A Shareholders Letter About Responsible Action

Interim Report to 30 September 2011

BKS Bank
3 Banken Gruppe

Contents

THE BKS BANK GROUP AT A GLANCE

Income account, €m	1/1–30/9/2011	1/1–30/9/2010	1/1–30/9/2009
Net interest income	110.1	104.1	97.6
Impairment charge on loans and advances	(28.8)	(36.3)	(29.1)
Net fee and commission income	31.6	31.5	28.9
General administrative expenses	(69.2)	(67.2)	(65.6)
Profit for the period before tax	26.4	35.8	32.0
Consolidated net profit for the period after tax	25.9	31.1	29.2

Balance sheet data, €m	30/9/2011	31/12/2010	31/12/2009
Assets	6,420.9	6,238.2	6,315.9
Receivables from customers after impairment charge	4,595.8	4,498.2	4,350.2
Primary deposit balances	4,225.8	4,158.5	3,907.9
– Of which savings deposit balances	1,813.5	1,847.2	1,804.6
– Of which liabilities evidenced by paper, including subordinated debt capital	699.1	667.6	564.7
Equity	640.1	627.8	577.5
Customer assets under management	10,055.4	10,023.5	9,343.5
– Of which in customers' securities accounts	5,829.6	5,865.0	5,435.6

Own funds within the meaning of BWG, €m	30/9/2011	31/12/2010	31/12/2009
Risk-weighted assets	4,446.2	4,345.1	4,258.4
Own funds	555.0	567.4	514.7
– Of which Tier 1 capital	414.1	416.6	369.5
Surplus own funds before operational risk	199.3	219.8	174.0
Surplus own funds after operational risk	172.5	194.8	150.8
Tier 1 ratio, %	9.3	9.6	8.7
Own funds ratio, %	12.5	13.1	12.1

Ratios, %	1/1–30/9/2011	2010	2009
Return on equity before tax	7.1	8.9	8.9
Return on equity after tax	6.8	7.7	7.8
Cost:income ratio	47.7	48.8	49.9
Risk:earnings ratio (credit risk in per cent of net interest income) [1]	21.6	33.1	28.3

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

Resources	1/1–30/9/2011	2010	2009
Average number of staff	894	872	872
Branches and other business units	54	55	55

BKS Bank's shares	1/1–30/9/2011	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, €	18.6/15.6	18.4/15.4	18.2/15.3
Low: ordinary/preference share, €	17.8/14.8	15.9/13.7	16.5/13.6
Close: ordinary/preference share, €	18.0/15.4	18.4/15.4	18.1/14.7
Market capitalization, €m	585.0	595.8	586.8

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

We welcome you very warmly to our third Shareholders Letter in 2011. Based on these financial statements as at and for the nine months ended 30 September — which were prepared in accordance with the International Financial Reporting Standards (IFRSs) — we can report that BKS Bank's core operations developed robustly during the first three quarters of this year. On the other hand, we will be telling you about the banking sector's EU-wide coordinated and concerted measures to stem the European national debt crisis.

The debt crises ongoing on both sides of the Atlantic have been getting increasingly burdensome to the global financial markets and the real economy. Nonetheless, the Group's assets grew by 2.9 per cent to over €6.4 billion between the beginning of the year and the reporting date. In addition, in the first nine months of this year, our net interest income after the impairment charge on loans and advances was one fifth up on the same period of 2010 to €81.4 million. At the same time, we kept a tight grip on our general administrative expenses, which came to just under €70 million.

On the other side of the coin, as reported in the media, the European Council — the name given to the meeting of the Presidents or Prime Ministers of each EU Member State — reached a major milestone on the stony road to resolving the debt and banking crisis on 26 October when it took important decisions in at least three areas of direct relevance to banks. These will also directly impact on our bank. To ensure that Greece is not declared insolvent by the international rating agencies, banks and other private financial intermediaries in the eurozone are being asked to voluntarily write off half of their Greek debt — there is talk of a total of roughly €100 billion — by exchanging existing bonds for new ones. In addition, it has been suggested that the minimum capital adequacy requirement for "systemically relevant" banks should be increased to 9 per cent of their basis of assessment by mid-2012. The European Banking Authority (EBA) has calculated a provisional capital adequacy requirement of €106 billion for 70 of the 91 banks that underwent the Europe-wide stress test this year, with Austrian banks accounting for roughly €2.9 billion of the total. Finally, in the future, the provisional European Stability Mechanism (ESM) will allow the granting of up to €750 billion of guaranteed loans by the Member States of the EU, the European Financial Stability Facility (EFSF) and the IMF. What is more, the volume of the EFSF is to be leveraged up from its present total of €440 billion to at least €1 trillion. This might, for instance, be done by the EFSF covering part of the investor's risk — whether the investor is a public sector or private lender — associated with newly issued government bonds.

Most European banks having already written down their portfolios — above all their holdings of Greek government bonds — in previous quarters, the carrying amounts of these bonds had to be written down again to 50 per cent. BKS Bank too complied in full with the findings of the EU summit and wrote down the relevant securities in its portfolio of held-to-maturity assets in accordance with the summit's resolutions in the third quarter. As a result, BKS Bank's consolidated net profit for the first three quarters was 16.9 per cent down on its very good result in the same period of 2010 to €25.9 million. At the same time, even though the banking environment remained as challenging as before, we recorded a respectable return on equity of 7.1 per cent. The impairment charge was over one fifth down on the same period of 2010 to €28.8 million, and both our risk:earnings ratio and our cost:income ratio fell to low levels, coming to 21.6 per cent and 47.7 per cent, respectively. Our Tier 1 ratio at the end of the period under review was 9.3 per cent, and our own funds ratio came to 12.5 per cent.

Looking at the global situation, 2011 has to date been overshadowed by a number of unusual and worrying events and developments. In particular, we recall the horrific disasters in Japan, the revolutions in the Islamic nations of North Africa and the Middle East and, not least, the rampant debt crises in Europe and the United States. The economic outlook and, with it, market conditions have also deteriorated rapidly in BKS Bank's core markets over the past two quarters. The development of the banking sector in general and BKS Bank in particular in the last quarter of 2011 will depend decisively on the future course of the European national debt crisis. We see the possibility of a further escalation of the crisis caused by one or more eurozone countries becoming insolvent as the biggest risk factor. The consequences for the financial markets and the real economy cannot yet be predicted.

Group Management Report for the Nine Months Ended 30 September 2011

The economic setting in which banks are operating

The global economy continued to recover until mid-2011, but the recovery slowed perceptibly in the third quarter. Macroeconomic growth also weakened in the emerging markets of Asia, Eastern Europe and South America. On the other hand, the Japanese economy recovered astonishingly quickly after the natural disasters in March. In the United States too, there have recently been increasing signs of a small surge in GDP growth. The fears of inflation that had now begun to develop were superseded by rising investment and private consumption, although the U.S. labour market remained tense with employment above 9 per cent.

In the eurozone, the unresolved national debt crisis is being reflected mainly by a drop in consumer confidence. In addition, sentiment in the corporate sector has also deteriorated perceptibly in recent months. This has mainly been due to the weaker export outlook. In particular, the economies of the peripheral European countries are being hit ever harder by the effects of government belt-tightening. Greece and Portugal have already been in economic difficulties for some time. Spain and Italy — which has recently been in the headlines — are also in an economic trough at the moment. In the first half, the German economy was still being driven by the high international competitiveness of the country's medium enterprises. On the other hand, key leading indicators like, above all, incoming orders and output forecasts, have recently weakened considerably. The EU Commission is predicting that the eurozone's real GDP will still grow by 1.5 per cent this year thanks mainly to the economy's robust development during the first half. However, growth in both the EU and the eurozone is likely to come virtually to a standstill towards year-end. According to EU jobless statistics, unemployment in the eurozone was 10.2 per cent in September 2011.

