

A Shareholders Letter About Responsible Action

Contents

| | |
|---|-----------|
| The BKS Bank Group at a glance | 3 |
| Preface by the Management Board | 4 |
| Group Management Report for the Three Months Ended 31 March 2011 | 4 |
| The economic setting in which banks are operating | 4 |
| Notes on the scope of consolidation | 6 |
| Assets, liabilities and financial position | 7 |
| Own funds | 8 |
| Performance | 9 |
| Ratios | 9 |
| Segmental Report | 10 |
| Risk Report | 12 |
| Activities and focuses of our work during the period under review | 14 |
| Outlook for the year as a whole | 15 |
| Overview of the 3 Banken Group | 16 |
| Consolidated Financial Statements as at and for the Three Months Ended 31 March 2011 | 17 |
| Income Statement of the BKS Bank Group for the period from 1 January to 31 March 2011 | 18 |
| Balance Sheet of the BKS Bank Group as at 31 March 2011 | 19 |
| Statement of Changes in Equity | 20 |
| Cash Flow Statement | 20 |
| Notes to the Consolidated Financial Statements of BKS Bank | 21 |
| Statement by BKS Bank's Management | 32 |
| Financial Calendar for 2011 | 32 |

THE BKS BANK GROUP AT A GLANCE

| Income account, €m | Q1 2011 | Q1 2010 | Q1 2009 |
|--|----------------|----------------|----------------|
| Net interest income | 33.8 | 33.2 | 31.7 |
| Charge for impairment losses on loans and advances | (12.4) | (16.0) | (9.3) |
| Net fee and commission income | 10.9 | 11.2 | 9.6 |
| General administrative expenses | (22.8) | (22.1) | (21.2) |
| Profit for the period before tax | 12.6 | 10.7 | 8.1 |
| Consolidated net profit for the period | 10.7 | 8.8 | 8.4 |

| Balance sheet data, €m | 31/3/2011 | 31/12/2010 | 31/12/2009 |
|--|------------------|-------------------|-------------------|
| Assets | 6,311.5 | 6,238.2 | 6,315.9 |
| Receivables from customers after allowance for impairment losses on loans and advances | 4,490.5 | 4,498.2 | 4,350.2 |
| Primary deposit balances | 4,245.2 | 4,158.5 | 3,907.9 |
| Of which savings deposit balances | 1,822.3 | 1,847.2 | 1,804.6 |
| Of which liabilities evidenced by paper, including subordinated debt capital | 692.7 | 667.6 | 564.7 |
| Equity | 629.3 | 627.8 | 577.5 |
| Customer assets under management | 10,211.6 | 10,023.5 | 9,343.5 |
| Of which in customers' securities accounts | 5,966.4 | 5,865.0 | 5,435.6 |

| Own funds within the meaning of BWG, €m | 31/3/2011 | 31/12/2010 | 31/12/2009 |
|--|------------------|-------------------|-------------------|
| Risk-weighted assets | 4,348.5 | 4,345.1 | 4,258.4 |
| Own funds | 555.4 | 567.4 | 514.7 |
| Of which Tier 1 capital | 414.8 | 416.6 | 369.5 |
| Surplus own funds before operational risk | 207.5 | 219.8 | 174.0 |
| Surplus own funds after operational risk | 180.7 | 194.8 | 150.8 |
| Tier 1 ratio, % | 9.54 | 9.59 | 8.68 |
| Own funds ratio, % | 12.77 | 13.06 | 12.09 |

| Ratios, % | Q1 2011 | 2010 | 2009 |
|--|----------------|-------------|-------------|
| Return on equity before tax | 8.1 | 8.9 | 8.9 |
| Return on equity after tax | 7.0 | 7.7 | 7.8 |
| Cost:income ratio | 49.9 | 48.8 | 49.9 |
| Risk:earnings ratio (credit risk in per cent of net interest income) ¹ | 28.2 | 33.1 | 28.3 |

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

| Resources | Q1 2011 | 2010 | 2009 |
|-------------------------|----------------|-------------|-------------|
| Average number of staff | 890 | 872 | 872 |
| Branches | 56 | 55 | 55 |

| BKS Bank's shares | Q1 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, € | 18.55/15.4 | 18.4/15.4 | 18.2/15.3 |
| Low: ordinary/preference share, € | 18.0/15.2 | 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 warmly to our first Letter to Shareholders in 2011. We are pleased to be able to tell you about the BKS Bank Group's continued good performance during the first quarter of this financial year. BKS Bank has come through the turbulence of the recent crisis years well and without outside help. Although it is probably still a little early to start talking about normality again in the banking sector given that conditions for the industry remain difficult, one can sense that the nascent economic recovery is gaining steadily in breadth and dynamism. What we are left with is enormous uncertainty about how to solve the ever-worsening public debt crisis in the 'PIIGS' countries.

Both our assets and our operating profit grew during the first quarter. In Austria, the increases were moderate; in some parts of our catchment area, they were already stronger; and for cyclical reasons, growth was still sluggish in a number of regions. Our credit risk costs (charge for impairment losses on loans and advances) were one important sign of the steady improvement in the economy, falling by over a fifth compared with the first quarter of 2010 to €12.4 million. We attribute this both to the economic recovery and to our consistent risk management activities. Given that profit for the period was 22.1 per cent up on the same period of 2010 to €10.7 million and that we had assets of over €6.3 billion at the end of the period under review, it is now time to look ahead again, focusing our attention on the sustainable creation of value added for our shareholders and customers. Thanks to a Tier 1 ratio of 9.54 per cent, an overall equity ratio of 12.77 per cent and surplus own funds of roughly €181 million, BKS Bank is not just well placed to meet stricter regulatory requirements. It is also well positioned to undertake further carefully targeted expansion in the medium term.

