Committed to Responsible Action

Interim Report to 30 September 2013

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements

This Interim Report as at and for the nine months ended 30 September 2013 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 26 November 2013. If the assumptions upon which these forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

Disclaimer

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

OVERVIEW OF THE BKS BANK GROUP

Income account, €m	1/–30/9/2011	1/–30/9/2012	1/–30/9/2013
Net interest income	110.1	106.8	107.8
Impairment charge on loans and advances	(28.8)	(27.4)	(30.7)
Net fee and commission income	31.6	32.9	33.6
General administrative expenses	(69.2)	(75.6)	(74.5)
Profit for the period before tax	26.4	35.1	34.6
Profit for the period after tax	25.9	30.4	30.9

Balance sheet data, €m	31/12/2011	31/12/2012	30/9/2013
Assets	6,456.0	6,654.4	6,812.9
Receivables from customers after impairment charge	4,647.8	4,794.2	4,856.9
Primary deposit balances	4,251.4	4,362.4	4,573.9
– Of which savings deposit balances	1,786.3	1,797.9	1,794.4
– Of which liabilities evidenced by paper, including subordinated debt capital	715.7	816.5	823.2
Equity	644.9	688.3	706.1
Customer assets under management	10,025.5	10,674.9	11,199.9
– Of which in customers' securities accounts	5,774.1	6,312.5	6,626.0

Own funds within the meaning of BWG, €m	31/12/2011	31/12/2012	30/9/2013
Risk-weighted assets	4,415.2	4,457.9	4,432.3
Own funds	681.9	709.5	682.3
– Of which Tier 1 capital	599.5	630.7	629.5
Surplus own funds before operational risk	328.7	352.9	327.7
Surplus own funds after operational risk	301.9	325.8	300.7
Tier 1 ratio, per cent	12.46	13.10	13.15
Own funds ratio, per cent	15.44	15.92	15.39

Performance, %	2011	2012	1/–30/9/2013
Return on equity before tax [1]	6.1	7.5	6.5
Return on assets before tax (total return on assets)	0.6	0.8	0.7
Cost:income ratio	46.7	54.1	52.6
Risk:earnings ratio (credit risk in per cent of net interest income)	22.1	27.0	28.5

Resources	2011	2012	1/–30/9/2013
Average number of staff	901	930	910
Branches	55	55	56

BKS Bank's shares	2011	2012	1/–30/9/2013
No. of ordinary no-par shares	30,960,000	30,960,000	30,960,000
No. of no-par preference shares	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	18.6/15.6	17.6/15.5	17.6/15.2
Low: ordinary/preference share, €	17.6/14.8	17.2/14.9	17.0/14.5
Close: ordinary/preference share, €	17.6/15.5	17.3/15.0	17.4/15.1
Market capitalization, €m	572.8	562.6	565.9

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

Dieter Krassnitzer, Heimo Penker, Herta Stockbauer, Wolfgang Mandl.

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

We are pleased to be able report on the generally robust development of the BKS Bank Group's core operations during the first three quarters. Consolidated profit for the period after tax was 1.4 per cent up on the same period of last year to €30.9 million. Net interest income grew by 0.9 per cent to €107.8 million in the first nine months of this year, and net fee and commission income grew by 2.3 per cent to €33.6 million. Meanwhile general administrative expenses fell by 1.4 per cent to €74.5 million. The macroeconomic environment was still difficult. It took its toll on us in the form of a 11.9 per cent increase in our impairment charge on loans and advances, which came to €30.7 million. There was a small increase of 2.4 per cent in our assets compared with the beginning of the year, taking them to roughly €6.81 billion. On the assets side of the account, it was due to a steady increase in receivables from customers, which grew by 1.4 per cent to €5.03 billion. On the equity and liabilities side of the account, it was the result of a very satisfactory increase in primary deposit balances, which grew by 4.9 per cent to €4.57 billion. The growth in new retail customer business fell slightly short of our ambitious targets, and the effects of investment restraint were also felt in the corporate and business customers segment. Receivables from other banks stayed at a relatively modest €137.9 million. This compared with payables to other banks of €1.38 billion at 30 September. As for our corporate performance indicators, we can report that BKS Bank earned a respectable return on equity of 6.5 per cent and that its own funds position remained as good as before. The Tier 1 ratio was 13.2 per cent in the period under review and the own funds ratio came to 15.4 per cent. We focused particularly on implementing the requirements of Basel III. Europe's CRR and CRD 4 standards were adopted at the end of June 2013, transforming Basel III into valid law from 2014. CRD 4 will be newly introduced into Austrian law with BWG (the Austrian banking act). The CRR is directly applicable as an EU regulation, so these new capital regulations will be valid from 1 January 2014. Our bank will comfortably achieve the new ratios.

In the light of the latest cut in eurozone headline rates to a historical low, we expect the market environment in the remaining weeks of this year and in the first half of 2014 to be a challenging one. We intend to respond to it with strict cost and risk discipline, a responsible growth strategy and a focus on sustainably profitable core business segments.

Group Management Report for the Nine Months Ended 30 September 2013

The Economic Setting in which Banks are Operating

Rates of growth in the major economic regions continued to differ considerably during the first three quarters of this financial year. In the opinion of the International Monetary Fund (IMF), global economic momentum is still being affected, above all, by high unemployment, runaway public sector indebtedness in Europe and the United States, the subdued economic performance of key emerging markets and, not least, by uncertainty about the possible consequences of a tighter monetary policy in the United States. Against the backdrop of signs of tougher financing terms in recent months and the slackening demand for goods in the United States and Europe, not only India, Mexico and Brazil but also China have had to lower their GDP growth expectations. On the other hand, the Japanese economy picked up — albeit only temporarily — following massive devaluation of the yen versus the US dollar and the euro. As for the United States economy, the Federal Reserve's Beige Book is signalling a continuation of its moderate approach. However, sentiment among private consumers and in the corporate sector has continued to cloud over as the room for political manoeuvre has become ever more limited. The government in Washington is aiming for real US GDP growth of between 2.0 per cent and 2.3 per cent this year and between 2.9 per cent and 3.1 per cent in 2014.

According to the European Commission's Economic Sentiment Indicator (ESI), the economic climate in the eurozone has brightened considerably. This gauge of confidence in the economy's future development is put together from indicators for the material goods, construction, service, retailing and consumer sectors. In September, it had already come close to the long-term average of 100 points, reaching 96.9 points. Uptrends were in particular recorded in Spain, Portugal, Italy, France and Germany. Developments in Italy — the eurozone's third-largest economy and one of Austria's major trading partners — remained restrained, and Italy will be slow to emerge from its severest and longest economic slump since the war. Against the backdrop of a poor international climate, the economies of the EU Member States in Central, Eastern and Southeastern Europe have lost a lot of momentum so far this year. The recession in the eurozone, more problematic international financing terms and weaker consumer demand have been contributing factors. Whereas for instance the Baltic states, Slovakia and Poland are again looking forward to positive GDP growth in 2013, a number of countries including Hungary, Slovenia, Croatia and the Czech Republic remain in the economic shadows.

The labour markets are still in a worrying state. In September, the eurozone had a jobless rate of 12.2 per cent. *Eurostat* estimates that a total of 19.2 million men and women were unemployed in the region at the beginning of October. However, trends in the European crisis countries already differ. Whereas Greece and Spain have yet to show any signs of a sustainable improvement, with jobless rates of 27.6 per cent and 26.6 per cent, respectively, the jobless rates in Italy and Portugal have stabilized at 12.6 per cent and 16.6 per cent. Youth unemployment is the biggest worry EU-wide (EU-27: 24.1 per cent; eurozone: 23.5 per cent) , and youth unemployment rates have already topped 50 per cent in Spain and Greece. Austria remains one of the countries with the lowest rates both of registered unemployed (4.9 per cent) and jobseekers under the age of 25 (8.6 per cent).

Although many leading indicators are suggesting that growth momentum in the Austrian economy has been picking up a little since the middle of the year, the foreign trade environment remains difficult, so the recovery is likely to be subdued. Falling demand in important markets like Italy, the Czech Republic and Hungary is likely to have kept exports lower than expected over 2013 as a whole, resulting in real growth of 2.5 per cent. Following modest growth of 0.5 per cent last year, private household consumption expenditure continued to slow in the period up to the end of September. Similarly, capital expenditure by companies has been cautious so far and is expected to be 3.5 per cent down on last year in 2013. Construction spending has also grown slowly, with an increase of just 0.5 per cent being expected this year. Inflation has been slow to date. The rate of inflation fell below 2 per cent in June and was 1.7 per cent at the end of September. According to WIFO research, Austria's GDP will grow by just 0.4 per cent in real terms this year.

The euro strengthened against the currencies of most of the eurozone's principal trading partners in the period up to the end of September, noticeably weakening the price competitiveness of Europe's export-orientated companies. Looking at exchange rates in detail, the euro strengthened against the US dollar to US$1.3505 between the beginning of 2013 and the end of September, having begun the year at US$ 1.3194. It gained 16.0 percentage points against the Japanese yen (¥131.78 at 30 September) and 2.4 percentage points against sterling (£0.83605 at 30 September). Because of the minimum exchange rate of SFr 1.20/€ set by the Swiss National Bank since September 2011, the euro's exchange rate versus the Swiss france stayed within a narrow range to end the period under review at SFr 1.2225/€. The Croatian kuna, whose exchange rate is of importance to our bank, was trading at HRK 7.6153/€, compared with HRK 7.5575/€ at the beginning of the year.

