Half-Year Financial Report 2021

BKS Bank

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Forward-looking statements
This annual report contains statements and forecasts that refer to the future development of the BKS Bank Group. The forecasts are our estimates based on the information at our disposal on the copy deadline 25 August 2021. Should the assumptions on which the forecasts are based fail to materialize or the risks described in the Risk Report occur, the actual results may differ from those currently expected. This half-year financial report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

Disclaimer
As auditing is not mandatory for this half-year financial report. Therefore, it has not been audited or reviewed by an auditor. The German version of this report is the authentic version and is relevant in all legal aspects. Interim reports in English are translations from the German.

Any minimal deviations of the values in the tables and charts are due to rounding differences.

BKS Bank at a Glance

Income Statement in €m	**HY1 2020**	**HY1 2021**	**± in %**
Net interest income	70.0	67.5	-3.6
Impairment charges	-15.4	-9.5	-38.5
Net fee and commission income	32.0	33.3	4.3
General administrative expenses	-60.4	-64.4	6.6
Profit for the period before tax	23.2	43.5	87.5
Profit for the period after tax	19.8	36.6	84.8
Balance Sheet in €m	**31/12/2020**	**30/06/2021**	**± in %**
Total assets	9,856.5	10,279.3	4.3
Receivables from customers after impairment charges	6,570.0	6,752.8	2.8
Primary deposits	7,399.3	7,930.1	7.2
• thereof savings deposits	1,401.7	1,391.7	-0.7
• thereof securitized debt incl. subordinated debt capital	857.0	935.6	9.2
Shareholders' equity	1,362.7	1,411.0	3.5
Customer funds under management	18,958.5	20,720.4	9.3
• thereof on custody accounts	11,559.2	12,790.3	10.7
Own Funds pursuant to CRR in €m	**31/12/2020**	**30/06/2021**	**± in %-points**
Total risk exposure amount	5,664.1	5,786.5	2.2
Own funds	916.1	952.3	4.0
• thereof common equity tier 1 (CET1) capital	669.3	674.1	0.7
• thereof total tier 1 capital (CET1+AT1)	725.2	739.3	1.9
Common equity tier 1 capital ratio (in %)	12.8	12.8	-
Total capital ratio (in %)	16.2	16.5	0.3
Performance Ratios	**31/12/2020**	**30/06/2021**	**± in %-points**
Return on equity after tax	5.6	5.3	-0.3
Return on assets after tax	0.8	0.7	-0.1
Cost/income ratio	53.9	57.4	3.5
Risk/earnings ratio	18.5	14.0	-4.5
Non-performing loan ratio (NPL ratio)	1.7	1.7	-
Net stable funding ratio (NSFR)	117.2	121.8	4.6
Liquidity coverage ratio (LCR)	158.1	196.5	38.4
Leverage ratio	8.0	8.0	-
Resources	**31/12/2020**	**30/06/2021**	
Average number of staff	963	985	
Number of branches	64	64	
BKS Bank shares	**31/12/2020**	**30/06/2021**	
Number of ordinary no-par shares (ISIN AT0000624705)	41,142,900	42,942,900	
Number of ordinary no-par shares (ISIN AT0000A2HQD1)	1,800,000	-	
High (ordinary/ordin. exchange shares/pref. shares) in €	16.0/13.6/15.0	13.5/-/-	
Low (ordinary/ordin. exchange shares/pref. shares) in €	11.3/11.8/10.3	11.5/-/-	
Close (ordinary/ordin. exchange shares/pref. shares) in €	12.5/13.6/0.0	11.5/-/-	
Market capitalisation in €m	538.8	493.8	

Highlights in first Half-Year 2021

Strong signal for equality

Univ.-Prof. Dr. Sabine Urnik was unanimously elected Chairwoman of the Supervisory Board. BKS Bank AG is the only listed company at which women hold top positions on the Management Board, Supervisory Board and Works Council.

New Design for Spittal Branch

The branch at Spittal an der Drau is the first one to feature our brand new design. The branch was renovated and modernized.

Highest recommendation rate

According to independent market research, we have the highest customer recommendation rate in all of Austria. We would like to sincerely thank our customers for the trust placed in us.

2.3

Employee satisfaction

A recently conducted employee survey resulted in an excellent overall satisfaction rate of 2.3 on a scale from one to six. We are very pleased about this high ranking by our employees.

Best in investment advisory services

The organisation “Österreichische Gesellschaft für Verbraucherstudien” (Austrian Society for Consumer Studies) awarded BKS Bank AG the highest distinction for its investment advisory services.

ÖGVS | Gesellschaft für Verbraucherstudien GmbH
Qualitätstest.at
Test
Anlageberatung Filialbanken
TESTSIEGER
Test 03/2021, im Test: Service & Beratung
6 überregionale Filialbanken

Sustainability Award of the Vienna Stock Exchange

The Vienna Stock Exchange conferred the Sustainability Award in the category Financial Services to BKS Bank for our sustainable corporate policies.

VÖNIX 21/22
INDEX MEMBER

Member of the VÖNIX Sustainability Index

For the fifth time in a row, BKS Bank’s ordinary shares were included in the VÖNIX Sustainability Index of the Vienna Stock Exchange.

Dear Readers,

In 1986 – 35 years ago – BKS Bank went public on the Vienna Stock Exchange. Ever since, we have been developing our corporate policy, acquiring new markets and taking advantage of the opportunities of digitisation and sustainability.

We are proud to be one of the world's most sustainable banks today. We are also very pleased to have been awarded a special distinction in this anniversary year of our initial public offering: The Vienna Stock Exchange conferred the Sustainability Award to BKS Bank in the category of Financial Services in June. I am especially honoured by this award, because it recognizes our many years of working on sustainability and its significance as a driver of innovation. We consider this award an incentive to continue our policy of taking responsibility for the future.

We achieve this by developing sustainable products, in our construction projects and by defining climate neutrality as a key goal. Recent examples include the issuance of another green bond, the first ÖGNI-certified construction project, and membership in “Klimaneutralitätsbündnis 2025” (Climate Neutrality Alliance), which we hope will play a major role in decarbonisation.

Largest bank in Carinthia

We are pleased to report that the sound development of business in the first quarter continued unabated. At EUR 10.3 billion, total assets surpassed the threshold of EUR 10 billion for the first time. This underpins BKS Bank’s position as the largest bank in Carinthia. We are proud to have achieved this leading market position and aim to expand it.

Lending volume steadily expanding

Although many companies were still affected by the restrictions imposed due to the coronavirus pandemic in the first half of the year, investment appetite has increased noticeably. Loans and advances to customers of EUR 6.8 billion were 2.8% higher than at year-end 2020. The majority of loans and advances to customers – around three-quarters – are extended to corporate customers.

Home loans account for the largest share in the segment of retail finance. Demand in retail remains high in this segment partly due to the low interest rates on loans, even though, as many of you may have read in the media, real estate prices and the cost of building materials have surged. I also have good news for the liabilities side of the balance sheet: The volume of primary deposits reached another all-time high of EUR 7.9 billion (+7.2%).

Significantly improved results

We closed the first half of the year with a strong rise in earnings (+EUR 16.8 million) and achieved net income after taxes of EUR 36.6 million. The excellent results were achieved on the back of buoying stock markets, lower impairment charges for losses on loans and advances, and improved income from equity investments. Income from business operations also developed very well. Although interest income was lower year on year at EUR 81.0 million, reduced income expenses and impairment charges helped raise net interest income after impairment charges by 6.2% to EUR 58.0 million. At a growth rate of 4.3%, net fee and commission income also developed very satisfactorily, boosted by the lively securities business and payment services.

We are very honoured to be designated "Innovative Company"

At the end of July, the daily newspaper "Kurier" selected the most innovative production and service companies in Austria. We were conferred an award in the category of finance. We are proud to be perceived by the public as a highly innovative company.

In survey conducted throughout Austria, BKS Bank was also named the most innovative and likeable bank in Carinthia We consider all of these awards as recognition of the high quality of our work. I would like to express my heartfelt thanks to our dedicated employees without whom such achievements would not be possible.

We are pursuing our innovative strategy resolutely and are continuously adding new digital products and services. For example, we are working on new digital onboarding solutions and an online account for corporate customers. We exploit the potential of digital optimisation for internal processes. We recently launched the digital sales assistant "Vera" to support employees at our branches, and simple routine tasks are increasingly being performed by software robots.

I would also like to welcome Nikolaus Juhász to the Management Board of BKS Bank who started to work in this position on 1 July 2021. You had an opportunity to meet him virtually at the 82nd Annual General Meeting. Increasing sales in Austria is one of his remits on the Board. With his many years of experience in corporate and business banking, he is the right person to develop BKS Bank's solid market position and keep our company – as you have come to expect from us – safely on the path to success.

Cordially,

Herta Stockbauer
Chairwoman of the Management Board

Group Management Report

Economic Environment

Significant economic recovery in Q2

After lockdowns and contracting economies in the first quarter of 2021 in some parts of the world, the recovery everyone was hoping for started in the second quarter.

The **US economy** developed very dynamically in the second quarter. GDP increased from April to June by 6.5% both annualised and quarter on quarter. Consumption – a mainstay of the US economy – increased robustly by 11.8%, while capital spending decreased by 3.5%. The economy is also booming in China, and the crisis seems to have been overcome. In the second quarter, the **Chinese economy** expanded by 7.9% annualised.

GDP growth of 2.0% was higher than expected in the **euro area**, with the recovery varying in Europe from country to country. The highest quarter-on-quarter gain was seen in Portugal (+4.9%), followed by Austria (+4.3%) and Latvia (+3.7). The two largest economies of the euro area, Germany (+1.5%) and France (+0.9%), expanded at growth rates below the EU average.

In **Austria**, the economic recovery began in the sectors severely affected by the crisis. Retail, transport, hospitality and food services expanded by a solid 20.5%, following a significant downtrend in the first quarter caused by the lockdowns. Consumer sentiment in the Austrian population remained very robust also in the second quarter. Consumption by private households increased by 3.8%, after having advanced by 3.5% in the first quarter.

ECB changes inflation policy

After the US Federal Reserve (Fed) eased its inflation policy, the European Central Bank (ECB) followed suit. After the July meeting, the ECB announced that it would tolerate inflation above the 2% target without interventions – for a certain period. What remained unclear is how long this period will last, and therefore, it may be assumed that the ECB will maintain its ultra-loose monetary policy for the time being. This “shift” in inflation policy is viewed by some observers as a departure from its previous preventive policy of fighting inflation.