As a follow-up to the 72nd Ordinary General Meeting (AGM) held on 18 May 2011, let us begin by giving our shareholders some good news: as one of our equity holders, you will in the next few days be receiving another dividend of €0.25 per share (ex-dividend date: 23 May; dividend payment date: 26 May). This is the fruit of our good performance in 2010. In all, BKS Bank AG will again be distributing a total of €8.19 million to its ordinary and preference shareholders on 32,760,000 shares out of its net profit as at 31 December 2010. This translates into a payout ratio of 26.3 per cent, underpinning our position as one of the strongest dividend payers in the Austrian banking industry. In addition, the AGM authorized us to increase the company's share capital by up to €13,104,000.00 (nominal) to up to €78,624,000.00 within five years and with the Supervisory Board's approval through the issuance of up to 6,552,000 ordinary no-par bearer shares without previously having to convene a special general meeting. This will make it possible to increase our so-called 'liable' funds to suit our capital requirements and the stock market climate. This authorized capital will enable BKS Bank to continue resolutely on its growth path against the backdrop of the higher capital requirements in Basel III.

Peter Gaugg, a member of the managing board of *Bank für Tirol und Vorarlberg AG*, and Karl Samstag, CEO (ret.) of *Bank Austria Creditanstalt AG*, were re-elected to the Supervisory Board. No new members were appointed. All the resolutions passed at the shareholders' meeting have been published on BKS Bank's website. Click on Investor Relations and then select *Hauptversammlung*.

Group Management Report for the Three Months Ended 31 March 2011

The economic setting in which banks are operating

The Austrian economy's growth this year is likely to be stronger than we believed just a few months ago. WIFO recently increased its GDP forecasts for Austria and is now predicting real GDP growth of 2.5 per cent in 2011. The

sustained economic recovery is being fuelled by exports. Thanks to the global economy's robustness, including, in particular, the increase in demand from threshold countries, Austria's exports are likely to grow by nearly 9 per cent in real terms this year. In the meantime, exports and the generally good level of capacity utilization are now having a knock-on effect on investment as well. WIFO is predicting a 5.5 per cent real increase in capital expenditure on plant and machinery in 2011. As a result, the recovery, which is taking on clear contours, could at least become self-sustaining in the first half of 2011. On the other hand, income growth has been comparatively modest, so private household consumption has to date been weak and is only expected to increase by about 1 per cent over the year as a whole. In fact, yet higher crude oil and world food prices might even further dent private households' real purchasing power. In the labour market, the jobless rate has continued to improve this year after averaging 4.4 per cent in 2010. Applying the Eurostat definition, it should fall to an average of about 4.1 per cent in 2011, which would translate into just under 235,000 unemployed. However, the latest labour market data reveal a sustained trend towards employment in part-time and low-wage jobs. Since 1 May 2011, the Austrian labour market has been open to job seekers from the countries that joined the EU in 2004 (the EU 8). Some 90,000 people from Austria's eastern neighbours are currently working in Austria. Overall, the impact on the employment situation in Austria is likely to remain negligible.

The eurozone economies continued to grow at different speeds. On the one hand, some economies grew strongly. On the other, a number of countries were in crisis and stagnating. So far, Germany and the regions of the EU that have close ties with the German economy have profited most obviously from the international economic recovery. In contrast, Ireland and a number of highly indebted peripheral countries in Southern Europe are still in the economic shadows. Moreover, virtually every Southeast European country has big price and cost disadvantages when it comes to competing globally, and these are mirrored by high current account deficits. Germany—Austria's biggest trading partner—is expected to achieve real economic growth of 2.7 per cent this year, but GDP forecasts for the eurozone as a whole lie in a narrow range of between just 1.5 and 1.8 per cent. The European Central Bank (ECB) with its commitment to price stability left its key rate unchanged at 1 per cent during the first quarter of 2011. However, annual inflation in the eurozone having increased to 2.6 per cent in March, the ECB Council decided to hike the ECB's key rate by 25 basis points to 1.25 per cent during its meeting on 7 April.

The available US economic indicators have been sending out mixed but generally positive signals for this financial year based on stronger growth in consumer spending, a revival of capital expenditure on plant and machinery and software and a robust increase in exports. Manufacturing has also strengthened in every region. On the other hand, the residential property market is still weak. On both 5 March and 27 April 2011, the Federal Reserve Open Market Committee decided to continue to increase its securities portfolio (quantitative easing) and maintain the Fed Funds Target Rate in a corridor between zero and 0.25 per cent. It stated persistent uncertainty in the labour market as its reason. The United States' real GDP is expected to grow by nearly 3 per cent this year.

As for bilateral exchange rates, the euro held its ground well versus most major currencies in the first three months of this year against the backdrop of signs of a rise in key interest rates and the maintenance of the European Financial Stability Facility for the highly indebted peripheral countries in the eurozone. Up to the end of March, the euro gained 8.2 per cent versus the Japanese yen, 6.3 per cent versus the US dollar and 4.0 per cent versus the Swiss franc. The uptrend in the international equity markets that began in September 2010 continued into the first quarter of this year, but it was interrupted after an intermediate peak in mid-February in the wake of political turbulence in North Africa (including, above all, the uncontrolled escalation of the civil war in Libya) and the catastrophic earthquake in Japan. Events in Japan—and, above all, fears of a nuclear disaster—slashed prices in the Japanese stock market by over 10 per cent. It was mid-March before the major stock markets gained significant terrain again on the back of better-than-expected company numbers in most sectors and industries. The Dow Jones Industrial Index stood at 12,319.73 points at the end of March, which was 6.4 per cent up on the beginning of the year, and the EuroStoxx 50 gained 4.2 per cent to 2,910.91 points during the first quarter. Oil prices also remained highly volatile. At the end of March, European benchmark Brent crude was trading at €82.42 a barrel, which was 18.2 per cent more than at the beginning of the year. On the last day of trading in March, the BKS Bank ordinary no-par share was trading at €18.2 (at copy deadline date: €18.2), and the BKS Bank no-par preference share was trading at €15.2 (at copy deadline date: €15.0).

