A Shareholders Letter
About Responsible Action

Interim Report to 30 June 2011

BKS Bank
3 Banken Gruppe

Contents

THE BKS BANK GROUP AT A GLANCE

Income account, €m	H1 2011	H1 2010	H1 2009
Net interest income	70.8	67.9	63.8
Charge for impairment losses on loans and advances	(22.5)	(25.8)	(18.8)
Net fee and commission income	21.0	22.1	19.2
General administrative expenses	(46.6)	(44.5)	(43.3)
Profit for the period before tax	24.3	22.0	19.7
Consolidated net profit for the period	21.9	19.6	18.4

Balance sheet data, €m	30/6/2011	31/12/2010	31/12/2009
Assets	6,602.2	6,238.2	6,315.9
Receivables from customers after allowance for impairment losses on loans and advances	4,554.9	4,498.2	4,350.2
Primary deposit balances	4,377.1	4,158.5	3,907.9
– Of which savings deposit balances	1,795.1	1,847.2	1,804.6
– Of which liabilities evidenced by paper, including subordinated debt capital	701.9	667.6	564.7
Equity	642.3	627.8	577.5
Customer assets under management	10,471.3	10,023.5	9,343.5
Of which in customers' securities accounts	6,094.2	5,865.0	5,435.6

Own funds within the meaning of BWG, €m	30/6/2011	31/12/2010	31/12/2009
Risk-weighted assets	4,428.0	4,345.1	4,258.4
Own funds	562.2	567.4	514.7
Of which Tier 1 capital	414.7	416.6	369.5
Surplus own funds before operational risk	207.9	219.8	174.0
Surplus own funds after operational risk	181.2	194.8	150.8
Tier 1 ratio, %	9.36	9.59	8.68
Own funds ratio, %	12.70	13.06	12.09

Ratios, %	H1 2011	2010	2009
Return on equity before tax	8.0	8.9	8.9
Return on equity after tax	6.9	7.7	7.8
Cost:income ratio	49.7	48.8	49.9
Risk:earnings ratio (credit risk in per cent of net interest income)[1]	24.7	33.1	28.3

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

Resources	H1 2011	2010	2009
Average number of staff	891	872	872
Branches	54	55	55

BKS Bank's shares	H1 2011	2010	2009
No. of ordinary no-par shares to 5 June 2009	—	—	4,380,000
No. of ordinary no-par shares from 5 June 2009	30,960,000	30,960,000	30,960,000
No. of no-par preference shares to 5 June 2009	—	—	300,000
No. of no-par preference shares from 5 June 2009	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	18.6/15.5	18.4/15.4	18.2/15.3
Low: ordinary/preference share, €	17.9/14.8	15.9/13.7	16.5/13.6
Close: ordinary/preference share, €	18.2/15.2	18.4/15.4	18.1/14.7
Market capitalization, €m	590.8	595.8	586.8

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

We welcome you very warmly to our second Shareholders Letter in 2011. We are pleased to be able to tell you about the BKS Bank Group's good overall performance in the first six months of this financial year. Capitalizing on its broad operational and geographical market presence, BKS Bank recorded a solid profit for the period of €21.9 million during the first half. This was 11.5 per cent more than in the same period of last year. Our balance sheet assets grew by 5.8 per cent to over €6.6 billion during the second quarter. The increase on the assets side of the Balance Sheet was due mainly to an increase in receivables from customers, which grew by 1.5 per cent to more than €4.7 billion. Growth on the equity and liabilities side of the Balance Sheet was driven by a marked increase in so-called *primary funds*, which grew by 5.3 per cent to roughly €4.4 billion. Our interbank operations also grew more strongly in the first half than in prior periods. At the same time, the banking environment was as difficult as before. Against this backdrop, we achieved a very respectable return on equity of 8.0 per cent. The charge for impairment losses was 12.8 per cent down on the same period of last year to €22.5 million. We must also mention BKS Bank's excellent and balanced own funds base. We had a Tier 1 ratio of 9.4 per cent at the end of the period under review, and our own funds ratio came to 12.7 per cent.

Unfortunately, globally speaking, 2011 has not to date been an auspicious year. There has been a worrying increase in the number of extraordinary events. The horrific disasters in Japan, the waves of revolution in the Islamic countries of Northern Africa and the Middle East, escalating debt crises in Europe and the United States and, not least, the downgrading of U.S. debt by Standard & Poor's have taken their toll on the financial markets and global economy. Having so far been one of economic optimism as the situation stabilized after the financial crisis, the mood has worsened again in recent weeks, and this has also affected BKS Bank's core territories. The outlook for the banking sector in general and BKS Bank in particular is being shaped by a great deal of exogenous uncertainty. Nonetheless, given our responsible growth strategy, we look confidently ahead to the next few quarters and see no grounds for pessimism.

Group Management Report for the Six Months Ended 30 June 2011

The economic setting in which banks are operating

The global economy continued to recover in the first half of 2011. This recovery was driven by the robust growth in international trade and industrial output. Once again, the highest growth momentum came from the emerging markets. The dynamic catch-up process taking place in those markets accelerated the reallocation of resources from the industrialized countries to the emerging growth markets in Asia, Latin America and Eastern Central Europe. This shift of emphasis has been reflected by high capital inflows and rising commodity prices. For instance, the price of Brent crude, which dipped to below US$100 a barrel in the wake of recent turbulence in the markets, was still US$112.4 a barrel at the end of June, or 21 per cent more than at the beginning of the year. The price of gold has already topped US$1,800 a fine ounce in response to the smouldering debt crises in the eurozone and the United States, having still been just US$1,406.10 a fine ounce at the end of 2010.

In the meantime, the growth of the world economy has slowed as a result of the continued steady rise in commodity and energy prices during the first half, increasingly restrictive monetary policies in the big threshold countries and the relatively slow easing of disruptions to international supply chains following the catastrophic earthquake in Japan. The economic horizon in the United States has darkened perceptibly, resulting in real growth of just 1.3 per cent in the second quarter as against 1.9 per cent in the first. This has been a result of persistent unemployment, restrained consumption expenditure by private households and the property market's continued poor development. However, the order books and profits of many U.S. companies have so far been very crisis-resistant, which suggests that investment and growth in the number of jobs will continue. On 22 June 2011, the Federal Reserve Open Market Committee responded to the stable inflation outlook and the generally still low utilization of resources by leaving the Fed funds target rate in its exceptionally low corridor of between zero and 0.25 per cent. The Federal Reserve's US$600 billion government bond buying programme (Quantitative Easing 2) ended as planned at the end of June. In a U.S. debt dispute blinded by ideology, Congress reached a minimal compromise just before the deadline. The debt limit in the United States is being raised in two steps by up to US$2.4 trillion from its previous level of US$14.3 trillion. In exchange, Congress has agreed longer-term savings of about US$2.5 trillion. Standard & Poor's recent decisions to downgrade the United States' sovereign credit rating and to lower the ratings of two mortgage providers — the Federal National Mortgage Association (Fanny Mae) and the Federal Home Loan Mortgage Corp. (Freddy Mac) — from AAA to AA+ in this period of considerable nervousness on world stock markets and stagnating GDP numbers has stoked global fears of a renewed slide into recession in the United States. They were one reason for the recent turbulence in the financial markets.

Following growth of 0.8 per cent in the first three months of this year, real GDP growth in the eurozone slowed to just 0.3 per cent in the second quarter. The growth gap between the rapidly growing export-orientated core EU countries — including, above all, Germany — and the peripheral countries hit by rigorous austerity measures and high structural unemployment — Greece, Ireland, Portugal and Spain — continued to widen. While Germany, Austria's most important trading partner, is expected to achieve real economic growth of about 3.5 per cent this year, the latest GDP forecasts for the eurozone as a whole lie within a narrow range of just 1.7 to 1.9 per cent. Greece and Portugal — the countries with massive structural problems — remain unlikely to emerge from the shadows of recession in 2011. Among other things, the rescue package for Greece agreed during the EU emergency summit at the end of July under massive pressure from the financial markets includes debt with duration of between 15 and 30 years issued by the European Financial Stability Facility (EFSF) at interest rates cut to 3.5 per cent from their present level of 5 per cent. The EFSF lending terms are also to apply to Ireland and Portugal. In addition, the durations of loans granted within the scope of the first bailout in 2010 will be significantly lengthened. The financial sector is to participate on a voluntary basis. During its meeting on 7 July 2011, the ECB council decided to hike the ECB's key rate by another 25 basis points. The minimum bid rate on main refinancing operations in euros, the peak refinancing rate and the deposit facility rate are currently 1.50, 2.25 and 0.75 per cent, respectively. At the end of June, the 3-month Euribor rate was 1.547 per cent, compared with 1.001 per cent at the beginning of the year. The benchmark yield on German 10-year *Bunds* was roughly 3 per cent at mid-year. Recently, the ECB and other central banks in the eurozone have felt compelled to take extraordinary measures in the face of the runaway debt crisis and the worrying drop in share prices, incorporating more Spanish and Italian bonds into their bond-buying programmes.

