

Living Responsibility

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OVERVIEW OF THE BKS BANK GROUP

Income account, €m	1/1– 30/9/2010	1/1– 30/9/2011	1/1– 30/9/2012
Net interest income	104.1	110.1	106.8
Impairment charge on loans and advances	(36.3)	(28.8)	(27.4)
Net fee and commission income	31.5	31.6	32.9
General administrative expenses	(67.2)	(69.2)	(75.6)
Profit for the period before tax	35.8	26.4	35.1
Profit for the period after tax	31.1	25.9	30.4

Balance sheet data, €m	31/12/2010	31/12/2011	31/12/2012
Assets	6,238.2	6,456.0	6,680.8
Receivables from customers after impairment charge	4,498.2	4,647.8	4,799.5
Primary deposit balances	4,158.5	4,251.4	4,104.5
– Of which savings deposit balances	1,847.2	1,786.3	1,804.8
– Of which liabilities evidenced by paper, including subordinated debt capital	667.6	715.7	735.3
Equity	627.8	644.9	674.5
Customer assets under management	10,023.5	10,025.5	10,283.4
– Of which in customers' securities accounts	5,865.0	5,774.1	6,178.9

Own funds within the meaning of BWG, €m	31/12/2010	31/12/2011	31/12/2012
Risk-weighted assets	4,345.1	4,415.2	4,451.2
Own funds	567.4	681.9	681.8
– Of which Tier 1 capital	416.6	599.5	598.3
Surplus own funds before operational risk	219.8	328.7	325.7
Surplus own funds after operational risk	194.8	301.9	298.6
Tier 1 ratio, per cent	9.59	12.46	12.34
Own funds ratio, per cent	13.06	15.44	15.32

Ratios, per cent	2010	2011	1/1– 30/9/2012
Return on equity before tax	8.9	6.1	7.1
Return on assets before tax	0.9	0.6	0.7
Cost:income ratio	48.8	46.7	54.5
Risk:earnings ratio (credit risk in per cent of net interest income)	33.1	22.1	25.7

Resources	2010	2011	1/1– 30/9/2012
Average number of staff	872	901	930
Branches and other business units	55	55	55

BKS Bank's shares	2010	2011	1/1– 30/9/2012
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	17.3/14.9
Close: ordinary/preference share, €	18.4/15.4	17.6/15.5	17.3/14.9
Market capitalization, €m	595.8	572.8	562.4



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

We welcome you very warmly to our third Shareholders Letter in 2012. As you can see in these Interim Financial Statements, BKS Bank was able to return another solid profit despite the difficult conditions. However, the weak demand for loans and investment services, historically low interest rates and tougher regulatory standards combined with the associated increase in staff and other administrative costs had a massive impact on profits in the banking industry. A great deal of effort was needed in day-to-day operations to successfully counteract this effect. Nevertheless, the most important components of profitability—net interest income and net fee and commission income, and general administrative expenses on the other side of the account—developed satisfactorily. Profit before tax in the first three quarters of 2012 came to €35.1 million, which was roughly one third up on the same period of 2011. Profit for the period after tax was 17.7 per cent up on the same period of 2011 to €30.4 million. Despite the negative impact that the debt crises on both sides of the Atlantic had on the global financial markets and the real economy, our Group's consolidated assets grew by 3.5 per cent to more than €6.68 billion during the first nine months of the year. The increase on the assets side of the Balance Sheet was due mainly to a steady increase in receivables from customers, which advanced by 3.4 per cent to roughly €4.96 billion. On the equity and liabilities side of the Balance Sheet, so-called *primary funds* provided by our customers decreased by 3.5 per cent to approximately €4.10 billion, but at the same time, payables to other banks increased by about a quarter to €1.73 billion. In view of the still difficult economic environment, we were uncompromising in the application of our prudent liquidity and risk management policies.

We are pleased to be able to report that the bank also has a comfortable capital position. BKS Bank's own funds base was very solid at the end of the third quarter of 2012. Our Tier 1 ratio was 12.3 per cent, which was well above the requirements for the European banking industry, and we had a total capital ratio of 15.3 per cent. Thanks to surplus own funds of nearly €300 million, 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 battle for customers and profits.

Let me, Heimo Penker, briefly review the meeting of the Supervisory Board held on 26 September. The plenary session of the Supervisory Board respected my wish to retire after 28 years' membership of the Management Board at the end of my current term of office, that is at the close of April 2014, and took a farsighted personnel decision ahead of that time. I am thus very pleased to report that Wolfgang Mandl, a long-standing employee of our bank, has now been newly appointed to the Management Board. Wolfgang Mandl began his career with us as a personal banking advisor at our Regional Head Office in Spittal before graduating in applied business administration as a mature student. He then held various positions in corporate and business customer care before becoming Head of our Klagenfurt Regional Head Office in 2003. Since then, he has been responsible for retail operations. Herta Stockbauer, Dieter Krassnitzer and I know him as a capable manager who is highly regarded by staff. Our new colleague on the Management Board will take up his post on 1 January 2013.



The Economic Setting in which Banks are Operating

Global economic growth continued to lose momentum in the third quarter of 2012. This was due to a combination of the diminishing effect of monetary policy action by the major central banks, the still difficult situation created by the European sovereign debt crisis and the weakening of the Asian and Latin American emerging market economies. In China, the government and the People's Bank of China responded to the economy's marked cool-down with fiscal and monetary policy measures. The IMF is predicting a soft landing for the Chinese economy with GDP growth of 8.0 per cent. Economic growth in Japan has also slowed perceptibly in recent quarters. One year after Fukushima, much of this has been due to the phasing out of subsidies for buying environmentally friendly cars and a reduction in Japan's extremely high government debt ratio (about 220 per cent of GDP).

The US economy's recovery went on losing steam during the first three quarters. Whereas the property sector has been sending out positive signals for several months, the turnaround in the labour market has yet to firm up. However, the September unemployment rate announced ahead of the presidential elections was a first small improvement, at 7.8 per cent. To date, domestic demand has been the economy's principal motor, but the inevitable and necessary drastic fiscal consolidation could severely dent private consumption and investment. Recently, the US Federal Reserve carried out another reduction in its economic growth forecast and is now estimating GDP growth in 2012 at between 1.9 and 2.4 per cent. The Fed funds rate has been between zero and 0.25 per cent since December 2008 and is to stay close to zero until at least 2015.

The economic climate in the eurozone has been becoming increasingly gloomy since the beginning of 2012. We have seen a significant drop in domestic demand in the face of increasing uncertainty and fiscal consolidation. Although foreign trade is still positively balanced, this is only because imports have been growing far less strongly than exports. Following a small drop in GDP in the third quarter, the available forecasts are predicting further slight negative growth in the fourth quarter of 2012. The loss of confidence among market participants has been stoked by doubts about the implementation of the austerity programmes agreed with Greece and growing problems with, above all, the budget in Spain. Because of their supra-regional orientation and the important role that government bonds play in their day-to-day operations, the eurozone's major banks have been hurt by developments in the financial markets. In particular, they were hit by the temporary surge in risk premiums on Spanish and Italian government bonds. According to the indicators we have at the moment, the

economies of the core countries, namely Germany and France and also Austria, were more or less on hold during the first three quarters. On the other hand, austerity in the public and private sectors pushed the highly indebted countries of Southern Europe into a deflationary downward spiral of consolidation and weak demand combined with high unemployment. The economic gap between the core eurozone countries and the southern peripheral countries has widened even more in recent weeks.

Having grown by 0.1 and 0.5 per cent, respectively, in the previous two quarters, the Austrian economy failed to expand in the third quarter. In the light of the eurozone crisis, this was still respectable performance. However, demand weakened across the board. Above all, there was a perceptible decline in private household consumption and capital investment. Once again, exports—which are going through a period of restructuring in the wake of the euro crisis—were the most important stabilizing factor. Austria's gross domestic product is expected to grow by about 0.6 per cent in 2012, and Austria should continue to be one of the eurozone's motors of growth in 2013 with a growth rate of about 1.0 per cent.