The uptrend in the international equity markets continued. It mirrored the increased readiness of investors to assume risks as, in the search for returns in the present low interest environment, their preference shifted towards equities. Prices on Europe's equity markets expressed in terms of the broad Dow Jones Euro STOXX index had risen to 2,893.15 points by the end of September, compared with 2,635.93 points at the beginning of 2013. The MSCI World Equity Index in euros had reached 116.447 points at the end of September, having gained 12.4 per cent since the beginning of the year. On the Vienna Stock Exchange, the ATX stood at 2,528.45 points at the end of the first three quarters, or 5.3 per cent more than at the end of 2012. The BKS Bank ordinary no-par share closed 30 September at €17.40, and the BKS Bank no-par preference share was trading at €15.1. BKS Bank had market capitalization of €565.9 million, which was slightly up on 31 December 2012 and 30 June 2013.

Notes on the Scope of Consolidation

The overview that follows lists the entities whose assignment to the BKS Bank Group was required by international financial reporting standards. The scope of consolidation did not change during the 2012 financial year. To simplify operational structures and cut costs, our two leasing companies in Austria were merged in the third quarter of 2013. Among other things, the scope of consolidation meets the requirements of *§§ 59a BWG* and *245a UGB* regarding exempting consolidated financial statements prepared according to internationally accepted financial reporting standards. The consolidated group on which Group analyses are based consisted of 17 banks and other financial service providers and entities rendering banking-related ancillary services. Those entities included our leasing companies in Austria and abroad as well as *Alpenländische Garantie-Gesellschaft mbH* and *Drei-Banken Versicherungs-Aktiengesellschaft*. Given the sizes of the various entities in the Group, its consolidated net profit was predominantly generated by *BKS Bank AG*. The consolidated members of the BKS Bank Group comprised the banks and other financial service providers and entities rendering banking-related ancillary services that were controlled by *BKS Bank AG*. During the elimination of investments in and equity of subsidiaries upon consolidation, an entity's cost was compared with the Group's interest in that entity's measured equity, materiality being judged applying common, Group-wide criteria. The principal criteria of materiality were the assets, profit for the year, revenues and size of workforce of the entity in question. These Interim Consolidated Financial Statements are thus based on the separate financial

THE MEMBERS OF THE GROUP

Consolidated
Accounted for using the equity method

Banks and Other Financial Service Providers

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

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

Other Consolidated Entities

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

statements of all the consolidated entities, which were prepared applying common, Group-wide policies. Investments in material associates were accounted for using the equity method. All other equity investments were classified as available for sale. The carrying amount of an equity investment was adjusted according to the change in the net assets of the held entity.

Our investments in our sister banks *Oberbank AG* und *Bank für Tirol und Vorarlberg AG*—which make up the *3 Banken Group* together with *BKS Bank AG*—are also accounted for in the Consolidated Financial Statements, using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of these banks, holding stakes of 18.51 per cent and 15.10 per cent, respectively, the exercise of voting rights is regulated by syndicate agreements. These allow participation in those two banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. Consolidated net profit for the nine months ended 30 September 2013 includes BKS Bank's interests in those banks' profit for the period. The other consolidated entities, most of which are designated as real estate companies, render banking-related ancillary services.

Assets, Liabilities, Financial Position

Assets

During the first three quarters, the BKS Bank Group's assets increased by €158.5 million to €6.81 billion. This was 2.4 per cent more than at the end of 2012. *Receivables from customers* increased by €69.2 million or 1.4 per cent to €5.03 billion. IFRSs require an impairment allowance to be deducted from receivables from customers. During the period under review, the impairment allowance balance was increased by €6.5 million or 3.9 per cent to €174.6 million. The line item *Financial assets* also grew, increasing to €1.57 billion by the end of September. This compared with €1.51 billion at 31 December 2012.

As in prior periods, the driving force in the Group's corporate and business banking and retail banking segments was *BKS Bank AG*. Despite the persistent economic slump, which was particularly apparent in Carinthia and Styria, we experienced a small uptrend in the third quarter. In the Slovenian market, it was again personal banking customers who stimulated retail loan demand in the mortgage-backed segment. We expect to welcome our 6,000th Slovenian personal banking customer during the fourth quarter.

As planned, the foreign currency loan portfolio continued to shrink. At 30 September 2013, foreign currency loans accounted for just 11.7 per cent of total loans, compared with 13.0 per cent at 31 December 2012. Overall, Swiss franc receivables fell by SFr 66.4 million in the first three quarters of 2013. We thus met the FMA's minimum standards for foreign currency lending, which were reformulated in January 2013.

Although Austrian lease portfolio was roughly the same size at 30 September as at the end of the previous quarter, totalling €144.7 million, it was €7.9 million smaller than at 31 December 2012. Our two Austrian leasing companies were successfully merged in the third quarter of 2013. Despite the fall in business volumes, the resulting cut in costs should lead to an overall increase in profit. The loan portfolios of our foreign leasing subsidiaries shrank by €5.2 million to €149.1 million. Whereas there was some growth at *BKS leasing d.o.o.* in Slovenia, volumes in the Croatian and Slovakian markets shrank. Receivables from customers at *BKS Bank d.d.* came to €104.5 million at 30 September 2013, compared with €106.4 million at the end of 2012. This reflected Croatia's difficult economic situation, which permitted only very selective lending with an emphasis on creditworthiness.

As we have already mentioned, *Financial assets* increased by 3.5 per cent or €53.4 million to €1.57 billion. The growth mainly took place in the line item *Held-to-maturity (HTM) fixed rate financial assets*, which increased by €56.2 million to €758.5 million during the period under review. This was mainly due to purchases of European government bonds rated as investment grade by international agencies. *Financial assets designated as at fair value through profit or loss* totalled €193.2 million, which was €12.5 million less than at the beginning of the year. It is noteworthy that no fair value options were implemented in the third quarter of 2013. Investments in entities accounted for using the equity method increased to €355.6 million, which was 4.2 per cent up on the beginning of the year.

Equity and Liabilities

Growth on the equity and liabilities side of the Balance Sheet during the first three quarters was primarily a reflection of the satisfactory increase of €211.6 million in primary deposit balances, which came to €4.57 billion at 30 September 2013. Adding subordinated debt capital, our primary funds sufficed to fund about 91 per cent of the loans and advances to customers in the portfolio. However, attracting savings deposits was very difficult even on market based terms and despite our branches' good regional roots. Nonetheless, we stress that our bank only felt the Austria-wide downtrend to a comparatively minor degree. As a result, savings deposit balances at BKS Bank fell by just €3.5 million or 0.2 per cent compared with the end of December 2012, whereas savings deposit balances across the Austrian banking industry fell by more than 7 per cent. At the same time, there was a sharp increase in sight and time deposit balances, which grew by €208.4 million to €1.96 billion during the period under review. Deposits at our Slovenian and Slovakian branches played a particularly important role. In Slovenia, we profited from widespread uncertainty in the market.

We particularly focused on issuing long-term bonds. Our issued bonds were worth €823.2 million at the end of the period under review, or €6.7 million more than at the end of 2012. Given the historically low interest rates — the yield on 10-year German *bunds* was 1.78 per cent at the end of September — this was a very satisfactory figure. To enable us to meet the brisk demand for covered bonds, we significantly increased the cover pool for mortgage-backed covered bonds to €131.2 million during the third quarter, versus €87.5 million at 30 June 2013. This cover pool compared with issuances worth €63.3 million, giving us the potential to issue roughly another €60 million of debt at the end of September.

The BKS Bank Group's equity increased by €17.8 million or 2.6 per cent to €706.1 million during the first three quarters. Most of the increase was due to profit for the period recorded in the first nine months of the year. The dividend of €8.1 million distributed in May 2013 had to be deducted. We would like to add that the retroactive application of the revised version of IAS 19 as of 1 January 2012 and as of 1 January 2013 caused a shift between the equity line items *Retained earnings* and *Profit for the year*. Details of our equity are provided in the table entitled *Statement of Changes in Equity* on page 20.

Own Funds

BKS Bank calculated its own funds ratio and basis of assessment in accordance with the solvency regime established by Basel II. The own funds requirement was computed using the standardized approach. The basis for assessment fell slightly compared with the end of 2012, decreasing by €25.6 million to €4.43 billion.

Our eligible own funds decreased by €27.3 million compared with the end of last year to total €682.3 million. This was due to a drop in eligible supplementary own funds, Basel III and the Capital Requirements Regulation (CRR) having changed the conditions for recognizing the eligibility of supplementary own funds. As a result, no supplementary capital was raised during the first three quarters of 2013. However, the final versions having been available since 27 June, we are reviewing the possibility of issuing new supplementary capital notes and expect to put them on the market before the end of the fourth quarter of 2013.

Our Tier 1 ratio at 30 September 2013 was 13.2 per cent. The own funds ratio was 15.4 per cent, compared with 15.9 per cent at 31 December 2012. Our surplus own funds came to €327.7 million at the end of the period under review. Surplus own funds after taking account of operational risk came to €300.7 million, providing the basis for a corresponding amount of lending growth requiring capital charges during the rest of the year.

We are now devoting our attention to implementing the Basel III regime by way of the so-called Capital Requirements Directive (CRD) 4 package. The liquidity rules, which have been established for the first time at the international level, are another essential step in the process of ensuring that the financial sector always has sufficient liquidity and, therefore, making it more crisis-resistant. In future, the own funds and basis of assessment of *BKS Bank-Kreditinstitutsgruppe* will have to be calculated on the basis of the IFRS figures. Our databases need to be adapted and the IFRS figures augmented to meet this requirement.