The Austrian economy continued to recover on a broad front, thanks, not least, to the robustness of the German economy. However, its export-orientated growth still displayed the traits of normalization at a pre-crisis level rather than the characteristics of a boom. One symptom of this was the relatively sluggish recovery of borrowing by companies and private individuals. On the other hand, output — including, in particular, the output of material goods — has grown strongly in recent months. Capacity utilization in Austria's industrial sector was now back close to the many-year average at about 84 per cent. Previously postponed capital expenditure on plant and equipment was carried out this year, leading to a real growth rate of 8 per cent. Nonetheless, the construction sector was still languishing. Private consumption will begin contributing to growth again in 2011 thanks to a real rate of growth of 0.9 per cent, although the mood is being soured by comparatively high inflation of about 3 per cent, continued fiscal uncertainty and, not least, the turnaround in interest rates initiated by the ECB. Up to now, the economy's good performance has led to a significant increase in the number of jobs and a drop in unemployment. A record of 3.45 million jobholders was set in June. This year, the jobless rate calculated applying Austrian statistical methods will stabilize at 6.6 per cent of the working population, or 4.2 per cent of the working population applying the *Eurostat* definition. WIFO is forecasting real GDP growth of 3.0 per cent in Austria over 2011 as a whole. The economy's growth is expected to slow to about 1.8 per cent in 2012, reflecting international developments.

As for the economic outlook in the regions of the EU in which BKS Bank operates, Slovakia, the Czech Republic and also Hungary have continued to thrive in the wake of industry's good performance in core

Europe. Moreover, those countries have largely been spared the effects of the disruptions to the international chain of production that followed the catastrophic earthquake in Japan, and domestic demand has also become a pillar of growth. Economic growth in Slovenia is likely to be slightly higher than in the eurozone as a whole in 2011 and 2012, and Croatia has achieved a modest economic recovery for the first time this year following two years of recession.

Bilateral exchanges rates remained highly volatile in the period under review. On balance, the euro performed well versus the major currencies against the backdrop of expectations of a hike in key interest rates and the retention of the European stabilization mechanism for the highly indebted peripheral countries in the eurozone. The euro having begun the year at US$1.3348, the US$/€ rate was for some time dominated by concern about the monetary union's long-term future. However, towards the end of the second quarter, the U.S. economy's subdued outlook and the Federal Reserve's extremely expansionary monetary policy became the focus of attention again. The euro was worth US$1.4453 at the end of June and was trading at US$1.4369 on the copy deadline date. It gained nearly 7 per cent against the yen during the first half, reaching ¥116.25. On the other hand, it lost a significant amount of ground versus the Swiss franc, which increasingly lived up to its reputation as a supposedly safe haven, retreating to SFr1.2071. The Swiss franc was already close to parity with the euro at the beginning of August, but following the latest lowering of the target band for the 3-month Libor to between zero and 0.25 per cent, it had weakened to SFr1.1410/€ by the time of writing. The Croatian kuna stayed within a narrow band to end June 2011 at HRK7.4018/€. This compared with HRK7.3845/€ at the beginning of 2011.

During the first half of 2011, the international stock markets were likewise under the sway of worsening unrest in the Middle East and North Africa, the environmental disasters in Japan and the escalating debt crises on both sides of the Atlantic. The significant loss of ground suffered by the emerging markets was conspicuous. After a high of 952.68 in May, the EFM Index published by MSCI weakened to 905.092 points. On balance, Japanese shares suffered the heaviest price losses in the big industrial countries, with the Nikkei 225 falling by 5.6 per cent to 9,816.09 points during the first half. On the other hand, the Dow Jones Industrial Average (DJIA) stood at 12,414.34 points at the end of June, which was 6.4 per cent up on the beginning of the year. The German share index (DAX) also rose, gaining 5.5 per cent to 7,376.24 points on the back of the improvement in the economy. The ATX closed June at 2,766.73 points, giving it a half-year performance of negative 6.3 per cent.

The high risk aversion of a nervous and disappointed investment community triggered a sharp slump from the end of July that hit every major stock market. The DJIA fell to 10,719.94 points from an interim peak of 12,724.41 points in July and stood at 10,990.58 points at the time of writing. The DAX has lost nearly a quarter since the end of June to stand at 5,602.80 points at the time of writing. Similarly, the broad MSCI World Equity Index in euros has slumped by 12.4 per cent to 107.97 points. In the bond market, interest rates on listed 10-year government bonds have fallen to 2.15 per cent at the time of writing. On the last day of trading in June, the BKS Bank ordinary no-par share was trading at €18.2 (at copy deadline date: €17.95), and the BKS Bank no-par preference share was trading at €15.2 (at copy deadline date: €15.38).

Notes on the scope of consolidation

Given the sizes of the various companies in the Group, the consolidated group on which our group reporting is based is dominated by *BKS Bank AG*. In the period under review, the consolidated members of the Group consisted of 18 banks and other financial service providers and companies that render banking-related ancillary services. These companies included our leasing subsidiaries in Austria and abroad as well as *Alpenländische Garantie Gesellschaft mbH* and insurer *Drei-Banken Versicherungs-Aktiengesellschaft*. Our investments in our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*—which make up the *3 Banken Group* together with *BKS Bank AG*—were also accounted for in the Consolidated Financial Statements, using the equity method. Although BKS Bank controls less than 20 per cent of the voting power in these entities, it can exert a significant influence as the result of long-term syndicate agreements. Consolidated profit for the six months ended 30 June 2011 therefore includes BKS Bank's interests in these banks' profit for the period. The other consolidated entities, most of which are designated as real estate companies, render banking-related ancillary services.

SCOPE OF CONSOLIDATION

Consolidated
Accounted for using the equity method

Banks and Other Financial Service Providers

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

Other Consolidated Entities

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

Assets, liabilities and financial position

Assets

At 30 June 2011, the BKS Bank Group had assets of €6.60 billion, which was 5.8 per cent more than at the end of 2010. On the assets side of the Balance Sheet, receivables from other banks increased by €0.22 billion to €0.37 billion. Within this line item, surplus liquidity generated by the time deposits of institutional clients was invested in the interbank market on a short-term basis. Receivables from customers increased by €0.07 billion or 1.5 per cent to €4.72 billion. IFRSs require an impairment allowance to be deducted from receivables from customers. In the first half, the impairment allowance balance increased by €13.2 million to €162.4 million. There was also an increase in the line item *Financial assets*, which grew by 7.1 per cent to total €1.43 billion at the end of June.

The driving force in the corporate and business banking and retail banking segments was once again *BKS Bank AG*, which accounted for roughly €4.33 billion of the receivables from customers reported in the semi-annual consolidated financial statements. For the first time, new business, which came to €0.43 billion and was generated mainly in the corporate and business banking segment in the period under review, included lending by our new branch in Slovakia. In the foreign currency loans market, we compensated for the massive appreciation of the Swiss franc by consistently reducing our foreign currency loan portfolio, cutting it by SFr42.6 million. The foreign currency portion of the BKS Bank Group's total receivables stood at just 19.2 per cent at the end of June.

During the period under review, the lease finance operations carried on through our Austrian and foreign leasing subsidiaries located in Klagenfurt, Ljubljana, Zagreb and Bratislava were based on a risk-orientated lending policy. The receivables portfolios of *BKS Leasing GmbH* and *BKS Immobilienleasing GmbH* continued to grow well, as they had in prior years, to total €161.3 million, notwithstanding the competitive distortions that were still being caused by the lease agreement levy. However, growth in Slovenia, Croatia and Slovakia still fell short of our expectations, giving us a receivables portfolio of €155.3 million in those markets. *BKS Bank d.d.* in Croatia, which is headquartered in Rijeka, accounted for €73.5 million of the receivables from customers reported on the semi-annual balance sheet. New business during the first six months of this year came to €31.7 million.

Targeted investments in financial assets—which consist of the sub-items financial assets designated as at fair value through profit or loss, available-for-sale (AFS) assets, held-to-maturity (HTM) financial assets and investments in other entities accounted for using the equity method — increased this line item to €1.43 billion, compared with €1.34 billion at the end of 2010. The line item *Financial assets designated as at fair value through profit or loss* was reduced to €96.6 million as hedged items matured as scheduled but the proceeds were not re-invested. The portfolio of available-for-sale financial assets was increased marginally, growing by 2.3 per cent to €317.3 million. The held-to-maturity portfolio grew by 17.1 per cent to €719.4 million; while we invested in fixed-interest bonds, paying particular attention to ensuring that they were eligible for refinancing by the ESCB, scheduled redemptions came to €33.0 million. Investments in entities accounted for using the equity method increased by €14.2 million.