Inflation was running at 2.7 per cent in September 2012. According to *Statistik Austria*, the main price drivers were *Housing, Water and Energy* and spending on daily and weekly shopping. Besides food and services, the latter category also includes fuel. This rate of inflation put Austria in the middle of the European league.

To date, the demand for labour has developed relatively well in Austria. The number of jobs is expected to have increased by a total of 1.5 per cent over 2012 as a whole, even if the increase could slow to 0.5 per cent in 2013. The jobless rate calculated applying the Austrian method is likely to rise to 7.0 per cent of the working population in 2012 and to 7.4 per cent in 2013. Applying the *Eurostat* definition, a rate of 4.4 per cent of the working population is to be expected in 2012. In comparison, jobless rates of 6.5 per cent have been reported in Germany, 11.6 per cent in the eurozone and 10.6 per cent in the EU-27 (all these figures are for September 2012).

Between mid-August and the middle of September, trading in the international financial markets was again dominated by expectations of an even more generous supply of liquidity from the Western world's leading central banks. The European Central Bank's key interest rate having been left unchanged at 1.0 per cent at the beginning of June, it was cut to a historical low of 0.75 per cent on 5 July 2012. In addition, the ECB decided that both its main refinancing operations and its one- and three-month-refinancing operations would continue to employ fixed rate tenders with full allotment until the middle of January 2013. At the beginning of September 2012, the ECB Council launched a new government bond buying programme. This OMT (outright monetary transactions) programme makes it possible to buy in secondary markets the government bonds of countries that have requested aid from the European bailout fund and have met the requirements without any quantitative or duration limits. The markets received another boost to optimism in the form of a decision by Germany's *Bundesverfassungsgericht* (federal constitutional court) ruling that the European Stability Mechanism (ESM) does not violate Germany's constitution.

The MSCI World—the barometer of the performance of the global equity markets—rose to 104.098 points at the end of September after beginning the year at 93.297 points and hitting a low of 94.073 in June. Based on the performance of the DAX, which stood at 7,216.15 points at the end of September, standard German stocks had gained over 22 per cent during the year. The Dow Jones Industrial Average—the most important US equity index—gained about 10 per cent to 13,437.13 points during the first three quarters. The big Asian markets followed the same trend. Having gained 4.9 per cent during the year, Japan's NIKKEI Index ended September at 8,870.16 points. At the same time, Austria's ATX gained about 10.5 per cent between 1 January and 30 September 2012, ending September at 2,089.74 points. BKS Bank's ordinary no-par share, which is listed on the Vienna Stock Exchange, was trading at €17.3 at the close of trading in September, and BKS Bank's no-par preference share was trading at €14.9. BKS Bank's market capitalization was slightly down on 30 September 2011 to €562.4 million.

Notes on the Scope of Consolidation

The consolidated members of the BKS Bank Group did not change during the first three quarters of 2012. They comprised the banks and other financial service providers and entities rendering banking-related ancillary services that were controlled by *BKS Bank AG*. At the time of writing, they consisted of 18 banks and other financial service providers and entities rendering banking-related ancillary services. Those entities included our leasing companies in Austria and abroad, *Alpenländische Garantie-Gesellschaft mbH* (ALGAR) and *Drei-Banken*

THE MEMBERS OF THE GROUP

Banks and Other Financial Service Providers

— Consolidated
 — Accounted for using the equity method

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

Other Consolidated Entities

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

Versicherungs-Aktiengesellschaft. Minority interests in profit for the period were deducted when calculating consolidated 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 nine months ended 30 September 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's* assets grew by €224.8 million to €6,680.8 million during the period under review to end September 3.5 per cent up on the end of 2011. On the assets side of the Balance Sheet, receivables from customers increased most, growing by €162.9 million or 3.4 per cent to €4.96 billion. IFRSs require an impairment allowance to be deducted from receivables from customers. In the period under review, the impairment allowance balance was increased by €11.2 million to €164.4 million. The line item *Financial assets* came to €1,508.4 million at 30 September 2012, compared with €1,463.3 million at 31 December 2011. This translates into an increase of €45.1 million during the period under review. Above all, an increase in *Financial assets designated as at fair value through profit or loss* coincided with redemptions of held to maturity securities. Receivables from other banks increased by 16.3 per cent to €0.14 billion during the first nine months of the year. This compared with payables to other banks of €1.73 billion at the end of September.

After the deduction of intragroup receivables, *BKS Bank AG* accounted for €4,538.3 million of lending by the Group, which increased to €155.1 million in the period under review. Although most of the increase in receivables was generated by new business with corporate and business banking customers, there was also pleasing growth in new loans in the Austrian retail customers segment. Because of the increasingly difficult macroeconomic environment, we reduced the volume of our new business in the Slovenian market. Consequently, new business in the retail customers segment in Slovenia having still averaged about €4 million per month up to the end of July, it decreased to an average of roughly €2.5 million in August and September 2012. The effectiveness of our business model was demonstrated by the fact that we were virtually unaffected by the worrying wave of insolvencies in Slovenia. *BKS Bank* was also able to gain ground in Slovakia, where our branch generated €28.7 million of new business. New business in September made a particularly big contribution to this growth.

In the foreign currency loan segment, the steady decrease in Swiss franc receivables continued, reducing the portfolio by SFr 139.7 million during the period under review. This was a clear response to the challenges involved in managing this risk position.

Our Austrian lease portfolio shrank compared with 31 December 2011 to total €155.0 million. This was mainly due to a slowdown in new business. Our leasing subsidiaries abroad — *BKS-Leasing a.s.* in Bratislava, *BKS-leasing d.o.o.* in Ljubljana and *BKS-leasing Croatia d.o.o.* in Zagreb — were able to increase their receivables by €3.6 million to a total of €156.9 million during the first three quarters.

BKS Bank d.d. also developed very satisfactorily, increasing its receivables by €14.0 million to €113.7 million as at the end of September. An increase in share capital of €10.6 million is taking place to secure our Croatian banking subsidiary's growth path.

The line item *Financial assets* consists of the sub-items financial assets designated as at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and investments in entities accounted for using the equity method. This line item was €45.1 million up on the end of 2011 to €1.51 billion. During the period under review, the line item *Financial assets designated as at fair value through profit or loss* increased by €64.8 million to €184.4 million. On the other hand, since the beginning of 2012, we have been hedging fixed-interest loans totalling €29.1 million against interest rate risk using the fair value option, so those loans are assigned to this line item. The portfolio of held-to-maturity (HTM) financial assets totalled €702.8 million at the end of September, having shrunk by €35.9 million during the first three quarters. New investments totalled €98.0 million, while redemptions came to €129.9 million. Investments in entities accounted for using the equity method, most of which comprised our interests in the equity of *Oberbank AG* and *BTV AG*, increased to €331.1 million. This was €21.2 million more than at the end of December 2011.

Equity and liabilities

So-called *primary funds* — the supporting pillar of our sustainable liquidity management activities — accounted for roughly 61 per cent of our balance sheet total at the end of September. Savings, sight and time deposit balances and liabilities evidenced by paper remained high at a total of €4.10 billion, reflecting the confidence placed in our crisis-resistant business model by our customers.

We had very mixed success in attracting savings deposits during the period under review. The uncertainty caused by the sovereign debt crisis prompted our customers to step up their search for alternative and supposedly more secure investments like gold and real estate. Nonetheless, savings deposit balances at the end of September were €18.4 billion or 1.0 per cent up on the end of 2011 to €1.80 billion. We are of course still endeavouring with the help of our attractive products to generate new volumes of these deposits, which play such an important role in BKS Bank's liquidity management activities. At the moment, we are offering customers a 'jubilee' *Kapitalsparbuch* fixed-term, fixed-rate passbook account to celebrate our ninetieth anniversary. It has a duration of one year and pays an interest rate of 1.50 per cent. As the very promising start-up phase has shown, customers are taking a lively interest in this product.

However, sight and time deposit balances fell noticeably compared with 31 December 2011, decreasing by 10.6 per cent to €1.56 billion. In particular, the heightened level of investment by institutional clients was not sustained up to the end of September for profit reasons. This made the intensity of the competition for investments very evident. We expect the pressure on terms and conditions to continue to grow in the last quarter.