Notes on the scope of consolidation

The consolidated group on which our analyses are based 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* and insurer *Drei-Banken Versicherungs-Aktiengesellschaft*. The sizes of the various companies within the Group were such that consolidated net profit consisted predominantly of the net profit of *BKS Bank AG*. The consolidated members of the *BKS Bank Group* comprised the banks and other financial service providers and entities rendering banking-related services that were controlled by *BKS Bank AG*. Minority interests in profit for the period were deducted when calculating consolidated net profit for the period. Other material equity investments of *BKS Bank AG* where the company held a stake of over 20 per cent were recognized in the Consolidated Financial Statements in the amount of its interest in each entity's profit for the period. In other words, they were accounted for using the equity method. The carrying amount of an equity investment was adjusted according to the company's interest in the change in the net assets of the entity in question. 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. This is because even though *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 three months ended 31 March 2011 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

Banks and Other Financial Service Providers

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

Other Consolidated Entities

| | | |
|--|--|---|
| BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt | IEV Immobilien GmbH, Klagenfurt | Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG, Klagenfurt |
| VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt | LVM Beteiligungs Gesellschaft mbH, Vienna | BKS Hybrid alpha GmbH, Klagenfurt |
| BKS Hybrid beta GmbH, Klagenfurt | — Consolidated | — Accounted for using the equity method |

Assets, liabilities and financial position

Assets

BKS Bank's business volumes within its catchment area grew slightly during the first quarter of this year. At 31 March 2011, the BKS Bank Group had total assets of €6.31 billion, which was 1.2 per cent more than at the end of 2010. Receivables from customers were as a whole stable and were roughly static on the end of the first quarter of 2010 at €4.65 billion, with an increase of 0.3 per cent in receivables from corporate and business banking customers making up for the small drop in receivables from retail banking customers. IFRSs require an impairment allowance to be deducted from receivables from customers. New allowances increased the impairment allowance balance by €8.4 million to €157.6 million during the period under review. Credit risk costs fell perceptibly, but they were still high in absolute terms compared with the pre-crisis years. At 31 March 2011, receivables from other banks were 19.6 per cent up on the beginning of the year to €180.8 million. Payables to banks came to €1.26 billion.

Our Croatian banking subsidiary *BKS Bank d.d.* and our leasing subsidiaries in Austria and abroad also contributed to the growth in the loan portfolio alongside *BKS Bank AG* and its branches and offices in Slovenia, which accounted for about €4.25 billion of the Group's receivables from customers after the deduction of intragroup receivables. As in the previous year, most of the growth in the retail loan portfolio took place at our branches in Slovenia, but our regional head offices in Austria also reported an increased customer response in both the retail and the corporate and business loan segment. Nonetheless, credit drawdowns have been unsatisfactory so far. Leasing operations in the Austrian market are getting more and more difficult because of the lease agreement levy that is still being charged, putting lease finance at a disadvantage in direct comparisons with credit finance. As a result, the present value of our lease receivables was still slightly down on 31 December 2010, at €163.7 million. Our foreign leasing subsidiaries—*BKS Leasing a.s.*, Bratislava, *BKS-leasing d.o.o.*, Ljubljana and *BKS-leasing Croatia d.o.o.*, Zagreb—closed the first quarter with receivables of €158.8 million. The loan portfolio at *BKS Bank d.d.* in Croatia, which has branches in Rijeka and Zagreb, grew by 7.8 per cent to €77.6 million. The steady reduction of Swiss franc receivables in the foreign currency loan portfolio continued during the quarter under review. The foreign currency portion of the BKS Bank Group's total receivables fell by another 93 basis points to 18.8 per cent between the beginning of the year and the end of March.

Following an increase of 4.3 per cent in the period under review, the Interim Balance Sheet as at 31 March shows total securities holdings in the various categories of financial asset of €1.40 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* fell by 3.1 per cent to €123.7 million, no new allocations to this category having taken place during the first three months of the year. The portfolio of available-for-sale financial assets grew to €317.7 million following redemptions in the amount of €6.0 million and investments (primarily in funds) in the amount of €17.8 million. The held-to-maturity portfolio of assets held as a liquidity buffer had a carrying amount of €660.8 million at the end of March, having been increased by purchases of securities eligible for refinancing by the ECB in the amount of €46.4 million. BKS Bank's investments in *Oberbank AG* and *BTV AG*, which were accounted for using the equity method, increased the line item *Investments in entities accounted for using the equity method* by €7.9 million or 2.7 per cent to €0.29 billion.

Equity and liabilities

On the equity and liabilities side of the Balance Sheet, we were able to sustain the high level of our so-called *primary funds*, which are the key pillar of our sustainable liquidity management activities. The balance of our primary funds increased by significantly more than loans and advances to customers, growing by 2.2 per cent and already accounting for roughly 67 per cent of our balance sheet total at the end of the first quarter. Our loan:deposit ratio improved by 240 basis points to 104.0 per cent during the period under review, having been 106.4 per cent at 31 December 2010. While the growth in incomes across the country was subdued but consumer demand was comparatively robust, savings deposit balances shrank slightly, falling from €1.85 billion to €1.82 billion. This was attributable to the strong pressure of competition for 'new money' in the retail banking segment and an increase in the demand for working funds among our corporate and business banking customers. BKS Bank responded by launching its attractive *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts with three different durations. Sight and time deposit balances grew satisfactorily. In particular, our institutional clients

invested their liquidity peaks in time deposits. Our own securities in issue, comprising liabilities evidenced by paper and subordinated debt capital, increased by 3.8 per cent to €0.69 billion. There were new issuances worth €28.7 million with, as yet, no redemptions to match. Attracting long-term funds from customers with the help of broadly distributed issuances will remain one of our declared strategic goals in the next few quarters. During the three months under review, customer assets under management increased by 1.9 per cent to more than €10.2 billion. Nearly €6 billion thereof consisted of securities held in customers' securities accounts.

