Living Responsibility

Interim Report to 30 June 2012

BKS Bank
3 Banken Gruppe

Contents

OVERVIEW OF THE BKS BANK GROUP

Income account, €m	H1 2010	H1 2011	H1 2012
Net interest income	67.9	70.8	71.7
Impairment charge on loans and advances	(25.8)	(22.5)	(18.6)
Net fee and commission income	22.1	21.0	22.0
General administrative expenses	(44.5)	(46.6)	(49.5)
Profit for the period before tax	22.0	24.3	25.3
Profit for the period after tax	19.6	21.9	22.1

Balance sheet data, €m	31/12/2010	31/12/2011	30/6/2012
Assets	6,238.2	6,456.0	6,670.0
Receivables from customers after impairment charge	4,498.2	4,647.8	4,758.5
Primary deposit balances	4,158.5	4,251.4	4,302.7
– Of which savings deposit balances	1,847.2	1,786.3	1,823.4
– Of which liabilities evidenced by paper, including subordinated debt capital	667.6	715.7	729.2
Equity	627.8	644.9	671.9
Customer assets under management	10,023.5	10,025.5	10,290.0
– Of which in customers' securities accounts	5,865.0	5,774.1	5,987.3

Own funds within the meaning of BWG, €m	31/12/2010	31/12/2011	30/6/2012
Risk-weighted assets	4,345.1	4,415.2	4,439.1
Own funds	567.4	681.9	676.7
– Of which Tier 1 capital	416.6	599.5	598.4
Surplus own funds before operational risk	219.8	328.7	321.6
Surplus own funds after operational risk	194.8	301.9	294.4
Tier 1 ratio, per cent	9.59	12.46	12.37
Own funds ratio, per cent	13.06	15.44	15.24

Ratios, per cent	2010	2011	H1 2012
Return on equity before tax	8.9	6.1	7.7
Return on assets before tax	0.9	0.6	0.8
Cost:income ratio	48.8	46.7	52.2
Risk:earnings ratio (credit risk in per cent of net interest income)	33.1	22.1	26.0

Resources	2010	2011	H1 2012
Average number of staff	872	901	927
Branches	55	55	54

BKS Bank's shares	2010	2011	H1 2012
No. of ordinary no-par shares	30,960,000	30,960,000	30,960,000
No. of no-par preference shares	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	18.4/15.4	18.6/15.6	17.6/15.5
Low: ordinary/preference share, €	15.9/13.7	17.6/14.8	17.4/14.9
Close: ordinary/preference share, €	18.4/15.4	17.6/15.5	17.4/15.0
Market capitalization, €m	595.8	572.8	564.1

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

We welcome you very warmly to our second Shareholders Letter in 2012, which takes the form of a semi-annual financial report as at and for the six months ended 30 June. As these periodic financial statements show, BKS Bank — which is celebrating its 90th anniversary this year — was able to stand its ground very well and turn in a respectable profit in an environment that was still turbulent and challenging. Both the main components of profit — net interest income and net fee and commission — and general administrative expenses developed satisfactorily. Profit before tax in the first half of 2012 came to €25.3 million, which was 4.1 per cent up on the same period of last year. Our balance sheet assets grew slightly in the six months under review, increasing by 3.3 per cent to approximately €6.67 billion. The increase on the assets side of the Balance Sheet was due mainly to the stable growth in receivables from customers, which advanced by 2.5 per cent to roughly €4.92 billion. Growth on the equity and liabilities side of the Balance Sheet was driven by a small increase in so-called *primary funds*, comprising savings, sight and time deposit balances, the balance of our own issuances and subordinated debt capital, which grew by 1.2 per cent to approximately €4.30 billion. In this difficult setting, we were uncompromising in the continued pursuit of our prudent liquidity and risk management policies.

In addition, our bank's capital position at mid-year was also solid. We had a comfortable Tier 1 ratio of 12.4 per cent, which was well above the requirements for the European banking industry, and we also had a total capital ratio of 15.2 per cent and surplus own funds of €21.6 million. As a result, BKS Bank is excellently placed not just to deal with another prolonging of the obstinate European financial crisis but also to undertake carefully targeted expansion in the competition for customers and profits. Above all, the second quarter of 2012 gave us grounds for cautious optimism for the rest of the financial year. It ended with a profit for the period before tax of €13.5 million, which was a significantly better result than in the same period of last year.

Group Management Report for the Six Months Ended 30 June 2012

The economic setting in which banks are operating

The global economy's growth slowed substantially in the second quarter of 2012. The was due to a combination of the diminishing effect of monetary policy action, the tension caused by the European sovereign debt crisis (in particular the worrying financial problems of Greece and Spain) and the flagging economies of the Asian and South American developing countries. Above all, the Chinese economy was weakened significantly—albeit it at a high level—by the drop in the demand for Chinese-made goods in the United States and Europe.

The US economy continued to expand at a modest pace and is expected to grow by about 2 per cent this year. In both the first two quarters, GDP growth was supported by increases in private consumption and exports. However, the labour market has been slow to recover so far. On the positive side, the US residential property market is gradually strengthening from a very low level. Recently, on 1 August, the Federal Reserve Open Market Committee left the Fed funds target rate unchanged in a corridor of between zero and 0.25 per cent. The US Federal Reserve's "Operation Twist"—which aims to stimulate the economy through the sale of shorter-dated federal bonds and purchase of much longer-dated bonds—was already enlarged by another US$267 billion from its original volume of US$400 million on 20 June and extended until the end of 2012.

The economic divides between the individual economies in the eurozone continued to widen. This had a sometimes serious impact on the investment and consumption climate. While economic momentum in EU Member States like Germany, France, the Nordic states and Austria weakened, other European countries besides Greece, Spain and Cyprus got into economic difficulties, and this will darken the economic horizon in those regions until at least 2013. As a result, the crisis of confidence in the financial markets spread to Italy, which is Austria's second-biggest trading partner behind Germany. Economic growth in the Central, Eastern and Southeast European EU Member States has also slowed since the beginning of 2012 as public and private sector budgets have been consolidated. The economies of Hungary, Slovenia and the Czech Republic virtually ground to a halt towards mid-year.

Having left its main refinancing operations rate unchanged at 1.0 per cent since November 2011, the European Central Bank (ECB) cut it to an all-time low of 0.75 per cent on 5 July. After a good start to the year, the European banking sector's business situation worsened perceptibly as recession fears returned and the sovereign debt crisis continued to worsen. The ECB's liquidity drive only temporarily improved banks' funding positions as their operations weakened in virtually every business segment. On the other hand, most of the internationally active banks appear to have met the 9 per cent minimum core Tier 1 ratio requirement laid down by the European Banking Authority (EBA) by 30 June 2012 even without government help.

The available indicators show that Austria has not wholly escaped the effects of the slump in the global economy this year. WIFO expects real GDP growth to slow noticeably over 2012, retreating by 2.4 percentage points to 0.6 per cent. The real growth of Austria's exports, which has been driven by brisk trade with Germany and the United States, is expected to slow from 7.5 per cent in 2011 to an estimated (and still satisfactory) 3.5 per cent in 2012. This will be due to the weak development of exports to crisis-ridden markets like Italy, Spain and Hungary. As in 2011, the economy has been stimulated by capital expenditure on equipment and buildings and robust private consumption this year. Thus far, the Austrian labour market has been virtually free from friction. However, the signs are that the number of people registered with the AMS (Austrian labour market service) as unemployed will increase by about 18,000 during 2012 as a whole. At the end of June, Austria's jobless rate was the eurozone's lowest by far, at 4.5 per cent. According to *Eurostat* estimates, some 17.8 million men and women in the eurozone—whose 11.2 per cent jobless rate was the highest recorded since the launch of the euro—were being affected by the worrying situation at the end of the first half.

The combination of the waning economic momentum, the geopolitical risks associated with the Iran conflict and the massive decline of US stocks of crude oil and refined products had a knock-on effect on the commodity markets. At the end of June, European benchmark Brent crude was trading at US$97.52 a barrel, compared with US$112.3 a barrel at the beginning of the year. In the medium term, market participants expect oil prices to remain fairly steady. This is being reflected by the prices of futures for delivery in December 2013, which were trading at US$107.15 a barrel at the time of writing. As for bilateral exchange rates, Europe's single currency lost 270 basis points against the US dollar and was trading at US$1.2590 at the end of the period under review. However, as a result of the Swiss franc's minimum exchange rate against the euro, the euro lost little against the Swiss franc. The Croatian kuna, whose exchange rate is of importance to our bank, began the year at HRK7.5343/€ and stayed within a narrow band to end the second quarter at HRK7.5178/€.