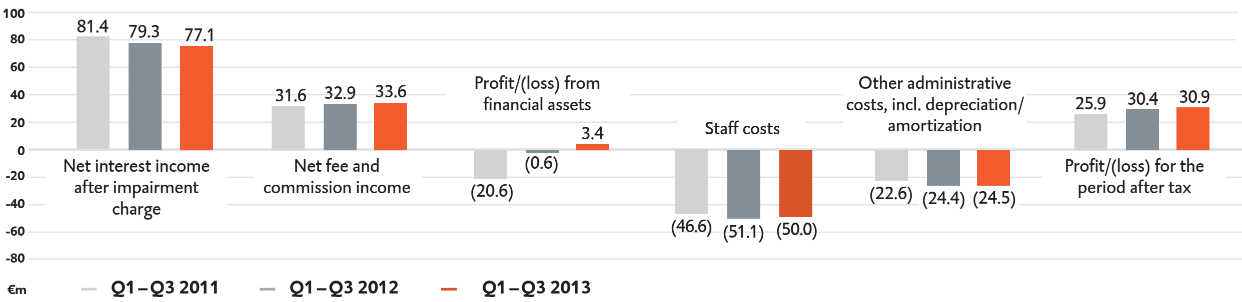
OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE

€m	31/12/2011	31/12/2012	30/9/2013
Share capital	65.5	65.5	65.5
Hybrid capital	40.0	40.0	40.0
Reserves net of intangible assets	494.0	525.2	524.0
Tier 1 capital	**599.5**	**630.7**	**629.5**
Tier 1 ratio	12.46%	13.10%	13.15%
Hidden reserves within the meaning of § 57 *BWG*	5.6	5.6	5.6
Eligible supplementary capital	134.6	109.6	101.6
Balance of gains and losses taken to equity	19.9	38.9	28.1
Eligible subordinated liabilities	20.7	18.4	11.1
Supplementary own funds (Tier 2)	**180.8**	**172.5**	**146.4**
Deductions from Tier 1 and Tier 2	98.4	93.7	93.7
Eligible own funds	**681.9**	**709.5**	**682.3**
Own funds ratio	15.44%	15.92%	15.39%
Basis of assessment for the banking book	4,415.2	4,457.9	4,432.3
Own funds requirement	**353.2**	**356.6**	**354.6**
Own funds requirement for market risk	2.4	2.0	2.6
– Of which arising from open currency positions	1.4	1.2	1.7
Own funds requirement for operational risk	26.8	27.1	26.9
Surplus own funds (disregarding operational risk)	**328.7**	**352.9**	**327.7**
Surplus own funds (taking account of operational risk)	**301.9**	**325.8**	**300.7**

Performance

BKS Bank made a respectable profit in the first three quarters of 2013 thanks to its robust interest rate and service operations. Net interest income before the impairment charge came to €107.8 million, which was €1.0 million or 0.9 per cent up on the same period of last year. This compared with a decline of 1.7 per cent in the first half. The market environment was very difficult both when it came to generating interest income and from a risk point of view. Our efforts to proactively manage our interest rate operations were not the only fruitful aspect of our activities during the third quarter. Our earnings from entities accounted for using the equity method also surpassed our expectations, coming to €18.5 million. The economic slump in Austria and Southeastern Europe was still severe up to the middle of 2013, making it necessary to increase the impairment charge on loans and advances to €30.7 million. This was €3.3 million more than in the period from January to September 2012. However, the impairment charge in the third quarter of 2013 was much lower than in prior quarters at €8.8 million. Net interest income after the impairment charge fell by 2.9 per cent to €77.1 million.

Components of the Income Statement



Despite the extreme competition, *Net fee and commission income* developed satisfactorily during the period under review. It came to €33.6 million, which was 2.3 per cent or €0.7 million more than in the same period of last year. Higher earnings from securities, credit and payment operations were contributing factors. For instance, the improvement in the international stock markets boosted our net fee and commission income from securities operations, which increased to €8.4 million from €7.9 million in the nine months ended 30 September 2012. This positive trend was also mirrored by the value of our customers' securities deposit accounts, which grew by €314 million or 5.0 per cent in the first three quarters to total €6.63 billion at 30 September 2013. Net fee and commission income from credit operations was €0.8 million or 9.1 per cent up on the same period of last year to €9.7 million, and net fee and commission income from payment services grew by 1.5 per cent to €13.4 million. On the other hand, earnings from gold and foreign exchange operations fell by more than a third to €1.4 million as we recorded fewer switches out of foreign currency loans than last year and the sharp drop in the price of gold took its toll.

Profit/(loss) from financial assets in the first three quarters came to positive €3.4 million, compared with a small loss of €0.6 million in the same period of last year. The improvement of €4.0 million was generated mainly by the available-for-sale portfolio which, among other things, contributed a book profit of €1.4 million from the sale of an investment as well as earnings from the proactive management of financial instruments within the scope of the asset liability management process. *Profit/(loss) from financial assets designated as at fair value through profit or loss* came to positive €1.1 million. This profit, which includes revaluation gains and losses resulting from use of the fair value option and revaluation gains and losses on derivatives, was down €1.1 million compared with the same period of last year. In 2012, *Profit/(loss) from held-to-maturity financial assets* included restructuring losses on and impairments of Greek government bonds, and the loss in the nine months ended 30 September 2012 totalled €2.6 million. There were no revaluation or realized gains or losses in this asset category during the period under review.

General administrative expenses came to €74.5 million. The reduction of 1.4 per cent compared with the period from January to September 2012 was driven by improvements in efficiency. *Staff costs* fell by 2.2 per cent to €50.0 million, and this line item was clearly on a path of consolidation given the average 2.5 per cent hike in salaries under collective agreements that took place on 1 April 2013. One must bear in mind that the application of IAS 19 (revised) meant that actuarial gains and losses could no longer be recognized through profit or loss. Consequently, roughly €0.7 million had to be reclassified from *Staff costs* to the line item *Other comprehensive income* (OCI). The Group's average workforce fell from 930 staff years last year to 910 in the nine months up to the reporting date. We were able to reduce staffing numbers in almost every area. We are aiming for another reasonable reduction in the workforce, so Personnel Management is critically reviewing all requests for staff and personnel changes. We were able to keep both *Other administrative costs* and *Depreciation/amortization* close to the levels achieved in the same period of last year, at €19.8 million and €4.7 million, respectively. Our enterprise-wide cost discipline, the careful management of regular office and operating costs and our moderate programme of investments, which has been reduced to essential projects, all contributed to this success. Income tax in the period under review came to €3.7 million, and we also paid €1.6 million in bank tax.

Because of the difficult macroeconomic climate in Croatia, an impairment test as at 30 September 2013 led to a write-down of €5.4 million to the goodwill of *BKS Bank d.d.* Following the creation of a provision of €1.0 million for possible damages payments in the securities segment, the negative balance of *Other operating income net of other operating expenses* thus increased to €6.3 million, compared with a balance of negative €2.2 million in the same period of 2012.

Ratios

CORPORATE PERFORMANCE RATIOS

Per cent	2011	2012	Q1 – Q3 2013
Tier 1 ratio	12.5	13.1	13.2
Own funds ratio	15.4	15.9	15.4
ROE (before tax)	6.1	7.5	6.5
ROA (before tax)	0.6	0.8	0.7
Cost:income ratio	46.7	54.1	52.6
Risk:earnings ratio	22.1	27.0	28.5

The BKS Bank Group's business barometer, which captures the growth in credit operations and primary deposit balances, costs and operating profit, showed a generally balanced climate with just occasional rough periods. The key corporate performance indicators like the return on equity (ROE) before tax and the return on assets (ROA) before tax stayed close to the comparatively high levels recorded in prior periods during the first three quarters, at 6.5 per cent and 0.7 per cent, respectively. We point out that the ROE figure for 2012 has been restated to allow for the changes introduced by the revision of IAS 19. The fall in general administrative expenses brought the cost:income ratio close to our internal benchmark of 50 per cent, namely 52.6 per cent. We will do everything we can to continue to widen the gap between our costs and our operational earnings from interest rate and fee and commission business. Our risk:earnings ratio — the gauge of the proportion of net interest income used to cover credit risk — was still an acceptable 28.5 per cent in the period under review. However, the economic climate is still rather frosty, dampening our expectations of being able to reach our bank's internal benchmark of 20 per cent again in the foreseeable future.

Segmental Reports

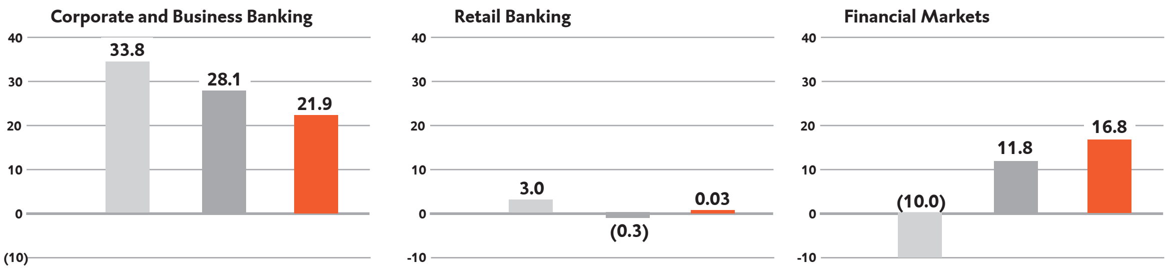
Our segmental reporting mirrors the results of the operational segments that have been defined for the BKS Bank Group. It is based on our internal management information systems. The definition of the business segments is geared to our three historically evolved target groups — namely corporate and business banking customers, retail banking customers and the financial markets — and the differences between the products and services being offered to our customers. It is on this basis that we assess the financial development of each segment and make decisions regarding the allocation of our enterprise's resources. We measure the performance of each of those three segments in terms of its profit before tax, return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). No material organizational changes affecting the structure of our business segments took place in the period from January to September 2013.

Corporate and Business Banking

The corporate and business banking segment is the most important operating business unit by far within the BKS Bank Group. The most important target groups in the corporate and business banking segment are small and medium-sized export-orientated enterprises in the manufacturing, business and trading sectors. We were servicing roughly 13,500 corporate and business banking customers at the end of September 2013. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and the Group's leasing companies insofar as they arose from customer business done with companies. Having grown by €52.9 million or 1.4 per cent, the portfolio of loans to corporate and business banking customers was worth €3.92 billion at the end of September 2013 (31 December 2012: €3.87 billion). This means that roughly 78 per cent of all customer lending by the BKS Bank Group had been to this group of customers.