Profit for the period having developed as planned in the first three months of this year, the line item *Equity* on the Balance Sheet as at 31 March 2011 was narrowly up on the end of 2010 to €0.63 billion. This line item is presented in the Statement of Changes in Equity on page 20.

Own funds

Since the beginning of 2008, BKS Bank has been calculating its own funds ratio and basis of assessment in accordance with the EU Solvency Directive, which takes its bearings from Basel II. We use the standardized approach to calculate BKS Bank's own funds requirement. Tier 1 capital came to €414.8 million. The basis of assessment for the banking book was virtually static on the end of 2010 at €4.35 billion. As the table below shows, our eligible own funds fell by €12.0 million to €555.4 million as a result of a decline in eligible supplementary capital. To close this gap, on 21 March, we started inviting subscriptions for new supplementary capital, which is represented by the 4.75 per cent *BKS Bank Ergänzungskapital-Obligation* note. It has a maturity of 8 years and volume of €20 million. At the reporting date of 31 March 2011, the issue had not yet been fully placed.

Our Tier 1 ratio has risen steadily in recent years, coming to 9.54 per cent at the end of the period under review. Our total own funds ratio was 12.77 per cent, compared with 13.06 per cent at the end of 2010 and

OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE

| €m | 31/3/2011 | 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 | 309.3 | 311.1 | 284.0 |
| Tier 1 capital | 414.8 | 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 deductions pursuant to § 23 Abs.14 Z 8 BWG | 368.2 | 369.9 | 322.8 |
| Hidden reserves | 10.3 | 10.3 | 10.3 |
| Eligible supplementary capital | 137.7 | 155.8 | 149.8 |
| Balance of gains and losses taken to equity | 65.2 | 65.2 | 63.9 |
| Eligible subordinated liabilities | 20.7 | 12.9 | 14.5 |
| Supplementary own funds (Tier 2) | 233.9 | 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 deductions pursuant to § 23 Abs.14 Z 8 BWG | 187.2 | 197.5 | 191.8 |
| Eligible own funds | 555.4 | 567.4 | 514.7 |
| Basis of assessment for the banking book | 4,348.5 | 4,345.1 | 4,258.4 |
| Own funds requirement | 347.9 | 347.6 | 340.7 |
| Own funds requirement for the trading book | 2.9 | 2.9 | 2.8 |
| — Of which arising from open currency positions | 2.1 | 2.2 | 1.9 |
| Own funds requirement for operational risk | 26.8 | 25.0 | 23.2 |
| Surplus own funds (taking account of operational risk) | 180.7 | 194.8 | 150.8 |
| Surplus own funds (disregarding operational risk) | 207.5 | 219.8 | 174.0 |
| Tier 1 ratio | 9.54% | 9.59% | 8.68% |
| Own funds ratio | 12.77% | 13.06% | 12.09% |

12.09 per cent at the end of 2009. These ratios were well above the statutory minima of 8.0 per cent (own funds) and 4.0 per cent (Tier 1). Surplus own funds were high at €207.5 million, and even after taking account of the capital charge of €26.8 million required for operational risk, they provided an adequate basis for future lending growth for which capital charges will be required. Moreover, we feel that we are already well prepared to meet the regulatory capital requirements that have been announced under the heading of 'Basel III' and believe that, as things stand at the moment, BKS Bank's own funds will suffice to satisfy the Basel III criteria.

Performance

Join us now as we bring you a look at the figures in the Income Statement on page 18. It shows an increase in profit for the period of 17.8 per cent compared with the first quarter of 2010, taking it up to €12.6 million. Profit for the period after tax increased by over one fifth, namely by 22.1 per cent, to €10.7 million. Once again, net interest income after the impairment charge on loans and advances was the key pillar of the rise in profitability, increasing by nearly one quarter from €17.2 million in the first three months of 2010 to €21.4 million in the period under review. While there was a market related increase in the pressure on interest margins and while profit from our investments in entities accounted for using the equity method fell, there was a big reduction of 22.3 per cent in the impairment charge on loans and advances. It should be noted that we added a collective assessment of impairment of the portfolio for country risks to our extensive and rigorous risk policy measures during the first quarter. This increased the impairment charge by €2.9 million.

Net fee and commission income in the first three months of this reporting year was only 2.8 per cent down on the same period of the previous year to €10.9 million. This was mainly thanks to the comparatively small drop in earnings from lending operations, payment services and securities operations. The upturns in the international stock markets that became apparent from the beginning of the year and, after a period of consolidation, from mid-March boosted the value of our customers' securities accounts to roughly €6 billion. However, fee and commission business in the securities segment had yet to build on our good results in the years before the crisis. Earnings from foreign payment services were slightly down to €0.5 million because of a clearly discernible shift away from foreign currency lending.

The other components of our operating earnings mirrored the upward and downward movements in the capital markets. Our earnings from financial assets came to €2.1 million in the first quarter of 2011, compared with €3.2 million in the same period of the previous year. The increase of between 30 and 70 basis points in interest rates benefited payer interest rate swaps in the area of financial assets and liabilities designated as at fair value through profit or loss. Thanks to the positive performance of the stock markets, available-for-sale positions were not at risk of impairment.