Stock markets continue to rally

"The party’s not over" is one way of summing up the trend on capital markets in the second quarter. After a great start at the beginning of the year, stock markets were still on an uptrend in the second quarter. European stocks (Europe Stoxx 600) rose by around 6.8% from the end of March to the end of June. The ATX even increased by some 9.4% in the same period. US stocks also made gains: The US stock index, S&P 500, rose by around 7.4% in the second quarter (in euro). Momentum was not as strong for Chinese stocks (around 4.9% in euro).

Bond markets generally developed very positively. After conservative bonds started into the year at a significant loss due to rising yields, a broad recovery set in during the second quarter. Corporate bonds denominated in euro gained around 0.3%. Gains were also seen in emerging market bonds (around 3.3% in EUR) and high-yield euro bonds (around 1.3%).

Assets, Equity and Liabilities

Total assets of the BKS Bank Group surpassed EUR 10 billion for the first time. The increase was due to the high volume of cash reserves and robust demand for loans in the first half of the year. Primary deposits widened by more than half a billion to a remarkable EUR 7.9 billion compared to year-end 2020.

Assets

Total assets exceed EUR 10 billion for first time

For the first time in the bank's history, total assets reached a double-digit figure at EUR 10.3 billion. The increase was due, among other reasons, to the strong demand for loans in the first half of the year. Even though we were still confronted with the effects of the global economic and health crisis in the first six months of the year, economic activity in Austria and in our foreign markets started to recover well. Many of our customers are optimistic about the future and this is reflected in higher demand for finance. The total volume of new loans granted throughout the Group was EUR 1.1 billion. In the region of Carinthia, we were especially successful in selling our finance products to corporate and retail customers. In our foreign markets, we granted new loans amounting to EUR 253.2 million. We are proud to be of support to our customers in this critical economic phase by offering competent advice on loans and also regarding the many financial aid schemes.

Effective as of the balance sheet date 30 June 2021, there was a change in the presentation of impairment charges. Impairment charges are no longer shown as a separate asset-side balance sheet item with a negative value, but are netted against the gross carrying amount of the corresponding balance sheet item. Loans and advances to customers increased by 2.8% and were EUR 6.8 billion at the end of June.

The item Receivables from customers contains the loan volumes of BKS Bank AG and the receivables from domestic and foreign leasing companies.

Our loan portfolio features high credit quality, as evidenced by a very low NPL ratio of 1.7%. Compared with other market players, the NPL ratio is at a very good level. The NPL ratio was 2.0% as at 30 March 2021 for all of Austria.

We continue our efforts to steadily reduce the share of loans denominated in Swiss franc. Therefore, the foreign currency ratio (FX ratio) as at 30 June 2021 was only 1.4%.

Robust growth in leasing

In the first half of 2021, new business in leasing developed positively and demand was very high both in Austria and abroad. The Austrian leasing company achieved a leasing volume of EUR 84.3 million, which is 63% higher compared to 30 June 2020. We also achieved satisfactory growth rates in Slovenia, Croatia and Slovakia. In total, the Group's present value of leases in Austria and of the foreign subsidiaries was EUR 575.4 million, which is 9.0% higher than on 30 June 2020.

Higher liquidity reserves

We increased our portfolio of debt securities and other fixed-income securities by 8.7% to EUR 998.4 million by making investments in order to strengthen our liquidity reserves. The liquidity reserves in the form of high quality liquid assets attained an excellent level of EUR 2.1 billion as at 30 June 2021.

The shares of companies accounted for using the equity method increased from EUR 661.5 million to EUR 676.1 million (+2.2%) on 30 June 2021. The proportionate equity in our partner banks

Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft is recognized in this item.

On 30 June 2021, we recorded an all-time high of EUR 1.3 billion in cash reserves, which includes balances with the central bank of EUR 1.2 billion.

Equity and liabilities

Steady inflow of primary deposits

For several years, we have been seeing a strong inflow of primary deposits, especially into sight and term deposits. This trend also continued in the first half of 2021. Noteworthy is also the fact that the volume increased by a further EUR 530.8 million compared to year-end 2020. Total primary deposits attained a volume of EUR 7.9 billion, which is a solid increase of 7.2%. We greatly appreciate the trust customers place in our bank and are very proud of this achievement. There is also a downside, however, because the liquidity surplus can only be deposited with the ECB at negative interest rates of -0.5%, and this has an adverse effect on our profitability. Even ten-year government bonds with excellent credit ratings are yielding negative returns. The lending business is therefore under enormous pressure to achieve returns

Sight deposits and term deposits account for the largest share of payables to customers which increased in the first half of the year by 9% to EUR 5.6 billion. Sight deposits have become the most popular form of investment for both corporate and retail customers. Growth in the first half of the year was again 5.5%. Retail customers also want to be able to access their savings digitally, regardless of time and place. For this reason, the account type “Mein Geld” is still highly popular. In the first half of the year, we managed a volume of EUR 502.0 million on “Mein Geld” accounts, which is an increase of 11.5% versus year-end 2020. Volumes on savings passbooks stagnated again and were EUR 1.4 billion at the end of June. Savings passbooks as an investment form are continuously losing significance – one of the far-reaching consequences of ECB's interest rate policy.

The issuance business developed very positively in the first six months. Securitised liabilities increased during the reporting period by 7.8% to EUR 697.9 million, while subordinated capital increased by 13.4% to EUR 237.7 million. We also successfully floated an AT1 note in the first half of the year.

It is very important to us to pursue our sustainability goals also in our issuance activities in order to be perceived as an issuer of sustainable debt securities. At the beginning of August, we issued another green bond. The proceeds of this issue are dedicated to funding an environmentally-sustainable construction project of BKS Bank. We are pleased that our numerous sustainability activities have been recognized publicly. In June, the Vienna Stock Exchange conferred the Sustainability Award in the category Financial Services to BKS Bank

Shareholders' equity amounted to EUR 1.4 billion at the end of June, which is 3.5% or EUR 48.3 million higher than at year-end 2020.

Result of Operations

BKS Bank significantly increased earnings in HY1 2021. The excellent result was made possible by attractive stock markets, significantly lower impairment charges and higher income from equity investments. Business operations also contributed to profits in the first half of the year, with the economic stagnation giving way to renewed optimism.

Significantly improved results

The consolidated net profit for the period after tax was EUR 36.6 million as at 30 June 2021, and thus clearly higher than the EUR 19.8 million of the preceding year. The significant increase in earnings is attributable mainly to the following three income statement items:

- At EUR 17.0 million, income from equity investments rose substantially year on year, thus returning to former levels.
- The international stock markets ignored the sustained pandemic and in the first half of the year offered attractive opportunities and a strong performance. This development significantly helped to improve results in the item financial assets/liabilities. The result from financial assets/liabilities was EUR 5.1 million as at 30 June 2021. This item was slightly negative in the preceding year at EUR -6.6 million.
- The pace of growth of the global economy has gained speed. The expected surge in insolvencies – caused by the pandemic – has failed to materialize in many places. This resulted in lower impairment charges. As at 30 June 2021, we allocated impairment charges for losses on loans and advances – with a view to the potential rise in defaults as a result of the pandemic – of EUR 9.5 million, which is lower by EUR 5.9 million or 38.5% compared to the end of June in 2020. Higher income from business operations

The start of the year was already much more dynamic than expected. This trend has continued in past few months. The lending business has been under pressure from persistently low interest rates for many years, and remains a weak spot of the income statement and management for the entire banking industry despite a brighter economic outlook. The current environment of low – and also negative – interest rates will persist for some time considering the measures being taken to ward off inflationary fears. Interest income, including other interest income, decreased as at 30 June 2021 and stood at EUR 81.0 million, which is EUR 4.4 million or 5.2% lower year on year. Interest expenses amounted to EUR 13.6 million (- 12.3%). The lower interest expenses failed to offset the decline in interest income, resulting in lower net interest income before impairment charges of EUR 67.5 million (-3.6%).

As a measures to cope with this anomalous interest rate situation, we charge negative interest on larger sight deposits in line with money markets. We have succeeded in implementing this measure with a great deal of tact and understanding for our corporate and business customers.

As a precautionary measure and in accordance with the provisions of IFRS 9B5.5.1 et seq, we carried out a collective stage transfer for regions and sectors heavily affected by the coronavirus pandemic. In addition to corporate and business customers from the sectors of hospitality business, arts and entertainment as well as other services, the entire Croatian corporate customer portfolio was transferred from stage 1 to stage 2. In the first half of the year, we also migrated all corporate and retail loans for which a government-mandated or voluntary payment deferral was in place to stage 2.

These collective stage transfers resulted in impairment charges totalling EUR 9.7 million.

International economists believe the global economy will see a robust upswing. We share this view and expect a strong economic recovery in the coming months. However, it is still too early to throw caution to the wind. Taking a very critical view of our loan portfolio, we allocated EUR 9.5 million to impairment charges. The resulting net interest income after impairment charges was EUR 58.0 million, which is up by 6.2%.

Net fee and commission income developed very satisfactorily in the first half of the year. Payment services and securities operations were the most profitable fields of the net fee and commission business. We achieved satisfactory growth rates in both lines of business in the first half of the year. In the preceding year, we recorded massive losses in payment service transaction due to the rigorous pandemic measures. In the current financial year there are clear signs of easing, however. Transactions have picked up noticeably, especially in card sales, and are approaching pre-pandemic levels again. Therefore, the result from commissions on payment services was gratifying at EUR 11.3 million (+6.1%). The trend was similar in the securities business. The attractive stock markets influenced investor behaviour positively, thereby driving up securities transactions. At the same time, customer assets under management increased from EUR 19.0 billion to EUR 20.7 billion. This is a sign that more and more investors want to take advantage of the higher returns offered by stock markets as compared to savings passbooks. In total, we earned EUR 10.2 million in the securities business, which is an increase by a pleasing 8.2%.

Commissions on loans were satisfactory at EUR 9.4 million, and in foreign exchange transactions, the net result was also positive at EUR 1.7 million.

Higher administrative expenses

In the first half of the year, general administrative expenses went up by 6.6% to EUR 64.4 million. The largest expense item in general administrative expenses were staff costs, which increased by EUR 1.9 million to EUR 39.5 million as at 30 June 2021. The increase was due primarily to the hike in wages and salaries by an average of 1.4% under the collective agreement. The number of employees – in full-time equivalents – increased to 985 persons. The second major expense item in general administrative expenses refers to other administrative costs, which also rose and amounted to EUR 19.2 million at the end of June. The increase resulted primarily from higher IT costs due to the implementation of the digitisation strategy.