Equity and liabilities

Changes on the equity and liabilities side of the Balance Sheet were mainly a reflection of the solid inflow of so-called *primary deposits*. At the end of June, the primary funds made available to us by our customers — these being both essential to our liquidity management activities and a clear sign of the confidence placed in our crisis-resistant business model — came to €4.38 billion, which was roughly 66 per cent of our balance sheet total. Reflecting the market's performance — the statistics that the *Bankenverband* (banking association) has released so far show that volumes are static — our bank too found it difficult to attract savings deposits in the first half. That was mirrored by a small drop in this line item, which fell by 2.8 per cent to €1.80 billion. Customers responded well to our countermeasures, which took the form of attractive *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts and a multi-rate passbook with a duration of four years that offers them an average interest rate of about 3 per cent *per annum*. In contrast, sight and time deposit balances grew strongly, increasing by 14.4 per cent to a total of €1.88 billion. This line item was strengthened mainly by institutional clients. The big increase in deposits in Slovenia is also worthy of note. Capital market rates were at all-time lows. As we have already mentioned, the yield on 10-year German *Bunds* was just 3 per cent at 30 June 2011, making it more difficult for us to issue our own bonds. Nonetheless, we were able to increase liabilities evidenced by paper and our supplementary capital by 5.1 per cent to €701.9 million during the first half. New issuances — BKS Bank bonds, supplementary capital and structured products — came to €56.6 million. Scheduled redemptions totalled €20.0 million.

The line item *Equity* on our Consolidated Balance Sheet as at 30 June 2011 was €14.5 million up on the beginning of the year to €642.3 million. BKS Bank's equity is detailed in the Statement of Changes in Equity on page 20.

Own funds

BKS Bank calculates its own funds ratio and basis of assessment in accordance with the EU Solvency Directive, which takes its bearings from Basel II. BKS Bank uses the standardized approach to calculate its own funds requirement. During the period under review, the increases in loan receivables and receivables arising from interbank operations increased the basis of assessment by €82.9 million to approximately €4.43 million. Our eligible own funds were only marginally down on the end of 2010 to €562.2 million. The drop in our supplementary own funds as supplementary capital matured was successfully compensated for by placements of the 4.75 per cent *BKS Bank-Ergänzungskapital Obligation 2011-2019/3* note. We had a Tier 1 ratio of 9.4 per cent at the end of the second quarter, which was only just down on the figure of 9.6 per cent recorded at the end of 2010. Our total capital ratio was 12.7 per cent, as against 13.1 per cent at the end of 2010. We comfortably exceeded the statutory minima of 8.0 per cent (own funds) and 4.0 per cent (Tier 1). Surplus own funds also remained high, at €207.9 million, and after taking account of the capital charge required for operational risk, our surplus own funds still provided an adequate basis for future lending growth for which capital charges will be required, coming to €181.2 million. We are working intensively on assessing the draft Capital Requirements Directive (CRD) 4 published by the European Commission on 20 July to implement the rules of Basel III in the Member States of the European Union — including, in particular, the regulatory capital requirements for banks — in the light of the impact scenarios that have already been developed by us in-house.

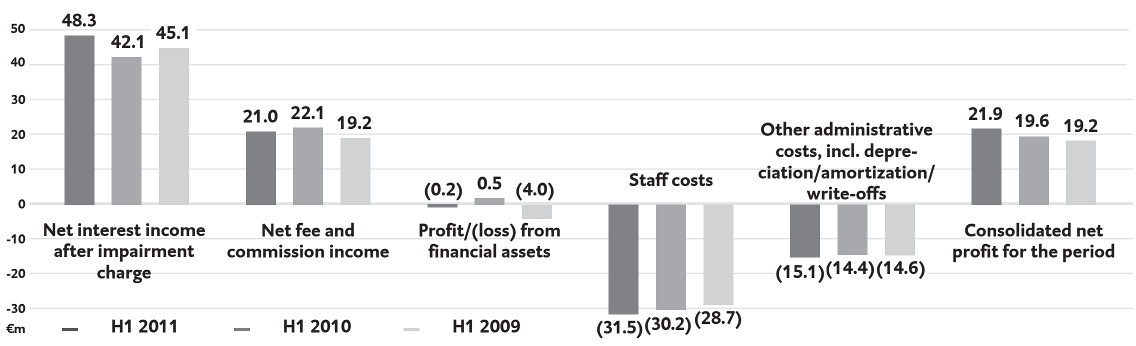
OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE

€m	30/6/2011	31/12/2010	31/12/2009
Share capital	65.5	65.5	65.5
Hybrid capital	40.0	40.0	20.0
Disclosed reserves net of treasury shares and intangible assets	309.2	311.1	284.0
Tier 1 capital	**414.7**	**416.6**	**369.5**
Deduction: 50% of stakes of 10% or more in banks and other financial institutions	46.7	46.7	46.7
Total after deductions pursuant to § 23 *Abs.*14 Z 8 BWG	**368.0**	**369.9**	**322.8**
Hidden reserves	10.3	10.3	10.3
Eligible supplementary capital	146.2	155.8	149.8
Balance of gains and losses taken to equity	66.4	65.2	63.9
Eligible subordinated liabilities	18.0	12.9	14.5
Supplementary own funds (Tier 2)	**240.9**	**244.2**	**238.5**
Deduction: 50% of stakes of 10% or more in banks and other financial institutions	46.7	46.7	46.7
Total after deductions pursuant to § 23 *Abs.*14 Z 8 BWG	**194.2**	**197.5**	**191.8**
Eligible own funds	**562.2**	**567.4**	**514.7**
Basis of assessment for the banking book	**4,428.0**	**4,345.1**	**4,258.4**
Own funds requirement	**354.2**	**347.6**	**340.7**
Own funds requirement for the trading book	2.8	2.9	2.8
— Of which arising from open currency positions	1.8	2.2	1.9
Own funds requirement for operational risk	26.8	25.0	23.2
Surplus own funds (taking account of operational risk)	**181.2**	**194.8**	**150.8**
Surplus own funds (disregarding operational risk)	**207.9**	**219.8**	**174.0**
Tier 1 ratio	**9.36%**	**9.59%**	**8.68%**
Own funds ratio	**12.70%**	**13.06%**	**12.09%**

Performance

Join us now for a look at the numbers in the Income Statement on page 18. Although the market environment was still challenging, BKS Bank delivered another respectable result in the first half of 2011. Profit for the period after tax was 11.5 per cent up on the first half of 2010 to €21.9 million. Once again, net interest income after the impairment charge on loans and advances was the principal driver of the increase in profitability, advancing by roughly 15 per cent compared with the same period of last year to €48.3 million despite the heavy pressure on margins. It is noteworthy in this connection that our risk position continued to improve, as evidenced by a 12.8 per cent decrease in the impairment allowance to €22.5 million. This was despite the fact that this line item included an increase of another €2.1 million in the allowance for country risks compared with the first quarter of 2011, taken it up to a total of €5.0 million.

Key Components of the Income Statement



Net fee and commission income in the first six months of this reporting year was 4.9 per cent down on the same period of last year to €21.0 million. This small decline was caused by a drop in fee and commission earnings from securities operations, which fell by €0.2 million to €5.6 million as a result of customer uncertainty in the wake of the global crisis, and by a fall-off in foreign payments caused primarily by the move away from foreign currency lending. The other components of our operating earnings mirrored the volatility of the capital markets. Having come to positive €0.5 million in the first quarter, our earnings from financial assets fell to negative €0.2 million over the first half. Rising market interest rates reduced our earnings from financial assets designated as at fair value through profit or loss compared with the first quarter of 2011. In the available-for-sale portfolio, we recognized an impairment of roughly €1.4 million to a bond fund in line with our strict internal impairment recognition rules.

The BKS Bank Group employed an average of 891 people (full-time equivalents) during the first half of 2011, compared with 872 in 2010. Staff costs were 4.4 per cent up on the first half of 2010 to €31.5 million. Twelve people were now working at our new foreign branch in Slovakia, and we increased the workforce at our branches in Slovenia by another 14 people. Pay rises under collective agreements did not take effect until 1 April in 2011. They were set at an average of 2.3 per cent. As the detailed breakdown of our general administrative expenses on page 26 shows, our other general administrative expenses (other administrative costs and depreciation or amortization of capital assets) were 5.1 per cent up on the same period of last year to €15.1 million. Thanks to strict cost discipline and continuous cost monitoring, we were able to keep a tight grip on them. For instance, premises and facility costs and marketing expenses remained substantially below budget. The stability levy (bank tax) payable to the inland revenue in the first half of 2011 came to approximately €0.83 million. It is included in *Other operating expenses*.

Ratios

Our generally satisfactory earnings gave us good corporate performance ratios in the period under review. Our cost:income ratio has been well below our internal 55 per cent benchmark for years, coming to 49.7 per cent in the first half of 2011. Our return on equity (ROE) before tax was only just under our 2011 target of 8.4 per cent at 8.0 per cent. We were able to keep our ROA after tax — the gauge of the total return on our assets — static compared with prior years at 0.7 per cent. Our risk:earnings ratio, the measure of the proportion of net interest income used to cover credit risk, was a passable 24.7 per cent. In the long term, our management target for the BKS Bank Group is a risk:earnings ratio of 20 per cent.