Long-term loans can only be financed by funds that are available long-term on a matched maturity basis. This means that our own issuances are an essential part of our liquidity management activities. Our bond portfolio was €19.6 billion up on the end of 2011 to €0.74 billion. Given the extremely low level of interest rates — with the yield on 10-year German *bunds* at just 1.44 per cent at the end of September — this was a very respectable increase.

The line item *Equity* increased by €29.6 million to €0.67 billion during the first three quarters. Most of the increase was due to the change in the balance of gains and losses recognized in equity and the improvement in profit for the period. We refer you to the table entitled *Statement of Changes in Equity* on page 20 for details of BKS Bank's equity.

Own funds

OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE

€m	31/12/2010	31/12/2011	30/9/2012
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	492.8
Tier 1 capital	416.6	599.5	598.3
Tier 1 ratio ¹	9.59%	12.46%	12.34%
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	37.2
Eligible subordinated liabilities	12.9	20.7	14.4
Supplementary own funds (Tier 2)	244.2	180.8	181.8
Deductions from Tier 1 and Tier 2	93.3	98.4	98.3
Eligible own funds	567.4	681.9	681.8
Own funds ratio	13.06%	15.44%	15.32%
Basis of assessment for the banking book	4,345.1	4,415.2	4,451.2
Own funds requirement	347.6	353.2	356.1
Own funds requirement for the trading book	2.9	2.4	2.2
– Of which arising from open currency positions	2.2	1.4	1.1
Own funds requirement for operational risk	25.0	26.8	27.1
Surplus own funds (disregarding operational risk)	219.8	328.7	325.7
Surplus own funds (taking account of operational risk)	194.8	301.9	298.6

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

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

The basis of assessment for the banking book increased by €36.0 million to €4.45 billion between the beginning of 2012 and the end of the period under review. Eligible own funds were kept high at the same level as at the end of 2011, totalling €681.8 million at 30 September 2012. The new legislative requirements collected together under the heading of 'Basel III' will have a major impact on own funds. However, as things stand at the moment, there is likely to be a big delay in the enactment of these requirements, which had been planned for 1 January 2013. Nonetheless, we are making intensive preparations for the new regulations. We have been carrying out simulations and preparing own funds scenarios on the basis of the regulations that are currently in force and have performed a detailed gap analysis within the scope of a Basel III project.

Our ratios were outstanding at the end of September 2012. We had an own funds ratio of 15.3 per cent, our Tier 1 ratio had stabilized at 12.3 per cent and we had surplus own funds of €325.7 million. Own funds after taking account of operational risk came to €298.6 million, providing an adequate basis for lending growth for which capital charges will be required.

Performance

Although the market environment was still unstable, BKS Bank returned a solid profit in the first three quarters of 2012. It was contributed to by every business segment in Austria and abroad. However, our performance during the year was overshadowed by historically low interest rates, severe pressure on deposit margins, delays in carrying out adjustments to fixed interest products and cuts in interest rates caused by the applicable sliding rate of interest clauses.

That notwithstanding, profit for the period before tax was nearly one third up on the same period of 2011 to €35.1 million. Net interest income after the impairment charge on loans and advances was 2.5 per cent below the outstanding figure recorded in the same period of 2011, at €79.3 million. Although interest income was 0.8 per cent up on the first three quarters of 2011 to €164.1 million, interest expenses were not as expected, coming to €73.6 million. This was due to an increase in interest payments on savings and time deposits caused by extremely tough competition and further cuts in consumer loan interest rates caused by the applicable sliding rate of interest clauses.

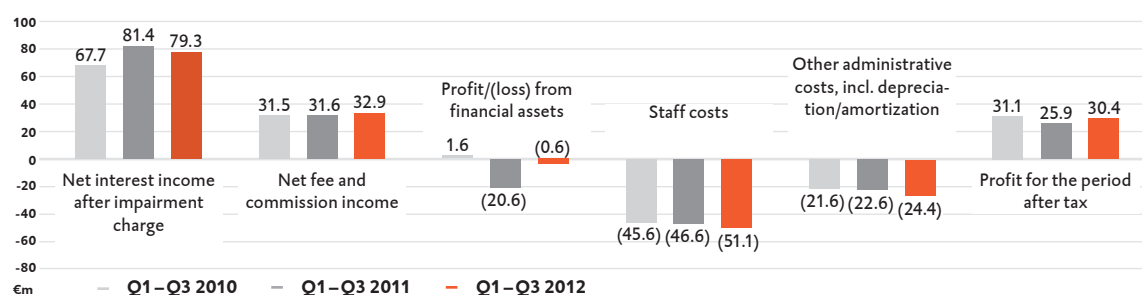
The charge for impairment losses on loans and advances was near-static on the previous year at €27.4 million. After three quarters, our subsidiaries in Austria and abroad accounted for 7.3 per cent of the Group's total risk allowances.

Net fee and commission income developed better during the period under review than in 2011, increasing by €1.3 million or 3.9 per cent to €32.9 million. This compared with a Group-wide total of €31.6 million in the first three quarters of 2011. As you can see from note (3) on page 25, this was mainly thanks to an increase in our fee and commission earnings from payment services, credit operations and foreign operations. Payments proved to be the strongest source of our earnings from services up to the end of September, delivering income of €13.2 million. Switches out of foreign currency loans are welcome, especially from a risk point of view, and they helped generate solid net fee and commission income of €2.1 million from foreign payments. Fee and commission earnings from credit operations were €0.8 million up on the same period of 2011. In contrast, fee and commission earnings from securities operations during the nine months ended 30 September 2012 were still €0.3 million down on the same period of 2011 to €7.9 million. This was, above all, because of the risk aversion that we were still feeling among our securities clients, especially in the second 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 €0.6 million in the first three quarters of 2012. This compared with a difficult 2011, when it came to negative €20.6 million because, above all, of the requisite write-downs of Greek government bonds. Profit from financial assets designated as at fair value through profit or loss came to €2.2 million, so income from this line item was €4.6 million up on the nine months ended 30 September 2011. This was thanks to revaluation gains of €3.9 million resulting from use of the fair value option. As we have already said, our profit/(loss) from held-to-maturity financial assets had been affected by the dramatic developments in the Greek government bond market in 2011. Following a loss of €17.2 million in the nine months ended 30 September 2011, the loss in the period under review was just €2.6 million.

Join us now for a look at our expenses. As shown in note (5) on page 26, *Staff costs* were 9.8 per cent up on the first three quarters of 2011 to €51.1 million. This was the result of an increase in the Group's average workforce to 930 staff years, or 29 more staff years than at the end of 2011, and at the same time, the allocation to provisions for old-age benefits had to be as high as possible because of the low level of interest rates. The corresponding expense item was thus increased by €1.0 million as a precaution in the third quarter. On the other hand, the 3.5 per cent adjustment to salaries under collective agreements was exactly what we had budgeted for.

Components of the Income Statement



Regular and rigorous monitoring kept *Other administrative costs* and *Depreciation/amortization* down to a still acceptable total of €24.4 million during the period under review. Individual savings such as a cut in Group marketing costs were offset by extraordinary expenses like the consultancy costs connected with a number of forward-looking projects. *Other operating income net of other operating expenses* in the nine months ended 30 September 2012 came to negative €2.2 million. This was primarily due to a revaluation of the goodwill of our Croatian banking subsidiary *BKS Bank d.d.*

As a result of the developments we have described, the BKS Bank Group posted a profit for the period before tax in the first nine months of the year of €30.4 million, compared with €25.9 million in the same period of 2011. The stability levy (bank tax) payable to the inland revenue in the first three quarters in respect of 2012 came to €1.5 million. It is included in the line item *Other operating expenses*.