BKS Bank recorded profit for the period before tax in the corporate and business banking segment of €21.9 million, compared with €28.1 million in the first three quarters of last year. It should be noted that terms-based competition and the associated pressure on margins reduced net interest income from €66.2 million to €60.3 million. The impairment charge on loans and advances was increased by €2.1 million to €29.1 million, denting profit for the period and leading to a 7.5 percentage point increase in this segment's risk:earnings ratio to 48.3 per cent. On the other hand, net

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



Corporate and Business Banking	Q1–Q3 2011	Q1–Q3 2012	Q1–Q3 2013
ROE	17.7%	14.5%	11.2%
CIR	32.9%	34.7%	35.9%
RER	34.4%	40.8%	48.3%

Retail Banking	Q1–Q3 2011	Q1–Q3 2012	Q1–Q3 2013
ROE	8.5%	(0.9%)	0.1%
CIR	90.4%	99.6%	98.1%
RER	3.5%	1.9%	3.0%

Financial Markets	Q1–Q3 2011	Q1–Q3 2012	Q1–Q3 2013
ROE	(4.1%)	4.5%	5.9%
CIR	20.5%	24.8%	19.3%
RER	21.2%	0%	3.7%

A detailed segmental breakdown is presented from page 30.

fee and commission income increased by €0.8 million to €18.1 million. This was, above all, due to loan commission earned mainly on new business with corporate and business banking customers.

The segment's return on equity fell from 14.5 per cent in the same period of last year to 11.2 per cent in the period under review, and its cost:income ratio based on the costs of €28.6 million assigned to it came to a satisfactory 35.9 per cent, compared with 34.7 per cent in the same period of last year. As for the likelihood of a revival of new lending to corporate and business banking customers in the months to come, we are cautiously optimistic both in our assessment of the current situation and in our business expectations. However, we will continue to focus on the development of margins and risks.

Retail Banking

Approximately 130,000 customers of *BKS Bank AG*, *BKS Bank d.d.* and the leasing companies within the Group (*BKS-Leasing GmbH*, *BKS-leasing d.o.o.*, *BKS-leasing Croatia d.o.o.*, *BKS-Leasing a.s.*) were being serviced in this segment. In addition to jobholders, it also encompassed small business owners and self-employed customers. Because it is highly dependent on branch operations, it is very resource and cost intensive. However, it is also indispensable to us as our most important source of funds. This is because about 86.3 per cent of savings deposit balances and 29.9 per cent of sight and time deposit balances held at BKS Bank at the end of September — that is, roughly 56.8 per cent of its payables to customers — had been generated by retail banking operations. We point out that loans totalling €1.11 billion had been granted in the retail customers segment by the end of September. This corresponded to about 22.0 per cent of our total receivables from customers.

Against the backdrop of the persistently difficult market situation, the retail customer segment delivered profit for the period of €32.2 thousand. This would be an unsatisfactory figure by the standards of the pre-crisis years, but it was €323.3 thousand up on the nine months ended 30 September 2012. Net interest income was €0.9 million up on the same period of last year to €24.1 million. While sight and time deposit balances increased by 7.8 per cent to €0.58 billion, there was a marginal decline of 0.4 per cent in savings deposit balances, giving total savings deposit balances of €1.55 billion. On the assets side of the account, receivables from retail customers increased, as we have already mentioned, by 1.5 per cent to €1.11 billion. Net fee and commission income came to €15.1 million, compared with €14.9 million in the same period of last year. However, costs allocated to this segment rose from €38.7 million to €39.1 million. Although the charge for impairment losses in this segment as of 30 September 2013 was still low, at €0.7 million, it was nonetheless €0.3 million higher than as of the end of September 2012.

The risk:earnings ratio was still outstanding, increasing slightly from 1.9 per cent to 3.0 per cent. This was a reflection of the minimal impairment losses incurred in this segment. It was the fruit both of our risk-aware management of new business and of the high level of collateralization in the retail banking segment. The cost:income ratio improved slightly, but it was still very high at 98.1 per cent. In order to bring this important segment back on target, we will be intensifying our sales activities to permanently cement our position as a dependable partner to our customers even when times are tough.

Financial Markets

The financial markets segment encompassed profits from *BKS Bank AG*'s proprietary trading activities, securities held in our own portfolios, derivatives in the banking book and interbank operations as well as earnings from our interest rate term structure management activities. The responsibility for and proactive management of so-called *structural income* earned in the financial markets segment were in the hands of BKS Bank's Asset Liability Management (ALM) Committee. Against the backdrop of the uniquely low reference interest rates prevailing in the loans segment, there was considerable pressure on our structural income. This phenomenon has been with us since the beginning of the 2012 financial year.

Profit for the period before tax in the financial markets segment in the nine months ended 30 September 2013 came to €16.8 million, as against €11.8 million last year. Thanks to the positive contribution to profit made by *BKS Bank AG*'s structural income, net interest income in this segment increased by €5.9 million to €23.0 million. Similarly, financial assets contributed €3.4 million to the increase in profit. Restructuring losses on Greek government bonds had still dented earnings last year.

Looking at this segment's ratios, its return on equity based on average allocated equity of €382.3 million rose from 4.5 per cent to 5.9 per cent. Despite a small increase in general administrative expenses, its cost:income ratio improved from 24.8 per cent last year to 19.3 per cent in the period under review. Thanks to the minimal impairment charge, the risk:earnings ratio as at the end of September was just 3.7 per cent. It should be noted that, following a small impairment reversal of €26 thousand last year, the charge for country risk had to be increased to €838 thousand. This was mainly because Standard & Poor's downgraded Slovenia to A–.

Risk Report

In the first nine months of 2013, BKS Bank's risk and capital management activities continued to concentrate on honing the bank's risk profile with the help of a framework of principles, organizational structures and risk management tools so as to proactively identify, measure, aggregate and manage risks. BKS Bank defines risk as the possibility of losses or profits foregone that may be caused by internal or external factors. BKS Bank's risk management activities thus focus primarily on ensuring that we remain liquid within the confines of our medium-term and long-term strategic goals, on avoiding loan losses, on limiting market risks, on ensuring that the customer assets entrusted to the bank can be returned and on ensuring that the capital invested in us by our equity holders continues to increase in value. Another main focus is on optimizing the trade-off between risk and return and only entering into risks that BKS Bank can bear without outside help. In addition, we aim to ensure that our bank always has sufficient capital to support its risk profile.

The areas of risk of relevance to us are credit risk, market risk, liquidity risk and operational risk. The large loan risks incurred by BKS Bank and the *3 Banken Group* are secured by *Alpenländische Garantie-Gesellschaft mbH*, which is accounted for in the Consolidated Financial Statements of the BKS Bank Group.

Credit risk

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

Our bank employs a 13-class rating system that is based on statistical methods. On the reporting date of 30 September 2013, 71.1 per cent of all loans to corporate and business banking customers and 90.7 per cent of all loans to retail banking customers were in good rating classes from AA to 3b, which means that the associated default risks were very low. The net charge for impairment losses was €30.7 million, compared with €27.4 million in the same period of last year. Impairment allowances came to €34.9 million. This figure includes impairment allowances recognized on an item-by-item basis, commission payments to ALGAR, collective assessments of impairments carried out in accordance with IAS 39 and the collective allowance for country risk exposure. Because the distribution of ratings stayed stable and the increase in volumes was not large, the requisite allowance for incurred but not reported losses was small. The requisite charge for the risks of our foreign subsidiaries stayed stable, coming to €1.7 million. This compared with €1.9 million in the same period of 2012. The charge for impairment losses was highest at *BKS Bank d.d.*, where it came to €0.9 million as a result of the Croatian regulators' new impairment allowance regulations. Non-performing loans accounted for just 5.5 per cent of the total exposure at 30 September 2013. This figure was calculated on the basis of the non-performing loans contained in the classes 5a – 5c of BKS Bank's rating system. The divisor was gross receivables in the customer loan segment inclusive of corporate bonds, guarantees and unused credit lines.

CHARGE FOR IMPAIRMENT LOSSES

€m	30/9/2012	30/9/2013
Direct write-offs	0.5	1.1
Impairment allowances	30.8	34.9
Impairment reversals	(3.5)	(5.1)
Subsequent recoveries	(0.4)	(0.2)
Charge for impairment losses	**27.4**	**30.7**

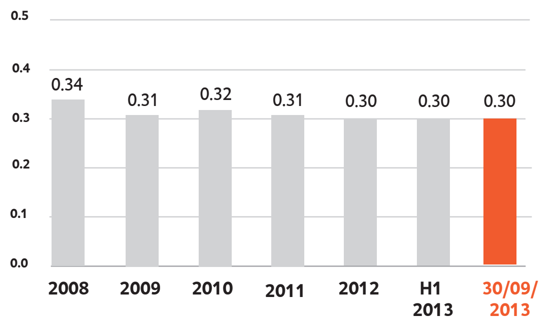
Market risk

Market risk is the risk of financial losses that might arise from movements in market prices and rates (interest rates, commodity prices, credit spreads, foreign exchange rates, equity prices) or other parameters that influence prices (volatilities, correlations). In this risk category, we differentiate between interest rate risk, currency (FX) risk and equity price risk. We manage these risks within the bank using value at risk (VaR) limits, duration limits and volume limits. The VaR approach is employed to measure the maximum possible loss that could be incurred applying a previously defined confidence interval. Our Asset Liability Management (ALM) Committee analyzes the results of our present value, duration and value at risk calculations once a month. At the end of the third quarter of 2013, the ratio of BKS Bank's interest rate risk to its eligible own funds assuming a shift in rates of 200 basis points as reportable to *OeNB* in our interest state statistics came to 0.51 per cent, as against 0.91 per cent at the end of 2012. This means that we were still well below the critical 20 per cent mark. The equity value at risk having been €1.4 million at the end of 2012, it rose to €1.5 million during the period under review. This was mainly after investments in equity funds. Our currency risk increased by €5.1 million to €19.6 million during the period under review. This was due to fund positions whose foreign currency components has to be counted towards our open currency positions. However, the foreign currency value at risk remained very low, falling to €0.8 million from €0.9 million at the end of 2012.