CORPORATE PERFORMANCE RATIOS

Per cent	H1 2011	2010	2009
Tier 1 ratio	9.36	9.59	8.68
Own funds ratio	12.70	13.06	12.09
ROE (before tax)	8.0	8.9	8.9
ROA (after tax)	0.7	0.7	0.7
Cost:income ratio	49.7	48.8	49.9
Risk:earnings ratio [1]	24.7	33.1	28.3

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

Segmental Report

Our segmental reporting is based on the organizational structure of the Group that underlies its internal management reporting system. There are three large business divisions, namely *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. We measure the performance of each segment on the basis of its profit before tax, return on equity, cost:income ratio and risk:earnings ratio. During 2010, we undertook restructuring within these three segments. Business customers with borrowings of up to €40,000 and self-employed customers and doctors with borrowings of up to €1 million were taken out of the corporate and business banking segment and added to the retail banking segment. The figures for prior years have been restated accordingly. This resegmentation affected some 4,900 customers. The aim was to service these groups of customers better and increase cross-selling penetration rates within them. All three segments showed a profit in the first half, and the corporate and business banking segment actually recorded substantial growth.

Corporate and Business Banking

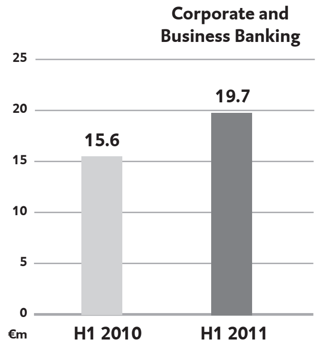
Roughly 12,900 customers were being serviced in the corporate and business banking segment. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and the Group's leasing companies insofar as they arose from customer business done with corporates and businesses.

The corporate and business banking segment remained the predominant operating unit by far within the BKS Bank Group even after the restructuring process. This segment's profit for the period before tax was substantially up on the first half of 2010, increasing by 26.2 per cent to €19.7 million. We point out that although net interest income in this segment, at €43.7 million, was still 4.6 per cent down on the good figure recorded in the first half of 2010 as margins continued to erode, the brighter economic horizon visibly improved our risk position. Compared with a figure of €25.1 million in the six months ended 30 June 2010, it proved possible to reduce the charge for impairment losses on loans and advances by roughly one third to €17.2 million. This segment's risk:earnings ratio improved accordingly, falling from 54.7 per cent in the first half of 2010 to 39.4 per cent in the period under review. Competitive market conditions set narrow limits on growth in our net fee and commission income. However, we were able to continue our good performance in 2010 with slight growth of 0.5 per cent to €10.8 million. Thanks to strict cost discipline, general administrative expenses charged to this segment were only €1.3 million up on the same period of last year to €18.4 million. As a result, this segment's performance remained well balanced. Its return on equity (ROE based on profit for the period) improved by 350 basis points to 15.6 per cent. On the other hand, its cost:income ratio weakened slightly, rising from 29.6 per cent to 33.2 per cent. Since the medium-term outlook for the economy has now deteriorated again, we will continue to focus mainly on improving margins and reducing the risks associated with our lending operations in the months and quarters to come.

Retail Banking

Approximately 123,000 customers of *BKS Bank AG*, *BKS Bank d.d.* and the leasing companies within the Group (*BKS-Leasing GmbH*, *BKS-leasing d.o.o.*, *BKS-leasing Croatia d.o.o.*, *BKS-Leasing a.s.*) were being serviced in the retail banking segment. In addition to personal banking customers and jobholders, this reporting segment also encompassed small business owners, doctors and self-employed customers. Because it is highly dependent on branch operations, this segment is naturally very resource and cost intensive. Nonetheless, it is indispensable to us as our most important source of funds. Roughly 86 per cent of savings deposit balances and over a quarter of sight and time deposit balances — that is, roughly 55 per cent of our payables to customers — are currently generated by our retail banking operations.

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



ROE	12.1%	15.6%
CIR	29.6%	33.2%
RER	54.7%	39.4%

ROE	15.6%	8.6%
CIR	86.1%	91.4%
RER	4.7%	1.7%

ROE	3.0%	2.2%
CIR	45.7%	23.3%
RER	—	24.1%

A detailed segmental breakdown is presented in the Notes to the Consolidated Financial Statements on page 30.

While strict cost discipline enabled us to keep general administrative expenses at the same level as in prior periods, at €23.9 million, this segment's profit remained unsatisfactory. Profit for the period before tax fell from €3.0 million in the first half of 2010 to €2.0 million in the period under review. Although net interest income increased slightly, to €16.1 million, net fee and commission income was below average. This was the result of a drop in earnings from securities operations and a decline in fee and commission income from foreign payments. Whereas the segment's cost:income ratio and return on equity were still significantly weaker than in the first half of 2010, at 91.4 per cent and 8.6 per cent, respectively (H1 2010: CIR: 86.1 per cent; ROE: 15.6 per cent), it proved possible to cut the charge for impairment losses in this segment to an exceptionally low figure of €0.3 million. This gave it a risk:earnings ratio of just 1.7 per cent, which was roughly 300 basis points below the already low ratio of 4.7 per cent recorded in the same period of 2010. This was the fruit both of our risk-aware management of new business and of an increase in the level of collateralization in the retail customers segment.

Financial Markets

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

The financial markets segment closed the first half of 2011 with profit for the period before tax of €3.7 million, compared with €4.3 million in the first two quarters of 2010. With the small rise in market interest rates, which had previously remained static and low, came growth in net interest income in this segment, increasing it to €10.4 million. €5.6 million of this total was accounted for by an advance in so-called *structural income* at *BKS Bank AG*. This year's first-time recognition of a charge for country risks in the portfolio and the impairment of a bond fund—costing €5.0 million and €1.4 million, respectively—set a limit on the segment's otherwise satisfactory performance. Its ROE before tax was 80 basis points down on the same period of last year to 2.2 per cent. The increase in operating profit improved its cost:income ratio to 23.3 per cent. Following the first-time charge for country risks, the financial markets segment had an annualized risk:earnings ratio of 24.1 per cent.

Risk Report

BKS Bank has always been an active participant in transactions in the financial and capital markets and is continuously exposed to the risks of those markets. Our bank's risk management strategy is founded on our tried and tested conservative handling of all banking risks. They are analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. BKS Bank's ability to fully capture and measure those risks and to monitor and manage them close to real time is crucial to the Group's long-term success. Our risk management process therefore actively anticipates changes in market conditions to limit possible losses on business activities and to optimize our risk and return profile. When we accept risks, we thus continuously evaluate them to assess whether they are viable in the light of our risk bearing capacity and worthwhile from an opportunities and risk perspective. The methods we use to measure risk are state-of-the-art and based on common practice in the banking industry. As a consequence of the risk strategy we apply, the areas of risk of most importance to BKS Bank are credit risk (which includes equity investment risk), market risk, liquidity risk and operational risk.

BKS Bank's risk policy standards, accountabilities and management principles are enshrined both in its business principles and in its risk strategy, which targets the efficient deployment of own funds from a risk and return point of view. A Management Board member who is not involved in front-office operations has central responsibility for risk management at BKS Bank, which is based on official regulatory recommendations. It should be noted that the large loan risks incurred by BKS Bank and the 3 *Banken Group* are secured by *Alpenländische Garantie-Gesellschaft mbH* (ALGAR), which is a 3 *Banken* subsidiary set up in 1983.

Credit risk

Credit risk (also called default risk) is one of the most important risks in banking. It affects not only classical banking products (e.g. credit products und guarantees) but also certain trades (e.g. forwards, futures, swaps and options). Credit risk is the risk of partial or total non-payment of contractually agreed payments on loans and advances. These may result, among other things, from a counterparty's poor credit standing or 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.

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

€m	30/6/2011	30/6/2010
Direct write-offs	0.4	0.3
Impairment allowances	25.2	28.5
Impairment reversals	(3.0)	(2.8)
Subsequent recoveries	(0.1)	(0.2)
Charge for impairment losses	**22.5**	**25.8**

The charge for impairment losses came to €22.5 million in the first half. This was a respectable 12.8 per cent down on the same period of 2010. As the table shows, impairment allowances of €25.2 million were required. These included impairment charges recognized on an item-by-item basis, commission payments to ALGAR and collective assessments of impairments of customer and country portfolios carried out in accordance with IAS 39. The renewed downgrading of Greek and Portuguese debt by the international rating agencies led to an increase of another €2.1 million in the charge for country risks, taking it up to €5.0 million. It is of note that the overall charge required for risks in foreign markets fell significantly, decreasing by €2.4 million to €0.6 million.