General administrative expenses were 3.1 per cent up on the first quarter of 2010 to €22.8 million. Staff costs have a big impact on profit, so we have continued to focus particularly closely on them this year. They were just 1.3 per cent up on the same quarter of 2010 to €15.3 million. The workforce averaged 890 in the year up to the end of March. Staff were urged to step up the process of reducing unused vacation time and flexitime credits and to restrict the accumulation of overtime. Pay rises under collective agreements did not take effect until 1 April in 2011 and are therefore not included in the first-quarter figures we are giving you. They were fixed at an average of 2.3 per cent. Thanks to strict cost discipline and continuous cost monitoring, we were able to keep a tight grip on both other administrative costs and impairment allowances on capital assets, which came to €6.1 million and €1.5 million, respectively. Among other things, premises and facility costs and marketing expenses were both substantially below budget. Moreover, during the costs meeting we held with our various cost centre heads just a few days ago, there were no signs of an unusual increase in other administrative costs. The stability levy (bank tax) payable to the inland revenue in respect of the first quarter of 2011 on the basis of our average assets during the year ended 31 December 2010 came to roughly €415 thousand.

Ratios

Our key operational performance ratios, which are based mainly on profit for the period, parts of the income statement and the statement of changes in equity, demonstrate the excellent corporate health of your BKS

PERFORMANCE RATIOS

| Per cent | Q1 2011 | 2010 | 2009 |
|---------------------|---------|-------|-------|
| Tier 1 ratio | 9.54 | 9.59 | 8.68 |
| Own funds ratio | 12.77 | 13.06 | 12.09 |
| ROE (before tax) | 8.1 | 8.9 | 8.9 |
| ROA (after tax) | 0.7 | 0.7 | 0.7 |
| Cost:income ratio | 49.9 | 48.8 | 49.9 |
| Risk:earnings ratio | 28.2 | 33.1 | 28.3 |

benchmark. Our risk position improved slightly, as was evidenced by the drop in our risk:earnings ratio (RER) from 33.1 per cent in 2010 to 28.2 per cent in the period under review. However, it was still above our 20 per cent target. As this ratio shows, over one quarter of our net interest income was used up by our cautious charge for credit risks, which consisted mainly of the charge for risks in the corporate and business banking segment.

Bank. As we have already reported in the section on our own funds, our bank has a solid own funds base and delivered correspondingly good ratios (Tier 1 ratio of 9.54 per cent and own funds ratio 12.77 per cent). Our return on equity before tax (ROE) was nearly as good as in prior periods, at 8.1 per cent. Our cost:income ratio (the ratio of general administrative expenses to total earnings without deducting the charge for impairment losses on loans and advances) remained low in the first quarter at 49.9 per cent and was, therefore, still well below our internal 55 per cent

Segmental Report

BKS Bank's segmental reporting is based on the organizational structure of the Group that underlies its internal management reporting system. This structure is aligned with its three major business divisions, namely *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. Consequently, segmental reports are also subdivided into these three categories. During 2010, we undertook restructuring within our 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. 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. We measure the performance of each segment on the basis of its profit before tax, return on equity and cost:income ratio. All three segments showed a profit in the first quarter, and the corporate and business banking segment actually recorded substantial profit 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 business done with corporates and businesses.

The corporate and business banking segment remained the predominant operating unit within the BKS Bank Group even after the restructuring process. It closed the first quarter of 2011 with a pleasing increase in profit. Profit for the year before tax grew substantially, advancing from €4.3 million to €9.2 million. Whereas receivables from corporate and business banking customers grew only marginally during the first quarter, increasing by 0.3 per cent to roughly €3.62 billion, net interest income in this segment built on our good results in the first quarter of 2010 to total €21.5 million even though lending margins were still unsatisfactory. Higher earnings from securities operations and fee and commission from payment services increased net fee and commission income to €5.5 million. The charge for impairment losses on loans and advances was cut sharply by €6.4 million compared with the first quarter of 2010 to €9.1 million, making a particularly pleasing contribution to this customer segment's good performance. Its risk:earnings ratio fell accordingly, dropping from 70.2 per cent in the three months ended 31 March 2010 to 42.3 per cent in the period under review. Thanks to strict cost discipline, general administrative expenses charged to this segment were only marginally up on the same period of the previous year to €9.1 million. Consequently, both its cost:income ratio and its return on equity (ROE based on profit for the period) were very respectable. The former came to 33.2 per cent, against 29.7 per cent in the same period of the previous year, and the latter increased from 6.8 per cent to 14.7 per cent. In the next few quarters, we will continue to focus our attention on improving margins and reducing the risks associated with our lending operations.

Retail Banking

Approximately 123,000 customers were being serviced in the retail banking segment. In addition to personal banking customers and jobholders, this segment also encompassed small business owners, doctors and self-employed customers. Besides the retail operations of BKS Bank AG, it also included the retail operations of BKS Bank d.d. and of all the leasing companies within the Group (BKS-Leasing GmbH, BKS-leasing d.o.o., BKS-leasing Croatia d.o.o., BKS-Leasing a.s.). Because of its dependence on branch operations, this segment is particularly resource and cost intensive. Nonetheless, it is indispensable to BKS Bank because about 84 per cent of our savings deposit balances and nearly one third of our sight and time deposit balances—that is, roughly 58 per cent of our primary deposit balances—came from retail banking customers, making this segment our bank's most important source of funds.