Regulatory costs remain high

Other operating income was impacted mainly by regulatory costs. As at 30 June 2021, other operating income was EUR -5.8 million and thus just below the result in the preceding year. This item includes contributions to the resolution mechanism and deposit guarantee scheme of EUR 3.8 million, respectively, and EUR 0.6 million for the stability charge. The insolvency of Mattersburger Commerzialbank raised the amount to be paid into the deposit guarantee scheme by EUR 1.5 million.

Key performance ratios

The key performance ratios developed as follows as at 30 June 2021: return on equity (RoE) after tax was 5.3%, while return on assets (RoA) after tax was 0.7%.

Although the cost/income ratio of 57.4% was lower than the comparatively high figure of the preceding year, we aim to achieve a cost/income ratio below 55% by the end of the year. The higher cost/income ratio is due mainly to the high regulatory costs which must be paid in every first quarter of the year. The risk/earnings ratio decreased to 14.0% due to the lower credit risk costs, which constitutes a considerable decrease by 8.1%-percentage points compared to 30 June 2020.

The ratio of non-performing loans is also steadily moving in the right direction and stood at a pleasing 1.7% at the end of the first half of the year. This indicator shows quite clearly that our loan portfolio is in a very healthy state.

The leverage ratio as at 30 June 2021 was 8.0% and was thus far above with statutory requirement of 3.0%. The significantly higher cash reserves resulted in the liquidity coverage ratio reaching 196.5% on 30 June 2021. The regulatory requirement for the LCR ratio is only 100%.

Capital adequacy at BKS Bank is very sound. On 30 June 2021, the tier 1 capital ratio was 12.8% and the total capital ratio was 16.5%.

Key items of the income statement

in € m	*HY1 2020*	*HY1 2021*	± in %
Net interest income	70.0	67.5	-3.6
Impairment charges	-15.4	-9.5	-38.5
Net fee and commission income	32.0	33.3	4.3
Profit/loss from investments accounted for using the equity method	2.5	17.0	>100
Net trading income	1.5	0.2	-86.1
Profit/loss from financial assets/liabilities	-0.6	5.1	>100
General administrative expenses	-60.4	-64.4	6.6
Profit for the period before tax	23.2	43.5	87.5
Income tax expense	-3.4	-6.9	>100
Profit for the period after tax	19.8	36.6	84.8

Segment Report

The segment report has four parts: Corporate and Business Banking, Retail Banking, Financial Markets and Other. Corporate and Business Banking is our most profitable business area and achieved excellent results in the first half of the year. Financial Markets also made highly satisfactory contributions to profit.

Corporate and Business Banking

Since the founding days almost 100 years ago, our mission has been to support our corporate and business customers in their business activities. Our product range has changed enormously since the early days especially with respect to digitisation. However, we have always been faithful to our mission of delivering personal services and reliability. Our corporate and business customers appreciate that we are close by and offer excellent services and products. We are very pleased to have once again acquired many new business customers in the first half of the year. As at 30 June 2021, BKS Bank served 25,850 corporate and business customers that place their trust in our bank.

Robust rise in results

Business development in the corporate and business customer segment was excellent in the first half of the year despite pandemic-related restrictions. The segment earned a net profit before tax of EUR 37.8 million as at 30 June 2021, which is a gratifying increase of 23.9% compared to the first half-year 2020. Net fee and commission income made the largest contribution to profits. Net interest income was at the same level as in the preceding year at almost EUR 54.0 million, while net fee and commission income increased strongly by 8.5% to EUR 18.1 million.

The significantly lower impairment charges of EUR 9.3 million (-36.5% or EUR 5.3 million) also contributed significantly to the higher earnings. Administrative expenses remained nearly unchanged year on year at EUR 26.1 million.

The segment-specific management benchmark indicators developed as follows: return on equity improved by 3.0%-percentage points to 17.6%, while the cost/income ratio improved slightly from 36.7% to 36.0%. The much lower impairment charges helped reduce the risk/earnings ratio from 26.9% to 17.3%.

Retail Banking

Earnings in Retail Banking are under enormous pressure due to the low interest rate environment, competitive pressure and changing customer behaviour. Pricing wars in the competition for customers are weighing on profitability. We are also investing heavily in digitisation projects to keep up with the rapid pace of technological progress. Despite the tense earnings situation, retail banking is an essential segment for us. We are proud to be able to offer our customers a wide range of products and services, which are also fully available online. In Retail Banking we provide services to private individuals and members of the healthcare professions. As at 30 June 2021, we served some 167,620 customers in this segment.

Segment results declined

Retail Banking developed as expected in the first half of the year 2021. The segment result of EUR 1.3 million was around EUR 1.0 million lower than in the first half of 2020. The reason for the decline in results was lower net interest income (EUR 13.7 million; - 3.9%). The low interest rate environment has been causing negative margins and lower contributions to earnings from the deposit-taking business for some time now.

At EUR 14.4 million, net fee and commission income remained at the very good level of the preceding year. Administrative expenses rose by EUR 0.6 million to EUR 27.6 million and this negatively influenced results. On account of the slightly weaker segment result, the segment-specific ratios were also moderate as at 30 June 2021. Return on equity was 2.1%. The cost/income ratio increased from 91.5% to 95.8%. By contrast, the risk/earnings ratio was excellent at 0.1%.

Financial Markets

Apart from income earned on the management of term structures, the main sources of revenues in the Financial Markets segment are returns from the treasury securities portfolio and contributions from entities recognised by the equity method. Proprietary trading is not a focus of our business activities.

Segment results on course again

In the Financial Markets segment, earnings strongly increased year on year and the segment result was EUR 13.8 million (EUR + 16.5 million).

In the preceding year, the segment was under pressure due to the lower income from entities accounted for using the equity method and the turmoil on stock markets caused by the pandemic. The Financial Markets segment has meanwhile stabilised and is now delivering positive contributions to earnings.

Net interest income was EUR 14.4 million as at 30 June 2021. This item also includes income from investments accounted for using the equity method. The income from financial assets/liabilities improved from EUR - 0.1 million to EUR 4.4 million. Administrative expenses were at the same level as in the preceding year at EUR 5.0 million.

Other

The segment Other includes items of income and expenses that cannot be clearly allocated to other segments and those contributions to profit that cannot be attributed to any other operation. In our accounting for this segment, we believe it is important to allocate only income and expense items to the business segments in which these have been earned or incurred.

The segment result before tax deteriorated from EUR -6.9 million to EUR -9.3 million. This was due mainly to higher regulatory costs, which increased significantly as a result of the insolvency of Mattersburger Commerzialbank. Administrative expenses were EUR 5.6 million.

Consolidated Own Funds

BKS Bank calculates the own funds ratios and measurement basis according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The calculation of own funds requirements for credit risk, for market risk and for operational risk is done using the standardised approach.

The Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA) specified that BKS Bank had to meet the following minimum requirements excluding a capital conservation buffer as a percentage of total risk exposure as of 30 June 2021:
- 5.5% for common equity tier 1 capital
- 7.3% for tier 1 capital, and
- 9.7% for the total capital ratio

The capital ratios attained as at 30 June 2021 clearly exceeded these thresholds.

At the end of June, common equity tier 1 capital was EUR 674.1 million, and the common equity tier 1 capital ratio was 11.7%. Additional tier 1 capital was EUR 65.2 million on 30 June 2021. Including supplementary capital (tier 2) of EUR 213.0 million, total own funds came to EUR 952.3 million. Total capital ratio improved from 16.2% to 16.5%.

Please note that as auditing is not mandatory for this half-year report it has not been audited or reviewed by an auditor. Therefore, the proportionate share of the profit for the period in the first half of the year has not been allocated to own funds.

At the end of June, regulations supplementing Basel III came into force that affect the exposure class "shares in investment funds". BKS Bank applies the look-through approach. The new regulation does not result in any significant changes to the calculation of the total risk exposure amount.

BKS Bank group of credit institutions: Own funds pursuant to CRR

in € m	31/12/2020	30/06/2021
Share capital	85.9	85.9
Reserves net of intangible assets	1,193.6	1,207.9
Deductions	-610.2	-619.7
Common equity tier 1 capital (CET1)	669.3[1)]	674.1
Common equity tier 1 ratio	11.8%	11.7%
AT1 note	55.9	65.2
Additional tier 1 capital	55.9	65.2
Tier 1 capital (CET1 + AT1)	725.2	739.3
Tier 1 capital ratio	12.8%	12.8%
Supplementary capital (tier 2)	190.9	213.0
Total own funds	916.1	952.3
Total capital ratio	16.2%	16.5%
Total risk exposure amount	5,664.1	5,786.5

[1)] Includes profit for the year 2020.

The MREL ratio stands for the minimum requirement for own funds and eligible liabilities and its purpose is to ensure the proper winding up of banks should this become necessary. The minimum requirement for the MREL ratio is made up of the loss-absorbing amount (LAA) and the recapitalisation amount (RCA), and is supplemented by the premium for maintaining market confidence (MCC).

The Financial Market Authority (FMA) defined a minimum amount for BKS Bank for own funds and eligible liabilities of 14.99% of total liabilities and own funds (total liabilities and own funds, TLOF) on a consolidated level. The MREL ratio was 20.1% on a TLOF basis at the end of June.

As of the coming financial year, the Total Risk Exposure Amount (TREA) ratio will be newly introduced. We already met the target of 22.31% in mid-2021.

Risk Management

The current quantitative information on risk management is based on the internal report on overall risk management and presented in the Notes starting on page 42. Qualitative information is available in the Annual Report for the period ended 31 December 2020.

Outlook

Economic recovery continues
In its latest report, the International Monetary Fund (IMF) forecasts that the global economy will continue to expand in the further course of this year. However, the IMF warns that the disparity between rich and poor countries could widen in the coming years – due to the unequal distribution of the Covid-19 vaccines

According to the IMF, the global economy is forecast to grow by 6% in the current year. For 2022, the growth rate for the global economy is estimated to drop back to +4.3%. The IMF forecasts robust growth rates for the major economies. The **US economy** is likely to grow by 7.0% in the current year. The growth rate in the **euro area** is expected to be slower, but still a solid value of 4.6%. By contrast, growth expectations for the **Chinese economy** were lowered slightly from 8.4% to "only" 8.1%.

As regards inflation, which is currently a topic of lively debate, the IMF expects rates in the industrialised countries to return to their pre-pandemic levels in the coming year. However, the repeated disruptions to global supply chains and the steep rise in real estate prices are factors that could push up inflation.