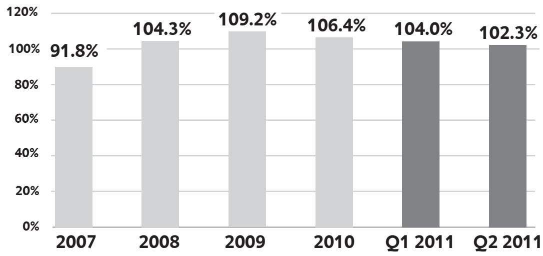
Market risk

The market risks are interest rate risk, currency risk and equity price risk. These kinds of risk are mainly a consequence of adverse and unanticipated changes in economic and competitive conditions. We manage market risks and set market risk limits using a combination of different ways of gauging risk (value at risk, modified duration, volumes and economic capital stress testing). The value-at-risk approach is used as a quantitative measure of market risks in the trading and banking books under given market conditions. Value at risk is an estimate of the maximum possible loss that could be incurred within a given period and with a given probability. Investments in fixed-interest securities and routine adjustments to interest rates at the end of the first half increased our duration risk from €29.5 million at the beginning of the year to €42.6 million at the end of the period under review. We took countermeasures, entering into payer interest rate swaps. During the first half, the ratio of our interest rate risks to our eligible own funds assuming a rate shift of 200 basis points as reportable to *OeNB* fell by 2.3 percentage points to 6.3 per cent. As a result, it was again well below the critical 20 per cent mark. As for currency risk, the value of our open currency positions came to €20.6 million, staying below the figure of €22.6 million recorded at the end of 2010. Our foreign currency value at risk was again very low, at €373 thousand, compared with €280 thousand at year-end 2010. The €2.3 million increase in equity value at risk to €6.7 million reflected the increased volatility of the equity markets.

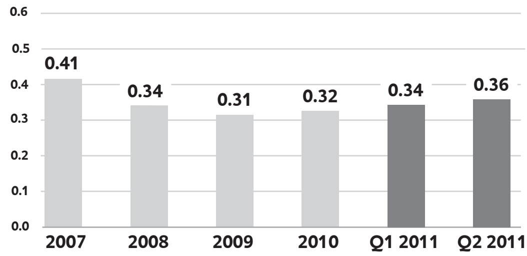
Liquidity risk

On the one hand, we define liquidity risk as the risk that BKS Bank might not be able to meet its present or future financial obligations in full or in time. On the other, there is the latent risk that BKS Bank might only be able to raise funds at higher than usual market rates (funding risk) or liquidate assets at massively below normal market rates or prices (market liquidity risk), especially in a crisis situation. At BKS Bank, liquidity management and, therefore, ensuring solvency at all times is done with the help of a daily maturity gap analysis for each main currency. Limits have been defined at the short end to set boundaries to our liquidity

LOAN:DEPOSIT RATIO



DEPOSIT CONCENTRATION



risks. To ensure liquidity, we mainly hold highly liquid securities that are eligible for refinancing with the ECB as a liquidity buffer. As a lender, we prefer to hold ‘tenderable’ assets. At 30 June 2011, we had a solid liquidity surplus of €0.78 billion as potential collateral for any borrowings. We regularly calculate the ratio of our receivables from customers to our primary deposit balances (the loan:deposit ratio), giving us another meaningful gauge of the success of our liquidity management activities. This ratio has been falling gradually since 2009, coming to 102.3 per cent at the end of June. This brought us another step closer to our target benchmark of 100 per cent. The calculation of deposit concentration presented above helps us estimate the deposit withdrawal risk caused by the possibility of a run on deposits. At the end of the second quarter of 2011, it was 0.36. This variable gauges the risk associated with large deposits. It is calculated by breaking all customer deposit balances down into predefined size classes and the relative amounts thereof and applying weighting factors of between 0 and 1 to them. A deposit concentration ratio of close to 1 would indicate a worryingly high predominance of large deposits.

Throughout the period under review, we always met the minimum liquidity requirements laid down in § 25 *BWG*. Our access to the money and capital markets remained unrestricted during the first half of 2011.

Operational risk

BKS Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people or systems or from external events. Such risks can increase BKS Bank’s costs or reduce its profits. Consequently, to name a few examples, failures of IT systems, material damages, processing errors and fraud are subjected to a precise and, above all, consolidated risk measurement and risk management process that, among other things, serves as the basis for calculating our capital at risk. At BKS Bank, the management of operational risk is the responsibility of the relevant operating departments and responsible individuals (so-called *risk-taking units*). A total of 114 loss events were reported during the first half. Allowing for reimbursed losses, the actual operational risk loss was just €429 thousand.

Outlook for the year as a whole

It is currently hard to say whether the latest turbulence in the world’s stock markets will, in retrospect, turn out to be a mere cleansing summer squall or the harbinger of another hurricane front. Politicians, banks and the business community will certainly need to consistently implement and continue the reforms that have been begun in order to contain the runaway debt crises on both sides of the Atlantic if they are to succeed in convincing the market’s deeply unnerved participants that the financial markets are going to permanently settle down.

The economic picture has worsened appreciably in recent weeks, especially in the United States and the big industrialized countries. Nonetheless, growth in the emerging markets is only weakening slowly, so the world economy will expand robustly this year. Similarly, the outlook for the corporate sector remains bright. Of late, players in the financial and capital markets have almost completely disregarded these important facts, and debt problems and fears of a renewed slide back into recession in the United States that might also infect other countries and regions continue to dominate the markets. In addition, little notice has been taken of the fact that key interest rates in the big industrialized countries are still low and will therefore support economic recovery.

The outlook in the banking sector and, therefore, for BKS Bank is plagued by uncertainty. The possibility of another escalation of the European debt crisis seems to be the biggest risk factor. On the other hand, the new regulatory framework (Basel III) is taking concrete form, resulting in greater clarity about the operating environment of the future. The new stability levy (bank tax) will cost us roughly an additional €1.7 million in 2011. We believe that the business environment in the coming months will be challenging and plagued by market uncertainties. We will continue to consistently apply our customer-orientated strategy — a strategy founded on risk discipline, capital efficiency and earnings diversification. Underpinned by our healthy equity base, we will be pressing ahead with the development of our classical banking operations in our Austrian and foreign markets. However, if the markets are reasonably stable, it is foreseeable that the competition for deposits from retail banking customers will go on intensifying in quarters to come, depressing margins in that area. Nonetheless, given our solid performance during the first half, we expect our profit for the year 2011 to enable us to further increase BKS Bank's enterprise value by augmenting its reserves at the same time as distributing an appropriate dividend.

We remain,

Yours faithfully,

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

The 3 Banken Group at a glance

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	**H1 2011**	**H1 2010**	**H1 2011**	**H1 2010**	**H1 2011**	**H1 2010**
Net interest income	70.8	67.9	167.8	154.7	80.8	74.9
Impairment charge on loans and advances	(22.5)	(25.8)	(50.7)	(51.6)	(19.1)	(16.2)
Net fee and commission income	21.0	22.1	53.0	50.4	22.0	22.0
General administrative expenses	(46.6)	(44.5)	(112.4)	(104.3)	(46.0)	(44.2)
Profit for the period before tax	24.3	22.0	69.5	57.9	38.1	31.8
Consolidated net profit for the period	21.9	19.6	60.3	47.7	31.6	27.5
Balance sheet data, €m	**30/6/2011**	**31/12/2010**	**30/6/2011**	**31/12/2010**	**30/6/2011**	**31/12/2010**
Assets	6,602.2	6,238.2	16,924.6	16,768.4	9,043.8	8,886.6
Receivables from customers after impairment allowances	4,554.9	4,498.2	10,571.3	10,129.7	5,881.2	5,774.8
Primary deposit balances	4,377.1	4,158.5	10,994.3	11,135.3	6,121.0	6,167.6
– Of which savings deposit balances	1,795.1	1,847.2	3,356.0	3,447.2	1,253.1	1,284.2
– Of which liabilities evidenced by paper	701.9	667.6	2,224.1	2,232.6	1,179.3	1,287.2
Equity	642.3	627.8	1,212.7	1,160.9	698.1	676.1
Customer assets under management	10,471.3	10,023.5	20,047.9	19,912.7	10,553.5	10,688.9
– Of which in customers' securities accounts	6,094.2	5,865.0	9,053.6	8,777.4	4,432.5	4,521.3
Own funds within the meaning of BWG, €m	**30/6/2011**	**31/12/2010**	**30/6/2011**	**31/12/2010**	**30/6/2011**	**31/12/2010**
Risk-weighted assets	4,428.0	4,345.1	10,158.4	9,795.8	5,945.7	5,736.5
Own funds	562.2	567.4	1,584.4	1,635.1	846.3	853.2
– Of which Tier 1	414.7	416.6	1,028.6	1,028.7	593.0	596.7
Surplus own funds before operational risk	207.9	219.8	769.0	849.0	369.6	392.8
Surplus own funds after operational risk	181.2	194.8	709.8	789.8	347.0	370.2
Tier 1 ratio, %	9.36	9.59	10.13	10.50	9.97	10.40
Own funds ratio, %	12.70	13.06	15.60	16.69	14.23	14.87
Performance, %	**H1 2011**	**2010**	**H1 2011**	**2010**	**H1 2011**	**2010**
Return on equity before tax	8.0	8.9	11.8	10.6	11.2	9.6
Return on equity after tax	6.9	7.7	10.2	9.1	9.3	7.6
Cost:income ratio	49.7	48.8	48.3	50.3	44.7	47.2
Risk:earnings ratio	24.7	33.1	30.2	32.6	23.7	28.7
Resources	**H1 2011**	**2010**	**H1 2011**	**2010**	**H1 2011**	**2010**
Average number of staff	891	872	2,032	1,996	787	794
Branches and other business units	54	55	144	143	41	41