Ratios

CORPORATE PERFORMANCE RATIOS

Per cent	2010	2011	30/9/2012
Tier 1 ratio	9.6	12.5	12.3
Own funds ratio	13.1	15.4	15.3
ROE (before tax)	8.9	6.1	7.1
ROA (after tax)	0.9	0.6	0.7
Cost:income ratio	48.8	46.7	54.5
Risk:earnings ratio	33.1	22.1	25.7

Let us take look at a number of common operational ratios. With the banking environment still difficult, several ratios were slightly weakened, but overall, they still depict a stable enterprise. As we have already described in the section on our own funds, BKS Bank has a very solid own funds base and, as a consequence, correspondingly good ratios. The return on equity before tax was already better than in 2011, at 7.1 per cent, even if it did not yet match the rather good returns recorded in prior periods. Our cost:income ratio (the ratio of general administrative expenses to total earnings without deducting the charge for

impairment losses on loans and advances) in the first three quarters was up to 54.5 per cent, but it was still below our internal 55 per cent benchmark. The risk situation in the corporate and business banking segment remained tense, and this was mirrored by our risk:earnings ratio, which rose slightly from 22.1 per cent in 2011 to 25.7 per cent in the period 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. The Group's return on assets—the gauge of the total return on its assets—rose by 10 basis points compared with 2011 to 0.7 per cent.

Segmental Reports

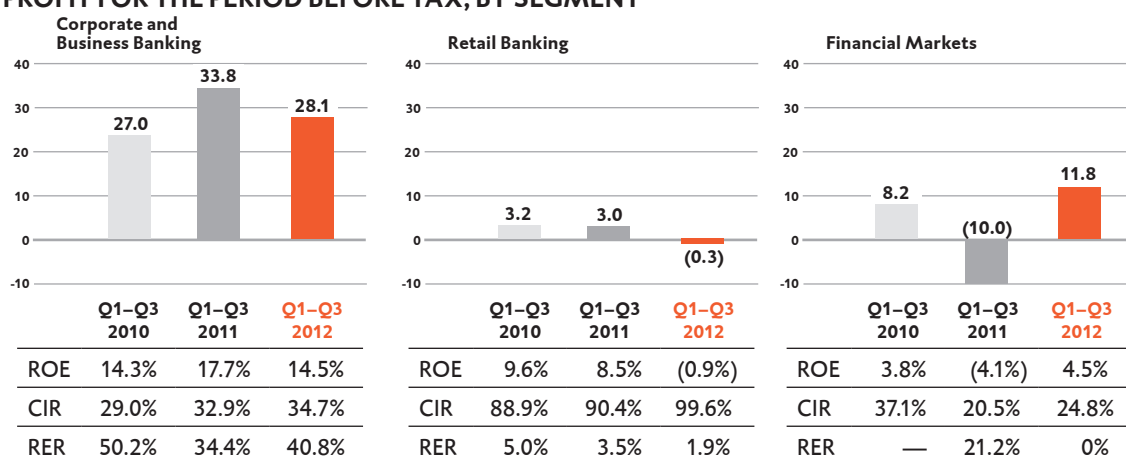
BKS Bank's segmental reporting is based on the organizational structure of the Group underlying its internal management reporting system. BKS Bank focuses its activities on three large business divisions, namely *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. We measure the performance of each of those segments by its profit before tax, return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). It is on this basis that we assess the financial development of each segment and make decisions regarding the allocation of our enterprise's resources.

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 or businesses. The corporate and business banking segment is the most important operating business unit by far within the BKS Bank Group.

BKS Bank made a profit before tax of €28.1 million in the corporate and business banking segment during the first nine months, compared with €33.8 million in the same period of 2011. In this segment, our consistent terms and conditions policy enabled us to keep net interest income from both new and portfolio business nearly static

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



A detailed segmental breakdown is presented in the Notes on page 30.

compared with the first nine months of 2011, at €66.2 million. Risk costs in this segment increased by €4.1 million to €27.0 million, denting profit for the period, but at the same time, they are evidence of our cautious risk policy. Net fee and commission income increased by €0.6 million to €17.3 million. After the deduction of expenses charged to this segment in the amount of €29.3 million, its profit for the period came to a satisfactory €28.1 million. Its return on equity and cost:income ratio weakened slightly, namely to 14.5 per cent from 17.7 per cent in the same period of 2011 and to 34.7 per cent from 32.9 per cent, respectively. Since the economic horizon remains unlikely to brighten in the coming weeks and months, we will be keeping a particularly close eye on the development of lending margins and risks.

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 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 September, about 86 per cent of savings deposits and nearly a third 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 the loan portfolio.

In a market situation that was still difficult, the segment's profit for the period before tax fell by €3.2 million in the first nine months of 2011 to negative €0.3 million in the same period of 2012. This was mainly due to a drop in net interest income, which fell by €2.0 million compared with the nine months ended 30 September 2011 to total €23.2 million. In particular, deposit margins continued to weaken. Because retail customer deposits will play an essential role in meeting the new liquidity requirements associated with the Basel III regime, the competition for deposits from retail customers got even tougher in the third quarter of 2012. In addition, many customers in this segment are covered by consumer protection regulations. This means that it is virtually impossible to adjust margins in the loan portfolio. On the other hand, it proved possible to increase net fee and commission income by €1.0 million to €14.9 million in the period under review. Among other things, our comprehensive and consistent billing of fees and charges also contributed to this increase.

Costs charged to this segment were €2.7 million up on the same period of 2011 to €38.7 million. However, we are pleased to report that credit risk costs in this segment were well below the already very low figure of €0.9 million recorded in the first three quarters of 2011, coming to €0.4 million. Consequently, its risk:earnings ratio fell to just 1.9 per cent as of 30 September 2012.

Both its return on investment of negative 0.9 per cent based on risk-weighted assets of €560.1 million and its unsatisfactory cost:income ratio of 99.6 per cent mirrored the challenging competitive situation in the retail customers segment. We hope to bring about a permanent improvement with the help of the positive effects of implementing a number of promising but as yet not fully realized projects.

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.

Having made a loss of €10.0 million in the first three quarters of 2011, the financial markets segment made a profit for the period before tax of €11.8 million in the nine months ended 30 September 2012. Profit in 2011 had mainly been dented by the requisite write-downs of Greek government bonds, which reduced *Profit/(loss) from financial assets* to negative €20.6 million, whereas in the nine months ended 30 September 2012, that loss came to a relatively small €0.6 million. The impairment allowance of €2.0 million on the goodwill of our Croatian banking subsidiary *BKS Bank d.d.* was charged to the financial markets segment in the line item *Other operating income net of other operating expenses*.

Looking at this segment's ratios, the return on equity rose from negative 4.1 per cent to positive 4.5 per cent. Its very low cost:income ratio worsened marginally to 24.8 per cent. On the other hand, after difficulties in 2011, the risk:earnings ratio fell from 21.2 per cent, which was exceptionally high for this segment, to close to zero.

Risk Report

As an active participant in transactions in the financial and capital markets, BKS Bank is of course also directly exposed to the risks of those markets. Our bank's risk management strategy is shaped by our conservative handling of all banking risks. They are analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. In changing market conditions, our risk management activities are proactive so as to limit possible losses on business activities and to optimize our risk/earnings profile. When we accept risks, we continuously evaluate them to assess whether they are viable in the light of our risk bearing capacity and worthwhile from an opportunities and risk perspective. As a consequence of the risk strategy we apply, the areas of risk of most importance to BKS Bank are credit risk (which includes equity investment risk), market risk, liquidity risk and operational risk. The large loan risks incurred by BKS Bank and the *3 Banken Group* are secured by *Alpenländische Garantie-Gesellschaft mbH (ALGAR)*, which is accounted for in the Consolidated Financial Statements of the BKS Bank Group.

Credit risk

CHARGE FOR IMPAIRMENT LOSSES

€m	30/9/2011	30/9/2012
Direct write-offs	0.6	0.5
Impairment allowances	36.1	30.8
Impairment reversals	(7.7)	(3.5)
Subsequent recoveries	(0.2)	(0.4)
Charge for impairment losses	28.8	27.4

Credit risk (also called default risk) is one of the most important risks in banking. It is the risk of partial or total non-payment of contractually agreed payments arising from interest-bearing transactions. It may result from a counterparty's poor credit standing or may arise indirectly from country risk as a consequence of a counterparty's domicile. Throughout the BKS Bank Group, credit risk is monitored and analyzed at the single customer level, at the level of groups of related customers and at the portfolio level by sector or industry, exposure size, rating class and product. Our bank employs a 13-class rating system based on the use of statistical methods. On the reporting date of 30 September, roughly 81 per cent of all corporate and business banking customers and roughly 89 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.