The European Commission recently raised the forecasts for the domestic economy again due to the positive signals from global trade and the progress achieved in Covid-19 vaccinations. The latest report of the International Monetary Fund forecasts that the **Austrian economy** will expand by 3.8% this year. This puts Austria slightly below the average expected for the EU.

For our key markets of **Slovenia**, **Croatia** and **Slovakia**, the European Commission forecasts above-average growth rates. According to the summer forecast, this year the economy will grow 5.7% in Slovenia, 5.4% in Croatia, and 4.9% in Slovakia.

Expectations for capital markets
Stock markets are currently in a comfortable situation: The global economy is still in recovery, and monetary policy remains supportive. In addition, many companies reported excellent earnings in the first quarter of 2021, driven by the rapid growth of the global economy. Against the backdrop of such a positive outlook, the stock market remains well supported despite slightly higher valuations. However, discussions of the start and the pace of a more restrictive monetary policy in the US and Europe may cause temporary setbacks in the course of the second half of the year.

Another factor supportive of stocks is the fact that basically all bond segments are expensive. Yields on conservative bonds such as government bonds and corporate bonds are close to their historic lows again after rising at the beginning of the year. High-yield bonds are more attractive with respect to yields, but the risk premiums are at all-time lows in this segment. We do not expect a trend reversal on the bond market in the second half of the year.

Optimistic outlook for HY2
The outlook for all regions in which we do business is optimistic. The return to normal economic activity is progressing rapidly, and sentiment is upbeat in many sectors.

Therefore, we are confident about the second half of the year. Demand for loans is expected to gain further momentum in the coming months. Companies are investing heavily again, and the improved situation on the labour market is expected to boost demand for loans from private individuals. We therefore expect lending volume to continue to grow. We are keeping a close eye on the development of credit quality, of course. Even though a major wave of insolvencies has not yet occurred, we cannot yet say the threat is over considering the risk of another wave of infections with the related possibility of restrictions. We expect that we will need to increase impairment charges moderately until the end of the year.

Profitability of banks is suffering from the sustained low interest rate policy. As already mentioned, the current interest rate situation will persist for some time. Nonetheless, we believe net interest income will remain at the preceding year's level. However, we expect income from services to rise. The securities business developed well in the course of this year, and the positive sentiment on stock markets is expected to sustain this trend.

Payment services recovered further over the course of the year, and therefore, we expect higher earnings by year-end. We have always applied strict cost management. This policy is more important than ever in challenging times. We aim to lower the cost/income ratio to below 55%. This ratio is an important indicator of a bank's efficiency.

We are working resolutely on our strategic project portfolio to make sure we attain the targets of our business strategy. The projects are very diverse and include the implementation of measures from the EU "Action Plan: Financing Sustainable Growth" as well as numerous innovation and digitisation projects. We plan to launch several new products this year. We will soon be introducing a new type of business account for start-ups and young entrepreneurs that can be opened completely online. A digital onboarding process for corporate and business customers will also be available in a few weeks. These projects strengthen our capacity for innovation and help us secure our competitive position.

Klagenfurt am Wörthersee, 25 August 2021

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
Member of the Management Board

Nikolaus Juhász
Member of the Management Board

Consolidated Financial Statements pursuant to IFRS

Consolidated Statement of Comprehensive Income for the Period 1 January to 30 June 2021

Income Statement

in €k	Notes	Q2/2020	Q2/2021	± in %
Interest income applying the effective interest rate method		71,962	69,739	-3.1
Other interest income and other similar income		13,524	11,305	-16.4
Interest expenses and other similar expenses		-15,448	-13,550	-12.3
Net interest income	**(1)**	**70,038**	**67,494**	**-3.6**
Impairment charges	(2)	-15,384	-9,465	-38.5
Net interest income after impairment charges		**54,654**	**58,029**	**6.2**
Fee and commission income		34,425	36,289	5.4
Fee and commission expenses		-2,455	-2,946	20.0
Net fee and commission income	**(3)**	**31,970**	**33,343**	**4.3**
Profit/loss from investments accounted for using the equity method	(4)	2,511	16,971	>100
Net trading income	(5)	1,492	207	-86.1
General administrative expenses	(6)	-60,412	-64,373	6.6
Other administrative expenses	(7)	3,160	3,962	25.4
Other operating expenses	(7)	-9,620	-9,768	1.5
Profit/loss from financial assets/liabilities		**-554**	**5,136**	**>100**
•Profit/loss from financial instruments designated at fair value	(8)	465	-315	>-100
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(9)	-2,456	4,238	>100
• Profit/loss from derecognition of financial assets measured at amortised cost	(10)	1,437	1,199	-16.5
• Other profit/loss from financial assets/liabilities	(11)	1	14	>100
Profit for the period before tax		**23,201**	**43,507**	**87.5**
Income tax expense	(12)	-3,413	-6,935	>100
Profit for the period		**19,788**	**36,572**	**84.8**

Other Comprehensive Income

in €k	Q2/2020	Q2/2021	± in %
Profit for the period	**19,788**	**36,572**	**84.8**
Other comprehensive income	**-1,680**	**7,646**	**>100**
Items not reclassified to profit or loss for the period	**1,662**	**7,778**	**>100**
± Actuarial gains/losses in conformity with IAS 19	7,575	5,852	22.7
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	-1,899	-1,465	-22.8
± Changes in the fair value of equity instruments measured at fair value	-6,530	4,307	>100
± Deferred taxes on changes in fair value of equity instruments measured at fair value	1,695	-1,077	>-100
± Fair value changes due to the default risk of financial liabilities measured at fair value through profit/loss (designated)	2,121	151	92.9
± Deferred taxes on fair value changes of financial liabilities designated at FV PL attributable to own credit risk	-530	-38	-92.9
± Share of income and expenses of associates in OCI and accounted for using the equity method	-770	48	>100
Items reclassified to profit or loss for the period	**-3,341**	**-132**	**96.0**
± Exchange differences	-1,781	39	>100
± Changes in the fair value of debt instruments measured at fair value	543	-707	>-100
± Net change in fair value	543	-707	>-100
± Reclassified to profit or loss	-	-	-
± Deferred taxes on changes to the fair value of debt instruments measured at fair value	-102	182	>100
± Share of income and expenses of associates reported in OCI and accounted for using the equity method	-2,002	353	>100
Total comprehensive income	**18,108**	**44,218**	**>100**

Earnings and Dividend per Share

	30/06/2020	30/06/2021
Average number of shares in issue[1)]	42,049,155	42,066,096
Earnings per ordinary and preference share in EUR (period) [1)]	0.46	0.85
Earnings per ordinary and preference share in EUR (annualised) [1)]	0.91	1.71

[1)] With the conversion of all preference shares into ordinary shares at the beginning of November 2020, there are now only ordinary shares in issue (pr.yr. ordinary and preference shares).

The indicator “earnings per share” compares consolidated net income for the period with the average number of no-par shares 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 in circulation.

Quarterly Review

in €k	Q2/2020	Q3/2020	Q4/2020	Q1/2021	Q2/2021
Interest income and similar income	42,719	39,765	40,637	39,846	41,199
Interest expenses and similar expenses	-7,608	-6,806	-7,164	-6,830	-6,720
Net interest income	**35,111**	**32,959**	**33,474**	**33,016**	**34,479**
Impairment charges	-9,133	-6,728	-2,913	-6,156	-3,309
Net interest income after impairment charges	**25,978**	**26,231**	**30,561**	**26,860**	**31,170**
Fee and commission income	16,180	16,529	18,755	18,375	17,913
Fee and commission expenses	-1,141	-1,414	-1,493	-1,533	-1,412
Net fee and commission income	**15,039**	**15,115**	**17,261**	**16,842**	**16,501**
Profit/loss from investments accounted for using the equity method	2,778	12,100	16,292	7,365	9,606
Net trading income	934	-2	740	39	167
General administrative expenses	-30,407	-32,042	-30,700	-32,673	-31,700
Other operating income	1,587	1,996	2,783	1,735	2,227
Other operating expenses	-3,499	-1,308	-1,488	-8,326	-1,442
Profit/loss from financial assets/liabilities	**5,891**	**229**	**3,933**	**2,300**	**2,836**
• Profit/loss from financial instruments designated at fair value	201	-102	94	7	-322
• Profit/loss from financial assets measured at fair value through profit/ loss (mandatory)	4,075	988	3,335	2,239	1,998
• Profit/loss from derecognition of financial assets measured at amortised cost	1,614	-656	545	51	1,149
• Other profit/loss from financial assets/liabilities	1	0	-41	3	11
Profit for the period before tax	**18,301**	**22,320**	**39,383**	**14,142**	**29,365**
Income tax	-1,045	-4,240	-2,499	-3,204	-3,731
Profit for the period	**17,256**	**18,080**	**36,884**	**10,938**	**25,634**

Consolidated Balance Sheet for the Period ended 30 June 2021

Assets

in €k	Notes	31/12/2020	30/06/2021	± in %
Cash and balances with the central bank	(13)	1,102,688	1,289,709	17.0
Receivables from other banks[1)]	(14)	282,770	230,932	-18.3
Receivables from customers[1)]	(15)	6,569,965	6,752,832	2.8
Trading assets	(16)	10,526	9,472	-10.0
Debt securities and other fixed-interest securities[1)]	(17)	917,599	997,208	8.7
Shares and other non-interest bearing securities	(18)	153,426	159,911	4.2
Investments in entities accounted for using the equity method	(19)	661,538	676,074	2.2
Intangible assets	(20)	10,153	9,514	-6.3
Property, plant and equipment	(21)	78,240	79,803	2.0
Investment property	(22)	41,192	41,387	0.5
Deferred tax assets	(23)	10,988	6,429	-41.5
Other assets	(24)	17,391	25,998	49.5
Total assets		**9,856,476**	**10,279,269**	**4.3**

[1)] The presentation of impairment charges was modified effective as of the balance sheet date 30 June 2021. Impairment charges are no longer shown as a separate balance sheet item with a negative value in the balance sheet, but are netted against the gross carrying amount of the corresponding balance sheet item. The presentation of the figures for the preceding year were adjusted accordingly.