Consolidated Financial Statements as at and for the Six Months Ended 30 June 2011

Income Statement of the BKS Bank Group for the period from 1 January to 30 June 2011

1 JANUARY – 30 JUNE 2011

€k	Note	1/1–30/6/2011	1/1–30/6/2010	+/(-) Change, %
Interest income		105,452	100,908	4.5
Interest expenses		(42,856)	(40,496)	5.8
Profit from investments in entities accounted for using the equity method		8,186	7,512	9.0
Net interest income	(1)	**70,782**	**67,924**	**4.2**
Impairment charge on loans and advances	(2)	(22,502)	(25,817)	(12.8)
Net interest income after impairment charge		**48,280**	**42,107**	**14.7**
Fee and commission income		22,406	27,352	(18.1)
Fee and commission expenses		(1,389)	(5,260)	(73.6)
Net fee and commission income	(3)	21,017	22,092	(4.9)
Net trading income	(4)	925	1,137	(18.6)
General administrative expenses	(5)	(46,589)	(44,535)	4.6
Other operating income net of other operating expenses	(6)	949	661	43.6
Profit/(loss) from financial assets (FV)	(7)	878	(1,037)	>100
Profit/(loss) from financial assets (AFS)	(8)	(1,112)	1,582	>100
Profit for the period before tax		**24,348**	**22,007**	**10.6**
Income tax expense	(9)	(2,478)	(2,390)	3.7
Profit for the period		**21,870**	**19,617**	**11.5**
Minority interests in profit for the period		(2)	(2)	—
Consolidated net profit for the period after minorities		**21,868**	**19,615**	**11.5**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit for the period after minorities		21,868	19,615	11.5
Income and expenses not recognized in profit or loss				
– Exchange differences		(52)	161	>100
– Available-for-sale reserve		(2,744)	2,884	>100
– Arising from investments in entities accounted for using the equity method		1,572	3,517	(55.3)
– Deferred taxes on items taken directly to equity		718	(857)	>100
Comprehensive income		**21,362**	**25,320**	**(15.6)**

QUARTERLY REVIEW

€k	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Interest income	54,528	50,924	54,478	51,416	51,205
Interest expenses	(22,191)	(20,665)	(20,038)	(20,728)	(20,969)
Profit from investments in entities accounted for using the equity method	4,639	3,547	5,073	5,506	4,504
Net interest income	**36,976**	**33,806**	**39,513**	**36,194**	**34,740**
Impairment charge on loans and advances	(10,095)	(12,407)	(11,221)	(10,522)	(9,853)
Net interest income after impairment charge	**26,881**	**21,399**	**28,292**	**25,672**	**24,887**
Net fee and commission income	10,096	10,921	11,012	9,438	10,861
Net trading income	538	387	338	93	779
General administrative expenses	(23,766)	(22,823)	(24,288)	(22,649)	(22,395)
Other operating income net of other operating expenses	349	600	(1,124)	268	(226)
Profit/(loss) from financial assets (FV)	(1,170)	2,048	2,648	515	(1,027)
Profit/(loss) from financial assets (AFS)	(1,205)	93	892	502	(1,589)
Profit for the period before tax	**11,723**	**12,625**	**17,770**	**13,839**	**11,290**
Income tax expense	(597)	(1,881)	(2,458)	(2,339)	(472)
Profit for the period	**11,126**	**10,744**	**15,312**	**11,500**	**10,818**
Minority interests in profit for the period	(1)	(1)	(1)	(1)	(1)
Consolidated net profit for the period after minorities	**11,125**	**10,743**	**15,311**	**11,499**	**10,817**

Balance Sheet of the BKS Bank Group as at 30 June 2011

ASSETS

€k	Note	30/6/2011	31/12/2010	+/(-) Change, %
Cash and balances with the central bank	(10)	92,085	114,922	(19.9)
Receivables from other banks	(11)	369,566	151,161	>100
Receivables from customers	(12)	4,717,247	4,647,335	1.5
– Impairment allowance balance	(13)	(162,350)	(149,149)	8.9
Trading assets	(14)	1,142	408	>100
Financial assets designated as at fair value through profit or loss	(15)	96,559	127,560	(24.3)
Available-for-sale financial assets	(16)	317,265	309,999	2.3
Held-to-maturity financial assets	(17)	719,446	614,401	17.1
Investments in entities accounted for using the equity method	(18)	299,677	285,524	5.0
Intangible assets	(19)	11,638	11,775	(1.2)
Property and equipment	(20)	75,798	73,097	3.7
Investment property	(21)	16,696	16,543	0.9
Deferred tax assets	(22)	19,003	15,873	19.7
Other assets	(23)	28,417	18,726	51.8
Total assets		**6,602,189**	**6,238,175**	**5.8**

EQUITY AND LIABILITIES

€k	Note	30/6/2011	31/12/2010	+/(-) Change, %
Payables to other banks	(24)	1,386,901	1,283,998	8.0
Payables to customers	(25)	3,675,241	3,490,971	5.3
Liabilities evidenced by paper	(26)	433,325	404,201	7.2
Trading liabilities	(27)	594	490	21.2
Provisions	(28)	81,552	82,642	(1.3)
Deferred tax liabilities	(29)	12,665	12,154	4.2
Other liabilities	(30)	100,986	72,541	39.2
Subordinated debt capital	(31)	268,571	263,361	2.0
Equity		642,354	627,817	2.3
Total minority interests and equity		642,352	627,818	2.3
Minority interests in equity		2	(1)	>100
Total equity and liabilities		**6,602,189**	**6,238,175**	**5.8**

EARNINGS AND DIVIDEND PER SHARE

	30/6/2011	30/6/2010
Average number of shares in issue	32,236,357	32,197,416
Dividend per share, €	0.25	0.25
Earnings per share, € (diluted and undiluted)	1.36	1.22

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

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Retained Earnings	Profit for the Year	Equity
At 1 January 2011	65,520	97,929	417,940	46,429	627,818
Distribution				(8,048)	(8,048)
Taken to retained earnings			38,381	(38,381)	0
Profit for the period				21,870	21,870
Gains and losses taken directly to equity			(506)		(506)
Increase in share capital					
Other changes			1,218		1,218
– Arising from use of the equity method			2,757		
– Arising from changes in treasury shares			(1,515)		
At 30 June 2011	**65,520**	**97,929**	**457,033**	**21,870**	**642,352**
Available-for-sale reserve					15,941
Deferred tax reserve					(2,001)

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Retained Earnings	Profit for the Year	Equity
At 1 January 2010	65,520	97,929	373,629	40,441	577,519
Distribution				(8,057)	(8,057)
Taken to retained earnings			32,384	(32,384)	0
Profit for the period				19,617	19,617
Gains and losses taken directly to equity			5,705		5,705
Increase in share capital					
Other changes			2,004		2,004
– Arising from use of the equity method			1,347		
– Arising from changes in treasury shares			704		
At 30 June 2010	**65,520**	**97,929**	**413,722**	**19,617**	**596,788**
Available-for-sale reserve					16,192
Deferred tax reserve					(2,736)

Cash Flow Statement

CASH FLOWS

€k	1/1/ – 30/6/2011	1/1/ – 30/6/2010
Cash and cash equivalents at end of previous period	**114,922**	**131,642**
Net cash from/(used in) operating activities	95,727	(33,340)
Net cash from/(used in) investing activities	(113,838)	(18,211)
Net cash from/(used in) financing activities	(4,726)	192
Cash and cash equivalents at end of period	**92,085**	**80,283**

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

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

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the six months ended 30 June 2011 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) applicable as at the reporting date and as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

II. Recognition and measurement

Scope of consolidation

Consolidated:

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

Entities accounted for using the equity method:

- *Oberbank AG*, Linz
- *Bank für Tirol und Vorarlberg AG*, Innsbruck
- *Alpenländische Garantie-Gesellschaft mbH*, Linz
- *Drei-Banken Versicherungs-Aktiengesellschaft*, Linz

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

Consolidation policies

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

Foreign currency translation

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

Impairment allowance balance

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis and creating provisions. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet. We recognized charges for individual risk positions on an item-by-item basis applying class-specific criteria. Provisions for contingent liabilities were recognized on the equity and liabilities side of the Balance Sheet in the line item *Provisions*. A collective assessment of impairment of the portfolio was likewise carried out in accordance with IAS 39 para. 64, a collective assessment of impairment of the portfolio for country risks being recognized for the first time as of 31 March 2011. The exposure outstanding at the reporting date was broken down into risk classes and appropriate risk weights were applied.