The charge for impairment losses in the first nine months of 2012 came to €27.4 million, as against €28.8 million in the same period of 2011. This translates into a reduction of 4.8 per cent. Impairment allowances were reduced by €5.3 million or 14.8 per cent to €30.8 million. This figure includes impairment allowances recognized on an item-by-item basis, commission payments to ALGAR and collective assessments of impairments carried out in accordance with IAS 39 and of impairment of the portfolio for country risks. The requisite charge for the risks

of our foreign subsidiaries increased by just under €0.6 million to a total of €1.9 million, with increases taking place at *BKS-leasing Croatia d.o.o.* and *BKS Bank d.d.* However, in this difficult economic environment, it is still an acceptable figure.

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 previously defined confidence interval. Our Asset Liability Management (ALM) Committee reviews our market risk once a month on the basis of present value, duration and value at risk calculations. Our interest rate risks continued to fall during the year. By the end of the third 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) was just 1.88 per cent, compared with 3.92 per cent at the end of 2011. As a result, our bank stayed well below the critical 20 per cent mark in the period under review. Our duration risk was at the same level as in the second quarter, at €11.0 million. Our equity value at risk fell from €5.4 million to €1.0 million during the first three quarters. Our currency risk continued to fall, dropping by €4.5 million to €13.6 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.

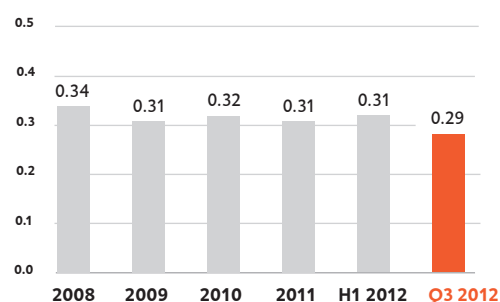
Liquidity risk

We define liquidity risk as comprising both the risk that BKS Bank may be unable to meet its present or future financial obligations in full or in time and the risk that, in the event of a liquidity crisis, it may only be able to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk). At BKS Bank, liquidity management and, therefore, ensuring solvency at all times, is done with the help of a daily maturity gap analysis for each main currency. Limits have been defined at the short end to set boundaries to our liquidity risks. To ensure liquidity, we mainly hold highly liquid securities that are eligible for refinancing at the ECB as a liquidity buffer. As a lender, we prefer to hold 'tenderable' assets. Throughout the period under review, we continued to meet the minimum liquidity requirements laid down in § 25 BWG. Our access to the money and capital markets remained unrestricted during 2012. We held our surplus liquidity calculated in accordance with § 25 BWG at an average of roughly €160 million during the period under review.

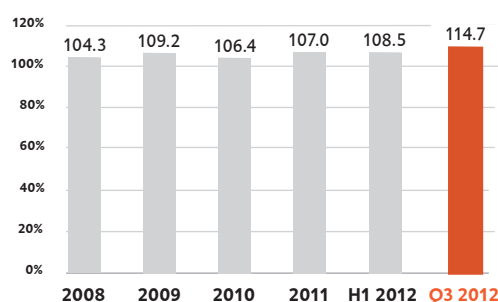
BKS Bank's liquidity buffer came to €904.1 million at the end of September 2012, compared with €775.4 million at the end of 2011. The deposit concentration presented in the chart below helps us estimate the deposit withdrawal risk caused by the possibility of a run on deposits. Above all, it therefore highlights the dangers associated with relying on large deposits. All customer deposit balances are broken down into predefined size bands and the relative amounts thereof, and weighting factors of between 0 and 1 are applied to them. In the third quarter of 2012, we were able to reduce the resulting figure, which plays an important part in our liquidity management activities, to 0.29, which was an all-time low.

The loan:deposit ratio is another useful liquidity management indicator, showing the relationship between the loan portfolio and primary deposit balances. It stood at 114.7 per cent, which was significantly up on the first half of 2012. The increase was due to a drop in time deposits from institutional clients, which they balanced out in the money market.

DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



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 125 loss events were reported at BKS Bank in the nine months up to the end of September 2012. Allowing for reimbursed losses, the resulting risk loss was comparatively small at €327.2 thousand. We point out that this figure does not include operational risk losses arising from credit operations.

Outlook for the Year as a Whole

The present state of the economy and, above all, the short-term economic outlook are still subject to big uncertainties. As BKS Bank's Management Board, we do not anticipate for the time being any lasting improvement in the challenging conditions in the economy and the capital markets. Coping with the extra work caused by the new requirements imposed by the Capital Requirements Directive (CRD) 4 and the Capital Requirements Regulation (CRR) 1 will be a challenge. The final versions thereof have yet to be adopted at the European level, which means that the corresponding amendment to Austria's *Bankwesengesetz* (BWG: banking act) has also been greatly delayed. Its entry into force at the beginning of 2013 is close to the limit of what would still be reasonable.

The Federal Reserve in the United States has extended quantitative easing with a bond purchasing programme. Now the presidential election is over, there are a number of reasons to believe that the mix of spending cuts and tax hikes predestined to happen at the end of the year because of the country's balancing act on the fiscal cliff can be averted in time.

The global economy's biggest worry for now remains the eurozone, which is in economic difficulties again. We believe that the ECB's willingness to buy government bonds of the European peripheral countries that are having financial problems will gradually calm the financial markets and that doubts about the monetary union's survival will ebb.

Nonetheless, it is too early to sound the all-clear when it comes to the difficult environment in which banks are operating. Profits are likely to suffer from a number of negative factors during the rest of the year. Above all, these include low interest rates and the persistently aggressive, margin eroding competition for primary deposits — the bedrock of funding without resorting to the interbank market — as well as the sluggishness of the capital markets and customers' evident caution regarding the securities segment and new borrowing. Moreover, the state of the economy could lead to a renewed increase in classical lending risks.

At this point, we can assure you that BKS Bank is excellently prepared to cope with the challenging market conditions and is in a position to react to unexpected one-off effects both promptly and in an appropriate manner. We will continue to refine our successful business model in the coming months, strengthen our earning power from core operations, consistently manage costs and optimize our capital base. Our liquidity position is comfortable. One of the main focuses of our attention will be on our retail customer business, which has been operationally and strategically reorientated. We intend to continue to reinforce BKS Bank's reputation as a capable bank that serves only its customers' needs, providing individual advice and offering them an attractive range of products and services. Consequently, we presently expect our profit for the year 2012 to enable us to go on increasing BKS Bank's enterprise value by augmenting its reserves and, as in prior years, to distribute an appropriate dividend.