Equity and Liabilities

in €k	Notes	31/12/2020	30/06/2021	± in %
Payables to other banks	(25)	899,929	752,274	-16.4
Payables to customers	(26)	6,542,245	6,994,455	6.9
• thereof savings deposits		1,401,674	1,391,687	-0.7
• of which other liabilities		5,140,571	5,602,768	9.0
Liabilities evidenced by paper	(27)	647,463	697,886	7.8
• of which at fair value through profit or loss		63,429	58,035	-8.5
Trading liabilities	(28)	13,711	8,936	-34.8
Provisions	(29)	129,434	119,005	-8.1
Other liabilities	(30)	51,440	58,000	12.8
Subordinental dept capital	(31)	209,583	237,733	13.4
Shareholders' equity	(32)	1,362,671	1,410,980	3.5
Total equity and liabilities		**9,856,476**	**10,279,269**	**4.3**

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity

in €k	Subscribed capital	Capital-reserves	Exchange differences	Fair value reserves	Retained earnings	Profit/loss for the year	Additional equity instruments [1)]	Equity
As at 01/01/2021	85,886	241,416	-752	26,022	879,420	74,748	55,900	1,362,640
Distribution						-5,047		-5,047
Coupon payments on additional equity instruments					-870			-870
Taken to retained earnings					69,701	-69,701		-
Profit for the period						36,572		36,572
Other comprehensive income			118	3,996	3,533			7,646
Capital increase								-
Effect of the equity method					645			645
Change in treasury shares					38			38
Issuance of additional equity instruments							9,300	9,300
Reclassification				-107	107			-
Other changes					56			56
As at 30/06/2021	**85,886**	**241,416**	**-634**	**29,911**	**952,630**	**36,572**	**65,200**	**1,410,980**

Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)	23,677
Deferred tax reserve	-5,919

1) The additional tier 1 bonds issued were classified as equity in conformity with IAS 32..

Consolidated statement of changes in equity

in €k	Subscribed capital	Capital-reserves	Exchange differences	Fair value reserves	Retained earnings	Profit/loss for the year	Additional equity instruments[1]	Equity
As at 01/01/2020	85,886	241,416	-117	28,331	797,877	92,905	55,200	1,301,498
Distribution						-5,048		-5,048
Coupon payments on					-870			-870
Allocation to retained earnings1					87,857	-87,857		-
Profit for the period						19,786		19,786
Other comprehensive income			-1,774	-7,018	7,112			-1,680
Capital increase								-
Effect of the equity method					-4,037			-4,037
Change in treasury shares					-130			-130
Issuance of additional equity instruments								-
Reclassification				-561	561			-
Other changes					-20			-20
As at 30/06/2020	**85,886**	**241,416**	**-1,890**	**20,752**	**888,350**	**19,786**	**55,200**	**1,309,500**

Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)	13,263
Deferred tax reserve	-3,316

[1] The additional tier 1 bonds issued were classified as equity in conformity with IAS 32..

For more details, please refer to Note (32) Shareholders' equity.

Consolidated statement of cash flows

in €k	Q2/2020	Q2/2021
Cash and cash equivalents at end of preceding period	**550,752**	**1,102,688**
Profit for the period	19,788	36,572
Non-cash items in profit for the period and other valuation adjustments	-56,294	-63,225
Change in assets and liabilities from operating business activities after correction for non-cash items	240,697	209,658
Cash flow from operating activities	**204,191**	**183,005**
Cash inflow from sales and redemptions	20,136	38,675
Cash outflow for capital expenditure	-72,475	-122,508
Dividends from entities accounted for using the equity method	36	3,482
Cash flow from investing activities	**-52,303**	**-80,351**
Capital increase	-	-
Other deposits	-	9,300
Dividend distributions	-196	-5,047
Subordinated liabilities, liabilities evidenced by paper and other financing activities	46,317	80,178
Cash flow from financing activities	**46,121**	**84,431**
Effect of exchange rates on cash and cash equivalents	220	-64
Cash and cash equivalents at end of preceding period	**748,981**	**1,289,709**

Notes to the Consolidated Financial Statements of BKS Bank

Material Accounting Policies

I. General information

The interim financial statements of BKS Bank for the period ended 30 June 2021 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the EU and applicable on the reporting date as well as in accordance with the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC). These half-year financial statements comply with IAS 34 "Interim Financial Reporting".

II. Effects of new and amended standards

The accounting policies applied in the financial year 2020 were also applied in the first half of the year of 2021. All amendments to standards that became effective as of 1 January 2021 do not have any material effects on the BKS Bank Group.

III. Recognition and measurement

Group of consolidated companies

Besides BKS Bank AG, the consolidated financial statements accounted for a total of 13 entities: 10 consolidated entities, two accounted for using the equity method and one entity accounted for on a proportionate basis. Compared to the preceding year, one consolidated company was removed from the scope of consolidation effective 31 March 2021 due to immateriality. The deconsolidation of this company had no effect on the consolidated income statement.

Effects of the Covid-19 measures

The Austrian government and the governments of the countries in which BKS Bank operates – Slovenia, Croatia and Slovakia – took action to contain the negative impact on the economy of the coronavirus crisis in 2020. In addition to statutory loan deferrals, in individual cases the BKS Bank Group also offers voluntary loan forbearance plans to corporate and retail customers in Austria and abroad. At present, government-mandated or private payment deferrals are no longer being extended in Austria or abroad. All deferrals currently granted by BKS Bank Group are individual agreements with customers. Of the loan deferrals granted in 2020, the credit volume affected by active deferrals since year-end 2020 dropped from EUR 282.5 million to EUR 42.8 million.

Expected Credit Loss

In February 2021, the European Commission published its winter forecast which serves as the basis for calibrating the forward looking information. The forecast for Austria states an increase in economic output (GDP) of 2.0% in 2021. In May 2021, the spring forecast was announced by the European Commission. This forecast states a 3.4% rise in economic growth (GDP) in Austria for the full year 2021. For 2022, economic output (GDP) is expected to expand by 4.3%. The changes to the forward looking information resulting therefrom were used as basis for the ECL calculation in the second quarter of 2021.

Already in the second quarter of 2020, BKS Bank conducted an analysis by sector of corporate and business customers to gauge how they were being affected by the coronavirus crisis.

The sectors the affected the most severely by the pandemic, namely hospitality businesses, restaurants, arts and entertainment as well as other services were collectively transferred to a different stage depending on how heavily they were affected.

In the third quarter of 2020, a collective stage transfer was carried out for the entire Croatian corporate and business customer portfolio as well as the transport sector. A collective evaluation of the stage transfer was conducted again at the end of March 2021. All loans in the corporate and business banking segment that were subject to a government-mandated or voluntary moratorium were migrated to stage 2.

Therefore, pursuant to IFRS 9.B5.5.1 et seq, financial instruments were transferred from stage 1 to stage 2 even if at the individual debtor level no significant increase in credit risk was identified. These stage allocations were retained as at 30 June 2021. Additionally, we added a further Covid-19-induced management overlay at mid-year in the form of provisions allocated for the potential depreciation of commercial properties used as collateral.

IV. OTHER EXPLANATORY NOTES

Forward-looking assumptions and estimates such as yield curves and foreign exchange rates were made to the extent required, and the financial statements were prepared on the basis of the state of knowledge and information at our disposal on the reporting date. The assumptions and estimates entering into the financial statements for the period were made on the basis of the state of knowledge and information at our disposal on the reporting date 30 June 2021.

Details of the Income Statement

(1) Net interest income

in €k	Q2/2020	Q2/2021	± in %
Lending operations measured at amortised cost	61,713	59,133	-4.2
Fixed-interest securities measured at amortised cost	6,216	6,122	-1.5
Fixed-interest securities measured at FV OCI	331	279	-15.6
Profit/losses from changes[1]	563	247	-56.2
Positive interest expenses[2]	3,139	3,958	26.1
Total interest income applying the effective interest rate method	**71,962**	**69,739**	**-3.1**
Lending operations measured at fair value	1,078	1,013	-6.0
Fixed-interest securities at fair value through profit or loss	225	223	-0.7
Leasing receivables	5,984	6,077	1.6
Shares and other non-interest-bearing securities	4,524	2,109	-53.4
Investment property	1,714	1,883	9.9
Total other interest income and other similar income	**13,524**	**11,305**	**-16.4**
Total interest income	**85,486**	**81,045**	**-5.2**
Interest expenses and other similar expenses:			
Deposits from customers and other banks	2,738	1,789	-34.6
Liabilities evidenced by paper	9,690	8,123	-16.2
Profit/losses from changes[1]	75	173	>100
Negative interest income[2]	2,413	2,953	22.4
Investment property	443	441	-0.4
Lease liabilities	90	70	-22.4
Total interest expenses and other similar expenses	**15,448**	**13,550**	**-12.3**
Net interest income	**70,038**	**67,494**	**-3.6**

[1] This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates. As of half-year 2021 , modification gains/losses from changes to contractual terms that do not trigger derecognition of an asset are reported in net interest income and no longer in Note (11) Other comprehensive income from financial assets/liabilities. The figures for the preceding year have been adjusted accordingly.
[2] This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates.

(2) Impairment charges

in €k	Q2/2020	Q2/2021	± in %
Financial instruments measured at amortised cost			
– Allocation (+)/reversal (-) of impairment charges (net)	14,989	10,635	-29.0
Financial instruments measured at fair value OCI			
– Allocation (+)/reversal (-) of impairment charges (net)	137	22	-83.9
Loan commitments and financial guarantee contracts			
– Allocation (+)/reversal (-) of provisions (net)	258	-1,192	>-100
Impairment charges	**15,384**	**9,465**	**-38.5**

(3) Net fee and commission income

in €k	Q2/2020	Q2/2021	± in %
Net fee and commission income:			
Payment services	11,674	12,575	7.7
Securities operations	10,470	11,331	8.2
Lending operations	10,001	9,900	-1.0
Foreign exchange operations	1,554	1,736	11.7
Other services	726	746	2.8
Total fee and commission income	**34,425**	**36,289**	**5.4**
Net fee and commission expenses:			
Payment services	1,000	1,246	24.6
Securities operations	1,022	1,113	8.8
Lending operations	298	486	63.0
Foreign exchange operations	107	79	-26.2
Other services	28	21	-22.4
Total fee and commission expenses	**2,455**	**2,946**	**20.0**
Net fee and commission income	**31,970**	**33,343**	**4.3**

(4) Profit/loss from investments accounted for using the equity method

in €k	Q2/2020	Q2/2021	± in %
Profit/loss from investments accounted for using the equity method	2,511	16,971	>100
Profit/loss from investments accounted for using the equity method	**2,511**	**16,971**	**>100**

(5) Net trading income

in €k	Q2/2020	Q2/2021	± in %
Price-based transactions	-18	9	>100
Interest rate and currency contracts	1,510	197	-86.9
Net trading income	**1,492**	**207**	**-86.1**

(6) General administrative expenses

in €k	Q2/2020	Q2/2021	± in %
Staff costs	37,611	39,519	5.1
• Wages and salaries	26,950	26,408	-2.0
• Social insurance costs	6,792	6,620	-2.5
• Costs of retirement benefits	2,650	3,601	35.9
• Other social expenses	1,220	2,891	>100
Other administrative costs	17,448	19,172	9.9
Depreciation/amortisation	5,352	5,682	6.2
General administrative expenses	**60,412**	**64,373**	**6.6**

(7) Other operating income/expenses

in €k	Q2/2020	Q2/2021	± in %
Other operating income	3,160	3,962	25.4
Other operating expenses[1)]	-9,620	-9,768	1.5
Other operating income/expenses	**-6,460**	**-5,806**	**-10.1**

[1)] This includes mainly expenses for the resolution mechanism and deposit guarantee scheme.