The exports-driven economic recovery continued in Austria as well, albeit in a slightly weakened form. According to a WIFO (Austrian Institute of Economic Research) bulletin, output in the economy as a whole went on growing strongly up to mid-year and was back to pre-crisis levels during the first half of 2011. Output — in particular in the material goods sector — has been increased significantly this year. Postponed investments in plant and equipment have now been carried out, resulting in a real increase of 8 per cent. However, the construction industry only emerged from the economic shadows for a brief period. Private consumption has made another solid contribution to growth in 2011, increasing by 0.9 per cent in real terms during the period under review. However, company surveys in Austria and abroad have for some time been revealing uncertainty among the economy's players and pointing to an impending weakening of economic momentum. Economic growth of 2.9 per cent is being forecast for 2011, and real growth is expected to weaken to just 0.8 per cent in 2012. This year, the jobless rate will stabilize at 6.7 per cent of the working population applying Austrian statistical methods or 4.2 per cent of the working population applying the *Eurostat* definition.

The weakening economy also eased the upward pressure on prices in raw material markets. Consequently, having risen from €71.04 a barrel at the beginning of the year to a peak of €87.45 in April in the wake of high market volatility, Brent crude was trading at just €76.57 a barrel at the end of September. Gold, which had in the interim already passed the US$1,800 mark in response to the obstinate debt crises in the eurozone and the United States was trading at US$1,624.40 a fine ounce at the end of September.

Developments in the capital markets have also been shaped by the subdued economic outlook and the renewed escalation of the European national debt crisis in recent months. Alongside Greece, Spain in particular and, most recently, Italy have come under closer scrutiny by the international rating agencies. Since the beginning of August, the ECB and other eurozone central banks have been buying the government bonds of both those countries to prevent the crisis from intensifying and, above all, to stop it having a knock-on effect on the real economy. Among other things, after the interest rate hikes carried out by the ECB in April and

July 2011, worsening economic outlooks in the eurozone caused a turnaround in the market's expectations regarding the ECB's future interest rate adjustments. During its meeting on 3 November 2011, the ECB council decided to cut its benchmark rate by 25 basis points. The ECB's new president, Mario Draghi, justified this surprising move with the significant deterioration in the eurozone's growth outlook and the predicted drop in inflationary pressure. The minimum bid rate on main refinancing operations in euros, the peak refinancing rate and the deposit facility rate are currently 1.25, 2.00 and 0.50 per cent, respectively. At the end of September, the 3-month Euribor rate was 1.554 per cent, compared with 1.001 per cent at the beginning of the year. The Swiss National Bank already lowered its SNB target for the 3-month Libor to 0.0 – 0.25 per cent in August. On the other hand, the Federal Reserve in the United states left its target range for the federal funds rate unchanged at 0.0 – 0.25 per cent. At the end of September, the benchmark yield on German 10-year *Bunds* was just under 2 per cent. The money market rate (based on the 1-month Euribor) rose from 0.774 per cent at the beginning of the year to 1.358 per cent at 30 September, mirroring growing tension in the banking sector: banks suffered heavy revaluation losses on their assets as a result of the national debt crisis, and at the same time, their business prospects were affected by stricter capital adequacy requirements.

The value of the euro versus the key reference currencies was equally volatile during the period under review. The US$/€ exchange rate began the year at US$1.3348/€. For a long time, its movements mirrored concern about the monetary union's long-term future, the U.S. economy's gloomy outlook and the Federal Reserve's extremely expansionary monetary policy. However, the threat of bankruptcy of the Greek government became the focus of market players' attention again towards the end of the third quarter. The euro was trading at US$1.3503 at the end of September. It weakened slightly to ¥103.79 during the first three quarters, the yen having recently regained its strength. After starting the year at SFr1.2465, the euro reached a striking low of SFR1.0451 in August. However, it ended September at SFr1,2170/€ once the SNB had set a minimum target rate of SFr1.2/€.

With an unusually large number of trouble spots developing, the tensions that had been building up since the beginning of the year erupted into a serious slump on the major stock exchanges. It mainly hit European and U.S. financial stocks, cyclically sensitive companies and other cyclical industries from July. The DAX dropped by roughly one quarter in the third quarter alone to end September at 5,502.02 points. That compared with 6,989.74 points at the beginning of the year. The Dow Jones Industrial Average fell to 10,719.94 points from an interim peak of 12,724.41 points in July and ended September at 10,913.38 points. Similarly, the broader MSCI World Equity Index in euros retreated by 12.4 per cent to 107.97 points during the first three quarters. The principal reasons were, once again, the national debt crises and the growing fears of a slide into recession associated with the downgrading of U.S. debt. In Europe, one of the main focuses was on the likelihood of default by Greece and Italy. The relevant bank credit default swap rates — the benchmarks for loan loss insurance — responded by rising sharply.

At the close of trading in September, the BKS Bank ordinary no-par share was worth €18.0 and the BKS Bank no-par preference share had reached €15.4. At the close of the third quarter, BKS Bank had market capitalization of €585 million.

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 the performance of *BKS Bank AG*. In the period under review, it 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 banks, holding stakes of 18.51 and 15.10 per cent, respectively, it exerts a significant influence as the result of long-term syndicate agreements. Consolidated net profit for the nine months ended 30 September 2011 includes BKS Bank's interests in these banks' profit for the period. The other consolidated entities, most of which are

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]	
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. and BKS Finance s.r.o. make up a subgroup.

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**	

designated as real estate companies, render banking-related ancillary services. The scope of consolidation did not change in the third quarter.

Assets, liabilities and financial position

Assets

At 30 September, the BKS Bank Group had assets of €6.42 billion, which was 2.9 per cent or €182.7 million more than at the end of 2010. On the assets side of the Balance Sheet, receivables from customers increased by 2.3 per cent or €107.8 million to €4.76 billion. IFRSs require an impairment allowance to be deducted from receivables from customers. In the first three quarters, the impairment allowance balance increased by 6.8 per cent or €10.1 million to €159.3 million. Receivables from other banks increased by 17.0 per cent or €25.6 million to €176.8 million. There was also an increase in the line item *Financial assets*, which grew by 5.2 per cent overall to total €1.41 billion at the end of September.

As in prior periods, *BKS Bank AG*'s receivables from customers increased most in absolute terms in both the corporate and business banking and retail banking segment during the period under review. Our new branch in Slovakia already reported €15.4 million of new business. We continued to consistently reduce our foreign currency loan portfolio. This portfolio shrank by SFr33.4 million in the third quarter alone, and it shrank by SFr76.0 million during the first nine months. As a result, the foreign currency portion of BKS Bank's total receivables stood at 18.5 per cent at the end of September.

Market conditions braked business growth somewhat. Consequently, the lease finance operations carried on through our Austrian and foreign leasing subsidiaries located in Klagenfurt, Ljubljana, Zagreb and Bratislava were still down on 2010 at the end of September. Compared with a portfolio of €327.8 million at the end of 2010, the portfolio had a present value of €315.6 million at the end of the first three quarters of 2011. On the other hand, our Croatian banking subsidiary *BKS Bank d.d.*, which is headquartered in Rijeka, thrived, contributing €81.5 million to our profit for the period.

Financial assets consists of the sub-items financial assets designated as at fair value through profit or loss, available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets and investments in other entities accounted for using the equity method. Hedged items matured as scheduled but we freshly invested €8.4 million, taking the line item *Financial assets designated as at fair value through profit or loss* to €105.3 million. Our portfolio of available-for-sale financial assets was slightly down on 30 September 2010 to €307.9 million. The held-to-maturity portfolio grew by 12.2 per cent to €689.1 million. The focus was on investing in fixed-interest bonds eligible for refinancing by the ESCB. Investments in entities accounted for using the equity method increased by 6.9 per cent to €305.1 million.

Equity and liabilities

On the equity and liabilities side of the Balance Sheet, payables to customers, liabilities evidenced by paper and payables to other banks all increased. The changes in our equity and liabilities in the first nine months of this year were thus a reflection of the pleasing inflow of so-called *primary deposits* in the form of time deposits and liabilities evidenced by paper. Primary deposit balances came to €4.23 billion at the end of September, accounting for roughly 66 per cent of our consolidated balance sheet total. However, in line with developments in the market, our bank too found it difficult to attract savings deposits. The confusion caused by the national debt crisis increased the demand for alternative ways of investing among the banking sector's unnerved customers. In particular, they were looking for property investments. We counteracted the small drop of 1.8 per cent in our savings deposit balances, which fell to €1.81 billion, by offering customers competitive savings terms and attractive maturities. In contrast, sight and time deposit balances grew by 4.2 per cent overall to total €1.71 billion. This line item was strengthened mainly by institutional clients. The big increase in deposits in Slovenia is also worthy of note.