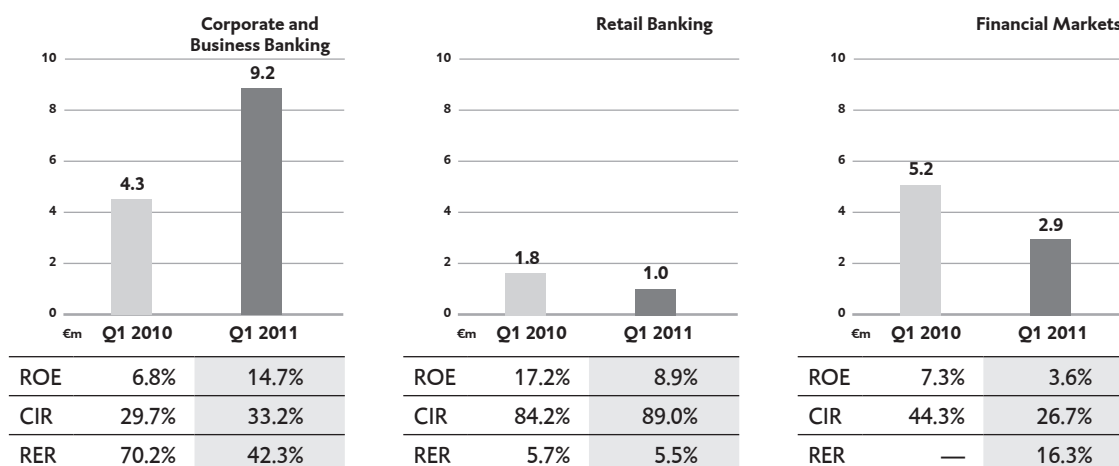
Thanks to strict cost discipline, general administrative expenses stayed in line with our economy drive in prior periods at €11.7 million. However, profits remained weak and unsatisfactory. Profit for the period before tax fell from €1.8 million in the first quarter of 2010 to just €1.0 million in the period under review. Although net interest income was nearly as high as in the first quarter of 2010, at €7.7 million, net fee and commission income weakened by about €0.6 million to €5.1 million. This was the result of a drop in earnings from securities operations and declining fee and commission income from foreign payments. On the other hand, it proved possible to keep the charge for impairment losses in this segment very low, at just €0.4 million. The segment's cost:income ratio and return on equity came to 89.0 per cent and 8.9 per cent, respectively, and were, therefore, still weaker than in the first quarter of 2010 (CIR: 84.2 per cent; ROE: 17.2 per cent). However, its risk:earnings ratio was actually about 20 basis points lower than in the same period of the previous year at just 5.5 per cent.

Financial Markets

The financial markets segment encompassed the profits made from BKS Bank's financial assets and liabilities. They included profits from equity investments, from securities held in BKS Bank's own portfolios and from receivables from and payables to other banks. In addition, this segment encompassed earnings from our interest rate term structure management activities.

The financial markets segment recorded profit for the period before tax of €2.9 million in the first quarter of 2011, against €5.2 million in the first three months of 2010. With the small rise in market interest rates, which had previously remained static and low, came an improvement in our so-called *structural income*, increasing net interest income by €1.3 million to €4.4 million. In addition, costs in this segment were considerably lower than in the first quarter of 2011, at €1.3 million. However, the first-time impairment charge for country risks of €2.9 million already mentioned in the section on our performance set tight limits on the performance of this segment, which was otherwise good. Its ROE before tax fell sharply from 7.30 to 3.60 per cent. On the other hand, the increase in operating profit improved its cost:income ratio by 17.6 percentage points to 26.7 per cent. Because of the first-time impairment charge for country risks, the financial markets segment had an annualized risk:earnings ratio of 16.3 per cent.

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



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

Risk Report

As an active participant in transactions in the financial and capital markets, BKS Bank is of course also continuously exposed to the risks of those markets. Our bank's risk management strategy is shaped by our conservative handling of all banking risks. They are analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. 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. Consequently, BKS Bank's ability to extensively 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.

BKS Bank's risk policy standards, accountabilities and management principles are enshrined both in its business policies and in its risk strategy, which targets the efficient deployment of own funds from a risk and return point of view. Based on official regulatory recommendations, a Management Board member who is not involved in front-office operations has central responsibility for risk management at BKS Bank. The large loan risks incurred by BKS Bank and the 3 *Banken Group* are secured by *Alpenländische Garantie-Gesellschaft mbH*, which is a consolidated member of the BKS Bank Group.

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 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.

The charge for impairment losses came to €12.4 million, compared with €16.0 million in the same period of the previous year. This translates into a reduction of 22.3 per cent. As the table below shows, impairment allowances of €13.9 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. It is of note that the charge required for risks in foreign markets fell significantly from €1.1 million to €0.5 million.

Our consistent and prudent handling of credit risks is first and foremost mirrored by the relationship between

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

| €m | 31/3/2011 | 31/3/2010 |
|-------------------------------------|-------------|-------------|
| Direct write-off | 0.2 | 0.1 |
| Impairment allowances | 13.9 | 17.2 |
| Impairment reversals | (1.6) | (1.2) |
| Subsequent recoveries | (0.1) | (0.1) |
| Charge for impairment losses | 12.4 | 16.0 |

our credit risk and net interest income. Within our Group, this relationship—our risk:earnings ratio—was still higher than normal in the first quarter of 2011 at 28.2 per cent. On the other hand, the risk:earnings ratio in the retail banking segment was lower at an inconspicuous level of just 5.5 per cent. This is because most of the personal loan portfolio consisted of well-secured residential construction loans. Thanks to the significant reduction in the impairment charge rec-

ognized on an item-by-item basis, the risk:earnings ratio in the corporate and business banking segment could be reduced to 42.3 per cent, compared with 70.2 per cent in the same period of the previous year. Although the improvement in the industry's difficult situation was still delayed in some areas, there has not to date been any lasting deterioration in the excellent distribution of our exposures applying our bank's internal rating system. We are continually improving this internal rating system on a best practice basis.

Market risk

In this risk category, we differentiate between interest rate risk, currency risk and equity price risk. These risks are mainly a consequence of adverse and unanticipated changes in economic and competitive conditions. We manage market risks and set limits using a combination of different ways of measuring 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 in the future within a given period and with a certain probability.