Like the bond markets, whose participants have recently been rattled by the escalating risk premiums on long-term Spanish and Italian government bonds, the equity markets on both sides of the Atlantic were erratic during the six months under review. Besides the increase in risk aversion caused by the worsening sovereign debt crisis and weaker economic numbers in the United States and China, there were also positive signs, namely agreement by the EU finance ministers on the European Stability Mechanism (ESM) and the fiscal pact as well as satisfactory corporate numbers. In the eurozone, prices expressed in terms of the broad Dow Jones Euro STOXX index fell by about 4.4 per cent to 2,264.74 points in the six months up to the end of June. On the other hand, signs of a sustained economic recovery in the United States boosted the Dow Jones Industrial Average by 3.9 per cent to 12,880.09 points. The ATX ended the period under review at 2,159 points, which was only about 1.8 per cent up on the beginning of the year. The BKS Bank ordinary no-par share, which is listed on the Vienna Stock Exchange, was trading at €17.35 at the end of June, and the BKS Bank no-par preference share was trading at €14.95. BKS Bank had total market capitalization of €564.1 million, which was almost as much as at the end of 2011.

Notes on the Scope of Consolidation

The consolidated members of the BKS Bank Group did not change in the first half of 2012. They comprised the banks and other financial service providers and entities rendering banking-related services that were controlled by *BKS Bank AG*. They currently consist of 18 banks and other financial service providers and entities rendering banking-related ancillary services. These entities include our leasing companies in Austria and abroad as well as *Alpenländische Garantie-Gesellschaft mbH* (ALGAR) and *Drei-Banken Versicherungs-Aktiengesellschaft*. Minority interests in profit for the period were deducted when calculating consolidated

THE MEMBERS OF THE GROUP

Consolidated
Accounted for using the equity method

Banks and Other Financial Service Providers

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

[1] *BKS-Leasing a.s.* makes up a subgroup 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 Hybrid alpha GmbH*, Klagenfurt	*BKS Hybrid beta GmbH*, Klagenfurt	

net profit for the period. Our investments in our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*—which make up the *3 Banken Group* together with *BKS Bank AG*—are also accounted for in the Consolidated Financial Statements, using the equity method. Although BKS Bank controls less than 20 per cent of the voting power in each of these banks, holding stakes of 18.51 per cent and 15.10 per cent, respectively, it exerts a significant influence as the result of long-term syndicate agreements. Consequently, consolidated net profit for the six months ended 30 June 2012 includes BKS Bank's interests in these banks' profit for the period. The other consolidated entities, most of which are designated as real estate companies, render banking-related ancillary services.

Assets, Liabilities, Financial Position

Assets

The BKS Bank Group had assets of €6.67 billion at 30 June 2012. This was 3.3 per cent more than at the end of 2011. On the assets side of the Balance Sheet, receivables from customers increased most, growing by €119.1 million or 2.5 per cent to €4.92 billion. IFRSs require an impairment allowance to be deducted from receivables from customers. In the first half, the impairment allowance balance increased by another €8.5 million to €161.7 million. The line item *Financial assets* increased by €0.10 billion or 6.6 per cent to €1.56 billion during the half year under review. Receivables from other banks increased by 16.6 per cent to €0.14 billion during the first six months of the year. This compared with payables to other banks of €1.50 billion at the end of June.

As is consistent with the consolidation policies we have described, *BKS Bank AG*'s various business segments accounted for 91 per cent of total receivables from customers within the Group, namely €4.50 billion. This was €118.2 million more than at the end of 2011. Both the satisfactory volume of new domestic corporate customer receivables, which totalled €358.4 million, and new domestic retail customer receivables, which came to €62.6 million, were reflected by a corresponding level of loan disbursements. Once again, our branches in other countries were essential contributors to our growth. Our Slovenian branch recorded nearly €60 million of new corporate customer receivables, and its corporate customer base has now grown to over a thousand. There was similar growth in the retail customers segment, where an average of about one hundred new customers a month opted to do business with BKS Bank, generating €25.8 million of new receivables. Our operations in Slovakia grew slightly less dynamically, but growth was still satisfactory given the economic slump.

Our leasing operations in Austria gained ground, especially in the second quarter of 2012. However, the volume of new business was still below our expectations at €18.1 million. Our Austrian leasing subsidiaries had receivables totalling roughly €160 million at 30 June 2012. Our leasing operations abroad, which accounted for receivables totalling €152.3 million, are handled locally by our leasing companies in Ljubljana, Zagreb and Bratislava. Operations developed particularly well in Slovenia. Our Croatian banking subsidiary *BKS Bank d.d.*, which focuses on corporate and business banking, also developed very well, with receivables from customers increasing by 7.3 per cent to €107.1 million.

We continued to focus particularly closely on systematically reducing our Swiss franc foreign currency loan portfolio during the period under review. Thanks to our unceasing efforts to mitigate the credit risk associated with foreign currency loans, our Swiss franc loan portfolio shrank by SFr76.3 million during the first half of 2012. By the end of June, the foreign currency portion of the BKS Bank Group's total loan receivables had fallen to 16.2 per cent.

Financial assets consists of the sub-items financial assets designated as at fair value through profit or loss, available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets and investments in other entities accounted for using the equity method. Targeted purchasing of subsidized home-construction loans increased the line item *Financial assets designated as at fair value through profit or loss* by 30.0 per cent to €155.6 million. These additions took place using the fair value option and the exposure to interest rate risk was hedged by an interest rate swap. By the end of the first half, investments in fixed-interest bonds had increased the portfolio of held-to-maturity (HTM) financial assets by €47.5 million to €786.3 million. These investments already included purchases in the amount of roughly €28 million carried out to reinvest the proceeds from redemptions that took place in July of this year. The line item *Investments in entities accounted* *for using the equity method*, most of which comprises the carrying amounts of our interests in *Oberbank AG* and *BTV AG*, increased by €20.9 million to €330.8 million.

Equity and liabilities

Our so-called *primary funds*—comprising savings, sight and time deposits and liabilities evidenced by paper—were pleasingly high, at €4.30 billion. We see this as a clear sign of the confidence placed in our crisis-resistant business model by our customers. Including subordinated debt capital, our primary funds, which are the key pillar of our sustainable liquidity management activities, accounting for approximately 65 per cent of our balance sheet assets, sufficed to fund over 87 per cent of the loans and advances to customers in the portfolio. However, our primary funds reflected the relatively small increase in customer deposit balances, which increased by just 1.1 per cent to €3.57 billion, compared with €3.54 billion at the end of 2011. In contrast, liabilities evidenced by paper increased by 6.4 per cent to €484.1 million.

So far this year, it has proven very difficult to attract savings deposits, balances of which are already very close to the €2.0 billion mark at €1.82 billion. Nonetheless, we recorded a gratifying increase of 2.1 per cent in the first six months of 2012. This was partly thanks to our closeness to the customer and attractive offerings. Roughly two thirds of all savings deposit balances were already held in *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts. The steady inflow of deposits in Slovenia was remarkable. Other deposit balances, comprising sight and time deposit balances, were close to the pleasing total recorded at the end of last year, coming to €1.75 billion. Whereas the balance of sight and time deposits from corporate and business banking customers fell slightly, dropping by €18.5 million, the balance of retail customer deposits increased by €19.3 million.

Our own securities in issue—comprising liabilities evidenced by paper and subordinated debt capital—which are an essential part of liquidity planning on a matched maturity basis increased by €13.4 million to €0.73 million between the beginning of the year and the end of the period under review. It should be noted that the extremely low market interest rates—at the end of June, the yield on 10-year German *bunds* was just 1.58 per cent—dampened the demand for BKS Bank's own securities. However, we still placed a total of €43.4 million of new securities during the first half. Furthermore, we again issued covered bonds with a cover pool of public sector debt within the scope of private placements. In addition, we made rapid progress developing a cover pool of home construction mortgages that already had a volume of €69.6 million at the end of June 2012. Further issuances backed by these covering assets will follow during the second half.

The line item *Equity* on our Consolidated Balance Sheet as at 30 June 2012 was €26.9 million or 4.2 per cent up on the beginning of the year to €671.9 million. BKS Bank's equity is detailed in the Statement of Changes in Equity on page 20.

Own funds

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

The basis of assessment increased by €23.9 million to roughly €4.44 billion during the first half. This was, above all, due to an increase in receivables from customers. Eligible own funds were down on the end of 2011, falling by €5.2 million to €676.7 million. This was mainly attributable to a drop in supplementary own funds in the form of supplementary capital. Since this class of own funds will no longer be a priority under the new Basel III regime, we deliberately accepted the fall in supplementary own funds caused by the maturing of supplementary capital. In future, there will be a clear focus on core Tier 1 capital. BKS Bank is examining the impact of the new requirements in detail as part of an ongoing Basel III project. The main areas of study are the definition of the term *own funds*, their possible effects on the basis of assessment and the new reporting requirements, which will, as things stand at the moment and based on the draft Capital Requirements Directive (CRD) 4 and draft Capital Requirements Regulation (CRR) 1 published by the European Commission in July 2011, change significantly. BKS Bank's Tier 1 ratio at the end of the first half was 12.4 per cent, which was only just down on the figure of 12.5 per cent recorded at the end of 2011. Its total capital ratio was 15.2 per cent, compared with 15.4 per cent at the end of 2011. In both cases, BKS Bank significantly exceeded the statutory minima, which were 8.0 per cent (own funds) and 4.0 per cent (Tier 1). BKS Bank's surplus own funds also remained high, at €321.6 million. Own funds after taking account of operational risk still came to €294.4 million, providing an adequate basis for future lending growth for which capital charges will be required.

OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE

€m	31/12/2010	31/12/2011	30/6/2012
Share capital	65.5	65.5	65.5
Hybrid capital	40.0	40.0	40.0
Reserves net of intangible assets	311.1	494.0	492.9
Tier 1 capital	**416.6**	**599.5**	**598.4**
Tier 1 ratio [1]	9.59%	12.46%	12.37%
Hidden reserves within the meaning of § 57 *BWG*	10.3	5.6	**5.6**
Eligible supplementary capital	155.8	134.6	124.6
Balance of gains and losses taken to equity	65.2	19.9	28.8
Eligible subordinated liabilities	12.9	20.7	17.6
Supplementary own funds (Tier 2)	**244.2**	**180.8**	**176.7**
Deductions from Tier I and Tier II	93.3	98.4	98.3
Eligible own funds	**567.4**	**681.9**	**676.7**
Own funds ratio	13.06%	15.44%	15.24%
Basis of assessment for the banking book	4,345.1	4.415.2	4,439.1
Own funds requirement	**347.6**	**353.2**	**355.1**
Own funds requirement for the trading book	2.9	2.4	2.3
– Of which arising from open currency positions	2.2	1.4	1.2
Own funds requirement for operational risk	25.0	26.8	27.2
Surplus own funds (disregarding operational risk)	**219.8**	**328.7**	**321.6**
Surplus own funds (taking account of operational risk)	**194.8**	**301.9**	**294.4**

[1] In 2011 und 2012, 50 per cent of the stakes held in other banks was deducted when calculating this ratio.

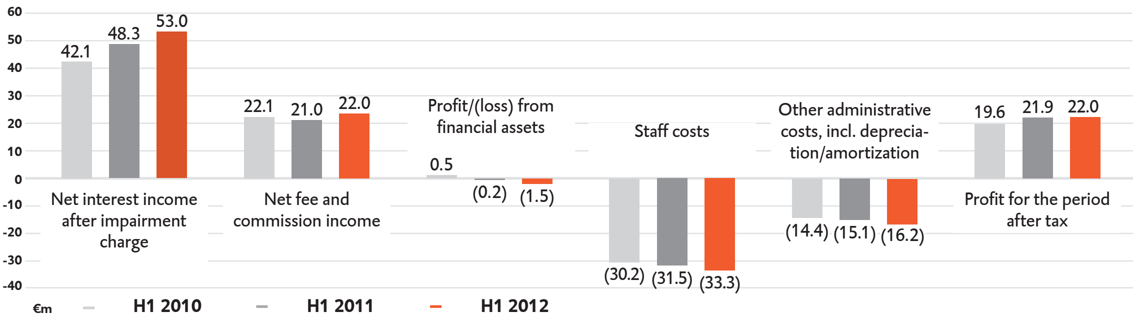
Performance

BKS Bank returned another solid profit in the first half of 2012 despite a market environment that was still unstable. This gratifying result was mainly attributable to stable operating profits in an environment of historically low interest rates. It was characterized by tough competition for savings deposits, most of which was terms based, by delays in adjustments to terms and conditions for fixed interest products and by massive cuts in consumer loan interest rates caused by the applicable sliding rate of interest clauses. Profit for the period before tax was 4.1 per cent up on the first half of 2011 to €25.3 million. Profit after tax came to €22.1 million. Net interest income after the impairment charge on loans and advances was still 9.9 per cent up on the same period of last year at €53.0 million. Given the persistently difficult economic situation in our geographical markets, this was a satisfactory figure contributed to by every business segment in Austria and abroad. Our profit from investments in entities accounted for using the equity method reached our budget target, increasing by 23.4 per cent compared with the same period of last year to total €10.1 million.

Our risk position was perceptibly better in the first half of 2012 than in 2011. It proved possible to reduce the charge for impairment losses on loans and advances by 17.3 per cent to €18.6 million. In the middle of 2012, our subsidiaries in Austria and abroad accounted for 4.9 per cent of the Group's total risks, compared with 8.0 per cent at the beginning of the year.

Fee and commission operations developed well. Net fee and commission income was 4.7 per cent up on the same period of last year to €22.0 million. As described in note (3) on page 25, this was mainly thanks to an increase in our earnings from payments services, credit operations and foreign operations, with the latter profiting primarily from an increase in switches from foreign currency loans to less risky euro-based loans. On the other hand, fee and commission earnings from securities operations were still below our expectations. This was, above all, because the risk aversion of our securities clients was still making itself felt, especially in the second quarter. It was also reflected by the value of their securities accounts. Although this was close to the €6 billion mark at the end of June 2012, at €5.99 billion, it was only 3.7 per cent up on the comparatively low total recorded at the end of 2011. As part of our efforts to invigorate and reposition our securities operations and after completing promising market research to identify ways of acquiring new

Components of the Income Statement



customers and generating new business, we added another important pillar to our investment services in the form of private banking. The new Private Banking unit successfully went into operation in the second quarter of 2012 and rapidly extended its activities to cover all of our Austrian regions. A brokerage unit will be added in the third quarter.

Profit/(loss) from financial assets, which consists of the sub-items *Profit/(loss) from financial assets designated as at fair value through profit or loss, Profit/(loss) from available-for-sale financial assets and Profit/(loss) from held-to-maturity financial assets*, came to negative €1.5 million, compared with negative €0.2 million in the first half of 2011. We recorded a profit from financial assets designated as at fair value through profit or loss of €1.7 million. In this portfolio, a total increase of €2.6 million in the fair values of securities and loans and our own securities hedged using the fair value option made up for impairments of interest rate derivatives in the amount of €0.9 million. Whereas our profit/(loss) from available-for-sale financial assets improved by €0.9 million compared with the same period of last year, coming to negative €0.2 million, the half-hearted political action taken to deal with Europe's sovereign debt crisis led to another serious drop in the prices of Greek government bonds. In line with our rigorous impairment policy, we recognized impairment losses totalling €2.8 million to allow for it. Our profit/(loss) from held-to-maturity financial assets came to negative €3.0 million in the six months up to the end of June, having already come to negative €1.5 million in the three months up to the end of March. This was the result of the forced exchange of Greek securities for EFSF bonds and newly issued Greek government bonds. These continued to decline in value, leading to an additional impairment of €1.3 million as of the end of the second quarter.

Join us now for a look at our expenses. *General administrative expenses* were 6.2 per cent up on the same period of last year to €49.5 million. *Staff costs* increased by 5.8 per cent to €33.3 million. This was the result of a big increase in the workforce and of routine pay rises under collective agreements. The BKS Bank Group employed an average of 927 people during the period under review, compared with 901 in the first half of 2011. Staff levels increased both at Head Office (as a result of hiring additional specialists) and in our foreign markets, namely in Slovakia and Slovenia. Pay rises under collective agreements took effects as of 1 April in 2012, having been set at an average of 3.5 per cent. *Other general administrative expenses* (other administrative costs and depreciation or amortization of capital assets) were 7.2 per cent up on the same period of 2011 to €16.2 million. This line item reflected our outlay on 3 *Banken EDV Gesellschaft mbH*, consultancy costs and expenditure on a number of pioneering projects, including back-office optimization projects. Nonetheless, they still stayed well below budget. *Other operating income net of other operating expenses* included, above all, the cost of the stability levy (bank tax) in the first half, which came to €830 thousand.

As a result of the developments we have described, the BKS Bank Group recorded profit for the period before tax in the first six months of this year of €25.3 million, as against €24.3 million in the same period of 2011. Profit for the period after tax came to €22.0 million, which translates into a small increase of 0.9 per cent.

Ratios

The renewed flare-up of the European sovereign debt crisis that made itself felt in the second quarter and the banking sector's persistent profit problems also had an effect on the BKS Bank Group's key ratios. The Group's return on equity before tax was significantly up on 2011, increasing by 160 basis points to 7.7 per cent, although it was not yet as good as in the pre-crisis years. The Group's return on its assets — the gauge of the total return on its assets — was 20 basis points up on 2011 to 0.8 per cent. The earnings and expenses we have described gave us a cost:income ratio of 52.2 per cent. As one can see when one looks at our ratios in 2010 (48.8 per cent) and 2011 (46.7 per cent), we are already maintaining a cost:income ratio of well below 50 per cent. Although our risk position had improved, net interest income was still unsatisfactory. As a result, our risk:earnings ratio — the measure of the proportion of net interest income used to cover credit risk — weakened to 26 per cent in the half year under review. Our internal RER target for this year is 24.5 per cent, and our long-term target for the Group as a whole is a ratio of 20 per cent.