We remain,

Yours faithfully,



Heimo Penker
CEO



Herta Stockbauer
Member of the Management Board



Dieter Krassnitzer
Member of the Management Board

Overview of the 3 Banken Group

	BKS Bank Group		Oberbank Group		BTV Group	
	1/1 – 30/9/2011	1/1 – 30/9/2012	1/1 – 30/9/2011	1/1 – 30/9/2012	1/1 – 30/9/2011	1/1 – 30/9/2012
Income account, €m						
Net interest income	110.1	106.8	256.7	230.1	122.2	124.5
Impairment charge on loans and advances	(28.8)	(27.4)	(75.1)	(43.9)	(26.9)	(28.0)
Net fee and commission income	31.6	32.9	80.1	81.6	32.6	31.8
General administrative expenses	(69.2)	(75.6)	(170.0)	(177.5)	(69.4)	(71.0)
Profit for the period before tax	26.4	35.1	103.6	107.1	51.5	55.5
Profit for the period after tax	25.9	30.4	91.6	89.0	41.9	44.6
Balance sheet data, €m						
Assets	6,456.0	6,680.8	17,483.7	17,642.7	9,214.7	9,492.8
Receivables from customers after impairment charge	4,647.8	4,799.5	10,563.9	10,825.9	6,030.1	6,249.7
Primary deposit balances	4,251.4	4,104.5	11,315.2	11,348.0	6,627.8	6,432.7
– Of which savings deposit balances	1,786.3	1,804.8	3,407.6	3,371.7	1,260.0	1,275.6
– Of which liabilities evidenced by paper	715.7	735.3	2,250.9	2,196.4	1,255.0	1,126.5
Equity	644.9	674.5	1,222.0	1,325.5	767.4	823.3
Customer assets under management	10,025.5	10,283.4	19,764.5	21,014.3	10,970.6	11,048.3
– Of which in customers' securities accounts	5,774.1	6,178.9	8,449.3	9,666.3	4,342.8	4,615.6
Own funds within the meaning of BWG, €m						
Risk-weighted assets	4,415.2	4,451.2	10,146.2	10,530.2	6,077.9	5,806.3
Own funds	681.9	681.8	1,673.1	1,669.8	934.7	932.0
– Of which Tier 1 capital	599.5	598.3	1,167.6	1,169.0	776.1	776.3
Surplus own funds before operational risk	328.7	325.7	860.2	826.8	448.0	467.3
Surplus own funds after operational risk	301.9	298.6	798.0	764.6	423.8	443.1
Tier 1 ratio, %	12.46	12.34	11.51	11.10	12.77	13.37
Own funds ratio, %	15.44	15.32	16.49	15.86	15.38	16.05
Performance, %						
Return on equity before tax	6.1	7.1	10.6	11.2	9.0	9.3
Return on equity after tax	5.7	6.6	9.3	9.3	7.4	7.5
Cost:income ratio	46.7	54.5	50.6	54.0	45.7	44.6
Risk:earnings ratio	22.1	25.7	28.6	19.1	22.5	22.5
Resources						
Average number of staff	901	930	2,054	2,018	790	781
Branches and other business units	55	55	150	149	40	38

Consolidated Financial Statements as at and for the Nine Months Ended 30 September 2012

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

PROFIT FOR THE PERIOD 1 JANUARY – 30 SEPTEMBER 2012

€k	Note	1/1–30/9/2011	1/1–30/9/2012	+/(-) Change, %
Interest income		162,752	164,107	0.8
Interest expenses		(66,924)	(73,630)	10.0
Profit from investments in entities accounted for using the equity method		14,310	16,281	13.8
Net interest income	(1)	110,138	106,758	(3.1)
Impairment charge on loans and advances	(2)	(28,781)	(27,410)	(4.8)
Net interest income after impairment charge		81,357	79,348	(2.5)
Fee and commission income		33,763	35,163	4.1
Fee and commission expenses		(2,118)	(2,278)	7.6
Net fee and commission income	(3)	31,645	32,885	3.9
Net trading income	(4)	1,396	1,129	(19.1)
General administrative expenses	(5)	(69,210)	(75,550)	9.2
Other operating income net of other operating expenses	(6)	1,798	(2,168)	(>100)
Profit/(loss) from financial assets (FV)	(7)	(2,408)	2,166	(>100)
Profit/(loss) from financial assets (AFS)	(8)	(1,048)	(113)	(89.2)
Profit/(loss) from financial assets (HTM)	(9)	(17,150)	(2,647)	(84.6)
Profit for the period before tax		26,380	35,050	32.9
Income tax expense	(10)	(529)	(4,615)	>100
Profit for the period after tax		25,851	30,435	17.7
Minority interests in profit for the period	(3)	(3)	(3)	—
Consolidated net profit for the period after minority interests		25,848	30,432	17.7%

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit for the period after minority interests	25,848	30,432	17.7
Gains and losses not recognized in profit or loss			
– Exchange differences	(306)	238	(>100)
– Available-for-sale reserve	(7,647)	4,362	(>100)
– Arising from investments in entities accounted for using the equity method	2,383	6,139	>100
– Deferred taxes on items taken directly to equity	1,677	(1,722)	(>100)
Comprehensive income	21,955	39,449	79.7

QUARTERLY REVIEW

€k	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Interest income	57,300	60,101	56,181	55,055	52,871
Interest expenses	(24,068)	(24,809)	(25,333)	(24,347)	(23,950)
Profit from investments in entities accounted for using the equity method	6,124	4,991	3,613	6,490	6,178
Net interest income	39,356	40,283	34,461	37,198	35,099
Impairment charge on loans and advances	(6,279)	(4,423)	(8,948)	(9,663)	(8,799)
Net interest income after impairment charge	33,077	35,860	25,513	27,535	26,300
Net fee and commission income	10,628	10,659	11,205	10,808	10,872
Net trading income	471	(71)	326	743	60
General administrative expenses	(22,621)	(22,250)	(24,430)	(25,061)	(26,059)
Other operating income net of other operating expenses	849	(61)	87	70	(2,325)
Profit/(loss) from financial assets (FV)	(3,286)	(322)	528	1,214	424
Profit/(loss) from financial assets (AFS)	64	4,447	100	(318)	105
Profit/(loss) from financial assets (HTM)	(17,150)	(16,035)	(1,519)	(1,466)	338
Profit for the period before tax	2,032	12,227	11,810	13,525	9,715
Income tax expense	1,949	(1,633)	(1,750)	(1,528)	(1,337)
Profit for the period after tax	3,981	10,594	10,060	11,997	8,378
Minority interests in profit for the period	(1)	(1)	(1)	(2)	0
Consolidated net profit for the period after minority interests	3,980	10,593	10,059	11,995	8,378

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

ASSETS

€k	Note	31/12/2011	30/9/2012	+ / (-) Change, %
Cash and balances with the central bank	(11)	85,819	95,316	11.1
Receivables from other banks	(12)	116,503	135,547	16.3
Receivables from customers	(13)	4,801,095	4,963,981	3.4
– Impairment allowance balance	(14)	(153,246)	(164,442)	7.3
Trading assets	(15)	344	746	>100
Financial assets designated as at fair value through profit or loss	(16)	119,614	184,381	54.1
Available-for-sale financial assets	(17)	295,115	290,151	(1.7)
Held-to-maturity financial assets	(18)	738,732	702,815	(4.9)
Investments in entities accounted for using the equity method	(19)	309,929	331,071	6.8
Intangible assets	(20)	12,022	9,659	(19.7)
Property and equipment	(21)	62,610	62,494	(0.2)
Investment property	(22)	16,978	16,605	(2.2)
Deferred tax assets	(23)	17,104	18,248	6.7
Other assets	(24)	33,374	34,184	2.4
Total assets		6,455,993	6,680,756	3.5

EQUITY AND LIABILITIES

€k	Note	31/12/2011	30/9/2012	+ / (-) Change, %
Payables to other banks	(25)	1,386,250	1,732,649	25.0
Payables to customers	(26)	3,535,614	3,369,216	(4.7)
Liabilities evidenced by paper	(27)	455,016	498,745	9.6
Trading liabilities	(28)	391	321	(17.9)
Provisions	(29)	77,444	79,440	2.6
Deferred tax liabilities	(30)	9,274	11,841	27.7
Other liabilities	(31)	86,349	77,487	(10.3)
Subordinated debt capital	(32)	260,730	236,514	(9.3)
Equity		644,925	674,543	4.6
Of which total minority interests and equity		644,922	674,537	4.6
Of which minority interests in equity		3	6	100.0
Total equity and liabilities		6,455,993	6,680,756	3.5

EARNINGS AND DIVIDEND PER SHARE

	1/1 – 30/9/2011	1/1 – 30/9/2012
Average number of shares in issue	32,224,083	32,092,751
Dividend per share, €	0.25	0.25
Earnings per share, € (diluted and undiluted)	1.07	1.26

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
Profit for the period after tax						30,435	30,435
Gains and losses taken directly to equity			238	8,920	(141)		9,017
Increase in share capital							
Other changes					(1,803)		(1,803)
– Arising from use of the equity method					(1,738)		
– Arising from changes in treasury shares					(1,604)		
At 30 September 2012	65,520	97,929	(423)	14,907	466,169	30,435	674,537
Available-for-sale reserve							16,169
Deferred tax reserve							(1,262)

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
Profit for the period after tax						25,851	25,851
Gains and losses taken directly to equity			(306)	(4,033)	446		(3,893)
Increase in share capital							
Other changes					(1,662)		(1,662)
– Arising from use of the equity method					324		
– Arising from changes in treasury shares					(1,939)		
At 30 September 2011	65,520	97,929	(565)	12,538	438,793	25,851	640,066
Available-for-sale reserve							13,580
Deferred tax reserve							(1,042)

Cash Flow Statement

CASH FLOWS

€k	1/1 – 30/9/2011	1/1 – 30/9/2012
Cash and cash equivalents at end of previous period	114,922	85,819
Net cash from operating activities	91,146	5,761
Net cash from/(used in) investing activities	(101,972)	37,681
Net cash from/(used in) financing activities	(12,594)	(33,945)
Cash and cash equivalents at end of period	91,502	95,316

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 nine months ended 30 September 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 entities:

- 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., Bratislava¹
- 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 Interim 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 closing exchange rates. Expenses and income were translated applying average rates of exchange in the respective financial year. Exchange differences were recognized as a component of equity.