Trading assets and liabilities

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

Derivatives

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

Receivables

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

Property, equipment, intangible assets (non-current) and investment property

Property, equipment, intangible assets (non-current) and investment property 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.

Leasing

The leased assets within the Group required recognition as assets leased under finance leases (the risks and rewards incident to ownership of an asset lying 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 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). They were thus measured at fair value through profit or loss and any revaluation gains or losses were recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss*.

Available-for-sale financial assets

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

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

Investment property
This line item encompasses property intended for letting to third parties. It was measured at amortized cost (*cost method*). The fair values of our investment properties are disclosed in the Notes. They were, for the most part, based on estimates (external expertises).

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

Payables
Payables were recognized at the amounts payable.

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

Equity
Equity consists of paid-in capital and earned capital (retained earnings, gains and losses taken to equity in accordance with IAS 39 and profit for the year or period).

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 provisions of IAS 19. An interest rate of 4.25 per cent was applied when calculating provisions for post-employment, termination and jubilee benefits (31 December 2010: 4.25 per cent). Other parameters were applied as follows:
– salary trend: 2.25 per cent (31 December 2010: 2.25 per cent);
– career trend: 0.25 per cent (31 December 2010: 0.25 per cent).

The 'corridor approach' was not applied. Actuarial gains and losses were recognized immediately through profit or loss in the Income Statement.

The provision for mortality benefits was also calculated in accordance with IFRSs.

Calculation of goodwill
A goodwill impairment test is performed annually. When goodwill on the Balance Sheet is tested for impairment, its carrying amount is compared with the present value of the company's interest in all future cash flows.

Present value is measured on the basis of a discounted cash flow model. A two-phase mathematical model is used.

Phase 1: In phase 1, cash flows in the ensuing five years are calculated and discounted on the basis of the company's budgets.
Phase 2: In phase 2, a perpetual annuity is calculated on the basis of cash flow in the most recent plan year.

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

Net interest income

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

Impairment charge on loans and advances

This line item captures impairment allowances, impairment reversals and direct write-offs (transfers 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 assumptions and estimates made for the purposes of the Consolidated Financial Statements were made on the basis of the knowledge and information available at the copy deadline date.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Interest income from:			
Credit operations	77,996	74,051	5.3
Fixed-interest securities	16,581	15,521	6.8
Lease receivables	6,129	6,255	(2.0)
Shares and investments in other entities	4,199	4,544	(7.6)
Investment property	547	537	1.9
Total interest income	105,452	100,908	4.5
Interest expenses on:			
Deposits from customers and other banks [1]	29,906	29,351	1.9
Liabilities evidenced by paper	12,788	10,974	16.5
Investment property	162	171	(5.3)
Total interest expenses	42,856	40,496	5.8
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	9,825	8,163	20.4
Financing costs of investments in entities accounted for using the equity method [2]	(1,639)	(651)	>100
Profit from investments in entities accounted for using the equity method	**8,186**	**7,512**	**9.0**
Net interest income	**70,782**	**67,924**	**4.2**

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

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

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Impairment allowances	25,237	28,466	(11.3)
Impairment reversals	(3,030)	(2,776)	9.1
Direct write-offs	437	329	32.8
Recoveries on receivables previously written off	(142)	(202)	(29.7)
Impairment charge on loans and advances	**22,502**	**25,817**	**(12.8)**

(3) NET FEE AND COMMISSION INCOME

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Fee and commission income from:			
Payment services	9,107	8,945	1.8
Securities operations	6,100	6,232	(2.1)
Credit operations	5,334	5,464	(2.4)
International operations	1,071	5,957	(82.0)
Other services	794	754	5.3
Total fee and commission income	22,406	27,352	(18.1)
Fee and commission expenses arising from:			
Payment services	661	599	10.4
Securities operations	442	403	9.7
Credit operations	153	253	(39.5)
International operations	18	3,876	(99.5)
Other services	115	129	(10.9)
Total fee and commission expenses	1,389	5,260	(73.6)
Net fee and commission income	**21,017**	**22,092**	**(4.9)**

(4) NET TRADING INCOME

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Price-based contracts	82	14	>100
Interest rate and currency contracts	843	1,123	(24.9)
Net trading income	**925**	**1,137**	**(18.6)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Staff costs	31,492	30,174	4.4
– Wages and salaries	22,610	21,815	3.6
– Social security costs	5,690	5,445	4.5
– Costs of retirement benefits	3,192	2,914	9.5
Other administrative costs	12,099	11,387	6.3
Depreciation/amortization	2,998	2,974	0.8
General administrative expenses	**46,589**	**44,535**	**4.6**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Other operating income	2,672	2,497	7.0
Other operating expenses	(1,723)	(1,836)	(6.2)
Other operating income net of other operating expenses	**949**	**661**	**43.6**

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

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Revaluation gains and losses on derivatives	943	(1,804)	>100
Gain/(loss) as a result of using the fair value option	(65)	767	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	**878**	**(1,037)**	**>100**

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

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(1,112)	1,582	>100
Profit/(loss) from available-for-sale financial assets	**(1,112)**	**1,582**	**>100**

(9) INCOME TAX EXPENSE

€k	1/1/–30/6/2011	1/1/–30/6/2010	+/(-) Change, %
Current tax	(4,320)	(3,167)	36.4
Deferred tax	1,842	777	>100
Income tax expense	**(2,478)**	**(2,390)**	**3.7**

Details of the Balance Sheet

(10) CASH AND BALANCES WITH THE CENTRAL BANK

€k	30/6/2011	31/12/2010	+/(-) Change, %
Cash in hand	29,761	30,119	(1.2)
Credit balances with central banks of issue	62,324	84,803	(26.5)
Cash and balances with the central bank	**92,085**	**114,922**	**(19.9)**

(11) RECEIVABLES FROM OTHER BANKS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Receivables from Austrian banks	170,866	82,164	>100
Receivables from foreign banks	198,700	68,997	>100
Receivables from other banks	**369,566**	**151,161**	**>100**

(12) RECEIVABLES FROM CUSTOMERS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Corporate and business banking customers	3,650,036	3,607,883	1.2
Retail banking customers	1,067,211	1,039,452	2.7
Receivables from customers	**4,717,247**	**4,647,335**	**1.5**

(13) IMPAIRMENT ALLOWANCE BALANCE

€k	30/6/2011	31/12/2010	+/(-) Change, %
At beginning of period under review	149,149	113,401	31.5
+ Added	23,827	47,195	(49.5)
– Reversed	3,013	(4,258)	>100
– Used	7,595	(7,147)	>100
+ Exchange differences	(18)	(42)	(57.1)
At end of period under review	**162,350**	**149,149**	**8.9**

(14) TRADING ASSETS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	340	0	>100
Shares and other variable-yield securities	324	0	>100
Positive fair values of derivative financial instruments			
– Interest rate contracts	478	408	17.2
Trading assets	**1,142**	**408**	**>100**

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

€k	30/6/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	52,793	82,097	(35.7)
Loans	43,766	45,463	(3.7)
Financial assets designated as at fair value through profit or loss	**96,559**	**127,560**	**(24.3)**

(16) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	168,707	178,621	(5.6)
Shares and other variable-yield securities	100,174	83,365	20.2
Investments in other associates and in subsidiaries	33,236	32,864	1.1
Other equity investments	15,148	15,149	0.0
Available-for-sale financial assets	**317,265**	**309,999**	**2.3**

(17) HELD-TO-MATURITY FINANCIAL ASSETS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	719,446	614,401	17.1
Held-to-maturity financial assets	**719,446**	**614,401**	**17.1**

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

€k	30/6/2011	31/12/2010	+/(-) Change, %
Oberbank AG	202,269	189,772	6.6
Bank für Tirol und Vorarlberg AG	92,471	90,815	1.8
Alpenländische Garantie-GmbH	960	960	0.0
Drei-Banken Versicherungs-AG	3,977	3,977	0.0
Investments in entities accounted for using the equity method	**299,677**	**285,524**	**5.0**

(19) INTANGIBLE ASSETS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Goodwill	8,888	8,888	0.0
Other intangible assets	2,750	2,887	(4.7)
Intangible assets	**11,638**	**11,775**	**(1.2)**

(20) PROPERTY AND EQUIPMENT

€k	30/6/2011	31/12/2010	+/(-) Change, %
Land	2,716	2,679	1.4
Buildings	47,823	48,192	(0.8)
Other	25,259	22,226	13.6
Property and equipment	**75,798**	**73,097**	**3.7**

(21) INVESTMENT PROPERTY

€k	30/6/2011	31/12/2010	+/(-) Change, %
Land	8,274	8,248	0.3
Buildings	8,422	8,295	1.5
Investment property	**16,696**	**16,543**	**0.9**

(22) DEFERRED TAX ASSETS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Deferred tax assets	**19,003**	**15,873**	**19.7**

(23) OTHER ASSETS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Positive fair values of derivative financial instruments	14,764	8,628	71.1
Other items	11,309	8,021	41.0
Deferred items	2,344	2,077	12.9
Other assets	**28,417**	**18,726**	**51.8**