It is essential for us to issue securities of our own if we are to plan our liquidity on a congruent maturities basis. Although capital market rates were at record lows, notwithstanding the trend towards shorter lock-in periods and despite the attractions of investing in real estate, issue volumes were 4.7 per cent or €31.5 million up on the same period of 2010, increasing liabilities evidenced by paper inclusive of supplementary capital to roughly €700 million. We placed new issues totalling €80 million in the first nine months of this year, adding covered bonds to the range to make our spectrum of securities even more attractive.

The line item *Equity* on our Consolidated Balance Sheet as at 30 September 2011 was €12.3 million up on the beginning of the year to €640.1 million. BKS Bank's equity is detailed in the Statement of Changes in Equity on page 20.

Own funds

BKS Bank calculates its own funds ratio and basis of assessment in accordance with the Solvency Directive, which takes its bearings from Basel II. BKS Bank uses the standardized approach to calculate its own funds requirement. The basis of assessment increased by €101.1 million to roughly €4.45 billion during the first three quarters. This was, above all, due to the increase in receivables from customers. BKS Bank's eligible own funds were only just down on the end of 2010 to €555.0 million. The drop in supplementary own funds due to maturing supplementary capital was successfully compensated for by placements of the 4.75 per cent *BKS Bank-Ergänzungskapital Obligation 2011-2019/3* note. BKS Bank had a Tier 1 ratio of 9.3 per cent at the end of the third quarter, which was only just down on the figure of 9.6 per cent recorded at the end of 2010. BKS Bank's total capital ratio was 12.5 per cent, compared with 13.1 per cent at the end of 2010. BKS Bank significantly 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 nearly €200 million, and after taking account of the capital charge required for operational risk, BKS Bank's surplus own funds still provided an adequate basis for future lending growth for which capital charges will be required, coming to €172.5 million.

BKS Bank was already 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 in the light of the impact scenarios that have already been developed by us in-house.

OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE

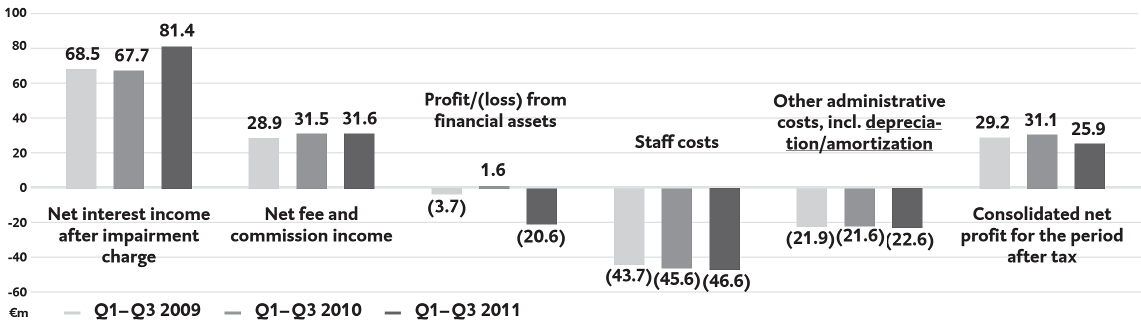
€m	31/12/2009	31/12/2010	30/9/2011
Share capital	65.5	65.5	65.5
Hybrid capital	20.0	40.0	40.0
Disclosed reserves net of treasury shares and intangible assets	284.0	311.1	308.6
Tier 1 capital	**369.5**	**416.6**	**414.1**
Deduction: 50% of stakes of 10% or more held in banks and other financial institutions	46.7	46.7	46.7
Total after deductions pursuant to § 23 *Abs.14 Z 8 BWG*	**322.8**	**369.9**	**367.4**
Hidden reserves	10.3	10.3	10.3
Eligible supplementary capital	149.8	155.8	134.4
Balance of gains and losses taken to equity	63.9	65.2	66.7
Eligible subordinated liabilities	14.5	12.9	22.9
Supplementary own funds (Tier 2)	**238.5**	**244.2**	**234.3**
Deduction: 50% of stakes of 10% or more held in banks and other financial institutions	46.7	46.7	46.7
Total after deductions pursuant to § 23 *Abs.14 Z 8 BWG*	**191.8**	**197.5**	**187.6**
Eligible own funds	**514.7**	**567.4**	**555.0**
Basis of assessment for the banking book	**4,258.4**	**4,345.1**	**4,446.2**
Own funds requirement	**340.7**	**347.6**	**355.7**
Own funds requirement for the trading book	2.8	2.9	2.6
— Of which arising from open currency positions	1.9	2.2	1.6
Own funds requirement for operational risk	23.2	25.0	26.8
Surplus own funds (taking account of operational risk)	**150.8**	**194.8**	**172.5**
Surplus own funds (disregarding operational risk)	**174.0**	**219.8**	**199.3**
Tier 1 ratio	**8.68%**	**9.59%**	**9.31%**
Own funds ratio	**12.09%**	**13.06%**	**12.48%**

Performance

Although the market environment was still challenging, our interest rate and service operations developed very satisfactorily during the period under review. Net interest income after the impairment charge on loans and advances was roughly one fifth up on the same period of 2010 to €81.4 million. The 20.8 per cent or €7.6 million reduction in the impairment charge to €28.8 million was a contributing factor. The diminishing need for impairment charges and our consistent terms and conditions also led to a significant increase in the net interest income after impairment charges reported by our leasing companies in Austria and abroad, which came to €4.1 million. At *BKS Bank d.d.*, it came to €2.3 million.

Our service operations built on our successes in 2010, generating net fee and commission income of €31.6 million. Both credit operations and payment services made an essential contribution to our results, accounting for net fee and commission income of €8.1 million and €12.8 million, respectively. Fee and commission earnings from securities operations weakened slightly, falling from €8.3 million in the first three quarters of 2010 to €8.2 million in the period under review. This was a consequence of the high volatility of the stock markets, which was particularly pronounced in the third quarter. The other components of our operating earnings also mirrored the nervousness in the financial markets. As a result, our earnings from foreign payment services, which came to €1.8 million, were significantly down on the figure of €2.4 million recorded in the nine months ended 30 September 2010. However, we must add that in 2010, these earnings were increased by, above all, switches from Swiss franc loans to euro loans. Having come to €1.6 million in the first three quarters of 2010, the line item *Profit/(loss) from financial assets*, which consists of the sub-items *Profit/(loss) from financial assets designated as at fair value through profit or loss*, *Profit/(loss) from available-for-sale financial assets* and *Profit/(loss) from held-to-maturity financial assets*, fell to negative €20.6 million. In the

Components of the Income Statement



portfolio of financial assets designated as at fair value through profit or loss, revaluations made necessary by the sharp drop in rates on payer interest rate swaps and fair value hedges cost €2.4 million. In the available-for-sale portfolio, we were compelled to write down investment fund holdings by about €1.0 million in line with our internal impairment policies. Finally, in the held-to-maturity portfolio, we had to write Greek government bonds down by €17.2 million. We thus allowed for the decisions made by the EU summit on 26 October while taking account of the impairment charges for country risk already made in the first and second quarters of 2011. In particular, we wrote two Greek government bonds maturing in 2014 and 2017 and carrying coupons of 4.3 per cent and 4.5 per cent down to 50 per cent of their original cost, having purchased them for a total €44.9 million.

Our general administrative expenses during the first three quarters of this year came to €69.2 million, or 3.0 per cent more than in the same period of 2010. The BKS Bank Group employed an average of 894 people during the period under review, compared with 872 in the 12 months up to the end of 2010. Staff costs were just 2.1 per cent or €1.0 million up on the first nine months of 2010. 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. Our other general administrative expenses (other administrative costs and depreciation or amortization of capital assets) were 5.0 per cent up on the same period of 2010 to €22.6 million. Despite the increase in consultancy costs associated with a series of pioneering projects, they were well below budget.