Impairment allowance balance

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis 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. To calculate provisions for country risks, 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 and intangible assets (non-current)

Property, equipment and intangible assets (non-current) were recognized at cost of acquisition or conversion less ordinary depreciation or amortization. Depreciation and amortization rates lay within the following bands:

- immovable assets: 1.5 to 3.0 per cent;
- office furniture and equipment: 10 to 25 per cent;
- software: 25 per cent.

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

Calculation of goodwill

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

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

Phase 2: In phase 2, a perpetual annuity is calculated on the basis of cash flow in the most recent plan year.

The parameters used for discounting purposes are the yield on 10-year government bonds in the eurozone, a premium for equity risk and an extra premium for country risk.

Leasing

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

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

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

Available-for-sale financial assets

Available-for-sale (AFS) securities are a separate category of financial instrument. They 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 lay between 1.5 per cent and 3.0 per cent.

Other assets

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

Payables

Payables — 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 period). BKS Bank strives to strengthen its capital base on a sustainable basis by ploughing back its profits.

Provisions

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

Provisions for so-called 'social capital' (*Sozialkapitalrückstellung*) were calculated in accordance with the requirements of IAS 19. The downtrend in interest rates was already taken into account when calculating provisions for post-employment, termination and jubilee benefits and provisions were increased accordingly.

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 three quarters 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 three quarters 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 – 30/9/2011	1/1 – 30/9/2012	+ /(-) Change, %
Interest income from:			
Credit operations	121,939	122,514	0.5
Fixed-interest securities	25,071	26,197	4.5
Lease receivables	8,789	8,059	(8.3)
Shares and investments in other entities	6,172	6,512	5.5
Investment property	781	825	5.6
Total interest income	162,752	164,107	0.8
Interest expenses on:			
Deposits from customers and other banks ¹	47,142	53,260	13.0
Liabilities evidenced by paper	19,566	20,090	2.7
Investment property	216	280	29.6
Total interest expenses	66,924	73,630	10.0
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	16,891	16,742	(0.9)
Financing costs of investments in entities accounted for using the equity method ²	(2,581)	(461)	(82.1)
Profit from investments in entities accounted for using the equity method	14,310	16,281	13.8
Net interest income	110,138	106,758	(3.1)

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	1/1 – 30/9/2011	1/1 – 30/9/2012	+ /(-) Change, %
Impairment allowances	36,112	30,771	(14.8)
Impairment reversals	(7,701)	(3,470)	(54.9)
Direct write-offs	584	460	(21.2)
Recoveries on receivables previously written off	(214)	(351)	64.0
Impairment charge on loans and advances	28,781	27,410	(4.8)

(3) NET FEE AND COMMISSION INCOME

€k	1/1 – 30/9/2011	1/1 – 30/9/2012	+ /(-) Change, %
Fee and commission income from:			
Payment services	13,802	14,327	3.8
Securities operations	8,832	8,463	(4.2)
Credit operations	8,340	9,171	10.0
International operations	1,830	2,263	23.7
Other services	959	939	(2.1)
Total fee and commission income	33,763	35,163	4.1
Fee and commission expenses arising from:			
Payment services	1,046	1,117	6.8
Securities operations	655	595	(9.2)
Credit operations	225	267	18.7
International operations	17	160	>100
Other services	175	139	(20.6)
Total fee and commission expenses	2,118	2,278	7.6
Net fee and commission income	31,645	32,885	3.9

(4) NET TRADING INCOME

€k	1/1–30/9/2011	1/1–30/9/2012	+/(-) Change, %
Price-based contracts	8	18	>100
Interest rate and currency contracts	1,388	1,111	(20.0)
Net trading income	1,396	1,129	(19.1)

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–30/9/2011	1/1–30/9/2012	+/(-) Change, %
Staff costs	46,579	51,127	9.8
– Wages and salaries	34,851	36,774	5.5
– Social security costs	8,336	8,886	6.6
– Costs of retirement benefits	3,392	5,467	61.2
Other administrative costs	18,060	19,617	8.6
Depreciation/amortization	4,571	4,806	5.1
General administrative expenses	69,210	75,550	9.2

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–30/9/2011	1/1–30/9/2012	+/(-) Change, %
Other operating income	4,319	2,500	(42.1)
Other operating expenses	(2,521)	(4,668)	85.2
Other operating income net of other operating expenses	1,798	(2,168)	(>100)

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

€k	1/1–30/9/2011	1/1–30/9/2012	+/(-) Change, %
Revaluation gains and losses on derivatives	(1,307)	(1,690)	29.3
Gain/(loss) as a result of using the fair value option	(1,101)	3,856	(>100)
Profit/(loss) from financial assets designated as at fair value through profit or loss	(2,408)	2,166	(>100)

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

€k	1/1–30/9/2011	1/1–30/9/2012	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(1,048)	(113)	(89.2)
Profit/(loss) from available-for-sale financial assets	(1,048)	(113)	(89.2)

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

€k	1/1–30/9/2011	1/1–30/9/2012	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(17,150)	(2,647)	(84.6)
Profit/(loss) from held-to-maturity financial assets	(17,150)	(2,647)	(84.6)

(10) INCOME TAX EXPENSE

€k	1/1–30/9/2011	1/1–30/9/2012	+/(-) Change, %
Current tax	(7,897)	(4,859)	(38.5)
Deferred tax	7,368	244	(96.7)
Income tax expense	(529)	(4,615)	>100

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Cash in hand	31,453	30,948	(1.6)
Credit balances with central banks of issue	54,366	64,368	18.4
Cash and balances with the central bank	85,819	95,316	11.1

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Receivables from Austrian banks	22,505	53,754	>100
Receivables from foreign banks	93,998	81,793	(13.0)
Receivables from other banks	116,503	135,547	16.3

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Corporate and business banking customers	3,726,078	3,874,678	4.0
Retail banking customers	1,075,017	1,089,303	1.3
Receivables from customers	4,801,095	4,963,981	3.4

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2011	30/9/2012	+ /(-) Change, %
At beginning of period under review	149,149	153,246	2.7
+ Added	36,796	28,433	(22.7)
– Reversed	(6,893)	(3,425)	(50.3)
– Used	(25,664)	(13,909)	(45.8)
+ /(-) Exchange differences	(142)	97	(>100)
At end of period under review	153,246	164,442	7.3

(15) TRADING ASSETS

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Bonds and other fixed-interest securities	0	476	100.0
Shares and other variable-yield securities	0	0	—
Positive fair values of derivative financial instruments	344	270	(21.5)
– Interest rate contracts	0	0	—
Trading assets	344	746	>100

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

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Bonds and other fixed-interest securities	58,722	92,068	56.8
Loans	60,892	92,313	51.6
Financial assets designated as at fair value through profit or loss	119,614	184,381	54.1

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Bonds and other fixed-interest securities	158,765	168,349	6.0
Shares and other variable-yield securities	88,096	75,395	(14.4)
Investments in subsidiaries and associates	33,105	30,581	(7.6)
Other equity investments	15,149	15,826	4.5
Available-for-sale financial assets	295,115	290,151	(1.7)