(8) Profit/loss from financial instruments designated at fair value

in €k	Q2/2020	Q2/2021	± in %
Profit/loss from the fair value option	465	-315	>-100
Profit/loss from financial instruments designated at fair value	**465**	**-315**	**>-100**

(9) Profit/loss from financial assets measured at fair value through profit or loss (mandatory)

in €k	Q2/2020	Q2/2021	± in %
Profit/loss from measurement	-2,512	4,158	>100
Profit/loss on disposal	56	80	42.9
Profit/loss from financial assets measured at fair value through profit or loss (mandatory)	**-2,456**	**4,238**	**>100**

(10) Profit/loss from the derecognition of financial assets measured at amortised cost

in €k	Q2/2020	Q2/2021	± in %
Receivables from other banks	-	-	-
• thereof profit	-	-	-
• thereof loss	-	-	-
Receivables from customers	1,437	1,199	-16.5
• thereof profit	1,804	1,404	-22.2
• thereof loss	-367	-205	-44.3
Debt securities	-	-	-
• thereof profit	-	-	-
• thereof loss	-	-	-
Profit/loss from derecognition of financial assets measured at amortised cost	**1,437**	**1,199**	**-16.5**

(11) Other profit/loss from financial assets/liabilities

in €k	Q2/2020	Q2/2021	± in %
Derecognition gains/losses	1	14	>100
• from financial assets measured through OCI	1	14	>100
• from financial liabilities measured at amortised cost	-	-	-
Other profit/loss from financial assets/liabilities	**1**	**14**	**>100**

(12) Income tax expense

in €k	Q2/2020	Q2/2021	± in %
Current taxes	-3,125	-4,637	48.4
Deferred taxes	-288	-2,298	>100
Income tax expense	**-3,413**	**-6,935**	**>100**

Details of the Balance Sheet

(13) Cash and balances with the central bank

in €k	*31/12/2020*	*30/06/2021*	± in %
Cash in hand	87,584	86,350	-1.4
Credit balances with central banks	1,015,104	1,203,360	18.5
Cash and balances with the central bank	**1,102,688**	**1,289,709**	**17.0**

(14) Receivables from other banks

in €k	*31/12/2020*	*30/06/2021*	± in %
Receivables from domestic banks	46,919	44,431	-5.3
Receivables from foreign banks	235,851	186,501	-20.9
Receivables from other banks	**282,769**	**230,932**	**-18.3**

The impairment charges included in receivables from other banks developed as follows in the first half-year 2021:

in €k	Stage 1	Stage 2	Stage 3	*2021*
As at 01/01/2021	200	32	–	232
Additions due to new business	57	81	–	138
Change within stage				
– Allocation/reversal	-80	-1	–	-81
• Disposals due to usage	–	–	–	–
Reclassification from one stage to another:				
• Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	–	–	–	–
– Reclassification from stage 3 to stage 1	–	–	–	–
– Reclassification from stage 3 to stage 2	–	–	–	–
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	–	–	–	–
- Reclassification from stage 1 to stage 3	–	–	–	–
– Reclassification from stage 2 to stage 3	–	–	–	–
Disposals due to repayment	-81	-31	–	-112
As at 30/06/2021	**96**	**81**	**-**	**177**

(15) Receivables from customers

(15.1) Receivables from customers by customer group

in €k	31/12/2020	30/06/2021	± in %
Corporate and Business Banking	5,110,127	5,269,022	3.1
Retail Banking	1,459,838	1,483,811	1.6
Receivables from customers by customer group	**6,569,965**	**6,752,832**	**2.8**

(15.2) Receivables from customers by measurement category

in €k	31/12/2020	30/06/2021	± in %
Financial assets measured at amortised cost	6,437,585	6,600,238	2.5
Financial assets measured at fair value through profit or loss (designated)	75,650	93,195	23.2
Financial assets measured at fair value through profit or loss (mandatory)	56,730	59,399	4.7
Receivables from customers by measurement category	**6,569,965**	**6,752,832**	**2.8**

The impairment charges included in receivables from customers developed as follows in the first half-year 2021:

in €k	Stage 1	Stage 2	Stage 3	2021
As at 01/01/2021	14,265	23,377	49,736	87,378
Additions due to new business	1,826	2,852	-	4,678
Change within stage				
• Allocation/reversal	-1,025	1,185	1,216	1,376
• Disposals due to usage	-	-	-3,515	-3,515
Reclassification from one stage to another:				
• Decrease due to default risk				
– Reclassification from stage 2 to stage 1	244	-1,668	-	-1,424
– Reclassification from stage 3 to stage 1	2	-	-26	-24
– Reclassification from stage 3 to stage 2	-	225	-651	-426
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-641	4,026	-	3,385
- Reclassification from stage 1 to stage 3	-31	-	773	742
– Reclassification from stage 2 to stage 3	-	-284	3,539	3,255
Disposals due to repayment	-715	-1,374	-1,376	-3,465
As at 30/06/2021	**13,925**	**28,339**	**49,696**	**91,960**

(16) Trading assets

in €k	31/12/2020	30/06/2021	± in %
Positive fair values of derivative financial products	10,526	9,471	-10.0
• Currency contracts	3,610	3,696	2.4
• Interest rate contracts	-	-	-
• Fair value option	6,917	5,776	-16.5
Trading assets	**10,526**	**9,471**	**-10.0**

(17) Debt securities and other fixed-interest securities

in €k	31/12/2020	30/06/2021	± in %
Financial assets measured at amortised cost	828,140	914,216	10.4
Financial assets measured at fair value through profit or loss (designated)	21,152	21,065	-0.4
Financial assets measured at fair value OCI	68,263	61,890	-9.3
Financial assets measured at fair value through profit or loss (mandatory)	44	37	-15.8
Debt securities and other fixed-interest securities	**917,599**	**997,208**	**8.7**

The impairment charges included in debt securities and other fixed-income securities developed as follows in the first half-year 2021:

in €k	Stage 1	Stage 2	Stage 3	2021
As at 01/01/2021	420	630	-	1,050
Additions due to new business	142	-	-	142
Change within stage				
– Allocation/reversal	2	-18	-	-16
– Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to default risk				
Reclassification from stage 2 to stage 1	-	-	-	-
Reclassification from stage 3 to stage 1	-	-	-	-
Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to default risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-	-1	-	-1
As at 30/06/2021	**564**	**611**	**-**	**1,175**

(18) Shares and other non-interest-bearing securities

in €k	31/12/2020	30/06/2021	± in %
Financial assets measured at fair value through profit or loss (mandatory)	57,089	59,455	4.1
Financial assets measured at fair value OCI	96,337	100,456	4.3
Shares and other non-interest-bearing securities	**153,426**	**159,911**	**4.2**

(19) Investments in entities accounted for using the equity method

in €k	31/12/2020	30/06/2021	± in %
Oberbank AG	418,759	430,308	2.8
Bank für Tirol und Vorarlberg AG	242,779	245,765	1.2
Investments in entities accounted for using the equity method	**661,538**	**676,074**	**2.2**

(20) Intangible assets

in €k	31/12/2020	30/06/2021	± in %
Intangible assets	10,153	9,514	-6.3
Intangible assets	**10,153**	**9,514**	**-6.3**

(21) Property, plant and equipment

in €k	31/12/2020	30/06/2021	± in %
Land	8,252	8,249	0.0
Buildings	36,517	35,263	-3.4
Other property, plant and equipment	12,126	15,196	25.3
Right-of-use assets	21,345	21,095	-1.2
Property, plant and equipment	**78,240**	**79,803**	**2.0**

(22) Investment property

in €k	31/12/2020	30/06/2021	± in %
Land	8,506	8,506	0.0
Buildings	32,686	32,881	0.6
Investment property	**41,192**	**41,387**	**0.5**

(23) Deferred tax assets

in €k	31/12/2020	30/06/2021	± in %
Deferred tax assets	**10,988**	**6,429**	**-41.5**

(24) Other assets

in €k	31/12/2020	30/06/2021	± in %
Other assets	13,235	21,863	65.2
Deferred items	4,156	4,135	-0.5
Other assets	**17,391**	**25,998**	**49.5**

(25) Payables to other banks

in €k	31/12/2020	30/06/2021	± in %
Payables to domestic banks	799,242	699,704	-12.5
Payables to foreign banks	100,688	52,570	-47.8
Payables to other banks	**899,929**	**752,274**	**-16.4**

In 2021, BKS Bank took part in the TLTRO III programme (Targeted Longer-Term Refinancing Operations) of the European Central Bank (ECB) with a volume of EUR 50 million. As of the reporting date, liabilities of EUR 400 million from the TLTRO III programme are therefore reported under payables to banks and accounted for in accordance with IFRS 9.

(26) Payables to customers

in €k	31/12/2020	30/06/2021	± in %
Savings deposits	**1,401,674**	**1,391,687**	**-0.7**
• Corporate and business banking customers	151,156	138,047	-8.7
• Retail banking customers	1,250,518	1,253,640	0.2
Other liabilities	**5,140,571**	**5,602,768**	**9.0**
• Corporate and business banking customers	3,667,120	3,985,255	8.7
• Retail banking customers	1,473,451	1,617,513	9.8
Payables to customers	**6,542,245**	**6,994,456**	**6.9**

(27) Liabilities evidenced by paper

in €k	31/12/2020	30/06/2021	± in %
Bonds issued	592,585	642,375	8.4
Other liabilities evidenced by paper	54,878	55,511	1.2
Liabilities evidenced by paper	**647,463**	**697,886**	**7.8**

(28) Trading liabilities

in €k	31/12/2020	30/06/2021	± in %
Negative fair values of derivative financial instruments	13,711	8,936	-34.8
• Currency contracts	5,667	2,588	-54.3
• Interest rate contracts	-	-	-
• Fair value option	8,044	6,348	-21.1
Trading liabilities	**13,711**	**8,936**	**-34.8**

(29) Provisions

in €k	31/12/2020	30/06/2021	± in %
Provisions for post-employment benefits and similar obligations	68,885	62,330	-9.5
Provisions for taxes (current taxes)	5,914	1,425	-75.9
Provision for guarantees and credit facilities	2,794	1,602	-42.7
Other provisions	51,842	53,648	3.5
Provisions	**129,434**	**119,005**	**-8.1**

Actuarial assumptions

in %	31/12/2020	30/06/2021
Financial assumptions		
Interest rate	1.00%	1.39%
Salary trend of active staff	2.00%	1.40%
Pensions trends	1.50%	1.40%
Career trends	0.25%	0.25%
Demographic assumptions		
Retirement age	65 years	65 years
Mortality table	AVÖ 2018	AVÖ 2018

The calculation of provisions for pensions on 30 June 2021 was based on a duration of 10 years (pr. yr.: 15 years).