As a result of the developments we have described, the BKS Bank Group recorded profit for the period before tax in the first nine months of this year of €26.4 million, as against €35.8 million in the same period of 2010. The stability levy (bank tax) payable to the inland revenue in the first three quarters of 2011 came to approximately €1.2 million. It is included in *Other operating expenses*. Consolidated net profit for the period after tax came to €25.9 million. This compared with €31.1 million in the same period of 2010, which means that it was 16.9 per cent down on the first nine months of that year.

Ratios

CORPORATE PERFORMANCE RATIOS

Per cent	2009	2010	2011
Tier 1 ratio	8.68	9.59	9.31
Own funds ratio	12.09	13.06	12.48
ROE (before tax)	8.9	8.9	7.1
ROA (after tax)	0.7	0.7	0.7
Cost:income ratio	49.9	48.8	47.7
Risk:earnings ratio [1]	28.3	33.1	21.6

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

Recently, the BKS Bank Group's key performance ratios for the first three quarters of 2011 have suffered, above all, from the revaluations made necessary by the European national debt crisis. The Group's return on equity before tax fell to 7.1 per cent. However, we were able to keep its return on assets — the gauge of the total return on its assets — static compared with the same period of 2010 at 0.7 per cent. Good operational interest and fee and commission earnings combined with a subdued increase in expenses resulted in a record low cost:income ratio of 47.7 per cent. The Group's cost:income ratio has already been well below our internal 55 per cent benchmark for years. The Group's risk:earnings ratio — the measure of the proportion of net interest income used to cover credit risk — came to an acceptable 21.6 per cent in the period under review. In the long term, our management target for the BKS Bank Group is a risk:earnings ratio of 20 per cent.

Segmental Report

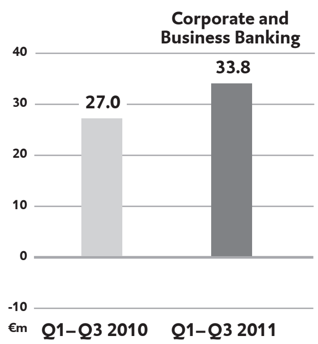
Our segmental reporting is based on the organizational structure of the Group underlying its internal management reporting system. BKS Bank focuses its activities on three large business divisions, namely *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. We measure the performance of each of those segments on the basis of its profit before tax, return on equity, cost:income ratio and risk:earnings ratio.

Corporate and Business Banking

Roughly 12,600 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.

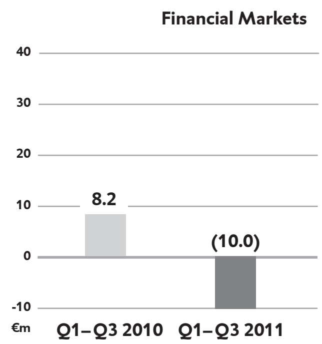
The corporate and business banking segment remained the predominant operating unit by far within the BKS Bank Group even after being restructured. The economic environment was much more clement than in the first three quarters of 2010. Against this backdrop, this segment's earnings grew robustly. The improved risk situation also helped. This segment's profit for the period before tax increased by over a quarter or €6.8 million compared with the same period of 2010 to €33.8 million. We point out that net interest income in this segment, which came to €66.6 million, was 4.8 per cent or €3.4 million down on the solid figure recorded in the same period of 2010 as a result of the pressure on loan margins. Thanks to the improvement in economic conditions in Austria and BKS Bank's territories close to the border, it proved possible to reduce the charge for impairment losses by €12.3 million to €22.9 million. This segment's risk:earnings ratio improved accordingly, falling to 34.4 per cent from 50.2 per cent in the same period of 2010. Although competition set narrow limits on the growth in net fee and commission income, we were able to continue our solid progress in prior periods, increasing it by 5.9 per cent to €16.7 million. General administrative expenses charged to the corporate and business banking segment increased by 9.6 per cent or €2.4 million to €27.8 million. This segment's performance was correspondingly well balanced. Its return on equity (ROE in relation to profit for the period) on the basis of capital employed of €253.6 million improved by 340 basis points to 17.7 per cent. Its cost:income ratio increased marginally from 29.0 per cent to 32.9 per cent. Since the outlook for the economy has deteriorated significantly in recent weeks, we will continue to focus particularly closely on improving the margins and reducing the risks associated with our lending operations in the quarters to come.

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



ROE	14.3%	17.7%
CIR	29.0%	32.9%
RER	50.2%	34.4%

ROE	9.6%	8.5%
CIR	88.9%	90.4%
RER	5.0%	3.5%



ROE	3.8%	(4.1%)
CIR	37.1%	20.5%
RER	—	21.2%

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

Retail Banking

Approximately 124,300 customers of *BKS Bank AG*, *BKS Bank d.d.* and the leasing companies within the Group (*BKS-Leasing GmbH*, *BKS-leasing d.o.o.*, *BKS-leasing Croatia d.o.o.*, *BKS-Leasing a.s.*) were being serviced in the retail banking segment. In addition to personal banking customers and jobholders, this segment now also encompasses small business owners, doctors and self-employed customers, who migrated to it last year. 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 two thirds of our payables to customers — are currently generated by our retail banking operations. In addition, retail customers account for over one fifth of our lending.

This segment's profit for the period before tax came to €3.0 million, which was only just down on the same period of 2010. Net interest income in the period under review came to €25.1 million, compared with €23.7 million in the first nine months of 2010. The increase was primarily due to higher deposit margins. However, this pleasing growth was offset by the drop in fee and commission earnings caused by a fall in turnover-related earnings from securities operations and by a decline in fee and commission income from foreign payment services. Earnings from services in this segment fell by €1.3 million to €13.9 million. On the other hand, thanks to strict cost discipline, we were able to keep general administrative expenses static compared with prior periods at €36.0 million. The segment's cost:income ratio and return on equity remained disappointing in the period under review, at 90.4 and 8.5 per cent, respectively. In contrast, its risk:earnings ratio was excellent, at 3.5 per cent, which was 150 basis points below the very low ratio already recorded in the same period of 2010 (RER of 5.0 per cent) following a charge for impairment losses in this segment of just €0.9 million. It was the fruit both of our risk-aware management of new business and of an increase in the level of collateralization in the retail banking 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.

During the period under review, this segment's earnings reflected the positive impact of our so-called *structural income* on profit. At the same time, they mirrored the European national debt crisis, which continued to escalate, especially in the third quarter. A write-down of €17.1 million had to be made to our holdings of Greek government bonds on the basis of the EU summit on 26 October in addition to the impairment charges for country risk that had already been made. This resulted in profit for the period of negative €10.0 million, compared with profit of €8.2 million in the nine months up to the end of September 2010. In addition, we reduced our exposure to the loan markets of the "PIIGS" countries to a minimum in the light of the suggested political solutions to the problem of carrying out the urgently needed consolidation of Europe's national budgets, which, to date, seem only to have been half-hearted. Because of a deterioration in borrower quality, we already sold €10.0 million of Italian government bonds in August. The loss of €116 thousand realized on their sale was recognized in profit for the period. At the end of September 2011, our exposures in Portugal, Ireland, Italy, Greece and Spain came to just €39.2 million. Consequently, the financial burdens on BKS Bank were the national debt crisis to spread to other countries would stay within manageable limits.

PIIGS EXPOSURES

€m	Bonds (Without Covered Bonds), by Impairment
Portugal	0
Ireland	0
Italy	2.8
Greece	23.6
Spain	12.8
Total	**39.2**

Based on equity employed in this segment of €325.8 million, its return on equity before tax weakened from 3.8 per cent in the first three quarters of 2010 to negative 4.1 per cent in the period under review. Since this segment is unaffected by our profit or loss from financial assets, its cost:income ratio stayed low at 20.5 per cent. After the impairment charge for country risk, the financial markets segment had an annualized risk:earnings ratio of 21.2 per cent as of 30 September 2011.