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2011	30/9/2012	+/(-) Change, %
Bonds and other fixed-interest securities	738,732	702,815	(4.9)
Held-to-maturity financial assets	738,732	702,815	(4.9)

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

€k	31/12/2011	30/9/2012	+/(-) Change, %
Oberbank AG	207,699	216,927	4.4
Bank für Tirol und Vorarlberg AG	97,267	109,181	12.2
Alpenländische Garantie-GmbH	964	964	—
Drei-Banken Versicherungs-AG	3,999	3,999	—
Investments in entities accounted for using the equity method	309,929	331,071	6.8

(20) INTANGIBLE ASSETS

€k	31/12/2011	30/9/2012	+/(-) Change, %
Goodwill	8,888	6,888	(22.5)
Other intangible assets	3,134	2,771	(11.6)
Intangible assets	12,022	9,659	(19.7)

(21) PROPERTY AND EQUIPMENT

€k	31/12/2011	30/9/2012	+/(-) Change, %
Land	2,802	2,780	(0.8)
Buildings	49,805	48,210	(3.2)
Other	10,003	11,504	15.0
Property and equipment	62,610	62,494	(0.2)

(22) INVESTMENT PROPERTY

€k	31/12/2011	30/9/2012	+/(-) Change, %
Land	8,167	8,167	0.0
Buildings	8,811	8,438	(4.2)
Investment property	16,978	16,605	(2.2)

(23) DEFERRED TAX ASSETS

€k	31/12/2011	30/9/2012	+/(-) Change, %
Deferred tax assets	17,104	18,248	6.7

(24) OTHER ASSETS

€k	31/12/2011	30/9/2012	+/(-) Change, %
Positive fair values of derivative financial instruments	14,521	10,672	(26.5)
Other items	16,296	21,144	29.7
Deferred items	2,557	2,368	(7.4)
Other assets	33,374	34,184	2.4

(25) PAYABLES TO OTHER BANKS

€k	31/12/2011	30/9/2012	+/(-) Change, %
Payables to Austrian banks	1,011,595	1,357,798	34.2
Payables to foreign banks	374,655	374,851	0.1
Payables to other banks	1,386,250	1,732,649	25.0

(26) PAYABLES TO CUSTOMERS

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Savings deposit balances	1,786,344	1,804,751	1.0
Corporate and business banking customers	260,189	254,373	(2.2)
Retail banking customers	1,526,155	1,550,378	1.6
Other payables	1,749,270	1,564,465	(10.6)
Corporate and business banking customers	1,261,040	1,062,112	(15.8)
Retail banking customers	488,230	502,353	2.9
Payables to customers	3,535,614	3,369,216	(4.7)

(27) PAYABLES TO CUSTOMERS

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Issued bonds	316,926	359,070	13.3
Other liabilities evidenced by paper	138,090	139,675	1.1
Liabilities evidenced by paper	455,016	498,745	9.6

(28) TRADING LIABILITIES

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Interest rate contracts	391	321	(17.9)
Trading liabilities	391	321	(17.9)

(29) PROVISIONS

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Provisions for post-employment benefits and similar obligations	66,238	68,379	3.2
Provisions for taxes (current taxes)	958	332	(65.3)
Other provisions	10,248	10,729	4.7
Provisions	77,444	79,440	2.6

(30) DEFERRED TAX LIABILITIES

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Deferred tax liabilities	9,274	11,841	27.7

(31) OTHER LIABILITIES

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Negative fair values of derivative financial instruments	70,497	45,729	(35.1)
Other items	14,379	30,486	>100
Deferred items	1,473	1,272	(13.6)
Other liabilities	86,349	77,487	(10.3)

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2011	30/9/2012	+ /(-) Change, %
Supplementary capital	220,730	196,514	(11.0)
Hybrid capital	40,000	40,000	—
Subordinated debt capital	260,730	236,514	(9.3)

(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	
	1/1–30/9/2011	1/1–30/9/2012	1/1–30/9/2011	1/1–30/9/2012	1/1–30/9/2011	1/1–30/9/2012
Net interest income	25,134	23,158	66,581	66,177	17,712	17,050
Impairment charge on loans and advances	(869)	(445)	(22,912)	(26,991)	(5,000)	26
Net fee and commission income	13,944	14,904	16,694	17,331	468	336
Net trading income	0	0	0	0	1,396	1,129
General administrative expenses	(35,983)	(38,732)	(27,818)	(29,255)	(4,033)	(4,101)
Other operating income net of other operating expenses	729	824	1,208	824	57	(2,006)
Profit/(loss) from financial assets	0	0	0	0	(20,606)	(594)
Profit for the period before tax	2,955	(291)	33,753	28,086	(10,006)	11,840
Average risk-weighted assets	578,419	560,102	3,170,369	3,227,216	589,695	603,031
Average allocated equity	46,274	44,808	253,629	258,177	325,793	350,356
ROE based on profit for the period	8.5%	(0.9%)	17.7%	14.5%	(4.1%)	4.5%
Cost:income ratio	90.4%	99.6%	32.9%	34.7%	20.5%	24.8%
Risk:earnings ratio	3.5%	1.9%	34.4%	40.8%	21.2%	0%

€k	Other		Total	
	1/1–30/9/2011	1/1–30/9/2012	1/1–30/9/2011	1/1–30/9/2012
Net interest income	711	373	110,138	106,758
Impairment charge on loans and advances	0	0	(28,781)	(27,410)
Net fee and commission income	539	314	31,645	32,885
Net trading income	0	0	1,396	1,129
General administrative expenses	(1,376)	(3,462)	(69,210)	(75,550)
Other operating income net of other operating expenses	(196)	(1,810)	1,798	(2,168)
Profit/(loss) from financial assets	0	0	(20,606)	(594)
Profit for the period before tax	(322)	(4,585)	26,380	35,050
Average risk-weighted assets	57,169	42,859	4,395,652	4,433,208
Average allocated equity	8,246	6,370	633,942	659,711
ROE based on profit for the period	—	—	7.1%	7.1%
Cost:income ratio	—	—	47.7%	54.5%
Risk:earnings ratio¹	—	—	21.6%	25.7%

¹ Without collective assessment of impairment of the portfolio for country risks.

(34) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2011	30/9/2012	+/(-) Change, %
Guarantees	407,658	403,277	(1.1)
Letters of credit	3,235	971	(70.0)
Contingent liabilities	410,893	404,248	(1.6)
Other commitments	634,395	585,190	(7.8)
Commitments	634,395	585,190	(7.8)

(35) RELATED PARTY DISCLOSURES IN ACCORDANCE WITH IAS 24

€k	31/12/2011	30/9/2012	+/(-) Change, %
Advances and loans granted to members of the Management Board and Supervisory Board and close relatives	218	490	>100
Deposit balances of members of the Management Board and Supervisory Board and close relatives	5,256	2,354	(55.2)

(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 September 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:

30/9/2012	€k	Nominal, by Term to Maturity				Fair Value	
		< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts		809,258	950,103	—	1,759,361	5,103	17,822
– Of which in trading book		—	—	—	—	—	—
Interest rate contracts		160,684	708,772	178,130	1,047,586	7,541	27,257
– Of which in trading book		7,500	17,396	9,792	34,668	96	94
Securities contracts		3,272	—	—	3,272	—	188
– Of which in trading book		—	—	—	—	—	—
Total		973,214	1,658,875	178,130	2,810,219	12,644	45,267
– Of which in trading book		7,500	17,396	9,792	34,668	96	94

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 nine 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 nine months ended 30 September 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 September 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 nine 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 three months of the financial year.”

Klagenfurt am Wörthersee
26 November 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.

Financial Calendar for 2013

29 March 2013:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2012 in the Internet and in the official <i>Wiener Zeitung</i> gazette
15 May 2013:	74 th Ordinary General Meeting (AGM)
17 May 2013:	Ex-dividend date
21 May 2013:	Dividend payment date

BKS Bank's Interim Reports

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

Remarks

This Interim Report as at and for the nine months ended 30 September 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 26 November 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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