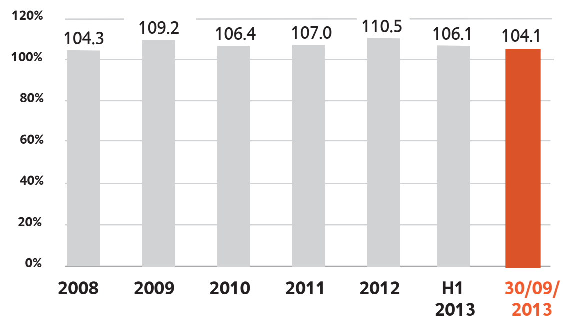
Liquidity risk

BKS Bank defines liquidity risk as consisting both of the risk that it might not be able to meet its present or future financial obligations in full or in time and of the risk that it might not be able to raise all the funds it needs and/or that it might only be able to raise funds at much higher than usual money market rates. At BKS Bank, liquidity management and, therefore, ensuring solvency at all times, is done with the help of a daily maturity gap analysis for each main currency. Limits have been defined at the short end to set liquidity risk boundaries. Regular stress test analyses are carried out to ensure that we always have sufficient cash reserves and liquid assets to close as soon as possible any funding gaps that might arise as a result of idiosyncractic and/or systemic stress scenarios. For this purpose, we hold liquid reserves in the form of cash and cash equivalents, highly liquid securities (including government bonds, state guaranteed bonds and bonds issued by public sector entities) and other unencumbered assets that are eligible for refinancing at central banks. We continued to meet all the minimum liquidity requirements laid down in BWG during the period under review. We held our surplus liquidity as calculated in accordance with *§ 25 BWG* at an average of roughly €178 million during the period under review. BKS Bank's liquidity buffer came to €1.11 billion at the end of September 2013. The deposit concentration presented in the chart below, which fell to a low of 0.30 last year, helps us estimate the deposit withdrawal risk associated with the possibility of a run on deposits. Above all, it highlights the dangers that come with relying on large deposits. All customer deposit balances are broken down into predefined size bands and the relative amounts thereof, and weighting factors of between 0 and 1 are applied to them. The loan:deposit ratio is another sensitive liquidity management indicator, showing the relationship between the loan portfolio and primary deposit balances. We were already back close to the excellent level achieved in 2008, with the ratio falling to 104.1. Our medium-term benchmark is a balanced ratio of 100 per cent.

DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



Operational risk

In line with the solvency regime, we define operational risk as the risk of losses arising primarily in BKS Bank's operational domain and resulting from inadequate or failed internal processes, people or systems or from external factors. At BKS Bank, the management of operational risk is the responsibility of the relevant operating departments and respective responsible individuals (so-called *risk-taking units*). A total of 264 loss events were reported at BKS Bank in the nine months up to the end of September 2013. Allowing for reimbursed losses, they cost roughly €1.5 million. We point out that this figure does not include any operational risk losses arising from credit operations.

Outlook for the Year as a Whole

Even if the global economic environment has brightened considerably in recent months and the world economy is going to grow moderately by between 3 per cent and 3.5 per cent in 2013, the economic situation is still delicate, especially in the threshold countries. On 7 November, the ECB Council decided among other things to cut its minimum bid rate on main refinancing operations by another 25 basis points to 0.25 per cent. This means that the low rates scenario is likely to continue in the United States, Japan and the eurozone well into next year. In addition, the tapering of the Federal Reserve's QE3 bond repurchasing programme seems to have been put off until the new year. The decision about raising the US debt ceiling has been delayed until February 2014. This leaves uncertainty regarding the future direction of American fiscal policy and its impact not only on the United States but also on the world economy. Economic growth in the eurozone seems gradually to be strengthening after a small 0.4 per cent drop in GDP in 2013. After drastic structural reforms, the peripheral PIIGS countries do indeed appear to have put the hardest economic times behind them. However, despite the generally good performance of the financial markets with nearly daily records on the key stock exchanges and despite the fact that the recession in the eurozone has clearly ended, it still seems too soon to sound the all-clear for the environment in which banks are operating. The Austrian and international banking industries remain under substantial regulatory and politically motivated pressure.

As a result, our short-term and medium-term outlooks are still cautious, despite the fact that BKS Bank is strategically well placed to meet future challenges. In a difficult 2013 reporting year, we have undertaken a series of important organizational reforms addressing the competitive situation, bank regulation and our operations and we have remained focused on serving our customers as well as possible. Our books take account of the fact that risks are still high, especially in the credit segment. In addition, we have continued to cut our expenditure on banking operations in the course of this year. While competing for customer deposits, we have been able to demonstrate our funding strength. Above all, it has been demonstrated by the stability of savings deposit balances, steady inflows of sight and time deposits and the success of our issuances in the capital markets. We expect the environment in which banks are operating to remain as difficult in the final quarter of 2013. However, given the pleasing development of our profits in the first three quarters and assuming that the market environment will stay stable and the financial markets will be spared stress, we believe that our profit for the year 2013 will enable us to continue to augment our reserves at the same time as distributing a dividend to match our earnings. At the moment, we cannot yet predict all the effects of the additional Basel III requirements that a variety of regulatory authorities are asking for, some of which are still a matter of debate.

We remain,

Yours faithfully,

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Overview of the 3 Banken Group

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	1/1 – 30/9/2012	1/1 – 30/9/2013	1/1 – 30/9/2012	1/1 – 30/9/2013	1/1 – 30/9/2012	1/1 – 30/9/2013
Net interest income	106.8	107.8	230.1	255.3	124.3	133.2
Impairment charge on loans and advances	(27.4)	(30.7)	(43.9)	(53.1)	(28.0)	(32.9)
Net fee and commission income	32.9	33.6	81.6	86.0	31.8	33.7
General administrative expenses	(72.5)	(74.5)	(176.5)	(181.0)	(70.1)	(72.1)
Profit for the period before tax	35.1	34.6	108.2	114.2	56.3	66.6
Profit for the period after tax	30.4	30.9	89.8	97.2	45.1	51.8
Balance sheet data, €m	31/12/2012	30/9/2013	31/12/2012	30/9/2013	31/12/2012	30/9/2013
Assets	6,654.4	6,812.9	17,675.1	17,388.9	9,496.4	9,304.2
Receivables from customers after impairment charge	4,794.2	4,856.9	10,877.0	11,266.9	6,193.0	6,107.9
Primary deposit balances	4,362.4	4,573.9	11,607.9	11,792.2	6,582.9	6,557.3
– Of which savings deposit balances	1,797.9	1,794.4	3,380.1	3,300.4	1,272.9	1,203.9
– Of which liabilities evidenced by paper	816.5	823.2	2,208.8	2,220.6	1,187.8	1,259.4
Equity	688.3	706.1	1,342.4	1,402.0	845.5	874.5
Customer assets under management	10,674.9	11,199.9	21,558.0	22,183.6	11,368.8	11,464.6
– Of which in customers' securities accounts	6,312.5	6,626.0	9,950.1	10,391.5	4,785.9	4,907.3
Own funds within the meaning of BWG, €m	31/12/2012	30/9/2013	31/12/2012	30/9/2013	31/12/2012	30/9/2013
Risk-weighted assets	4,457.9	4,432.3	10,481.9	10,767.8	5,665.0	5,549.9
Own funds	709.5	682.3	1,762.5	1,741.3	995.4	940.3
– Of which Tier 1 capital	630.7	629.5	1,245.4	1,240.0	806.0	805.7
Surplus own funds before operational risk	352.9	327.7	922.8	879.4	542.1	496.2
Surplus own funds after operational risk	325.8	300.7	857.9	814.5	516.0	470.1
Tier 1 ratio, %	13.10	13.15	11.88	11.52	13.17	13.44
Own funds ratio, %	15.92	15.39	16.81	16.17	17.57	16.94
Performance, %	2012	1/1 – 30/9/2013	2012	1/1 – 30/9/2013	2012	1/1 – 30/9/2013
Return on equity before tax	7.48	6.51	10.59	11.15	8.61	10.36
Return on equity after tax	6.47	5.86	8.67	9.49	7.46	8.06
Cost:income ratio	54.13	52.60	54.64	51.98	44.56	42.95
Risk:earnings ratio	26.98	28.46	19.11	20.78	24.31	24.72
Resources	2012	1/1 – 30/9/2013	2012	1/1 – 30/9/2013	2012	1/1 – 30/9/2013
Average number of staff	930	910	2,020	2,002	779	769
Branches and other business units	55	56	147	148	37	37

Consolidated Financial Statements as at and for the Nine Months Ended 30 September 2013

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

INCOME STATEMENT

€k	Note	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Interest income		164,107	145,492	(11.3)
Interest expenses		(73,630)	(56,282)	(23.6)
Profit/(loss) from investments in entities accounted for using the equity method		16,281	18,543	13.9
Net interest income	(1)	**106,758**	**107,753**	**0.9**
Impairment charge on loans and advances	(2)	(27,410)	(30,699)	11.9
Net interest income after impairment charge		**79,348**	**77,084**	**(2.9)**
Fee and commission income		35,163	36,128	2.7
Fee and commission expenses		(2,278)	(2,501)	9.8
Net fee and commission income	**(3)**	**32,885**	**33,627**	**2.3**
Net trading income	(4)	1,129	1,213	7.4
General administrative expenses	(5)	(75,550)	(74,495)	(1.4)
Other operating income net of other operating expenses	(6)	(2,168)	(6,251)	>100
Profit/(loss) from financial assets (FV)	(7)	2,166	1,112	(48.7)
Profit/(loss) from financial assets (AFS)	(8)	(113)	2,277	(>100)
Profit/(loss) from financial assets (HTM)	(9)	(2,647)	0	(100,0)
Profit for the period before tax		**35,050**	**34,567**	**(1.4)**
Income tax expense	(10)	(4,615)	(3,695)	(19.9)
Profit for the period after tax		**30,435**	**30,872**	**1.4**
Minority interests in profit for the period		(3)	(2)	(33.3)
Profit for the period after minority interests		**30,432**	**30,870**	**1.4**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Profit for the period before minority interests	30,435	30,872	1.4
Gains and losses not recognized in profit or loss			
– Exchange differences	238	(303)	(>100)
– Available-for-sale reserve	4,362	1,714	(60.7)
– Arising from investments in entities accounted for using the equity method	6,139	(2,292)	(>100)
– Deferred taxes on items taken directly to equity	(1,722)	(1)	(99.9)
Comprehensive income before minority interests	**39,452**	**29,990**	**(24.0)**
Less minority interests	(3)	(2)	(33.3)
Comprehensive income after minority interests	**39,449**	**29,988**	**(24.0)**