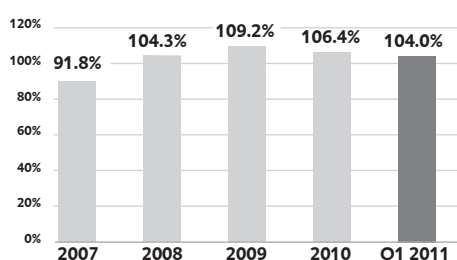
Our interest rate risks again changed little during the first quarter of 2011. At the end of March, the ratio of our interest rate risks to our eligible own funds assuming a rate shift of 200 basis points as reported in the interest rate risk statistics prepared for OeNB came to 5.43 per cent. In other words, our ratio has stayed well below the critical 20 per cent mark this financial year. As for currency risk, the value of our open currency positions fell marginally to €21.1 million during the period under review. Consequently, our foreign currency value at risk was still very small at just €198 thousand, compared with €280 thousand at the end of 2010. The €3.8 million increase in equity value at risk to €8.2 million reflected our investments in stock funds.

Liquidity risk

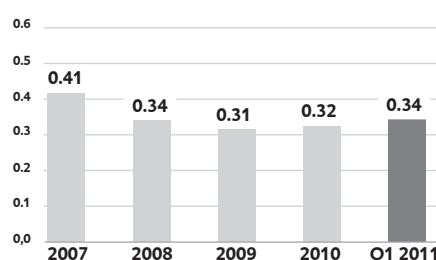
BKS Bank defines liquidity risk as comprising both the risk that BKS Bank may not be able to meet its present or future financial obligations in full or in time and the risk that, in the event of a liquidity crisis, it may only be able to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk). At BKS Bank, liquidity management and, therefore, ensuring solvency at all times is done with the help of a daily maturity gap analysis for each main currency. Limits have been defined at the short end to set boundaries to our liquidity risks. To ensure liquidity, we mainly hold highly liquid securities that are eligible for refinancing at the ECB as a liquidity buffer. As a lender, we prefer to hold 'tenderable' assets. Throughout the period under review, we continued to meet the minimum liquidity requirements laid down in § 25 BWG. Our access to the money and capital markets remained unrestricted during the first quarter of 2011. We held our surplus liquidity calculated in accordance with § 25 BWG at an average of roughly €160 million.

The monitoring of our liquidity buffer within the scope of the routine liquidity reporting process is one supporting pillar of our liquidity management activities. It came to approximately €0.76 billion at the end of the first quarter of 2011. This solid surplus serves as essential 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 important gauge of the success of our liquidity management activities. This ratio has been falling gradually since 2009 and came to 104 per cent at the end of March, bringing us significantly closer to our target benchmark of 100 per cent. The calculation of deposit concentration as presented below helps estimate the deposit withdrawal risk caused by the possibility of a run on deposits. This variable illustrates the dangers associated with relying on large deposits. It is calculated by capturing all euro and foreign currency customer deposit balances using predefined size classes and applying weighting factors of between 0 and 1 to them. A deposit concentration ratio of close to 1 would indicate an alarmingly high predominance of large deposits.

LOAN:DEPOSIT RATIO



DEPOSIT CONCENTRATION



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 management process that, among other things, serves as the basis for calculating risk capital. At BKS Bank, the management of operational risk is the responsibility of the relevant operating departments and responsible individuals (so-called *risk-taking units*). The operational risk losses reported across the Group during the quarter under review cost just €151 thousand.

Activities and focuses of our work during the period under review

We already presented in brief in our report as of 30 September 2010 several of the projects described below that are being carried out to secure our Group's future. They include the further development of our risk management processes, the repositioning of our securities operations, the development of a comprehensive compliance organization and our innovative *Open Space* workplace solution. These projects have already been running for some months and should be completed during the 2011 financial year.

Entry into the Slovakian market: Our Bratislava branch has been open since March and the first loan agreements have already been signed. This branch currently has a staff of 12 who are responsible for its smooth day-to-day running. The first phase of this project has thus been successfully completed. So far, we have stayed well below budget.

Repositioning of our securities operations: We are repositioning our securities operations so as to make our product line more customer orientated, increase the attractiveness of our event and relationship management activities and further improve our service standards. Important staffing decisions having been made to fill key posts and after we had started to put our spatial plans into effect, this project was already in the home stretch in the period under review.

Reconstruction/reopening/closures of branches in Austria: As already announced in our Interim Report as of 30 September 2010, a new branch on *Wiedner Hauptstrasse* will be added to the branches in our Vienna region. This will probably happen at the beginning of July. In addition, our Klagenfurt branches at *Fischlstrasse 5* and *Völkermarkter Strasse 165* will be amalgamated as part of necessary restructuring. Building work on the construction of a new and attractive office building with good traffic access is already underway. In Villach, the branch at *10. Oktober Strasse 18* will be relocated and integrated into the regional head office building at *Hauptplatz 18*, which is only about 550 yards away. Preparations for the closure of our branch at *Hauptplatz 11* in Völkermarkt also began in the first quarter.

Our innovative Open Space workplace solution: When rebuilding works commenced, we gradually began applying the promising results of the pilot project already completed at our new branch in Bratislava to the third floor of our Head Office Building as well. We are focusing primarily on acoustics and lighting. We are using the working title *Open Space* to describe what we are doing to encourage communication and to motivate our employees to work together as a team while making the best possible use of the available spatial resources.

Further development of our risk management processes: We pressed ahead with strengthening our risk management activities. This mainly involved upgrading our existing rating systems in the corporate and business banking and retail banking segments, 'firewalling' off front-office activities from risk management functions at our branch in Slovenia and integrating our foreign leasing companies into the risk management systems of our local bank branches. Above all, we took action to guarantee the data quality needed to ensure their smooth integration into our new multi-stage rating system. Extensive migration testing will begin in the autumn of 2011. In recent weeks, we have taken crucial staffing decisions within the scope of our Slovenian project to separate front-office activities from risk management functions.