CORPORATE PERFORMANCE RATIOS

Per cent	2010	2011	H1 2012
Tier 1 ratio	9.6	12.5	12.4
Own funds ratio	13.1	15.4	15.2
ROE (before tax)	8.9	6.1	7.7
ROA (before tax)	0.9	0.6	0.8
Cost:income ratio	48.8	46.7	52.2
Risk:earnings ratio	33.1	22.1	26.0

Segmental Report

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

Corporate and Business Banking

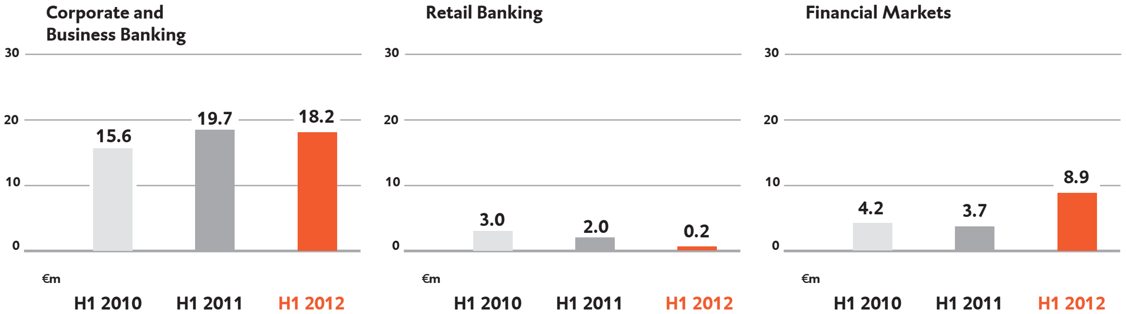
Roughly 13,000 customers were being serviced in the corporate and business banking segment. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia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

Although the markets were increasingly affected by the eurozone's weakness, business was still gratifyingly stable during the first half of 2012. While the contribution to net interest income made by deposit operations went on falling in the face of historically low margins, the increase in the loan portfolio generated by new business increased net interest income to €44.0 million. The charge for impairment losses on loans and advances was increased by €1.1 million to €18.3 million. On the other hand, net fee and commission income grew by €0.6 million or 5.2 per cent to €11.3 million. This was the result of an increase in our loan commission income and income from payment services . Allowing for general administrative expenses, which increased by 6.1 per cent to €19.5 million, the corporate and business banking segment closed the first half with profit for the period before tax of €18.2 million, compared with €19.7 million in the same period of 2011. The segment's risk:earnings ratio (RER) increased by 210 basis points to 41.5 per cent. Its return on equity (ROE in relation to profit for the period) calculated on the basis of capital employed of €256.6 million fell by 140 basis points to 14.2 per cent. Its cost:income ratio, which was generally satisfactory, deteriorated marginally from 33.2 per cent to 34.8 per cent. As the economic horizon has darkened again in recent weeks and months, we will be keeping a particularly close eye on the development of margins and risks in the coming quarters.

Retail Banking

Approximately 126,000 customers of *BKS Bank AG*, *BKS Bank d.d.* and the leasing companies within the Group (*BKS-Leasing GmbH*, *BKS-leasing d.o.o.*, *BKS-leasing Croatia d.o.o.*, *BKS-Leasing a.s.*) were being serviced in the retail banking segment. In addition to personal banking customers and jobholders, this segment also encompasses small business owners, doctors and self-employed customers. Because it is highly dependent

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



Corporate and Business Banking

	H1 2010	H1 2011	H1 2012
ROE	12.1%	15.6%	14.2
CIR	29.6%	33.2%	34.8
RER	54.7%	39.4%	41.5

Retail Banking

	H1 2010	H1 2011	H1 2012
ROE	15.6%	8.6%	0.7%
CIR	86.1%	91.4%	98.0%
RER	4.7%	1.7%	2.4%

Financial Markets

	H1 2010	H1 2011	H1 2012
ROE	3.0%	2.2%	5.1%
CIR	45.7%	23.3%	20.3%
RER	—	24.1%	0.0%

A detailed segmental breakdown is presented in the Notes to the Interim Financial Statements from page 29.

on branch operations, this segment is resource and cost intensive. Nonetheless, it is also indispensable to us as an important and sustainable source of funds. At the end of June, about 86 per cent of savings deposits and over a quarter of sight and time deposits held with BKS Bank—that is, roughly 60 per cent of its payables to customers—had been generated by retail banking operations. In addition, retail customers accounted for over one fifth of its loan portfolio.

Retail customer operations still failed to develop satisfactorily during the first half. This was due to the massive impact of the historically low interest rates, at times runaway competition and our customers' persistent risk avoidance stance and reluctance to engage in capital market transactions. Net interest income came to €15.7 million. However, despite the pleasing growth in our loan portfolios and deposit balances, which expanded by 1.2 per cent to €1.09 billion and by 3.0 per cent to €2.07 billion, respectively, the prevailing margins meant that it was still below the prior-year figure of €16.1 million. This segment's risk position had a positive impact, resulting in an impairment charge on loans and advances of just €0.4 million, as against €0.3 million in the same period of last year. The segment's risk:earnings ratio was still outstanding, increasing only marginally to 2.4 per cent. This was an indication of its minimal impairment losses. On the other hand, securities operations remained slow. As a result, the growth in net fee and commission income did not live up to our expectations, with an increase of €0.7 million to €10.2 million. This did not suffice to make up for the increase in general administrative expenses, which rose by €1.9 million to €25.8 million. Profit for the period before tax thus fell from €2.0 million in the first half of 2011 to just €0.2 million in the period under review. The difficult situation in the retail customers segment was reflected both by its return on investment calculated on the basis of risk-weighted assets of €567.5 million, which came to 0.7 per cent, and by its modest cost:income ratio of 98.0 per cent. However, the effects of implementing a number of promising but as yet uncompleted projects aimed at significantly enhancing our competitiveness in this segment give us grounds to expect a lasting improvement in this challenging situation.

Financial Markets

The financial markets segment encompasses profits from equity investments, from securities held in our own portfolios and from receivables from and payables to other banks as well as earnings from our interest rate term structure management activities.

Profit for the period before tax in the financial markets segment came to €8.9 million in the first half of 2012, compared with €3.7 million between January and June 2011. Earnings in this segment were mainly shaped by the availability of tender funding in the form of limited-period exchanges of eligible collateral (securities) for central bank money. We borrowed €0.27 billion at an interest rate of 1.0 per cent on this basis, and the ECB reduced the rate to 0.75 per cent at the beginning of July during the latest cut in its benchmark interest rate. The decrease in the requisite impairment charge for country risk also had an impact on profit for the period, after it had still been €5.0 million in the same period of 2011 to cover our exposure to Greek government bonds.

PIIGS EXPOSURE

Carrying Amounts, €m	Government Bonds (30/6/2012)
Portugal	—
Ireland	—
Italy	—
Greece	2.7
Spain	—
Total	**2.7**

A comparative look at the segment's ratios shows an increase in its return on equity based on capital employed of €349.7 million from 2.2 per cent in the first half of 2011 to 5.1 per cent in the period under review. At there same time, there was a small improvement in its cost:income ratio from 23.3 per cent to 20.3 per cent. Since no additional portfolio impairment charge for country risk was necessary in the first half, the segment's annualized risk:earnings ratio fell to zero per cent. BKS Bank has reduced its holdings of PIIGS sovereign debt to a minimum this financial year. The exposure to Portuguese, Irish, Italian, Greek and Spanish government bonds was just €2.7 million at the end of June.

Risk Report

The goals of BKS Bank's risk management activities are to ensure that we remain liquid, avoid loan losses and limit market risks and are able to return the customer assets entrusted to us and that the capital invested in us by our shareholders continued to increase in value. Making as efficient use as possible of available capital in the light of medium-term and long-term strategic goals is at the centre of such risk management activities. One of our main focuses is on optimizing the trade-off between risk and return based on the principle that we will only enter into risks that BKS Bank can bear without outside help. Another goal is to ensure that BKS Bank always has sufficient capital to match its risk profile.

We manage our risks and our capital on the basis of a framework of principles and guidelines and with the help of organizational structures and measurement and monitoring processes that are finely tuned to our business model. They are closely geared to the activities of the Group's divisions and are state-of-the-art. The risk management process differentiates between quantifiable types of risk and non-quantifiable types of risk such as reputational and compliance risk. The areas of risk of particular 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. For a more detailed presentation of our proven risk management system—which remained essentially unchanged during the period under review—we refer you to our comments in BKS Bank's 2011 Annual Report.