QUARTERLY REVIEW

€k	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Interest income	52,871	51,237	47,872	49,937	47,683
Interest expenses	(23,950)	(20,876)	(19,437)	(18,956)	(17,889)
Profit/(loss) from investments in entities accounted for using the equity method	6,178	5,978	4,058	6,983	7,502
Net interest income	**35,099**	**36,339**	**32,493**	**37,964**	**37,296**
Impairment charge on loans and advances	(8,799)	(11,192)	(9,670)	(12,244)	(8,755)
Net interest income after impairment charge	**26,300**	**25,147**	**22,823**	**25,720**	**28,541**
Net fee and commission income	10,872	11,545	11,478	10,791	11,358
Net trading income	60	1,219	391	423	399
General administrative expenses	(26,059)	(25,272)	(24,774)	(25,388)	(24,333)
Other operating income net of other operating expenses	(2,325)	(1,445)	(86)	(398)	(5,767)
Profit/(loss) from financial assets (FV)	424	240	808	(120)	424
Profit/(loss) from financial assets (AFS)	105	2,897	1,198	426	653
Profit/(loss) from financial assets (HTM)	338	493	0	0	0
Profit for the period before tax	**9,715**	**14,824**	**11,838**	**11,454**	**11,275**
Income tax expense	(1,337)	(2,133)	(1,457)	(1,050)	(1,188)
Profit for the period after tax	**8,378**	**12,691**	**10,381**	**10,404**	**10,087**
Minority interests in profit for the period	0	0	(1)	0	(1)
Profit for the period after minority interests	**8,378**	**12,691**	**10,380**	**10,404**	**10,086**

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

ASSETS

€k	Note	31/12/2012	30/9/2013	+/(–) Change, %
Cash and balances with the central bank	(11)	81,749	118,437	44.9
Receivables from other banks	(12)	128,417	137,904	7.4
Receivables from customers	(13)	4,962,336	5,031,474	1.4
– Impairment allowance balance	(14)	(168,101)	(174,577)	3.9
Trading assets	(15)	237	290	22.4
Financial assets designated as at fair value through profit or loss	(16)	205,713	193,241	(6.1)
Available-for-sale financial assets	(17)	265,224	260,578	(1.8)
Held-to-maturity financial assets	(18)	702,314	758,469	8.0
Investments in entities accounted for using the equity method	(19)	341,176	355,608	4.2
Intangible assets	(20)	7,959	2,063	(74.1)
Property and equipment	(21)	62,176	59,279	(4.7)
Investment property	(22)	16,492	17,000	3.1
Deferred tax assets	(23)	19,825	21,199	6.9
Other assets	(24)	28,898	31,955	10.6
Total assets		**6,654,415**	**6,812,920**	**2.4**

EQUITY AND LIABILITIES

€k	Note	31/12/2012	30/9/2013	+/(–) Change, %
Payables to other banks	(25)	1,446,411	1,384,696	(4.3)
Payables to customers	(26)	3,545,790	3,750,708	5.8
Liabilities evidenced by paper	(27)	579,944	587,057	1.2
Trading liabilities	(28)	282	312	10.6
Provisions	(29)	81,289	83,912	3.2
Deferred tax liabilities	(30)	10,871	10,560	(2.9)
Other liabilities	(31)	64,880	53,485	(17.6)
Subordinated debt capital	(32)	236,655	236,059	(0.3)
Equity		688,293	706,131	2.6
Of which total minority interests and equity		688,286	706,122	2.6
Of which minority interests in equity		7	9	28.6
Total equity and liabilities		**6,654,415**	**6,812,920**	**2.4**

EARNINGS AND DIVIDEND PER SHARE

	30/9/2012	30/9/2013
Average number of shares in issue	32,130,133	32,237,156
Dividend per share, €	0.25	0.25
Earnings per share, € (diluted and undiluted)	1.25	1.25

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

In the period from 19 June 2013 to 24 June 2013, 100,000 ordinary BKS Bank ordinary no-par shares were repurchased at an average price of €17.35 per share within the scope of the share repurchasing programme approved during the 73rd AGM on 15 May 2012. From 26 August 2013 to 16 September 2013, up to 30,000 of these ordinary no-par shares were offered for sale to members of staff as part of a staff share ownership scheme. Because the shares were oversubscribed, they were allocated on a prorated basis. The issue price of the ordinary BKS no par share of €17.3 was its closing price on the Vienna Stock Exchange on the final day of the subscription period minus a discount of €3.0 per share. This was to give the employees of *BKS Bank AG* an incentive to take a holding and to help stabilize our shareholder structure and maintain *BKS Bank AG*'s independence.

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings[1]	Profit/(loss) for the Period[1]	Equity
At 1 January 2013	**65,520**	**97,929**	**(771)**	**9,830**	**472,652**	**43,126**	**688,286**
Distribution						(8,063)	(8,063)
Taken to retained earnings					35,063	(35,063)	0
Profit/(loss) for the period						30,872	30,872
Gains and losses taken directly to equity			(303)	(579)			(882)
Increase in share capital							
Other changes					(4,091)		(4,091)
– Arising from use of the equity method					(2,288)		
– Arising from changes in treasury shares					(1,235)		
At 30 September 2013	**65,520**	**97,929**	**(1,074)**	**9,251**	**503,624**	**30,872**	**706,122**
Available-for-sale reserve							9,645
Deferred tax reserve							(394)

[1] Restated because of a revision to IAS 19: *Profit for the period* was increased by €3.0 million and a shift of the same size took place within reserves.

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings[1]	Profit/(loss) for the Period[1]	Equity
At 1 January 2012	**65,520**	**97,929**	**(661)**	**5,987**	**440,756**	**35,391**	**644,922**
Distribution						(8,034)	(8,034)
Taken to retained earnings					27,357	(27,357)	0
Profit/(loss) for the period						30,435	30,435
Gains and losses taken directly to equity			238	8,920	(141)		9,017
Increase in share capital							
Other changes					(1,803)		(1,803)
– Arising from use of the equity method					(1,738)		
– Arising from changes in treasury shares					(1,604)		
At 30 September 2012	**65,520**	**97,929**	**(423)**	**14,907**	**466,169**	**30,435**	**674,537**
Available-for-sale reserve							16,169
Deferred tax reserve							(1,262)

[1] Restated because of a revision to IAS 19: *Profit for the period* was decreased by €1.1 million and a shift took place within reserves.

Cash Flow Statement

CASH FLOWS

€k	Q1 – Q3 2012	Q1 – Q3 2013
Cash and cash equivalents at end of previous period	**85,599**	**81,749**
Net cash from operating activities	5,761	97,773
Net cash from/(used in) investing activities	37,681	(51,081)
Net cash from/(used in) financing activities	(33,945)	(9,937)
Effect of exchange rate changes on cash and cash equivalents	220	(67)
Cash and cash equivalents at end of period	**95,316**	**118,437**

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

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

I. General information

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

II. Recognition and measurement

Scope of consolidation

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

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

[1] *BKS-Leasing s.r.o.* makes up a subgroup together with *BKS-Finance s.r.o.* For business policy and administrative reasons, this leasing company, which was a stock corporation until 30 September 2013, was transformed into a limited company (*GmbH*).

Consolidation policies

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

Foreign currency translation

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

Impairment allowance balance
Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis (in the case of material exposures, these were calculated on the basis of the *discounted cash flow method*), by recognizing impairment charges on an item-by-item basis applying class-specific criteria and by carrying out collective portfolio impairment assessments in accordance with IAS 39 para. 64. The latter captured incurred but not yet identifiable losses. Provisions for contingent liabilities were made in accordance with IAS 37. A portfolio impairment assessment for country risks was carried out as at the reporting date, with the exposures outstanding in each country being broken down into risk classes. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet (impairment account).

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

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

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

Property, equipment and intangible assets (non-current)
Property, equipment and intangible assets (non-current) were recognized at cost of acquisition or conversion less ordinary depreciation or amortization. Depreciation and amortization rates lay within the following bands:
– immovable assets: 1.5 to 3.0 per cent;
– office furniture and equipment: 10 to 25 per cent;
– software: 25 per cent.
Ordinary depreciation and amortization are linear based on an asset's estimated useful life. Impairments are allowed for by recognizing extraordinary depreciation or amortization. If an impairment no longer exists, a write-back is made up to the asset's amortized cost. No extraordinary depreciation or amortization was recognized during the period under review.

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

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

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

During the period under review, an impairment of €5.4 million of the goodwill of *BKS Bank d.d.* was ascertained and captured in the Income Statement.

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

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

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

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

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

Investments in entities accounted for using the equity method
If there was objective evidence of impairment of an investment accounted for using the equity method, a value in use was calculated on the basis of the estimated future cash flows that were to be expected from the associate. Present value was measured on the basis of a discounted cash flow model. A two-phase mathematical model was used. No impairment losses were incurred in the period under review.