Risk Report

BKS Bank pursues a risk policy that is uncompromisingly prudent and conservative. All our operational and other banking risks are analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures. Our risk management process strives always to limit possible losses on our business activities and to optimize our risk and return profile. When we accept risks, we continuously evaluate them to assess whether they are viable in the light of our risk bearing capacity and worthwhile from an opportunities and risk perspective. The methods we use to measure risk are state-of-the-art and based on common practice in the banking industry. The areas of risk that are most essential to BKS Bank are credit risk (which includes equity investment risk), market risk, liquidity risk and operational risk. A Management Board member who is not involved in front-office operations has central responsibility for risk management. 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) 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. This 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.

Impairment allowances in the first three quarters came to €36.1 million. We are pleased to report that this was 9.0 per cent or €3.6 million less than in the same period of 2010. These impairment allowances comprised impairment allowances recognized on an item-by-item basis, commission payments to ALGAR and collective assessments of impairments of customer portfolios carried out in accordance with IAS 39. Impairment allowances also included an impairment charge for country risk. We left it at €5.0 million as a precautionary measure to take account of the financial turbulence affecting a number of PIIGS countries. However, the consistent management of risk cases against the backdrop of an Austrian economy that has remained robust enabled us to carry out welcome reversals of previously recognized impairments in the amount of €7.7 million. We stress that the requisite allowance for the risks of our foreign subsidiaries decreased significantly, falling by €2.8 million to just €1.2 million.

CHARGE FOR IMPAIRMENT LOSSES

€m	30/9/2010	30/9/2011
Direct write-offs	0.8	0.6
Impairment allowances	39.7	36.1
Impairment reversals	(3.9)	(7.7)
Subsequent recoveries	(0.3)	(0.2)
Charge for impairment losses	**36.3**	**28.8**

Looking at our credit risk in terms of non-performing loans, such loans accounted for 5.9 per cent of the total at 30 September 2011. This figure was calculated on the basis of the non-performing loans contained in the classes C2–D2 in BKS Bank's rating system net of recognized impairment allowances and collateral. The divisor was gross customer loan receivables inclusive of corporate bonds, guarantees and unused credit lines.

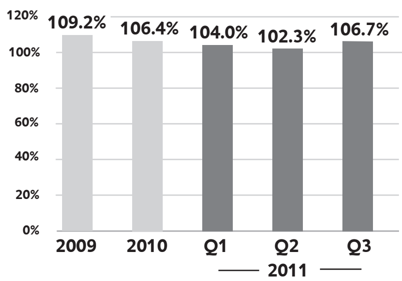
Market risk

Market risks include 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 use a combination of different ways of gauging risk (value at risk, modified duration, volumes and economic capital stress testing) to effectively manage market risks and set limits. Having increased until mid-2011, our interest rate risk, which is measured using modified duration, was reduced back to 0.55 per cent by entering into payer interest rate swaps and through sales of a 6-year BKS Bank note. This brought it almost into line with the trend in prior years. In absolute terms, our duration risk gradually fell from €29.5 million to €27.6 million during the period under review. During the first three quarters, 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 96 basis points to 3.01 per cent and was again well below the critical 20 per cent mark. As for currency risk, we were also able to keep the value of our open currency positions at the same level as at year-end 2010 and year-end 2009, at €20.4 million. The increase in equity value at risk to €5.7 million mirrored the perceptible rise in volatilities in the equity markets during the third quarter.

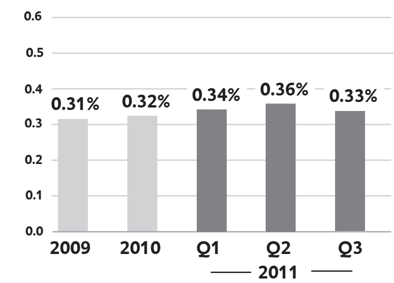
Liquidity risk

We define liquidity risk as including the risk that BKS Bank might not be able to meet its present or future financial obligations to a sufficient extent or in time and the 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) in a crisis situation. At BKS Bank, liquidity management and, therefore, maintaining solvency at all times is done with the help of a daily maturity gap analysis for each main currency. Limits have been defined at the short end to set boundaries to our liquidity risks. To ensure liquidity, we mainly hold highly liquid securities that are eligible for refinancing with the ECB as a liquidity buffer. As a lender, we prefer to hold 'tenderable' assets.

LOAN:DEPOSIT RATIO



DEPOSIT CONCENTRATION



At 30 September 2011, BKS Bank held €0.77 billion of immediately liquifiable assets 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 was 106.7 per cent at the end of September, our medium-term target benchmark being 100 per cent. The calculation of our deposit concentration, which came to 0.33 in the third quarter, helps us estimate the deposit withdrawal risk caused by the possibility of a run on deposits. To gauge the risk associated with large deposits, all customer deposit balances are broken down into predefined size classes and the relative amounts thereof and weighting factors of between 0 and 1 are applied to them. A deposit concentration ratio of close to 1 would indicate a worrying predominance of large deposits. Throughout the period under review, we met the minimum liquidity requirements laid down in *§25 BWG*. BKS Bank's access to the money and capital markets remained unrestricted during the first nine months of this financial year.

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. A total of 169 loss events were reported in the period from January to September 2011. Allowing for reimbursed losses, the actual operational risk loss was just €545 thousand.

Outlook for the year as a whole

The worldwide decline in key economic indicators that has been taking place since the middle of 2011 gives us grounds to expect the global economy to settle down to a slower growth path. The emerging markets have not escaped these developments. Looking at the big industrialized countries, the U.S. economy's medium-term outlook in particular is still intact. According to provisional calculations by the U.S. Department of Trade, this — the world's biggest economy — has pulled out of its economic difficulties, growing by 2.5 per cent (annualized) between July and September. As a result, the feared slide back into recession seems unlikely. On the other hand, the eurozone economy is increasingly falling victim to the national debt crisis as belt-tightening in the PIIGS countries — the recent bad news coming in from Greece and Italy is making this abundantly clear — becomes much more serious. The eurozone is only likely to achieve GDP growth of 1.5 per cent this year, and growth will slow to just 0.5 per cent in 2012.

The Austrian economy is also likely to suffer a temporary cessation of growth. Although the latest WIFO forecast confirms that Austria's real GDP will still increase by 2.9 per cent in 2011, real growth is likely to weaken to 0.8 per cent over 2012 as a whole after a period of stagnation at the beginning of the year.

Given the dull economic outlook, the big central banks are likely to continue to ease their monetary policies. There are no signs of forthcoming interest rate hikes in the United States in the foreseeable future, and the ECB might even cut its benchmark interest rate again around the turn of the year. For these reasons and given that the national debt crisis is still smouldering, the benchmark yields on German *Bunds* are likely to stay very low in the year to come. In addition, the euro could go on weakening versus the U.S. dollar and the Swiss franc.

As the national debt crisis has deepened, we have also seen a renewed decline in banks' confidence in one another. As a result, the competition for customer deposits will intensify, eroding margins and denting net interest income. Uncertainty in the capital markets having recently increased massively again, we expect our commission business with retail customers to slow a little during the remainder of this year and in 2012. The growth in our lending operations will also be more limited. Reflecting economic developments, the risks associated with our classical credit operations may increase again.