Credit risk

Credit risk (also called default risk) is the risk of partial or total non-payment of contractually agreed payments. It may result, among other things, from a counterparty's poor credit standing or may arise indirectly from country risk as a consequence of a counterparty's domicile. It affects not only classical banking products (e.g. credit products and guarantees) but also 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 based on the use of statistical methods. On the reporting date of 30 June, roughly 68 per cent of all corporate and business banking customers and roughly 88 per cent of all retail banking customers were in the classes AA – 3b, which means that they had a good credit standing along with a very low default risk. Impairment allowances in the first six months of the year came to €20.6 million, which was 18.3 per cent or €4.6 million less than in the same period of last year. These

CHARGE FOR IMPAIRMENT LOSSES

€m	30/6/2011	30/6/2012
Direct write-offs	0.4	0.3
Impairment allowances	25.2	20.6
Impairment reversals	(3.0)	(2.1)
Subsequent recoveries	(0.1)	(0.2)
Charge for impairment losses	**22.5**	**18.6**

impairment allowances comprised impairment allowances recognized on an item-by-item basis, commission payments to ALGAR (see above) and collective assessments of impairments of customer portfolios carried out in accordance with IAS 39. The rigorous processing of risk incidents enabled us to carry out reversals of previously recognized impairment losses in the amount of €2.1 million. Similarly, the requisite allowance for the credit risks of our foreign subsidiaries came to just €0.8 million, which was only €0.2 million more than in the first half of 2011. Looking at our credit risk in terms of non-performing or problem loans, which accounted for just 5.7 per cent[1] of the total at the end of the first half, we can state that our risk position was practically unchanged compared with the end of the first quarter.

Market risk

In this risk category, we differentiate between interest rate risk, currency risk and equity price risk. Within the bank, we manage these risks using value at risk (VaR) limits, duration limits and volume limits. The VaR approach is used to measure the maximum possible loss that could be incurred with a given probability. Our Asset Liability Management (ALM) Committee reviews our market risk once a month on the basis of present value, duration and value at risk calculations.

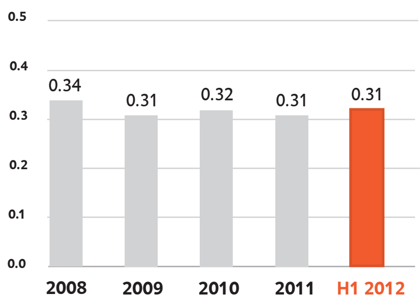
Our interest rate risks continued to fall during the first half. By the end of the second quarter of 2012, the ratio of our interest rate risks to our eligible own funds assuming a rate shift of 200 basis points as reportable to *OeNB* (interest rate statistics) had fallen to just 2.60 per cent, compared with 3.92 per cent at the end of 2011. Interest rates were still low, so they did not provide any incentive to undertake 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 equity value at risk having still been €5.4 million at the end of 2011, equity disinvestments reduced it to €4.4 million during the first half. Our currency risk also fell thanks to a cut in the proportion of our investment fund holdings accounted for by foreign currency assets, reducing it by €2.6 million to €15.5 million. Our foreign currency value at risk was again very low, at €1.0 million, compared with €2.3 million at the end of 2011.

Liquidity risk

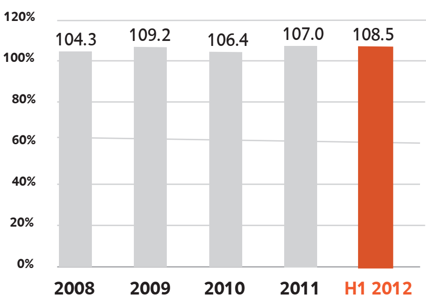
We define liquidity risk as the risk that BKS Bank might not be able to meet its future financial obligations to a sufficient extent or in time or in the right currency or might only be able to raise funds at higher than usual market rates (funding risk) or liquidate assets at significantly below normal market rates or prices (market liquidity risk) in a crisis situation. Liquidity management at BKS Bank (i.e. ensuring the bank's solvency at all times) is performed with the help of a daily liquidity projection for each main currency. Limits have been defined at the short end to set boundaries to our liquidity risk. We mainly hold as a liquidity buffer highly-liquid securities that are eligible for refinancing by the ECB and eligible customer receivables.

As a result, our bank had a solid liquidity buffer of €939.4 million at 30 June 2012, compared with €775.4 million at the end of 2011. 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 are broken down

DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



[1] This figure was calculated on the basis of the non-performing and problem loans contained in the classes 5a – 5c of BKS Bank's rating system. The divisor was gross customer loan receivables inclusive of corporate bonds, guarantees and unused credit lines.

into predefined size classes and the relative amounts thereof and weighting factors of between 0 and 1 are applied to them. The resulting figure, which plays an important part in our liquidity management activities, stayed at the acceptable level of 0.31 in the first half of 2012. The loan:deposit ratio is another useful liquidity management indicator, showing the relationship between receivables from customers and primary deposit balances. It stood at 108.5 per cent at the end of June, our medium-term target being parity (100 per cent). We met the minimum liquidity requirements laid down in §25 *BWG* throughout the period under review. BKS Bank's access to the money and capital markets remained unrestricted during the first six months of this financial year.

Operational risk

We define operational risk as the risk of losses resulting from inadequate or failed internal processes, people or systems or from external events. Such risks can unexpectedly increase costs or reduce profits. A total of 82 loss events were reported at BKS Bank in the first six months of this financial year. Allowing for reimbursed losses, the resulting risk loss was comparatively small at €207 thousand. We point out that this figure does not include operational risk losses arising from credit operations.

Outlook for the Year as a Whole

At the moment, Europe's persistent debt crisis, growing concern about the possible disintegration of the European Monetary Union and fear of a global recession make it hard to provide an objective profit forecast for the year 2012. In addition, the banking environment has recently been far from unproblematic. The worsening crisis in the Spanish banking industry, talk about the possibility of Greece leaving the euro and strain in the Italian and Spanish bond markets have of late seriously affected sentiment in the financial markets and the real economy. We believe that the markets will remain weak in the second half of this year and that we will experience knock-on effects in the capital markets, persistently low money market interest rates, a fall-off in orders in the industrial sector and a corresponding drop in profits. Against this background, the competition for customer deposits — a mainstay of funding if one is not to depend on the interbank market — will get even tougher. Business operations in the second half will be influenced by banks' disinclination to lend to customers whose credit standing is merely average or to extremely cyclical companies in an effort to avert the possibility of another increase in credit risk costs.

BKS Bank is in a position to satisfy all the regulatory capital requirements associated with Basel III at all times and without difficulty. Thanks to a liquidity position that is much better than that of most of our competitors, we are well placed to seize future opportunities for growth in our core segments, these being corporate and business banking and retail banking. In the light of the satisfactory development of profit in the first half and assuming that the market environment will not get any worse, we remain cautiously optimistic. We believe that our profit for the year 2012 will enable us to continue to augment our reserves at the same time as distributing a dividend to our shareholders to match our profit.

We remain,

Yours faithfully,

Heimo Penker	Herta Stockbauer	Dieter Krassnitzer
CEO	Member of the Management Board	Member of the Management Board

OVERVIEW OF THE 3 BANKEN GROUP

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	H1 2011	H1 2012	H1 2011	H1 2012	H1 2011	H1 2012
Net interest income	70.8	71.7	167.8	145.2	80.8	83.7
Impairment charge on loans and advances	(22.5)	(18.6)	(50.7)	(24.7)	(19.1)	(19.0)
Net fee and commission income	21.0	22.0	53.0	55.1	22.0	21.4
General administrative expenses	(46.6)	(49.5)	(112.4)	(116.6)	(46.0)	(47.1)
Profit for the period before tax	24.3	25.3	69.5	73.0	38.1	38.3
Profit for the period after tax	21.9	22.1	60.3	59.5	31.6	31.7
Balance sheet data, €m	31/12/2011	30/6/2012	31/12/2011	30/6/2012	31/12/2011	30/6/2012
Assets	6,456.0	6,670.0	17,483.7	17,717.5	9,214.7	9,479.9
Receivables from customers after impairment charge	4,647.8	4,758.5	10,563.9	10,939.9	6,030.1	6,150.8
Primary deposit balances	4,251.4	4,302.7	11,315.2	11,433.6	6,627.8	6,467.2
– Of which savings deposit balances	1,786.3	1,823.4	3,407.6	3,432.3	1,260.0	1,288.0
– Of which liabilities evidenced by paper	715.7	729.2	2,250.9	2,223.3	1,255.0	1,131.8
Equity	644.9	671.9	1,222.0	1,282.7	767.4	803.4
Customer assets under management	10,025.5	10,290.0	19,764.5	20,346.2	10,970.6	10,939.6
– Of which in customers' securities accounts	5,774,1	5,987.3	8,449.3	8,912.6	4,342.8	4,472.4
Own funds within the meaning of BWG, €m	31/12/2011	30/6/2012	31/12/2011	30/6/2012	31/12/2011	30/6/2012
Risk-weighted assets	4,415.2	4,439.1	10,146.2	10,641.5	6,077.9	6,434.5
Own funds	681.9	676.7	1,673.1	1,639.6	934.7	943.3
– Of which Tier 1 capital	599.5	598.4	1,167.6	1,162.3	776.1	776.2
Surplus own funds before operational risk	328.7	321.6	860.2	787.6	448.0	428.2
Surplus own funds after operational risk	301.9	294.4	798.0	725.4	423.8	404.0
Tier 1 ratio, %	12.46	12.37	11.51	10.92	12.77	12.06
Own funds ratio, %	15.44	15.24	16.49	15.41	15.38	14.66
Performance, %	2011	H1 2012	2011	H1 2012	2011	H1 2012
Return on equity before tax	6.1	7.7	10.6	11.6	9.0	9.8
Return on equity after tax	5.7	6.7	9.3	9.5	7.4	8.1
Cost:income ratio	46.7	52.2	50.6	54.4	45.7	44.1
Risk:earnings ratio	22.1	26.0	28.6	17.0	22.5	22.7
Resources	2011	H1 2012	2011	H1 2012	2011	H1 2012
Average number of staff	901	927	2,054	2,020	790	783
Branches and other business units	55	54	150	149	40	39