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

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

Payables
Payables were mainly recognized at the amounts payable. This did not apply to payables measured in the same way as assets or derivatives measured at fair value using the fair value option.

Tax
The reporting and calculation of income taxes took place in accordance with IAS 12. The calculation for each taxed entity was carried out applying the tax rates that, according to current tax legislation, were to be applied in the tax period in which a

temporary difference was going to reverse. Deferred taxes were computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. These would cause additional tax burdens or reduce tax burdens in the future.

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

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

Provisions for so-called 'social capital' (*Sozialkapitalrückstellung*) were calculated in accordance with the requirements of IAS 19 (revised). The calculation parameters were unchanged compared with the end of 2012.

Since 1 January 2013, actuarial gains and losses have been recognized in *Other Gains/(Losses)* and not through profit or loss.

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

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

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

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

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

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

The Consolidated Financial Statements of *BKS Bank AG* for the 2012 financial year and for the period from 1 January to 30 September 2013 were prepared in conformity with the effective International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board and as adopted by the EU. The assumptions and estimates made for the purposes of the Consolidated Financial Statements were made on the basis of the knowledge and information available at the copy deadline date.

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

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Interest income			
– from credit operations	122,514	109,158	(10.9)
– from fixed-interest securities	26,197	22,923	(12.5)
– from lease receivables	8,059	6,056	(24.9)
– from shares and investments in other entities	6,512	6,535	0.4
– from investment property	825	820	(0.6)
Interest expenses	73,630	56,282	(23.6)
– on deposits from customers and other banks [1]	53,260	35,874	(32.6)
– on liabilities evidenced by paper	20,090	20,150	0.3
– on investment property	280	258	(7.9)
Profit/(loss) from investments in entities accounted for using the equity method	16,281	18,543	13.9
– of which income from investments in entities accounted for using the equity method	16,742	19,012	13.6
– minus financing costs of investments in entities accounted for using the equity method [2]	(461)	(469)	1.7
Total profit/(loss) from investments in entities accounted for using the equity method	16,281	18,543	13.9
Net interest income	**106,758**	**107,753**	**0.9**

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

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

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Impairment allowances	30,771	34,933	13.5
Impairment reversals	(3,470)	(5,088)	46.6
Direct write-offs	460	1,073	>100
Recoveries on receivables previously written off	(351)	(249)	(29.1)
Impairment charge on loans and advances	**27,410**	**30,669**	**11.9**

(3) NET FEE AND COMMISSION INCOME

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Fee and commission income	35,163	36,128	2.7
– of which from payment services	14,327	14,558	1.6
– of which from securities operations	8,463	8,985	6.2
– of which from credit operations	9,171	10,034	9.4
– of which from money and foreign exchange transactions	2,263	1,721	(24.0)
– of which from other services	939	830	(11.6)
Total fee and commission income	35,163	36,128	2.7
Fee and commission expenses	2,278	2,501	9.8
– of which arising from payment services	1,117	1,147	2.7
– of which arising from securities operations	595	551	(7.4)
– of which arising from credit operations	267	323	21.0
– of which arising from money and foreign exchange transactions	160	361	>100
– of which arising from other services	139	119	(14.4)
Net fee and commission income	**32,885**	**33,627**	**2.3**

(4) NET TRADING INCOME

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Price-based contracts	18	98	>100
Interest rate and currency contracts	1,111	1,115	0.4
Net trading income	**1,129**	**1,213**	**7.4**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Staff costs	51,127	49,998	(2.2)
– of which wages and salaries	36,774	36,621	(0.4)
– of which social security costs	8,886	9,303	4.7
– of which costs of retirement benefits	5,467	4,074	(25.5)
Other administrative costs	19,617	19,753	0.7
Depreciation/amortization	4,806	4,744	(1.3)
General administrative expenses	**75,550**	**74,495**	**(1.4)**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Other operating income	2,500	2,837	13.5
Other operating expenses	(4,668)	(9.088)	94.7
Other operating income net of other operating expenses	**(2,168)**	**(6,251)**	**>100**

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

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Revaluation gains and losses on derivatives	(1,690)	2,123	(>100)
Gain/(loss) as a result of using the fair value option	3,856	(1,011)	(>100)
Profit/(loss) from financial assets designated as at fair value through profit or loss	**2,166**	**1,112**	**(48.7)**

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

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Revaluation gains and losses and realized gains and losses	(113)	2,277	(>100)
Profit/(loss) from available-for-sale financial assets	**(113)**	**2,277**	**(>100)**

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

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Revaluation gains and losses and realized gains and losses	(2,647)	0	(100.0)
Profit/(loss) from held-to-maturity financial assets	**(2,647)**	**0**	**(100.0)**

(10) INCOME TAX EXPENSE

€k	1/1–30/9/2012	1/1–30/9/2013	+/(–) Change, %
Current tax	(4,859)	(5,360)	10.3
Deferred tax	244	1,665	>100
Income tax expense	**(4,615)**	**(3,695)**	**(19.9)**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2012	30/9/2013	+/(–) Change, %
Cash in hand	34,537	28,704	(16.9)
Credit balances with central banks of issue	47,212	89,733	90.1
Cash and balances with the central bank	**81,749**	**118,437**	**44.9**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Receivables from Austrian banks	66,377	44,858	(32.4)
Receivables from foreign banks	62,040	93,046	50.0
Receivables from other banks	**128,417**	**137,904**	**7.4**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Corporate and business banking customers	3,871,029	3,923,894	1.4
Retail banking customers	1,091,307	1,107,580	1.5
Receivables from customers	**4,962,336**	**5,031,474**	**1.4**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2012	30/9/2013	+/(–) Change, %
At beginning of period under review	153,246	168,101	9.7
+ Added	42,348	32,490	(23.3)
– Reversed	(7,079)	(4,738)	(33.1)
– Used	(20,392)	(21,206)	4.0
+/(–) Exchange differences	(22)	(70)	>100
At end of period under review	**168,101**	**174,577**	**3.9**

(15) TRADING ASSETS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Bonds and other fixed-interest securities	0	0	—
Shares and other variable-yield securities	0	0	—
Positive fair values of derivative financial instruments			
– Currency contracts	237	290	22.4
Trading assets	**237**	**290**	**22.4**

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

€k	31/12/2012	30/9/2013	+/(–) Change, %
Bonds and other fixed-interest securities	92,735	105,306	13.6
Loans	112,978	87,935	(22.2)
Financial assets designated as at fair value through profit or loss	**205,713**	**193,241**	**(6.1)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Bonds and other fixed-interest securities	131,325	123,672	(5.8)
Shares and other variable-yield securities	87,222	88,570	1.5
Investments in subsidiaries and associates	31,869	33,614	5.5
Other equity investments	14,808	14,722	(0.6)
Available-for-sale financial assets	**265,224**	**260,578**	**(1.8)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Bonds and other fixed-interest securities	702,314	758,469	8.0
Held-to-maturity financial assets	**702,314**	**758,469**	**8.0**

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

€k	31/12/2012	30/9/2013	+/(–) Change, %
Oberbank AG	224,167	232,644	3.8
Bank für Tirol und Vorarlberg AG	111,892	117,847	5.3
Alpenländische Garantie-GmbH	964	964	—
Drei-Banken Versicherungs-AG	4,153	4,153	—
Investments in entities accounted for using the equity method	**341,176**	**355,608**	**4.2**

(20) INTANGIBLE ASSETS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Goodwill [1]	5,414	0	(100.0)
Other intangible assets	2,545	2,063	(18.9)
Intangible assets	**7,959**	**2,063**	**(74.1)**

[1] Goodwill of *BKS Bank d.d.* written down by €5,414 thousand.

(21) PROPERTY AND EQUIPMENT

€k	31/12/2012	30/9/2013	+/(–) Change, %
Land	2,774	2,630	(5.2)
Buildings	48,093	46,715	(2.9)
Other	11,309	9,934	(12.2)
Property and equipment	**62,176**	**59,279**	**(4.7)**

(22) INVESTMENT PROPERTY

€k	31/12/2012	30/9/2013	+/(–) Change, %
Land	8,167	8,291	1.5
Buildings	8,325	8,709	4.6
Investment property	**16,492**	**17,000**	**3.1**

(23) DEFERRED TAX ASSETS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Deferred tax assets	**19,825**	**21,199**	**6.9**

(24) OTHER ASSETS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Positive fair values of derivative financial instruments	8,737	7,000	(19.9)
Other items	17,548	22,161	26.3
Deferred items	2,613	2,794	6.9
Other assets	**28,898**	**31,955**	**10.6**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Payables to Austrian banks	1,111,156	997,362	(10.2)
Payables to foreign banks	335,255	387,334	15.5
Payables to other banks	**1,446,411**	**1,384,696**	**(4.3)**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Savings deposit balances	1,797,864	1,794,407	(0.2)
– of which from corporate and business banking customers	244,645	246,676	0.8
– of which from retail banking customers	1,553,219	1,547,731	(0.4)
Other payables	1,747,926	1,956,301	11.9
– of which to corporate and business banking customers	1,205,649	1,371,780	13.8
– of which to retail banking customers	542,277	584,521	7.8
Payables to customers	**3,545,790**	**3,750,708**	**5.8**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2012	30/9/2013	+/(–) Change, %
Issued bonds	402,398	465,653	15.7
Other liabilities evidenced by paper	177,546	121,404	(31.6)
Liabilities evidenced by paper	**579,944**	**587,057**	**1.2**

(28) TRADING LIABILITIES

€k	31/12/2012	30/9/2013	+/(–) Change, %
Interest rate contracts	282	312	10.6
Trading liabilities	**282**	**312**	**10.6**

(29) PROVISIONS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	70,359	71,507	1.6
Provisions for taxes (current tax)	129	1,016	>100
Other provisions	10,801	11,389	5.4
Provisions	**81,289**	**83,912**	**3.2**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2012	30/9/2013	+/(–) Change, %
Deferred tax liabilities	**10,871**	**10,560**	**(2.9)**

(31) OTHER LIABILITIES

€k	31/12/2012	30/9/2013	+/(–) Change, %
Negative fair values of derivative financial instruments	47,620	26,113	(45.2)
Other items	15,641	26,661	70.5
Deferred items	1,619	711	(56.1)
Other liabilities	**64,880**	**53,485**	**(17.6)**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2012	30/9/2013	+/(–) Change, %
Supplementary capital	196,655	196,059	(0.3)
Hybrid capital	40,000	40,000	—
Subordinated debt capital	**236,655**	**236,059**	**(0.3)**

ADDITIONAL DISCLOSURES REQUIRED BY IFRSs

(33) SEGMENTAL REPORTING

Method: Net interest income was subdivided using the *market interest rate method*. Incurred costs were allocated to the individual business segments on a cost-by-cause basis. So-called *structural income* was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was valued applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income*.