We therefore expect the business environment to be challenging and plagued by market uncertainties in the weeks and months to come. In the absence of any further unexpected one-off effects, profit in the period up to year-end is likely to be less good than in 2010 but still within our usual solid range. We therefore believe at the moment that our profit for the year 2011 will 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	Q1 – Q3 2011	Q1 – Q3 2010	Q1 – Q3 2011	Q1 – Q3 2010	Q1 – Q3 2011	Q1 – Q3 2010
Net interest income	110.1	104.1	256.7	238.9	122.2	110.6
Impairment charge on loans and advances	(28.8)	(36.3)	(75.1)	(84.4)	(26.9)	(27.8)
Net fee and commission income	31.6	31.5	80.1	75.3	32.6	32.1
General administrative expenses	(69.2)	(67.2)	(170.0)	(160.1)	(69.4)	(66.9)
Profit for the period before tax	26.4	35.8	103.6	91.9	51.5	47.4
Consolidated net profit for the period after tax	25.9	31.1	91.6	75.9	41.9	40.3
Balance sheet data, €m	30/9/2011	31/12/2010	30/9/2011	31/12/2010	30/9/2011	31/12/2010
Assets	6,420.9	6,238.2	17,105.0	16,768.4	9,231.0	8,886.6
Receivables from customers after impairment charge	4,595.8	4,498.2	10,506.5	10,129.7	5,928.8	5,774.8
Primary deposit balances	4,225.8	4,158.5	11,006.5	11,135.3	6,407.0	6,167.6
– Of which savings deposit balances	1,813.5	1,847.2	3,328.1	3,447.2	1,247.9	1,284.2
– Of which liabilities evidenced by paper	699.1	667.6	2,321.5	2,232.6	1,182.4	1,287.2
Equity	640.1	627.8	1,226.8	1,160.9	715.7	676.1
Customer assets under management	10,055.4	10,023.5	19,554.1	19,912.7	10,608.5	10,688.9
– Of which in customers' securities accounts	5,829.6	5,865.0	8,547.6	8,777.4	4,201.5	4,521.3
Own funds within the meaning of BWG, €m	30/9/2011	31/12/2010	30/9/2011	31/12/2010	30/9/2011	31/12/2010
Risk-weighted assets	4,446.2	4,345.1	10,152.7	9,795.8	6,045.0	5,736.5
Own funds	555.0	567.4	1,537.1	1,635.1	836.6	853.2
– Of which Tier 1	414.1	416.6	1,028.1	1,028.7	592.8	596.7
Surplus own funds before operational risk	199.3	219.8	723.7	849.0	351.9	392.8
Surplus own funds after operational risk	172.5	194.8	664.5	789.8	329.3	370.2
Tier 1 ratio, %	9.3	9.6	10.2	10.6	9.9	10.5
Own funds ratio, %	12.5	13.1	15.1	16.7	13.8	14.9
Performance, %	Q1 – Q3 2011	2010	Q1 – Q3 2011	2010	Q1 – Q3 2011	2010
Return on equity before tax	7.1	8.9	11.6	10.6	9.9	9.6
Return on equity after tax	6.8	7.7	10.3	9.1	8.1	7.6
Cost:income ratio	47.7	48.8	48.8	50.3	44.5	47.2
Risk:earnings ratio	21.6	33.1	29.3	32.6	22.0	28.7
Resources	Q1 – Q3 2011	2010	Q1 – Q3 2011	2010	Q1 – Q3 2011	2010
Average number of staff	894	872	2,043	1,996	787	794
Branches and other business units	54	55	145	143	41	41

Consolidated Financial Statements as at and for the Nine Months Ended 30 September 2011

Page

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

1 JANUARY – 30 SEPTEMBER 2011

€k	Note	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Interest income		162,752	152,324	6.8
Interest expenses		(66,924)	(61,224)	9.3
Profit from investments in entities accounted for using the equity method		14,310	13,018	9.9
Net interest income	(1)	**110,138**	**104,118**	**5.8**
Impairment charge on loans and advances	(2)	(28,781)	(36,339)	(20.8)
Net interest income after impairment charge		**81,357**	**67,779**	**20.0**
Fee and commission income		33,763	37,566	(10.1)
Fee and commission expenses		(2,118)	(6,036)	(64.9)
Net fee and commission income	(3)	31,645	31,530	0.4
Net trading income	(4)	1,396	1,230	13.5
General administrative expenses	(5)	(69,210)	(67,184)	3.0
Other operating income net of other operating expenses	(6)	1,798	929	93.5
Profit/(loss) from financial assets (FV)	(7)	(2,408)	(522)	>100
Profit/(loss) from financial assets (AFS)	(8)	(1,048)	2,084	>100
Profit/(loss) from financial assets (HTM)	(9)	(17,150)	0	>100
Profit for the period before tax		**26,380**	**35,846**	**(26.4)**
Income tax expense	(10)	(529)	(4,729)	(88.8)
Profit for the period		**25,851**	**31,117**	**(16.9)**
Minority interests in profit for the period		(3)	(3)	—
Consolidated net profit for the period after minorities		**25,848**	**31,114**	**(16.9)**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit for the period after minorities	25,848	31,114	(16.9)
Income and expenses not recognized in profit or loss			
– Exchange differences	(306)	(9)	>100
– Available-for-sale reserve	(7,647)	3,952	>100
– Arising from investments in entities accounted for using the equity method	2,383	4,682	(49.1)
– Deferred taxes on items taken directly to equity	1,677	(1,020)	>100
Comprehensive income	**21,955**	**38,719**	**(43.3)**

QUARTERLY REVIEW

€k	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Interest income	57,300	54,528	50,924	54,478	51,416
Interest expenses	(24,068)	(22,191)	(20,665)	(20,038)	(20,728)
Profit from investments in entities accounted for using the equity method	6,124	4,639	3,547	5,073	5,506
Net interest income	**39,356**	**36,976**	**33,806**	**39,513**	**36,194**
Impairment charge on loans and advances	(6,279)	(10,095)	(12,407)	(11,221)	(10,522)
Net interest income after impairment charge	**33,077**	**26,881**	**21,399**	**28,292**	**25,672**
Net fee and commission income	10,628	10,096	10,921	11,012	9,438
Net trading income	471	538	387	338	93
General administrative expenses	(22,621)	(23,766)	(22,823)	(24,288)	(22,649)
Other operating income net of other operating expenses	849	349	600	(1,124)	268
Profit/(loss) from financial assets (FV)	(3,286)	(1,170)	2,048	2,648	515
Profit/(loss) from financial assets (AFS)	64	(1,205)	93	892	502
Profit/(loss) from financial assets (HTM)	17,150	0	0	0	0
Profit for the period before tax	**2,032**	**11,723**	**12,625**	**17,770**	**13,839**
Income tax expense	1,949	(597)	(1,881)	(2,458)	(2,339)
Profit for the period	**3,981**	**11,126**	**10,744**	**15,312**	**11,500**
Minority interests in profit for the period	(1)	(1)	(1)	(1)	(1)
Consolidated net profit for the period after minorities	**3,980**	**11,125**	**10,743**	**15,311**	**11,499**

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

ASSETS

€k	Note	30/9/2011	31/12/2010	+/(-) Change, %
Cash and balances with the central bank	(11)	91,502	114,922	(20.4)
Receivables from other banks	(12)	176,790	151,161	17.0
Receivables from customers	(13)	4,755,060	4,647,335	2.3
– Impairment allowance balance	(14)	(159,266)	(149,149)	6.8
Trading assets	(15)	534	408	30.9
Financial assets designated as at fair value through profit or loss	(16)	105,339	127,560	(17.4)
Available-for-sale financial assets	(17)	307,930	309,999	(0.7)
Held-to-maturity financial assets	(18)	689,093	614,401	12.2
Investments in entities accounted for using the equity method	(19)	305,121	285,524	6.9
Intangible assets	(20)	11,532	11,775	(2.1)
Property and equipment	(21)	67,682	73,097	(7.4)
Investment property	(22)	16,579	16,543	0.2
Deferred tax assets	(23)	23,744	15,873	49.6
Other assets	(24)	29,238	18,726	56.1
Total assets		**6,420,878**	**6,238,175**	**2.9**

EQUITY AND LIABILITIES

€k	Note	30/9/2011	31/12/2010	+/(-) Change, %
Payables to other banks	(25)	1,352,033	1,283,998	5.3
Payables to customers	(26)	3,526,643	3,490,971	1.0
Liabilities evidenced by paper	(27)	438,015	404,201	8.4
Trading liabilities	(28)	546	490	11.4
Provisions	(29)	81,365	82,642	(1.5)
Deferred tax liabilities	(30)	10,926	12,154	(10.1)
Other liabilities	(31)	110,154	72,541	51.9
Subordinated debt capital	(32)	261,127	263,361	(0.8)
Equity		640,069	627,817	2.0
Total minority interests and equity		640,066	627,818	2.0
Minority interests in equity		3	(1)	>100
Total equity and liabilities		**6,420,878**	**6,238,175**	**2.9**

EARNINGS AND DIVIDEND PER SHARE

	30/9/2011	30/9/2010
Average number of shares in issue	32,224,083	32,242,699
Dividend per share, €	0.25	0.25
Earnings per share, € (diluted and undiluted)	1.07	1.29