Consolidated Financial Statements as at and for the Six Months Ended 30 June 2012

Income Statement of the BKS Bank Group for the Period from 1 January to 30 June 2012

1 JANUARY – 30 JUNE 2012

€k	Note	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Interest income		105,452	111,236	5.5
Interest expenses		(42,856)	(49,680)	15.9
Profit from investments in entities accounted for using the equity method		8,186	10,103	23.4
Net interest income	(1)	**70,782**	**71,659**	**1.2**
Impairment charge on loans and advances	(2)	(22,502)	(18,611)	(17.3)
Net interest income after impairment charge		**48,280**	**53,048**	**9.9**
Fee and commission income		22,406	23,421	4.5
Fee and commission expenses		(1,389)	(1,408)	1.4
Net fee and commission income	(3)	21,017	22,013	4.7
Net trading income	(4)	925	1,069	15.6
General administrative expenses	(5)	(46,589)	(49,491)	6.2
Other operating income net of other operating expenses	(6)	949	157	(83.5)
Profit from financial assets (FV)	(7)	878	1,742	98.4
Profit/(loss) from financial assets (AFS)	(8)	(1,112)	(218)	(80.4)
Profit/(loss) from financial assets (HTM)	(9)	0	(2,985)	—
Profit for the period before tax		**24,348**	**25,335**	**4.1**
Income tax expense	(10)	(2,478)	(3,278)	32.3
Profit for the period after tax		**21,870**	**22,057**	**0.9**
Minority interests in profit for the period		(2)	(3)	50.0
Consolidated net profit for the period after minority interests		**21,868**	**22,054**	**0.9**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit for the period after minority interests	21,868	22,054	0.9
Gains and losses not recognized in profit or loss			
– Exchange differences	(52)	50	(>100)
– Available-for-sale reserve	(2,744)	3,564	(>100)
– Arising from investments in entities accounted for using the equity method	1,572	9,278	>100
– Deferred taxes on items taken directly to equity	718	(947)	(>100)
Comprehensive income	**21,362**	**33,999**	**59.2**

QUARTERLY REVIEW

€k	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012
Interest income	54,528	57,300	60,101	56,181	55,055
Interest expenses	(22,191)	(24,068)	(24,809)	(25,333)	(24,347)
Profit from investments in entities accounted for using the equity method	4,639	6,124	4,991	3,613	6,490
Net interest income	**36,976**	**39,356**	**40,283**	**34,461**	**37,198**
Impairment charge on loans and advances	(10,095)	(6,279)	(4,423)	(8,948)	(9,663)
Net interest income after impairment charge	**26,881**	**33,077**	**35,860**	**25,513**	**27,535**
Net fee and commission income	10,096	10,628	10,659	11,205	10,808
Net trading income	538	471	(71)	326	743
General administrative expenses	(23,766)	(22,621)	(22,250)	(24,430)	(25,061)
Other operating income net of other operating expenses	349	849	(61)	87	70
Profit/(loss) from financial assets (FV)	(1,170)	(3,286)	(322)	528	1,214
Profit/(loss) from financial assets (AFS)	(1,205)	64	4,447	100	(318)
Profit/(loss) from financial assets (HTM)	0	(17,150)	(16,035)	(1,519)	(1,466)
Profit for the period before tax	**11,723**	**2,032**	**12,227**	**11,810**	**13,525**
Income tax expense	(597)	1,949	(1,633)	(1,750)	(1,528)
Profit for the period after tax	**11,126**	**3,981**	**10,594**	**10,060**	**11,997**
Minority interests in profit for the period	(1)	(1)	(1)	(1)	(2)
Consolidated net profit for the period after minority interests	**11,125**	**3,980**	**10,593**	**10,059**	**11,995**

Balance Sheet of the BKS Bank Group as at 30 June 2012

ASSETS

€k	Note	31/12/2011	30/6/2012	+/(-) Change, %
Cash and balances with the central bank	(11)	85,819	71,979	(16.1)
Receivables from other banks	(12)	116,503	135,830	16.6
Receivables from customers	(13)	4,801,095	4,920,246	2.5
– Impairment allowance balance	(14)	(153,246)	(161,697)	5.5
Trading assets	(15)	344	648	88.4
Financial assets designated as at fair value through profit or loss	(16)	119,614	155,554	30.0
Available-for-sale financial assets	(17)	295,115	287,524	(2.6)
Held-to-maturity financial assets	(18)	738,732	786,268	6.4
Investments in entities accounted for using the equity method	(19)	309,929	330,795	6.7
Intangible assets	(20)	12,022	11,703	(2.7)
Property and equipment	(21)	62,610	62,260	(0.6)
Investment property	(22)	16,978	16,729	(1.5)
Deferred tax assets	(23)	17,104	18,296	7.0
Other assets	(24)	33,374	33,907	1.6
Total assets		**6,455,993**	**6,670,042**	**3.3**

EQUITY AND LIABILITIES

€k	Note	31/12/2011	30/6/2012	+/(-) Change, %
Payables to other banks	(25)	1,386,250	1,504,418	8.5
Payables to customers	(26)	3,535,614	3,573,487	1.1
Liabilities evidenced by paper	(27)	455,016	484,094	6.4
Trading liabilities	(28)	391	330	(15.6)
Provisions	(29)	77,444	79,651	2.8
Deferred tax liabilities	(30)	9,274	10,871	17.2
Other liabilities	(31)	86,349	100,238	16.1
Subordinated debt capital	(32)	260,730	245,103	(6.0)
Equity		644,925	671,850	4.2
Of which total minority interests and equity		644,922	671,844	4.2
Of which minority interests in equity		3	6	100.0
Total equity and liabilities		**6,455,993**	**6,670,042**	**3.3**

EARNINGS AND DIVIDEND PER SHARE

	H1 2011	H1 2012
Average number of shares in issue	32,236,357	32,104,033
Dividend per share, €	0.25	0.25
Earnings per share, € (diluted and undiluted)	1.36	1.37

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

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Profit for the Period	Equity
At 1 January 2012	65,520	97,929	(661)	5,987	439,702	36,445	644,922
Distribution						(8,034)	(8,034)
Taken to retained earnings					28,411	(28,411)	0
Consolidated net profit for the period						22,057	22,057
Gains and losses taken directly to equity			50	12,251	(356)		11,945
Increase in share capital							
Other changes					954		954
– Arising from use of the equity method					663		
– Arising from changes in treasury shares					(1,257)		
At 30 June 2012	**65,520**	**97,929**	**(611)**	**18,238**	**468,711**	**22,057**	**671,844**
Available-for-sale reserve							18,725
Deferred tax reserve							(487)

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Profit for the Period	Equity
At 1 January 2011	65,520	97,929	(259)	16,571	401,628	46,429	627,818
Distribution						(8,048)	(8,048)
Taken to retained earnings					38,381	(38,381)	0
Consolidated net profit for the period						21,870	21,870
Gains and losses taken directly to equity			(52)	(630)	176		(506)
Increase in share capital							
Other changes					1,218		1,218
– Arising from use of the equity method					2,757		
– Arising from changes in treasury shares					(1,515)		
At 30 June 2011	**65,520**	**97,929**	**(311)**	**15,941**	**441,403**	**21,870**	**642,352**
Available-for-sale reserve							15,941
Deferred tax reserve							(2,001)

Cash Flow Statement

CASH FLOWS

€k	H1 2011	H1 2012
Cash and cash equivalents at end of previous period	**114,922**	**85,819**
Net cash from operating activities	95,727	50,896
Net cash from/(used in) investing activities	(113,838)	(39,728)
Net cash from/(used in) financing activities	(4,726)	(25,008)
Cash and cash equivalents at end of period	**92,085**	**71,979**

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

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

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the six months ended 30 June 2012 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) applicable as at the reporting date and as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

II. Recognition and measurement

Scope of consolidation

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

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

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

Consolidation policies

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

Foreign currency translation

These semi-annual financial statements were prepared in euros (the functional currency). Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that were not prepared in euros were translated using the *modified closing rate method*. Assets and liabilities were translated at the closing exchange rates ruling at their balance sheet dates. Expenses and income were translated applying average rates of exchange in the respective financial year. Exchange differences were recognized as a component of equity.

Impairment allowance balance
Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis and creating provisions. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet. We made allowances for individual risk positions on an item-by-item basis applying class-specific criteria. Provisions for contingent liabilities were recognized on the equity and liabilities side of the Balance Sheet in the line item *Provisions*. A collective assessment of impairment of the portfolio was likewise carried out in accordance with IAS 39 para. 64, a collective assessment of impairment of the portfolio for country risks being recognized as well for the first time in 2011. In order to calculate the provisions for country risk, the exposures outstanding at the reporting date were broken down into risk classes and appropriate risk weights were applied.