(30) Other liabilities

in €k	31/12/2020	30/06/2021	± in %
Other liabilities	24,984	31,509	26.1
Deferred items	4,868	4,214	-13.4
Leasing liabilities	21,588	22,276	3.2
Other liabilities	**51,440**	**58,000**	**12.8**

(31) Subordinated debt capital

in €k	31/12/2020	30/06/2021	± in %
Supplementary capital	209,583	237,733	13.4
Subordinated debt capital	**209,583**	**237,733**	**13.4**

Subordinated debt capital is reported with accrued interest. The nominal value is EUR 234.4 million (pr.yr.: EUR 206.5 million).

(32) Shareholders' equity

in €k	31/12/2020	30/06/2021	± in %
Subscribed capital	85,886	85,886	-
• Share capital	85,886	85,886	-
Capital reserves	241,416	241,416	-
Retained earnings and other reserves	979,469	1,018,478	4.0
Additional equity instruments (AT 1 bond)	55,900	65,200	16.6
Shareholders' equity	**1,362,671**	**1,410,980**	**3.5**

After the decision taken at the beginning of November 2020 to convert all preference shares into ordinary shares at a ratio of 1:1, the share capital now consists of 42,942,900 ordinary no-par voting shares. Each share has a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits. Additional equity instruments consist of the additional tier 1 notes classified as equity under IAS 32.

Risk Report

The quantitative information included in this report pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

(33) Loan quality by class of receivable as at 30/6/2021

in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	102,108	1,767,278	2,709,178	2,332,433	372,211	140,115	705
Credit lines promised	8,397	59,259	83,740	52,964	2,857	727	33
Receivables from banks	144,890	95,963	3,605	4,010	3	–	–
Securities and funds	808,057	162,666	45,929	1,014	37	–	–
Equity investments	739,292	17,270	2,910	10,226	–	–	1,523
Total	**1.802.744**	**2.102.437**	**2.845.361**	**2.400.647**	**375.108**	**140.842**	**2.260**

Loan quality by class of receivable as at 31/12/2020

in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	ohne Rating
Receivables from customers	79,718	1,715,997	2,654,575	2,214,603	380,818	138,513	396
Credit lines promised	13,958	60,523	76,049	50,772	5,425	748	29
Receivables from banks	220,784	39,588	36,661	3,845	4	–	–
Securities and funds	740,636	139,418	35,420	4,550	44	–	–
Equity investments	723,658	25,198	2,482	–	–	–	1,433
Total	**1.778.755**	**1.980.723**	**2.805.187**	**2.273.770**	**386.291**	**139.261**	**1.859**

At BKS Bank, receivables are deemed to be in default if they are more than 90 days overdue and the overdue amount is at least 1.0% of the agreed credit line and at least EUR 100. Furthermore, BKS Bank also classified receivables as in default if it assumed that the debtor would not be able to repay the full amount of the loan to the bank.

At the end of June, the non-performing loan ratio was 1.7% (31/12/2020: 1.7%). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes) and the accounting receivables from sovereigns, central banks, credit institutions and customers.

Cover for the loss potential of non-performing loans is indicated by the coverage ratio. Coverage Ratio I is the relation between risk provisions to the total risk position and was 36.6% on 30 June 2021 (31/12/2020: 37.2%). Additionally, we use Coverage Ratio III as an internal benchmark which also includes internal collateral in the calculation. This ratio was 89.9% as at 30 June 2021 (31/12/2020: 88.7%).

(34) Regulatory interest rate risk in % of own funds

Currency	***31/12/2020***	***30.06.2021***
EUR	1.43%	1.03%
CHF	0.26%	0.13%
USD	-0.02%	-0.02%
JPY	–	–
Other	–	–
Total	**1.67%**	**1.14%**

(34.1) Value-at-risk figures - interest rate risk

in €k	31/12/2020	30/06/2021
Minimum values		
Maximum values		
Average values		
Value-at-risk figures - Interest rate risk	**61,225**	**52,721**

The interest rate risk determined according to internal criteria is calculated on the basis of a worst-case scenario from the 6 economic EVE (Economic Value of Equity) IRRBB shocks and the management-relevant "APM duration risk" (+100BP shock). The suitability of the method and the confidence level of 99.9% and the holding period of one year are reviewed at least once a year and adjusted if necessary.

(35) Value-at-risk figures - credit spread risk

in €k	31/12/2020	30/06/2021
Minimum values		
Maximum values		
Average values		
Value-at-risk figures - Credit spread risk	**36,846**	**41,669**

Value-at-risk with respect to credit spread risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 250 days with a confidence level of 99.9%.

(36) Value-at-risk figures – equity price risk

in €k	31/12/2020	30/06/2021
Minimum values		
Maximum values		
Average values		
Value-at-risk figures - Equity price risk	**19,751**	**26,341**

Value-at-risk with respect to equity price risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 250 days with a confidence level of 99.9%.

(37) Value-at-risk figures - foreign currency price risk

in €k	31/12/2020	30/06/2021
Minimum values		
Maximum values		
Average values		
Value-at-risk figures - Foreign currency risk	**2,096**	**1,159**

Value-at-risk with respect to foreign currency positions is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 250 days with a confidence level of 99.9%.

(38) Indicators for managing liquidity risk

	31/12/2020	30/06/2021
Deposit concentration	0.38	0.37
Loan-to-deposit ratio (LDR)	85.7%	82.4%
Liquidity coverage ratio (LCR)	158.1%	196.5%
Net stable funding ratio (NSFR)	117.2%	121.8%

(39) Operational risk and ICT risks by event category*

in €k	31/12/2020	30/06/2021
Fraud	104	19
Employment practices and workplace safety	408	27
Customers, products, business practices	-1,324	907
Property damage	15	8
System failures	7	1
Settlement, sales and process management	299	168

*After deduction of recoveries

Additional Information

(40) Segment Report

Segment reporting is based on the organisational structure of the Group that underlies its internal management reporting system.

Segment results HY1 2021

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	13,658	53,993	14,424	2,390	84,465
• of which profit/loss from investments accounted for using the equity method			16,971		16,971
Impairment charges	-16	-9,320	-129	-	-9,465
Net fee and commission income	14,449	18,135	-152	911	33,343
Net trading income	-	-	207	-	207
General administrative expenses	-27,629	-26,149	-4,969	-5,626	-64,373
Other operating income/expenses	727	443	10	-6,985	-5,806
Profit/loss from financial assets/liabilities	104	661	4,371	-	5,136
Profit for the period before tax	**1,294**	**37,761**	**13,762**	**-9,310**	**43,507**
Average risk-weighted assets	1,015,434	3,515,433	653,890	163,356	5,348,112
Average allocated equity	123,883	428,883	791,705	42,354	1,386,825
ROE based on profit for the period before tax	**2.1%**	**17.6%**	**3.5%**	**-**	**6.3%**
Cost/income ratio	**95.8%**	**36.0%**	**34.3%**	**-**	**57.4%**
Risk/earnings ratio	**0.1%**	**17.3%**	**-**	**-**	**14.0%**

Segment results HY1 2020

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	14,206	54,495	1,887	1,962	72,549
• of which profit/loss from investments accounted for using the equity method			2,511		2,511
Impairment charges	-290	-14,668	-427	-	-15,384
Net fee and commission income	14,615	16,719	-94	730	31,970
Net trading income	-	-	1,492	-	1,492
General administrative expenses	-27,040	-26,262	-4,940	-2,169	-60,412
Other operating income/expenses	715	290	-19	-7,447	-6,460
Profit/loss from financial assets/liabilities	123	-86	-591	-	-554
Profit for the period before tax	**2,330**	**30,488**	**-2,693**	**-6,924**	**23,201**
Average risk-weighted assets	885,640	3,425,382	666,498	157,700	5,135,219
Average allocated equity	108,048	417,897	740,010	40,105	1,306,059
ROE based on profit for the period before tax	**4.3%**	**14.6%**	**-**	**-**	**4.6%**
Cost/income ratio	**91.5%**	**36.7%**	**177.9%**	**-**	**61.0%**
Risk/earnings ratio	**2.0%**	**26.9%**	**30.5%**	**-**	**21.4%**

Method: Net interest income is broken down using the market interest rate method. The costs incurred are allocated to the business areas in which these costs originate. Returns on maturity transformation are allocated to the Financial Markets segment. Capital is allocated based on regulatory parameters. The average allocated equity carries 5% interest and is recognized as return on equity invested in net interest income. The profit for the respective segment is measured based on the profit before tax earned in the segment. Apart from the cost/income ratio, return on equity is one of the principal benchmarks for managing the business segments. Segment reporting is based on our internal management processes. The management board as a whole is responsible for the enterprise's management.

The reports used for internal management purposes comprise the following in detail:
- Monthly reporting of results at profit centre level
- Quarterly reports for all relevant risk types
- Ad-hoc reports for exceptional events

Corporate and Business Banking
In Corporate and Business Banking, there were roughly 25,850 corporate and business banking customers as at 30 June 2021. As BKS Bank was originally conceived as a corporate and business bank, this segment is still the bank's most important business segment. Today, corporate and business banking customers still account for a large part of the loan portfolio and contribute substantially to profits. Also reported in this segment – apart from all income and expense components of BKS Bank AG from Corporate and Business Banking – are income and expenses of the leasing companies provided they relate to transactions with corporate and business customers.

Retail Banking
All income and expense components of BKS Bank AG, BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers, wage and salary earners, and members of the health professions are reported in Retail Banking. Some 167,620 customers belonged to this segment at the end of June 2021.