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 Period	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				25,851	25,851
Gains and losses taken directly to equity			(3,893)		(3,893)
Increase in share capital					
Other changes			(1,662)		(1,662)
– Arising from use of the equity method			324		
– Arising from changes in treasury shares			(1,939)		
At 30 September 2011	**65,520**	**97,929**	**450,766**	**25,851**	**640,066**
Available-for-sale reserve					13,580
Deferred tax reserve					(1,042)

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Retained Earnings	Profit for the Period	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				31,117	31,117
Gains and losses taken directly to equity			7,605		7,605
Increase in share capital					
Other changes			1,050		1,050
– Arising from use of the equity method			(555)		
– Arising from changes in treasury shares			1,923		
At 30 September 2010	**65,520**	**97,929**	**414,668**	**31,117**	**609,234**
Available-for-sale reserve					18,050
Deferred tax reserve					(2,898)

Cash Flow Statement

CASH FLOWS

€k	1/1 – 30/9/2011	1/1 – 30/9/2010
Cash and cash equivalents at end of previous period	**114,922**	**131,642**
Net cash from/(used in) operating activities	91,146	(3,884)
Net cash from/(used in) investing activities	(101,972)	(13,003)
Net cash from/(used in) financing activities	(12,594)	1,475
Cash and cash equivalents at end of period	**91,502**	**116,230**

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 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 ruling 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 made allowances for individual risk positions on an item-by-item basis applying class-specific criteria. Provisions for contingent liabilities were recognized on the equity and liabilities side of the Balance Sheet in the line item *Provisions*. A collective assessment of impairment of the portfolio was likewise carried out in accordance with IAS 39 para. 64, a collective assessment of impairment of the portfolio for country risks being recognized as well for the first time since 31 March 2011. The exposures outstanding at the reporting date were broken down into risk classes and appropriate risk weights were applied.

Trading assets and liabilities

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

Derivatives

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

Receivables

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

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

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

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

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 IFRS principles.

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, a premium for equity risk 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 (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 assumptions and estimates made for the purposes of the Consolidated Financial Statements were made on the basis of the knowledge and information available at the copy deadline date.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Interest income from:			
Credit operations	121,939	111,631	9.2
Fixed-interest securities	25,071	23,958	4.6
Lease receivables	8,789	9,448	(7.0)
Shares and investments in other entities	6,172	6,500	(5.0)
Investment property	781	787	(0.8)
Total interest income	162,752	152,324	6.8
Interest expenses on:			
Deposits from customers and other banks [1]	47,142	44,127	6.8
Liabilities evidenced by paper	19,566	16,873	16.0
Investment property	216	224	(3.6)
Total interest expenses	66,924	61,224	9.3
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	16,891	14,007	20.6
Financing costs of investments in entities accounted for using the equity method [2]	(2,581)	(989)	>100
Profit from investments in entities accounted for using the equity method	**14,310**	**13,018**	**9.9**
Net interest income	**110,138**	**104,118**	**5.8**

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

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

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Impairment allowances	36,112	39,701	(9.0)
Impairment reversals	(7,701)	(3,898)	97.6
Direct write-offs	584	801	(27.1)
Recoveries on receivables previously written off	(214)	(265)	(19.2)
Impairment charge on loans and advances	**28,781**	**36,339**	**(20.8)**

(3) NET FEE AND COMMISSION INCOME

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Fee and commission income from:			
Payment services	13,802	13,362	3.3
Securities operations	8,832	8,906	(0.8)
Credit operations	8,340	8,008	4.1
International operations	1,830	6,389	(71.4)
Other services	959	901	6.4
Total fee and commission income	33,763	37,566	(10.1)
Fee and commission expenses arising from:			
Payment services	1,046	958	9.2
Securities operations	655	605	8.3
Credit operations	225	345	(34.8)
International operations	17	3,955	(99.6)
Other services	175	173	1.2
Total fee and commission expenses	2,118	6,036	(64.9)
Net fee and commission income	**31,645**	**31,530**	**0.4**

(4) NET TRADING INCOME

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Price-based contracts	8	90	(91.1)
Interest rate and currency contracts	1,388	1,140	21.8
Net trading income	**1,396**	**1,230**	**13.5**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Staff costs	46,579	45,622	2.1
– Wages and salaries	34,851	32,969	5.7
– Social security costs	8,336	7,977	4.5
– Costs of retirement benefits	3,392	4,676	(27.5)
Other administrative costs	18,060	17,018	6.1
Depreciation/amortization	4,571	4,544	0.6
General administrative expenses	**69,210**	**67,184**	**3.0**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Other operating income	4,319	3,714	16.3
Other operating expenses	(2,521)	(2,785)	(9.5)
Other operating income net of other operating expenses	**1,798**	**929**	**93.5**

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

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Revaluation gains and losses on derivatives	(1,307)	(1,909)	(31.5)
Gain/(loss) as a result of using the fair value option	(1,101)	1,387	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	**(2,408)**	**(522)**	**>100**

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

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(1,048)	2,084	>100
Profit/(loss) from available-for-sale financial assets	**(1,048)**	**2,084**	**>100**

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

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(17,150)	0	>100
Profit/(loss) from held-to-maturity financial assets	**(17,150)**	**0**	**>100**

(10) INCOME TAX EXPENSE

€k	1/1–30/9/2011	1/1–30/9/2010	+/(-) Change, %
Current tax	(7,897)	(5,869)	34.6
Deferred tax	7,368	1,140	>100
Income tax expense	**(529)**	**(4,729)**	**(88.8)**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	30/9/2011	31/12/2010	+/(-) Change, %
Cash in hand	28,366	30,119	(5.8)
Credit balances with central banks of issue	63,136	84,803	(25.5)
Cash and balances with the central bank	**91,502**	**114,922**	**(20.4)**

(12) RECEIVABLES FROM OTHER BANKS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Receivables from Austrian banks	71,119	82,164	(13.4)
Receivables from foreign banks	105,671	68,997	53.2
Receivables from other banks	**176,790**	**151,161**	**17.0**

(13) RECEIVABLES FROM CUSTOMERS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Corporate and business banking customers	3,684,722	3,607,883	2.1
Retail banking customers	1,070,338	1,039,452	3.0
Receivables from customers	**4,755,060**	**4,647,335**	**2.3**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	30/9/2011	31/12/2010	+/(-) Change, %
At beginning of period under review	149,149	113,401	31.5
+ Added	34,005	47,195	(27.9)
– Reversed	(7,680)	(4,258)	80.4
– Used	(16,101)	(7,147)	>100
+ Exchange differences	(107)	(42)	>100
At end of period under review	**159,266**	**149,149**	**6.8**

(15) TRADING ASSETS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	51	0	>100
Shares and other variable-yield securities	0	0	0.0
Positive fair values of derivative financial instruments			
– Interest rate contracts	483	408	18.4
Trading assets	**534**	**408**	**30.9**

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

€k	30/9/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	52,566	82,097	(36.0)
Loans	52,773	45,463	16.1
Financial assets designated as at fair value through profit or loss	**105,339**	**127,560**	**(17.4)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	167,959	178,621	(6.0)
Shares and other variable-yield securities	92,089	83,365	10.5
Investments in other associates and in subsidiaries	32,736	32,864	(0.4)
Other equity investments	15,146	15,149	0.0
Available-for-sale financial assets	**307,930**	**309,999**	**(0.7)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	689,093	614,401	12.2
Held-to-maturity financial assets	**689,093**	**614,401**	**12.2**

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

€k	30/9/2011	31/12/2010	+/(-) Change, %
Oberbank AG	205,313	189,772	8.2
Bank für Tirol und Vorarlberg AG	94,871	90,815	4.5
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	**305,121**	**285,524**	**6.9**

(20) INTANGIBLE ASSETS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Goodwill	8,888	8,888	0.0
Other intangible assets	2,644	2,887	(8.4)
Intangible assets	**11,532**	**11,775**	**(2.1)**

(21) PROPERTY AND EQUIPMENT

€k	30/9/2011	31/12/2010	+/(-) Change, %
Land	2,790	2,679	4.1
Buildings	47,248	48,192	(2.0)
Other	17,644	22,226	(20.6)
Property and equipment	**67,682**	**73,097**	**(7.4)**

