	550,715	569,359	3.4
Shareholders' equity before minority interests	714,164	732,808	2.6
Minority interests	(10)	(11)	10.0
Shareholders' equity after minority interests	**714,154**	**732,797**	**2.6**

The share capital was represented by 30,960,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. At 30 June, eligible own funds came to €738.5 million (31 December 2013: €707.6 million). Surplus own funds came to €345.5 million (31 December 2013: €353.8 million). The external minimum capital adequacy requirements were met throughout 2013 and during 2014 up to the reporting date.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2013	30/6/2014	+/(–) Change, %
Guarantees	379,178	386,373	1.9
Letters of credit	3,119	1,747	(44.0)
Contingent liabilities	**382,297**	**388,120**	**1.5**
Other commitments	750,001	750,520	0.1
Commitments	**750,001**	**750,520**	**0.1**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

€k	Outstanding Balances at 31/12/2013	Provisions for Doubtful Debts	Recognized Expenditure on Irrecoverable or Doubtful Debts During the Period	Outstanding Balances at 30/6/2014
Unconsolidated subsidiaries				
Receivables	9,611	0	0	5,628
Payables	1,675			1,419
Associates				
Receivables	48,968	0	0	21,766
Payables	186,412			160,130
Key management personnel				
Receivables	505	0	0	476
Payables	895			737
Other related persons				
Receivables	8	0	0	20
Payables	1,046			518

LOANS AND ADVANCES GRANTED

€k	31/12/2013	30/6/2014	+/(–) Change, %
Loans and advances granted to members of the Management Board	192	186	(3.1)
Loans and advances granted to members of the Supervisory Board	313	290	(7.4)
Loans and advances granted	**505**	**476**	**(5.7)**

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

(37) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place within the BKS Bank Group after the interim reporting date (30 June 2014) affecting the assets, liabilities, financial position or profit or loss as presented in this report.

(38) FAIR VALUES

30 JUNE 2014 €k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 30/6/2014	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	209,459	0	209,459	209,392	67
Receivables from customers	0	5,122,132	0		5,061,591	60,541
Trading assets	0	236	0	236	236	0
Financial assets designated as at fair value through profit or loss	79,038	98,928	0	177,966	177,966	0
Available-for-sale financial assets	210,060	0	24,998	235,058	235,058	0
Held-to-maturity financial assets	807,772	0	0	807,772	738,690	69,082
Investments in entities accounted for using the equity method	310,511	0	5,138	315,649	378,676	(63,027)
Investment property	0	0	34,296	34,296	22,556	11,740
Other assets (derivatives)	0	8,380	0	8,380	8,380	0
Equity and liabilities						
Payables to other banks	0	1,080,765	0		1,076,715	4,050
Payables to customers	0	4,121,941	0		4,104,373	17,568
Liabilities evidenced by paper	533,445	109,651	0	643,096	622,071	21,025
– Of which designated as at fair value through profit or loss	74,861	28,719	0	103,580	103,580	0
Subordinated debt capital	217,438	2,352	0	219,790	217,263	2,527
Trading liabilities	0	286	0	286	286	0
Other liabilities (derivatives)	0	24,170	0	24,170	24,170	0

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

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

Reclassifications between the individual categories were carried out if market values (*Level 1*) or reliable input factors (*Level 2*) were no longer available or if market values (*Level 1*) became newly available for individual financial instruments (e.g. because of an IPO). During the period under review, unlisted equity investments of *BKS 2000 Beteiligungsverwaltungs GmbH* were reclassified from *Level I* to the category *Level III*.

Level 3: Changes between 1 January and 30 June 2014

€k	At 31/12/2013	Income Statement	Other Comprehensive Income	Purchased	Sold	Reclassified	At 30/6/2014
Available-for-sale financial assets	19,052	0	0	0	0	5,946	24,998
Investments in entities accounted for using the equity method	5,138	0	0	0	0	0	5,138
Total	**24,190**	**0**	**0**	**0**	**0**	**5,946**	**30,136**

(39) BALANCE OF DERIVATIVES OUTSTANDING

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

30/6/2014	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1– 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	967,492	946,171	—	1,913,663	2,610	9,749
– Of which in trading book	250	—	—	250	1	—
Interest rate contracts	112,142	378,486	290,406	781,034	6,390	15,252
– Of which in trading book	1,142	13,424	17,576	32,142	72	78
Securities contracts	1,500	—	—	1,500	—	5
– Of which in trading book	—			—	—	—
Total	**1,081,134**	**1,324,657**	**290,406**	**2,696,197**	**9,000**	**25,006**
– Of which in trading book	1.392	13.424	17.576	32.392	73	78

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

Statement by BKS Bank's Management

"We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the six months ended 30 June 2014 prepared in accordance with the effective financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Consolidated Management Report for the period from 1 January to 30 June 2014 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to the important events occurring during the first 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
19 August 2014

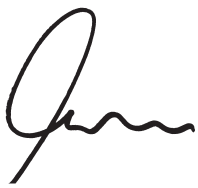
The Management Board

Herta Stockbauer (Chairwoman)

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

Dieter Krassnitzer (Member)

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



Wolfgang Mandl (Member)

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

Financial Calendar for 2014

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

BKS Bank's Interim Reports

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

Publication details:
Published by *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee, Austria. Phone: +43 463 5858-0.
Internet: www.bks.at; e-mail: bks@bks.at or investor.relations@bks.at.
Edited by the Management Board Office of *BKS Bank AG*. Copy deadline date: 19 August 2014.
Translation by Adrian Weisweiller MA (Oxon), London.

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