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

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	Q1–Q3 2012	Q1–Q3 2013	Q1–Q3 2012	Q1–Q3 2013	Q1–Q3 2012	Q1–Q3 2013
Net interest income	23,158	24,059	66,177	60,271	17,050	22,959
Impairment charge on loans and advances	(445)	(716)	(26,991)	(29,115)	26	(838)
Net fee and commission income	14,904	15,122	17,331	18,135	336	134
Net trading income	0	0	0	0	1,129	1,213
General administrative expenses	(38,732)	(39,102)	(29,255)	(28,569)	(4,101)	(4,723)
Other operating income net of other operating expenses	824	669	824	1,211	(2,006)	(5,300)
Profit/(loss) from financial assets	0	0	0	0	(594)	3,389
Profit for the period before tax	**(291)**	**32**	**28,086**	**21,933**	**11,840**	**16,834**
Average risk-weighted assets	560,102	585,035	3,227,216	3,272,221	603,031	547,675
Average allocated equity	44,808	46,803	258,177	261,777	350,356	382,333
ROE based on profit for the period	**(0.9%)**	**0.1%**	**14.5%**	**11.2%**	**4.5%**	**5.9%**
Cost:income ratio	**99.6%**	**98.1%**	**34.7%**	**35.9%**	**24.8%**	**19.3%**
Risk:earnings ratio	**1.9%**	**3.0%**	**40.8%**	**48.3%**	**0%**	**3.7%**

€k	Other		Total	
	Q1–Q3 2012	Q1–Q3 2013	Q1–Q3 2012	Q1–Q3 2013
Net interest income	373	464	106,758	107,753
Impairment charge on loans and advances	0	0	(27,410)	(30,669)
Net fee and commission income	314	236	32,885	33,627
Net trading income	0	0	1,129	1,213
General administrative expenses	(3,462)	(2,101)	(75,550)	(74,495)
Other operating income net of other operating expenses	(1,810)	(2,831)	(2,168)	(6,251)
Profit/(loss) from financial assets	0	0	(594)	3,389
Profit/(loss) for the period before tax	**(4,585)**	**(4,232)**	**35,050**	**34,567**
Average risk-weighted assets	42,859	40,165	4,433,208	4,445,096
Average allocated equity	6,370	6,299	659,711	697,212
ROE based on profit for the period	**—**	**—**	**7.1%**	**6.5%**
Cost:income ratio	**—**	**—**	**54.5%**	**52.6%**
Risk:earnings ratio	**—**	**—**	**25.7%**	**28.5%**

(34) CONSOLIDATED EQUITY

€k	31/12/2012	30/9/2013	+/(–) Change, %
Subscribed capital	65,520	65,520	—
– of which share capital	65,520	65,520	—
Capital reserves	97,929	97,929	—
Retained earnings and other reserves	524,844	542,682	3.4
Equity before minority interests	688,293	706,131	2.6
Minority interests	(7)	(9)	28.6
Consolidated equity	**688,286**	**706,122**	**2.6**

The share capital was represented by 30,960,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. The line item *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. At 30 September, eligible own funds came to €682.3 million (31 December 2012: €709.5 million). Surplus own funds came to €327.7 million (31 December 2012: €352.9 million). The external capital adequacy requirements were met throughout 2012 and the nine months under review.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2012	30/9/2013	+/(–) Change, %
Guarantees	391,831	379,926	(3.0)
Letters of credit	3,122	658	(78.9)
Contingent liabilities	**394,953**	**380,584**	**(3.6)**
Other commitments	588,249	732,337	24.5
Commitments	**588,249**	**732,337**	**24.5**

(36) RELATED PARTY DISCLOSURES IN ACCORDANCE WITH IAS 24

€k	31/12/2012	30/9/2013	+/(–) Change, %
Advances and loans granted to members of the Management Board and Supervisory Board and close relatives	478	569	19.0
Deposit balances of members of the Management Board and Supervisory Board and close relatives	2,123	1,988	(6.4)

(37) EVENTS AFTER THE INTERIM REPORTING DATE

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

(38) FAIR VALUES

30/9/2013 €k	LEVEL 1 Market Value	LEVEL 2 Based on Market Data	LEVEL 3 Internal Valuation Methodology	Total Fair Value	Carrying Amount at 30/9/2013	Difference Between Fair Value and Carrying Amount
Assets						
Receivables from other banks	0	137,970	0	137,970	137,904	66
Receivables from customers	0	5,090,014	0	5,090,014	5,031,474	58,540
Financial assets designated as at fair value through profit or loss	87,935	105,306	0	193,241	193,241	0
Available-for-sale financial assets	242,929	0	17,649	260,578	260,578	0
Held-to-maturity financial assets	810,530	0	0	810,530	758,469	52,061
Investments in entities accounted for using the equity method	295,138	0	5,117	300,255	355,608	(55,353)
Other assets (derivatives)	0	7,000	0	7,000	7,000	0
Equity and liabilities						
Payables to other banks	0	1,388,055	0	1,388,055	1,384,696	3,359
Payables to customers	0	3,761,944	0	3,761,944	3,750,708	11,236
Liabilities evidenced by paper	473,031	128,928	0	601,959	587,057	14,902
Subordinated debt capital	238,702	2,350	0	241,052	236,059	4,993
Other liabilities (derivatives)	0	26,113	0	26,113	26,113	0

31/12/2012 €k	LEVEL 1 Market Value	LEVEL 2 Based on Market Data	LEVEL 3 Internal Valuation Methodology	Total Fair Value	Carrying Amount 31/12/2012	Difference Between Fair Value and Carrying Amount
Assets						
Receivables from other banks	0	128,500	0	128,500	128,417	83
Receivables from customers	0	5,029,388	0	5,029,388	4,962,336	67,052
Financial assets designated as at fair value through profit or loss	92,735	112,978	0	205,713	205,713	0
Available-for-sale financial assets	247,489	0	17,735	265,224	265,224	0
Held-to-maturity financial assets	773,600	0	0	773,600	702,314	71,286
Investments in entities accounted for using the equity method	290,899	0	5,117	296,016	341,176	(45,160)
Other assets (derivatives)	0	8,737	0	8,737	8,737	0
Equity and liabilities						
Payables to other banks	0	1,450,209	0	1,450,209	1,446,411	3,798
Payables to customers	0	3,576,223	0	3,576,223	3,545,790	30,433
Liabilities evidenced by paper	404,736	176,729	0	581,465	579,944	1,521
Subordinated debt capital	234,013	2,350	0	236,363	236,655	(292)
Other liabilities (derivatives)	0	47,620	0	47,620	47,620	0

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

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

Level 3: Movements between 1 January and 30 September 2013 €k	At 31/12/2012	Income Statement	Other Gains/(Losses)	Purchased	Sold	At 30/9/2013
Available-for-sale financial assets	17,735	0	1	0	(87)	17,649
Investments in entities accounted for using the equity method	5,117	0	0	0	0	5,117
Total	**22,852**	**0**	**1**	**0**	**(87)**	**22,766**

(39) BALANCE OF DERIVATIVES OUTSTANDING

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

30/9/2013	Nominal, by Term to Maturity				Fair Value	
€k	< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	642,807	941,396	—	1,584,203	2,888	10,141
– Of which in trading book	950	—	—	950	—	—
Interest rate contracts	221,000	398,082	252,686	871,768	3,972	13,744
– Of which in trading book	—	16,082	17,976	34,058	177	177
Securities contracts	5,792	—	—	5,792	—	116
– Of which in trading book	—	—	—	—	—	—
Total	**669,599**	**1,339,478**	**252,686**	**2,461,763**	**6,860**	**24,001**
– Of which in trading book	950	16,082	17,976	35,008	177	177

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

(40) MATERIAL TRANSACTIONS WITH RELATED PARTIES AND PERSONS

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

Statement by BKS Bank's Management

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

Klagenfurt am Wörthersee
26 November 2013

The Management Board

Heimo Penker
CEO

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

Herta Stockbauer
Member of the Management Board

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

Dieter Krassnitzer
Member of the Management Board

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

Wolfgang Mandl
Member of the Management Board

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

Financial Calendar for 2014

1 April 2014:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2013 in the Internet and in the official *Wiener Zeitung* gazette
15 May 2014:	75th Ordinary General Meeting (AGM)
19 May 2014:	Ex-dividend date
22 May 2012:	Dividend payment date

BKS Bank's Interim Reports

23 May 2014:	Interim Report as at and for the 3 months ended 31 March 2014
22 August 2014:	Semi-Annual Report as at and for the 6 months ended 30 June 2014
28 November 2014:	Interim Report as at and for the 9 months ended 30 September 2014

Publication details:
Published by *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee, Austria.
Phone: +43 463 5858-0; Internet: www.bks.at; e-mail: bks@bks.at or investor.relations@bks.at.
Edited by the Management Board Office of *BKS Bank AG*. Copy deadline date: 26 November 2013.
Translation by Adrian Weisweiller MA (Oxon), London.