Trading assets and 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*.

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

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

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

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

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

Phase 1: In phase 1, cash flows in the ensuing five years are calculated and discounted on the basis of the company's budgets.

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

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

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

Available-for-sale financial assets
Available-for-sale (AFS) securities are a separate category of financial instrument. They were generally measured applying exchange prices. If these were not available, values of interest rate products were measured using present value techniques. Revaluation gains and losses were recognized in the AFS reserve and not through profit or loss. If such securities were sold, the corresponding part of the AFS reserve was released through profit or loss. In the event of impairment (e.g. a debtor in severe financial difficulties or a measurable decline in the expected future cash flows), a charge for the impairment was recognized in the Income Statement. If the reason for such a charge no longer existed, a write-back was recorded. In the case of equity capital instruments, it was made to equity through the AFS reserve. In the case of debt instruments, it was made to income. Investments in entities that were neither consolidated nor accounted for using the equity method were deemed to be part of the AFS portfolio.

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

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

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

Payables
Payables — with the exception of payables valued at fair value through profit or loss — were mainly recognized at the amounts payable.

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

Equity
Equity consists of paid-in capital and earned capital (retained earnings, gains and losses taken to equity in accordance with IAS 39 and profit for the year or period). BKS Bank strives to strengthen its capital base on a sustainable basis by ploughing back its profits.

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

Provisions for so-called 'social capital' (*Sozialkapitalrückstellung*) were calculated in accordance with the requirements of IAS 19. An interest rate of 4.75 per cent was applied when calculating provisions for post-employment, termination and jubilee benefits (31 December 2011: 4.75 per cent). Other parameters were applied as follows:
– salary trend: 2.25 per cent (31 December 2011: 2.25 per cent);
– career trend: 0.25 per cent (31 December 2011: 0.25 per cent).

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

The provision for mortality benefits was also calculated in accordance with IFRS principles. In the first half of 2012, the provisions for post-employment, termination, jubilee and mortality benefits were calculated applying IFRS principles in accordance with the *AVÖ 2008* table using the *projected unit credit method*.

Net interest income

Interest income and interest expenses were accounted for on an accrual basis. This line item also includes profit from equity investments. Profit from investments in entities accounted for using the equity method was disclosed in the line item *Net interest income* net of financing costs.

Impairment charge on loans and advances

This line item captures impairment allowances, impairment reversals and direct write-offs (additions to and deductions from the impairment allowance balance). Recoveries on receivables previously written off were also accounted for in this line item.

Net fee and commission income

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

Net trading income

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

Other notes

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

The Consolidated Financial Statements of *BKS Bank AG* for the 2011 financial year and for the first half of 2012 were prepared in accordance with the applicable International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the EU. Standards, interpretations and revisions and amendments already published and adopted by the EU whose application was not yet mandatory (IFRS 9; IFRS 10 and IFRS 13) were not applied ahead of time.

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

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Interest income from:			
Credit operations	77,996	83,026	6.4
Fixed-interest securities	16,581	17,547	5.8
Lease receivables	6,129	5,468	(10.8)
Shares and investments in other entities	4,199	4,610	9.8
Investment property	547	585	6.9
Total interest income	105,452	111,236	5.5
Interest expenses on:			
Deposits from customers and other banks [1]	29,906	36,005	20.4
Liabilities evidenced by paper	12,788	13,464	5.3
Investment property	162	211	30.2
Total interest expenses	42,856	49,680	15.9
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	9,825	10,925	11.2
Financing costs of investments in entities accounted for using the equity method [2]	(1,639)	(822)	(49.8)
Profit from investments in entities accounted for using the equity method	**8,186**	**10,103**	**23.4**
Net interest income	**70,782**	**71,659**	**1.2**

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

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

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Impairment allowances	25,237	20,625	(18.3)
Impairment reversals	(3,030)	(2,140)	(29.4)
Direct write-offs	437	334	(23.6)
Recoveries on receivables previously written off	(142)	(208)	46.5
Impairment charge on loans and advances	**22,502**	**18,611**	**(17.3)**

(3) NET FEE AND COMMISSION INCOME

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Fee and commission income from:			
Payment services	9,107	9,576	5.1
Securities operations	6,100	5,718	(6.3)
Credit operations	5,334	5,978	12.1
International operations	1,071	1,348	25.9
Other services	794	801	0.9
Total fee and commission income	22,406	23,421	4.5
Fee and commission expenses arising from:			
Payment services	661	619	(6.4)
Securities operations	442	409	(7.5)
Credit operations	153	187	22.2
International operations	18	102	>100
Other services	115	91	(20.9)
Total fee and commission expenses	1,389	1,408	1.4
Net fee and commission income	**21,017**	**22,013**	**4.7**

(4) NET TRADING INCOME

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Price-based contracts	82	(7)	(>100)
Interest rate and currency contracts	843	1,076	27.6
Net trading income	**925**	**1,069**	**15.6**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Staff costs	31,492	33,303	5.8
– Wages and salaries	22,610	23,837	5.4
– Social security costs	5,690	6,387	12.2
– Costs of old-age benefits	3,192	3,079	(3.5)
Other administrative costs	12,099	13,001	7.5
Depreciation/amortization	2,998	3,187	6.3
General administrative expenses	**46,589**	**49,491**	**6.2**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Other operating income	2,672	1,661	(37.8)
Other operating expenses	(1,723)	(1,504)	(12.7)
Other operating income net of other operating expenses	**949**	**157**	**(83.5)**

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

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Revaluation gains and losses on derivatives	943	(879)	(>100)
Gain/(loss) as a result of using the fair value option	(65)	2,621	(>100)
Profit/(loss) from financial assets designated as at fair value through profit or Loss	**878**	**1,742**	**98.4**

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

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(1,112)	(218)	(80.4)
Profit/(loss) from available-for-sale financial assets	**(1,112)**	**(218)**	**(80.4)**

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

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	0	(2,985)	—
Profit/(loss) from held-to-maturity financial assets	**0**	**(2,985)**	**—**

(10) INCOME TAX EXPENSE

€k	1/1–30/6/2011	1/1–30/6/2012	+/(-) Change, %
Current tax	(4,320)	(3,771)	(12.7)
Deferred tax	1,842	493	(73.2)
Income tax expense	**(2,478)**	**(3,278)**	**32.3**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2011	30/6/2012	+/(-) Change, %
Cash in hand	31,453	30,375	(3.4)
Credit balances with central banks of issue	54,366	41,604	(23.5)
Cash and balances with the central bank	**85,819**	**71,979**	**(16.1)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Receivables from Austrian banks	22,505	51,918	>100
Receivables from foreign banks	93,998	83,912	(10.7)
Receivables from other banks	**116,503**	**135,830**	**16.6**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Corporate and business banking customers	3,726,078	3,832,474	2.9
Retail banking customers	1,075,017	1,087,772	1.2
Receivables from customers	**4,801,095**	**4,920,246**	**2.5**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2011	30/6/2012	+/(-) Change, %
At beginning of period under review	149,149	153,246	2.7
+ Added	36,796	19,100	(48.1)
– Reversed	(6,893)	(2,113)	(69.3)
– Used	(25,664)	(8,556)	(66.7)
+/(-) Exchange differences	(142)	20	(>100)
At end of period under review	**153,246**	**161,697**	**5.5**

(15) TRADING ASSETS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Bonds and other fixed-interest securities	0	367	100.0
Shares and other variable-yield securities	0	0	0.0
Positive fair values of derivative financial instruments	344	281	(18.3)
– Interest rate contracts	0	0	0.0
Trading assets	**344**	**648**	**88.4**

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

€k	31/12/2011	30/6/2012	+/(-) Change, %
Bonds and other fixed-interest securities	58,722	72,503	23.5
Loans	60,892	83,051	36.4
Financial assets designated as at fair value through profit or loss	**119,614**	**155,554**	**30.0**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Bonds and other fixed-interest securities	158,765	163,633	3.1
Shares and other variable-yield securities	88,096	75,109	(14.7)
Investments in other associates and in subsidiaries	33,105	32,882	(0.7)
Other equity investments	15,149	15,900	5.0
Available-for-sale financial assets	**295,115**	**287,524**	**(2.6)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Bonds and other fixed-interest securities	738,732	786,268	6.4
Held-to-maturity financial assets	**738,732**	**786,268**	**6.4**

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

€k	31/12/2011	30/6/2012	+/(-) Change, %
Oberbank AG	207,699	218,258	5.1
Bank für Tirol und Vorarlberg AG	97,267	107,574	10.6
Alpenländische Garantie-GmbH	964	964	0.0
Drei-Banken Versicherungs-AG	3,999	3,999	0.0
Investments in entities accounted for using the equity method	309,929	330,795	**6.7**