Financial Markets
The Financial Markets segment includes the profits from BKS Bank AG's proprietary trading activities, from treasury securities, from equity investments, from derivatives in the banking book and from interbank transactions as well as from income from interest-rate term structure management.

The segment **Other** includes items of income and expenses that cannot be allocated to the other segments and those contributions to profit that cannot be attributed to any specific operation.

(41) Related party disclosures

	Outstanding balances as at		guarantees received		guarantees received	
in €k	*31/12/2020*	*30/06/2021*	*31/12/2020*	*30/06/2021*	*31/12/2020*	*30/06/2021*
Non-consolidated subsidiaries						
• Receivables	35,920	38,370	-	-	-	-
• Liabilities	5,838	6,380	-	-	-	-
Associates						
• Receivables	5,874	378	-	-	-	-
• Liabilities	34,785	2,183	-	-	-	-
Members of the Management Board						
• Receivables	1,012	1,173	-	-	-	-
• Liabilities	2,979	2,920	-	-	-	-
Other related parties						
• Receivables	491	802	-	-	-	-
• Liabilities	750	605	-	-	-	-

Transactions with related parties were on arm's length terms. During the reporting period, no provisions for doubtful receivables and no expenses on irrecoverable or doubtful receivables were recognised in connection with related parties.

Loans and advances granted

in €k	*31/12/2020*	*30/06/2021*
• Loans and advances granted to members of the Management Board	17	15
• Loans and advances granted to members of the Supervisory Board	141	338
Loans and advances granted	**158**	**353**

(42) Contingent liabilities and commitments

in €k	*31/12/2020*	*30/06/2021*	± in %
Guarantees	567,205	584,818	3.1
Letters of credit	741	7,400	>100
Contingent liabilities and commitments	**567,947**	**592,219**	**4.3**
Other commitments	1,693,658	1,675,806	-1.1
Commitments	**1,693,658**	**1,675,806**	**-1.1**

(43) Events after the balance sheet date

The Financial Market Authority (FMA) banned Autobank AG from conducting any business operations with immediate effect as of 30 July 2021 after it reported a shortfall in the regulatory capital required. On 12 August 2021, Autobank AG notified the FMA that it was insolvent. To cover customer deposits, the deposit guarantee scheme took effect that insures a maximum of EUR 100,000 per depositor. The resulting expense in the form of additional contributions to the deposit guarantee scheme for BKS Bank AG is currently not quantifiable.

After the reporting date of this interim report as at 30 June 2021, BKS Bank witnessed no activities or events unusual in terms of form or content with an impact on the assets, financial position or result of operations as presented in this report.

(44) Fair Values

Financial assets and liabilities measured at fair value

30/06/2021

in €k	Level 1 "Market value"	Level 2 "Based on market value"	Level 3 "Internal measurement method"	Total fair value
Assets				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	59,399	59,399
• at fair value through profit or loss (designated)	-	-	93,195	93,195
Trading assets (derivatives)	-	9,472	-	9,472
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	37	-	-	37
• at fair value through profit or loss (designated)	21,065	-	-	21,065
• at fair value OCI	60,883	-	1,007	61,890
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	59,099	-	356	59,455
• at fair value OCI	5,720	5,337	89,399	100,456
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	58,035	58,035
Trading liabilities	-	8,936	-	8,936

There were no transfers between the levels in the reporting period.

31/12/2020

in €k	Level 1 "Market value"	Level 2 "Based on market value"	Level 3 "Internal measurement method"	Total fair value
Assets				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	56,730	56,730
• at fair value through profit or loss (designated)	-	-	75,650	75,650
Trading assets (derivatives)	-	10,527	-	10,527
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	44	-	-	44
• at fair value through profit or loss (designated)	21,152	-	-	21,152
• at fair value OCI	67,245	-	1,018	68,263
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	56,734	-	356	57,090
• at fair value OCI	5,460	3,841	87,036	96,337
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	63,429	63,429
Trading liabilities	-	13,711	-	13,711

Level 3: Movements in financial assets and liabilities measured at fair value 2021

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper - at fair value through profit or loss	Shares and other non-interest bearing securities at fair value through profit or loss (mandatory)
At 01/01/2021	75,650	56,730	1,018	87,036	63,429	356
Income Statement 1)	-1,511	-215	-11	-	-243	-
Reclassification	-	-	-	-	-	-
Other comprehensive income	-	-	-	2,335	-151	-
Purchased/added	21,000	6,588	-	328	-	-
Sold/redeemed	-1,944	-3,704	-	-300	-5,000	-
At 30/06/2021	**93,195**	**59,399**	**1,007**	**89,399**	**58,035**	**356**

[1] Measurement changes in profit/loss; financial instruments reported in the item profit/loss from financial instruments designated at fair value and in the item profit/loss from financial assets measured at fair value through profit/loss (mandatory)

Level 3: Movements in financial assets and liabilities measured at fair value 2020

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper - at fair value through profit or loss	Shares and other non-interest bearing securities at fair value through profit or loss (mandatory)
At 01/01/2020	79,078	58,356	1,018	84,042	84,237	0
Income Statement [1]	977	301			-140	
Reclassification				-356		356
Other comprehensive income				-12	-668	
Purchased/added		12,743		3,400		
Sold/redeemed	-4,405	-14,670		-38	-20,000	
At 31/12/2020	**75,650**	**56,730**	**1,018**	**87,036**	**63,429**	**356**

[1] Measurement changes in profit/loss; financial instruments reported in the item profit/loss from financial instruments designated at fair value and in the item profit/loss from financial assets measured at fair value through profit/loss (mandatory).

Measurement principles and classification

The fair values shown in Level 1 'Market values' were determined using prices quoted on active markets (stock exchange).

If market values are unavailable, fair value is ascertained using customary measurement models based on observable input factors and market data, and are presented in the category *Level 2 'Based on Market Data'* (e.g. by discounting future cash flows from financial instruments). In general, fair values shown in this category were ascertained on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). Generally, items in Level 2 were measured using the present value method.

In Level 3 'Internal measurement method', the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. In general, liabilities evidenced by paper in Level 3 were measured on the basis of market data that were observable for these liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in Level 3 that are not observable in the market are adjustments made on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category Level 3 were measured using the present value method.

Reclassification

Reclassifications between the individual categories were carried out if market values (Level 1) or reliable input factors (Level 2) were no longer available or if market values (Level 1) became newly available for individual financial instruments (e.g. IPO).

Changes in the credit ratings of assets and liabilities measured at fair value

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of the financial instrument and the remaining time to maturity. The change in the default risk associated with liabilities measured at fair value in the period under review was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining time to maturity. In the reporting period HY1 2021, the change in the ratings of receivables from customers measured at fair value had an effect on the fair value of EUR 0.0 million (31/12/2020: EUR 0.5 million). In the HY1 2021 reporting period, the change in BKS Bank's credit standing had an effect on the fair value of the liabilities evidenced by paper of EUR -0.2 million (31/12/2020: EUR - 0.7 million)

Sensitivity analysis
The sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.4 million (31/12/2020: EUR 0.3 million), assuming an improvement or deterioration in the credit rating of 10 basis points in the credit spread. An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the fair value of the liabilities evidenced by paper designated at fair value of EUR 0.2 million (31/12/2020: EUR 0.3 million).

For level 3 equity instruments in an amount of EUR 28.4 million, the material non-observable parameter is the interest rate. An interest rate increase by 50 basis points reduces the fair value by EUR 1.6 million (31/12/2020: EUR 1.5 million). An interest rate decrease by 50 basis points raises the fair value by EUR 1.8 million (31/12/2020: EUR 1.7 million). For level 3 equity instruments in an amount of EUR 49.8 million, a change to external prices by 10% results in a change in fair value by EUR 4.0 million (31/12/2020: EUR 3.9 million). For level 3 equity instruments in an amount of EUR 10.0 million, the material non-observable parameter is the carrying amount of equity. The remainder refers to immaterial minority investments for which no fair value measurement was applied.

Financial assets and liabilities not recognised at fair value
30/06/2021

in €k	Level 1 "Market value"	Level 2 "Based on market value"	Level 3 "Internal measurement method"	Total fair value	Carrying amount 30/06/2021
Assets					
Receivables from other banks	-	-	231,261	231,261	230,932
Receivables from customers	-	-	6,645,523	6,645,523	6,600,238
Debt securities and other fixed-interest securities	958,522	-	-	958,522	914,216
Equity and liabilities					
Payables to other banks	-	-	747,603	747,603	752,274
Payables to customers	-	-	6,998,863	6,998,863	6,994,455
Liabilities evidenced by paper	141,050	448,275	63,904	653,229	639,851
Subordinated debt capital	194,692	23,703	24,598	242,993	237,733

31/12/2020

in €k	Level 1 "Market value"	Level 2 "Based on market value"	Level 3 "Internal measurement method"	Total fair value	Carrying amount 31/12/2020
Assets					
Receivables from other banks			282,990	282,990	282,769
Receivables from customers			6,477,780	6,477,780	6,437,585
Debt securities and other fixed-interest securities	886,644			886,644	828,140
Equity and liabilities					
Payables to other banks			893,553	893,553	899,929
Payables to customers			6,545,783	6,545,783	6,542,245
Liabilities evidenced by paper	178,118	356,913	64,236	599,267	584,034
Subordinated debt capital	184,170	3,428	27,286	214,884	209,583

Management's Responsibility for the Financial Statements

"We state that to the best of our knowledge the interim consolidated financial statements as at 30 June 2021 prepared in accordance with the relevant financial reporting standards provide a true and fair view of the assets, financial position and result of operations of the BKS Bank Group, and that the Group management report for the period from 1 January to 30 June 2021 provides a true and fair view of the assets, financial position and result of operations of the BKS Bank Group with respect to the key events having taken place during the first half of the financial year and their effects on the interim consolidated financial statements in terms of material risks and uncertainties for the remaining six months of the financial year."

Klagenfurt am Wörthersee, 25 August 2021

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
Member of the Management Board

Nikolaus Juhász
Member of the Management Board

Financial Calendar 2021

Date	Content
31 March 2021	Publication of the single-entity financial statements and the consolidated financial statements 2020 on the website and in the Official Gazette of the Republic of Austria “Wiener Zeitung”
17 May 2021	82nd Annual General Meeting
19 May 2021	Dividend ex-day
20 May 2021	Record date
21 May 2021	Dividend payout day
28 May 2021	Interim report for the period ended 31 March 2021
27 August 2021	Half-year financial report 2021
26 November 2021	Interim report for the period ended 30 September 2021

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