(24) PAYABLES TO OTHER BANKS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Payables to Austrian banks	988,013	961,280	2.8
Payables to foreign banks	398,888	322,718	23.6
Payables to other banks	**1,386,901**	**1,283,998**	**8.0**

(25) PAYABLES TO CUSTOMERS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Savings deposit balances	**1,795,107**	**1,847,218**	**(2.8)**
Corporate and business banking customers	256,535	312,012	(17.8)
Retail banking customers	1,538,572	1,535,206	0.2
Other payables	**1,880,134**	**1,643,753**	**14.4**
Corporate and business banking customers	1,401,434	1,149,255	21.9
Retail banking customers	478,700	494,498	(3.2)
Payables to customers	**3,675,241**	**3,490,971**	**5.3**

(26) LIABILITIES EVIDENCED BY PAPER

€k	30/6/2011	31/12/2010	+/(-) Change, %
Issued bonds	294,976	279,800	5.4
Other liabilities evidenced by paper	138,349	124,401	11.2
Liabilities evidenced by paper	**433,325**	**404,201**	**7.2**

(27) TRADING LIABILITIES

€k	30/6/2011	31/12/2010	+/(-) Change, %
Interest rate contracts	594	490	21.2
Trading liabilities	**594**	**490**	**21.2**

(28) PROVISIONS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	69,588	69,082	0.7
Provisions for taxes (current tax)	4,098	4,026	1.8
Other provisions	7,866	9,534	(17.5)
Provisions	**81,552**	**82,642**	**(1.3)**

(29) DEFERRED TAX LIABILITIES

€k	30/6/2011	31/12/2010	+/(-) Change, %
Deferred tax liabilities	**12,665**	**12,154**	**4.2**

(30) OTHER LIABILITIES

€k	30/6/2011	31/12/2010	+/(-) Change, %
Negative fair values of derivative financial instruments	60,818	54,490	11.6
Other items	38,755	16,518	>100
Deferred items	1,413	1,533	(7.8)
Other liabilities	**100,986**	**72,541**	**39.2**

(31) SUBORDINATED DEBT CAPITAL

€k	30/6/2011	31/12/2010	+/(-) Change, %
Supplementary capital	228,571	223,361	2.3
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**268,571**	**263,361**	**2.0**

(32) SEGMENTAL REPORTING

Method: Net interest income was allocated using the *market interest rate method*. Incurred costs were allocated to individual business segments on a cost-by-cause basis. So-called *structural income* was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was measured 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 also one of the principal benchmarks for managing business segments. Our segmental reporting is based on our internal management processes. We carried out resegmention within our segments—*Corporate and Business Banking*, *Retail Banking* and *Financial Markets*—as of 30 September 2010. The retail banking segment was enlarged to include business conducted with self-employed customers and small businesses. Comparative figures for the previous year were restated accordingly.

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	H1 2011	H1 2010	H1 2011	H1 2010	H1 2011	H1 2010
Net interest income	16,140	15,754	43,724	45,822	10,415	6,338
Impairment charge on loans and advances	(274)	(735)	(17,207)	(25,082)	(5,021)	0
Net fee and commission income	9,485	10,850	10,787	10,732	294	339
Net trading income	0	0	0	0	925	1,137
General administrative expenses	(23,891)	(23,490)	(18,356)	(17,071)	(2,718)	(3,114)
Other operating income net of other operating expenses	511	666	758	1,214	37	(995)
Profit/(loss) from financial assets	0	0	0	0	(234)	545
Profit for the period before tax	**1,971**	**3,045**	**19,706**	**15,615**	**3,698**	**4,250**
Average risk-weighted assets	571,845	488,458	3,150,129	3,217,129	605,629	600,985
Average allocated equity	45,748	39,077	252,010	257,370	328,799	283,645
ROE based on profit for the period	**8.6%**	**15.6%**	**15.6%**	**12.1%**	**2.2%**	**3.0%**
Cost:income ratio	**91.4%**	**86.1%**	**33.2%**	**29.6%**	**23.3%**	**45.7%**
Risk:earnings ratio	**1.7%**	**4.7%**	**39.4%**	**54.7%**	**24.1%**	**0.0%**

€k	Other		Total	
	H1 2011	H1 2010	H1 2011	H1 2010
Net interest income	503	10	70,782	67,924
Impairment charge on loans and advances	0	0	(22,502)	(25,817)
Net fee and commission income	451	171	21,017	22,092
Net trading income	0	0	925	1,137
General administrative expenses	(1,624)	(860)	(46,589)	(44,535)
Other operating income net of other operating expenses	(357)	(224)	949	661
Profit/(loss) from financial assets	0	0	(234)	545
Profit for the period before tax	**(1,027)**	**(903)**	**24,348**	**22,007**
Average risk-weighted assets	58,906	52,430	4,386,509	4,359,002
Average allocated equity	8,528	7,062	635,085	587,154
ROE based on profit for the period	—	—	**8.0%**	**7.5%**
Cost:income ratio	—	—	**49.7%**	**48.5%**
Risk:earnings ratio [1]	—	—	**24.7%**	**38.0%**

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

(33) CONTINGENT LIABILITIES AND COMMITMENTS

€k	30/6/2011	31/12/2010	+/(-) Change, %
Guarantees	390,196	410,626	(5.0)
Letters of credit	1,607	5,352	(70.0)
Contingent liabilities	**391,803**	**415,978**	**(5.8)**
Other commitments	728,544	632,580	15.2
Commitments	**728,544**	**632,580**	**15.2**

(34) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place at BKS Bank after the interim reporting date (30 June 2011) affecting the assets, liabilities, financial position or profit or loss as presented in this report.

(35) BALANCE OF DERIVATIVES OUTSTANDING

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

30/6/2011 €k	Nominal, by Term to Maturity				Fair Value	
	To 1 Year	1 – 5 Years	Over 5 Years	Total	Positive	Negative
Currency contracts	**1,282,599**	**895,826**		**2,178,425**	**7,692**	**40,297**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**86,928**	**798,508**	**92,364**	**977,800**	**5,386**	**17,138**
– Of which in trading book	51,610	47,770	18,842	118,222	233	271
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,369,527**	**1,694,334**	**92,364**	**3,156,225**	**13,078**	**57,435**
– Of which in trading book	51,610	47,770	18,842	118,222	233	271

31/12/2010 €k	Nominal, by Term to Maturity				Fair Value	
	To 1 Year	1 – 5 Years	Over 5 Years	Total	Positive	Negative
Currency contracts	**1,023,674**	**1,009,547**	**—**	**2,033,221**	**2,241**	**31,798**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**117,340**	**811,636**	**85,214**	**1,014,190**	**6,305**	**19,733**
– Of which in trading book	51,610	62,652	9,284	123,546	230	260
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,141,014**	**1,821,183**	**85,214**	**3,047,411**	**8,546**	**51,531**
– Of which in trading book	51,610	62,652	9,284	123,546	230	260

(36) MATERIAL TRANSACTIONS WITH RELATED PARTIES AND PERSONS

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

This Interim Report does not require auditing and, therefore, has not been audited or examined in full by an auditor.

Forward-looking Statements
This Interim Report as at and for the six months ended 30 June 2011 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. These forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 18 August 2011. If the assumptions upon which the 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
The German version of this report is the authentic version for all legal purposes. Interim reports in English are translations.

Statement by BKS Bank's Management

"We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the six months ended 30 June 2011 prepared in accordance with the applicable financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Group Management Report for the period 1 January to 30 June 2011 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to important events occurring during the first six months of the financial year and their impact on the Consolidated Interim Financial Statements and with respect to the material risks and uncertainties for the remaining six months of the financial year."

Klagenfurt am Wörthersee
18 August 2011

The Management Board



Heimo Penker
CEO

Member of the Management Board responsible for the Corporate and Business Banking and Retail Banking segments, Human Resources, Public Relations, Marketing and Investor Relations. Regional responsibility for the conduct of business in the Group's Carinthian and Styrian market territories within Austria and for Italy.

Herta Stockbauer
Member of the Management Board

Member of the Management Board responsible for International Business, Accounts and Sales Controlling, Treasury/Proprietary Trading, Capital Markets Law, Construction, Subsidiaries and Equity Investments. Within Austria, she is responsible for the Group's 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 Controlling, Risk Management and Compliance, the Loan Back Office, Business Organization and IT and *Drei-Banken-EDV GmbH*.

Financial Calendar for 2011

31 March 2011:	Press Conference to present the Annual Financial Statements for 2010
1 April 2011:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2010 in the Internet and in the official *Wiener Zeitung* gazette
18 May 2011:	72nd Ordinary General Meeting (AGM)
23 May 2011:	Ex-dividend date
26 May 2011:	Dividend payment date

BKS Bank's Interim Reports

20 May 2011:	Interim Report as at and for the 3 months ended 31 March 2011
19 August 2011:	Interim Report as at and for the 6 months ended 30 June 2011
18 November 2011:	Interim Report as at and for the 9 months ended 30 September 2011

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