(20) INTANGIBLE ASSETS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Goodwill	8,888	8,888	0.0
Other intangible assets	3,134	2,815	(10.2)
Intangible assets	**12,022**	**11,703**	**(2.7)**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2011	30/6/2012	+/(-) Change, %
Land	2,802	2,787	(0.5)
Buildings	49,805	48,653	(2.3)
Other	10,003	10,820	8.2
Property and equipment	**62,610**	**62,260**	**(0.6)**

(22) INVESTMENT PROPERTY

€k	31/12/2011	30/6/2012	+/(-) Change, %
Land	8,167	8,167	0.0
Buildings	8,811	8,562	(2.8)
Investment property	**16,978**	**16,729**	**(1.5)**

(23) DEFERRED TAX ASSETS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Deferred tax assets	**17,104**	**18,296**	**7.0**

(24) OTHER ASSETS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Positive fair values of derivative financial instruments	14,521	10,245	(29.4)
Other items	16,296	20,485	25.7
Deferred items	2,557	3,177	24.2
Other assets	**33,374**	**33,907**	**1.6**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Payables to Austrian banks	1,011,595	1,180,754	16.7
Payables to foreign banks	374,655	323,664	(13.6)
Payables to other banks	**1,386,250**	**1,504,418**	**8.5**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Savings deposit balances	**1,786,344**	**1,823,356**	**2.1**
Corporate and business banking customers	260,189	256,174	(1.5)
Retail banking customers	1,526,155	1,567,184	2.7
Other payables	**1,749,270**	**1,750,129**	**0.0**
Corporate and business banking customers	1,261,040	1,242,579	(1.5)
Retail banking customers	488,230	507,550	4.0
Payables to customers	**3,535,614**	**3,573,487**	**1.1**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2011	30/6/2012	+/(-) Change, %
Issued bonds	316,926	349,933	10.4
Other liabilities evidenced by paper	138,090	134,161	(2.8)
Liabilities evidenced by paper	**455,016**	**484,094**	**6.4**

(28) TRADING LIABILITIES

€k	31/12/2011	30/6/2012	+/(-) Change, %
Interest rate contracts	391	330	(15.6)
Trading liabilities	**391**	**330**	**(15.6)**

(29) PROVISIONS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	66,238	67,001	1.2
Provisions for taxes (current tax)	958	1,113	16.2
Other provisions	10,248	11,537	12.6
Provisions	**77,444**	**79,651**	**2.8**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2011	30/6/2012	+/(-) Change, %
Deferred tax liabilities	**9,274**	**10,871**	**17.2**

(31) OTHER LIABILITIES

€k	31/12/2011	30/6/2012	+/(-) Change, %
Negative fair values of derivative financial instruments	70,497	72,056	2.2
Other items	14,379	26,977	87.6
Deferred items	1,473	1,205	(18.2)
Other liabilities	**86,349**	**100,238**	**16.1**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2011	30/6/2012	+/(-) Change, %
Supplementary capital	220,730	205,103	(7.1)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**260,730**	**245,103**	**(6.0)**

(33) SEGMENTAL REPORTING

Method: Net interest income was allocated using the *market interest rate method*, with liquidity costs and bonuses applied to loan and deposit products differentiated according to their volumes and terms or durations. Incurred costs were allocated to individual business segments on a cost-by-cause basis. So-called *structural income* was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was valued applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income.*

The performance of each business segment was gauged in terms of the profit before tax recorded in that segment. Alongside the cost:income ratio, return on equity was one of the principal benchmarks for managing business segments. Our segmental reporting is based on our internal management processes.

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	H1 2011	H1 2012	H1 2011	H1 2012	H1 2011	H1 2012
Net interest income	16,140	15,737	43,724	44,043	10,415	11,642
Impairment charge on loans and advances	(274)	(370)	(17,207)	(18,282)	(5,021)	41
Net fee and commission income	9,485	10,207	10,787	11,348	294	272
Net trading income	0	0	0	0	925	1,069
General administrative expenses	(23,891)	(25,840)	(18,356)	(19,477)	(2,718)	(2,630)
Other operating income net of other operating expenses	511	416	758	567	37	2
Profit/(loss) from financial assets	0	0	0	0	(234)	(1,461)
Profit for the period before tax	**1,971**	**150**	**19,706**	**18,199**	**3,698**	**8,935**
Average risk-weighted assets	571,845	567,467	3,150,129	3,208,010	605,629	607,063
Average allocated equity	45,748	45,397	252,010	256,641	328,799	349,707
ROE based on profit for the period	**8.6%**	**0.7%**	**15.6%**	**14.2%**	**2.2%**	**5.1%**
Cost:income ratio	**91.4%**	**98.0%**	**33.2%**	**34.8%**	**23.3%**	**20.3%**
Risk:earnings ratio	**1.7%**	**2.4%**	**39.4%**	**41.5%**	**24.1%**	**0.0%**

€k	Other		Total	
	H1 2011	H1 2012	H1 2011	H1 2012
Net interest income	503	237	70,782	71,659
Impairment charge on loans and advances	0	0	(22,502)	(18,611)
Net fee and commission income	451	186	21,017	22,013
Net trading income	0	0	925	1,069
General administrative expenses	(1,624)	(1,544)	(46,589)	(49,491)
Other operating income net of other operating expenses	(357)	(828)	949	157
Profit/(loss) from financial assets	0	0	(234)	(1,461)
Profit/(loss) for the period before tax	**(1,027)**	**(1,949)**	**24,348**	**25,335**
Average risk-weighted assets	58,906	44,651	4,386,509	4,427,191
Average allocated equity	8,528	6,638	635,085	658,383
ROE based on profit for the period	—	—	**8.0%**	**7.7%**
Cost:income ratio	—	—	**49.7%**	**52.2%**
Risk:earnings ratio	—	—	**24.7%**	**26.0%**

(34) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2011	30/6/2012	+/(-) Change, %
Guarantees	407,658	412,507	1.2
Letters of credit	3,235	3,146	(2.8)
Contingent liabilities	**410,893**	**415,653**	**1.2**
Other commitments	634,395	622,003	(2.0)
Commitments	**634,395**	**622,003**	**(2.0)**

(35) RELATED PARTY DISCLOSURES IN ACCORDANCE WITH IAS 24

€k	31/12/2011	30/6/2012	+/(-) Change, %
Advances and loans granted to members of the Management Board and Supervisory Board and close relatives	218	451	>100
Deposit balances of members of the Management Board and Supervisory Board and close relatives	5,256	2,060	(60.8)

(36) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place at BKS Bank after the interim reporting date (30 June 2012) affecting the assets, liabilities, financial position or profit or loss as presented in this report.

(37) BALANCE OF DERIVATIVES OUTSTANDING

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

30/6/2012 €k	Nominal, by Term to Maturity				Fair Value	
	< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,085,968**	**954,045**	**—**	**2,040,013**	**1,815**	**42,989**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**179,196**	**688,500**	**172,554**	**1,040,250**	**6,593**	**24,956**
– Of which in trading book	15,000	12,500	16,062	43,562	114	111
Securities contracts	**2,431**	**—**	**—**	**2,431**	**—**	**69**
– Of which in trading book	—	—	—	—	—	—
Total	**1,267,595**	**1,642,545**	**172,554**	**3,082,694**	**8,408**	**68,014**
– Of which in trading book	15,000	12,500	16,062	43,562	114	111

31/12/2011 €k	Nominal, by Term to Maturity				Fair Value	
	< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,168,457**	**1,177,354**	**—**	**2,345,811**	**7,613**	**45,386**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**120,000**	**742,124**	**156,370**	**1,018,494**	**6,673**	**22,943**
– Of which in trading book	30,000	13,900	17,190	61,090	161	150
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,288,457**	**1,919,478**	**156,370**	**3,364,305**	**14,286**	**68,329**
– Of which in trading book	30,000	13,900	17,190	61,090	161	150

(38) MATERIAL TRANSACTIONS WITH RELATED PARTIES AND PERSONS

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

Statement by BKS Bank's Management

"We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the six months ended 30 June 2012 prepared in accordance with the applicable financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Group Management Report for the period from 1 January to 30 June 2012 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 and with respect to the material risks and uncertainties for the remaining six months of the financial year."

Klagenfurt am Wörthersee
21 August 2012

The Management Board

Heimo Penker
CEO

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

Herta Stockbauer
Member of the Management Board

Member of the Management Board responsible for International Operations, Accounts and Sales Controlling, Treasury/Proprietary Trading, Capital Markets Law, Construction, Subsidiaries and Equity Investments. Within Austria, she is responsible for the Burgenland and Vienna regions; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Dieter Krassnitzer
Member of the Management Board

Member of the Management Board responsible for Risk Management, Risk Controlling, the Loan Back Office, Business Organization and IT and *3BEG*.

Remarks

This Interim Report as at and for the six months ended 30 June 2012 contains statements and forecasts concerning the future development of the BKS Bank Group. The forecasts are estimates made on the basis of all the information available to us on the copy deadline date, which was 21 August 2012. If the assumptions upon which these forecasts were based prove wrong or if risk events transpire in amounts that have not been calculated for, 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*.

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.

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