(22) INVESTMENT PROPERTY

€k	30/9/2011	31/12/2010	+/(-) Change, %
Land	8,274	8,248	0.3
Buildings	8,305	8,295	0.1
Investment property	**16,579**	**16,543**	**0.2**

(23) DEFERRED TAX ASSETS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Deferred tax assets	**23,744**	**15,873**	**49.6**

(24) OTHER ASSETS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Positive fair values of derivative financial instruments	10,410	8,628	20.7
Other items	16,600	8,021	>100
Deferred items	2,228	2,077	7.3
Other assets	**29,238**	**18,726**	**56.1**

(25) PAYABLES TO OTHER BANKS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Payables to Austrian banks	1,008,771	961,280	4.9
Payables to foreign banks	343,262	322,718	6.4
Payables to other banks	**1,352,033**	**1,283,998**	**5.3**

(26) PAYABLES TO CUSTOMERS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Savings deposit balances	**1,813,542**	**1,847,218**	**(1.8)**
Corporate and business banking customers	249,740	312,012	(20.0)
Retail banking customers	1,563,802	1,535,206	1.9
Other payables	**1,713,101**	**1,643,753**	**4.2**
Corporate and business banking customers	1,224,442	1,149,255	6.5
Retail banking customers	488,659	494,498	(1.2)
Payables to customers	**3,526,643**	**3,490,971**	**1.0**

(27) LIABILITIES EVIDENCED BY PAPER

€k	30/9/2011	31/12/2010	+/(-) Change, %
Issued bonds	298,218	279,800	6.6
Other liabilities evidenced by paper	139,797	124,401	12.4
Liabilities evidenced by paper	**438,015**	**404,201**	**8.4**

(28) TRADING LIABILITIES

€k	30/9/2011	31/12/2010	+/(-) Change, %
Interest rate contracts	546	490	11.4
Trading liabilities	**546**	**490**	**11.4**

(29) PROVISIONS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	69,246	69,082	0.2
Provisions for taxes (current tax)	4,062	4,026	0.9
Other provisions	8,057	9,534	(15.5)
Provisions	**81,365**	**82,642**	**(1.5)**

(30) DEFERRED TAX LIABILITIES

€k	30/9/2011	31/12/2010	+/(-) Change, %
Deferred tax liabilities	**10,926**	**12,154**	**(10.1)**

(31) OTHER LIABILITIES

€k	30/9/2011	31/12/2010	+/(-) Change, %
Negative fair values of derivative financial instruments	65,822	54,490	20.8
Other items	42,950	16,518	>100
Deferred items	1,382	1,533	(9.8)
Other liabilities	**110,154**	**72,541**	**51.9**

(32) SUBORDINATED DEBT CAPITAL

€k	30/9/2011	31/12/2010	+/(-) Change, %
Supplementary capital	221,127	223,361	(1.0)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**261,127**	**263,361**	**(0.8)**

(33) 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 valued applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income*. The performance of each business segment was gauged in terms of the profit before tax recorded in that segment. Alongside the cost:income ratio, return on equity was one of the principal benchmarks for managing business segments. Our segmental reporting is based on our internal management processes.

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	1/1–30/9/2011	1/1–30/9/2010	1/1–30/9/2011	1/1–30/9/2010	1/1–30/9/2011	1/1–30/9/2010
Net interest income	25,134	23,694	66,581	69,966	17,712	10,350
Impairment charge on loans and advances	(869)	(1,183)	(22,912)	(35,156)	(5,000)	0
Net fee and commission income	13,944	15,194	16,694	15,760	468	471
Net trading income	0	0	0	0	1,396	1,230
General administrative expenses	(35,983)	(35,342)	(27,818)	(25,386)	(4,033)	(3,916)
Other operating income net of other operating expenses	729	874	1,208	1,815	57	(1,494)
Profit/(loss) from financial assets	0	0	0	0	(20,606)	1,562
Profit for the period before tax	**2,955**	**3,237**	**33,753**	**26,999**	**(10,006)**	**8,203**
Average risk-weighted assets	578,419	563,299	3,170,369	3,138,635	589,695	593,735
Average allocated equity	46,274	45,064	253,629	251,090	325,793	290,218
ROE based on profit for the period	**8.5%**	**9.6%**	**17.7%**	**14.3%**	**(4.1%)**	**3.8%**
Cost:income ratio	**90.4%**	**88.9%**	**32.9%**	**29.0%**	**20.5%**	**37.1%**
Risk:earnings ratio	**3.5%**	**5.0%**	**34.4%**	**50.2%**	**21.2%**	**0.0%**

€k	Other		Total	
	1/1–30/9/2011	1/1–30/9/2010	1/1–30/9/2011	1/1–30/9/2010
Net interest income	711	108	110,138	104,118
Impairment charge on loans and advances	0	0	(28,781)	(36,339)
Net fee and commission income	539	105	31,645	31,530
Net trading income	0	0	1,396	1,230
General administrative expenses	(1,376)	(2,540)	(69,210)	(67,184)
Other operating income net of other operating expenses	(196)	(266)	1,798	929
Profit/(loss) from financial assets	0	0	(20,606)	1,562
Profit for the period before tax	**(322)**	**(2,593)**	**26,380**	**35,846**
Average risk-weighted assets	57,169	51,328	4,395,652	4,346,995
Average allocated equity	8,246	7,006	633,942	593,377
ROE based on profit for the period	—	—	**7.1%**	**8.0%**
Cost:income ratio	—	—	**47.7%**	**48.8%**
Risk:earnings ratio [1]	—	—	**21.6%**	**34.9%**

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

(34) CONTINGENT LIABILITIES AND COMMITMENTS

€k	30/9/2011	31/12/2010	+/(-) Change, %
Guarantees	399,996	410,626	(2.6)
Letters of credit	963	5,352	(82.0)
Contingent liabilities	**400,959**	**415,978**	**(3.6)**
Other commitments	692,331	632,580	9.4
Commitments	**692,331**	**632,580**	**9.4**

(35) EVENTS AFTER THE INTERIM REPORTING DATE

Among other things, the measures to contain the European national debt crisis decided at the EU summit in Brussels on 26 October 2011 also include concrete demands on the European banking sector. The eurozone had already decided to involve private creditors like banks and insurers in a voluntary 21 per cent write-down to Greek government bonds in July. Based on the decisions made during the October summit, a voluntary 50 per cent haircut is now on the table. BKS Bank implemented this EU decision in these quarterly financial statements.

(36) BALANCE OF DERIVATIVES OUTSTANDING

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

30/9/2011 €k	Nominal, by Term to Maturity				Fair Value	
	To 1 Year	1–5 Years	Over 5 Years	Total	Positive	Negative
Currency contracts	**1,266,329**	**1,016,280**	**—**	**2,282,609**	**4,163**	**42,185**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**108,140**	**755,214**	**180,220**	**1,043,574**	**6,247**	**21,664**
– Of which in trading book	40,000	48,990	20,790	109,780	199	182
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,374,469**	**1,771,494**	**180,220**	**3,326,183**	**10,410**	**63,849**
– Of which in trading book	40,000	48,990	20,790	109,780	199	182

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

(37) 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.

Forward-looking Statements

This Interim Report as at and for the nine months ended 30 September 2011 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 17 November 2011. 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.

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 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 September 2011 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to the important events occurring during the first nine months of the financial year and their impact on the Consolidated Interim Financial Statements and with respect to the material risks and uncertainties for the remaining three months of the financial year."

Klagenfurt am Wörthersee
17 November 2011

The Management Board

Heimo Penker
CEO

Member of the Management Board responsible for corporate and retail customers, 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 2012

4 April 2012:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2011 in the Internet and in the official *Wiener Zeitung* gazette
15 May 2012:	73rd Ordinary General Meeting (AGM)
18 May 2012:	Ex-dividend date
23 May 2012:	Dividend payment date

BKS Bank's Interim Reports

25 May 2012:	Interim Report as at and for the 3 months ended 31 March 2012
24 August 2012:	Interim Report as at and for the 6 months ended 30 June 2012
30 November 2012:	Interim Report as at and for the 9 months ended 30 September 2012

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