Extension of our compliance management system: As part of our plans to enhance our compliance management system to make it a proactive third pillar of enterprise surveillance alongside risk management and our

Internal Control System (ICS), we have in recent weeks and months been carrying out in-depth *status quo* analyses using a standardized questionnaire and exploring all the company law compliance risks of relevance to the enterprise. In addition, the Compliance Team has been holding related Group-wide compliance courses. Attendance by staff is compulsory.

Outlook for the year as a whole

It looks very much as if the global improvement in the economy will continue in the weeks and months to come. There are already signs of a shift in growth towards the industrialized countries. While growth in the emerging markets will slow, GDP growth rates should increase elsewhere, especially in the United States. According to the latest forecasts, the biggest risks to recovery are higher raw material prices (above all, crude oil prices), caused above all by the escalating unrest in many Islamic countries. In addition, the long-term effects of the catastrophe in Japan and its impact on the global economy are not yet known. It also remains to be seen how the spreading public debt crises in the eurozone will develop and whether the bad news from Ireland, Portugal and Greece can be prevented from spilling over into Spain and Italy, which are much bigger peripheral countries.

Since inflation in the eurozone is likely for now to be much higher than the ECB's intervention threshold of 2 per cent, we expect the ECB Council to increase its key rate further. In view of the debt crisis in a number of peripheral countries in the eurozone, hikes are most likely to take place in small steps. If the US Federal Reserve also signals a turnaround in interest rates by ending its cheap money policy as the state of the US economy improves, any hikes in key rates should quickly have a knock-on effect on capital market yields, which are still low. The €/US\$ exchange rate should then move in favour of the US dollar in the course of the year.

Against the backdrop of the macroeconomic landscape we have described, BKS Bank is well prepared to face new challenges and to seize new opportunities. As for BKS Bank's medium-term development, the business climate should become brighter and generally positive. We are consistently applying our customer-orientated strategy — a strategy based on risk discipline, capital efficiency and earnings diversification. However, we are also aware that the competition for deposits from retail banking customers will continue to toughen in the quarters to come and depress margins in that market. In view of our numbers for the first quarter, the growth in our lending and leasing operations is also likely to be rather weak. However, based on the foundations provided by our excellent equity base, we will be stepping up our classical banking operations in our Austrian and foreign markets and will apply our proven business model as before. Securities operations in particular should continue to recover, and this is also one of the purposes of our project to reposition our securities operations. We will be turning important business policy focuses into reality: we intend to become the market leader in Carinthia by prudently increasing our market shares in the corporate and business banking and retail banking segments; and we will be opening new branches in our growth markets in Vienna, Slovenia, Croatia and Slovakia. We will be developing an extensive compliance management system as a third pillar of enterprise surveillance alongside risk management and the BKS Bank Internal Control System, further enhancing our bank's reputation and the image of the BKS Bank brand. We believe that the improvement in the economy will allow another reduction in the impairment charge on loans and advances. In view of our satisfactory performance during the first quarter of 2011 and given a stable market environment, we expect our profit for the year 2011 to enable us to augment our reserves, thus further increasing our enterprise value. However, we cannot yet put a figure on the impact that the regulatory reforms that have already been decided or announced will have on our liquidity and profitability. The new bank tax will already increase our costs by about €1.7 million in 2011.

We remain,
Yours faithfully,



Heimo Penker
CEO



Herta Stockbauer
Member of the Management Board



Dieter Krassnitzer
Member of the Management Board

The 3 Banken Group at a glance

| | BKS Bank Group | | Oberbank Group | | BTV Group | |
|--|----------------|------------|----------------|------------|-----------|------------|
| | Q1 2011 | Q1 2010 | Q1 2011 | Q1 2010 | Q1 2011 | Q1 2010 |
| Income account, €m | | | | | | |
| Net interest income | 33.8 | 33.2 | 81.6 | 73.9 | 37.2 | 32.3 |
| Impairment charge on loans and advances | (12.4) | (16.0) | (24.6) | (25.2) | (9.8) | (10.6) |
| Net fee and commission income | 10.9 | 11.2 | 27.2 | 24.6 | 11.5 | 10.9 |
| General administrative expenses | (22.8) | (22.1) | (55.4) | (51.7) | (23.1) | (22.1) |
| Profit for the period before tax | 12.6 | 10.7 | 32.9 | 27.1 | 16.5 | 12.2 |
| Consolidated net profit | 10.7 | 8.8 | 28.1 | 21.5 | 13.1 | 10.8 |
| Balance sheet data, €m | | | | | | |
| | 31/3/2011 | 31/12/2010 | 31/3/2011 | 31/12/2010 | 31/3/2011 | 31/12/2010 |
| Assets | 6,311.5 | 6,238.2 | 16,922.3 | 16,768.4 | 9,006.9 | 8,886.6 |
| Receivables from customers after impairment allowances | 4,490.5 | 4,498.2 | 10,245.7 | 10,129.7 | 5,661.4 | 5,774.8 |
| Primary deposit balances | 4,245.2 | 4,158.5 | 11,138.7 | 11,135.3 | 5,966.7 | 6,167.6 |
| – Of which savings deposit balances | 1,822.3 | 1,847.2 | 3,415.7 | 3,447.2 | 1,262.2 | 1,284.2 |
| – Of which liabilities evidenced by paper, including subordinated debt capital | 692.7 | 667.6 | 2,178.7 | 2,232.6 | 1,193.3 | 1,287.2 |
| Equity | 629.3 | 627.8 | 1,194.7 | 1,160.9 | 680.4 | 676.1 |
| Customer assets under management | 10,211.6 | 10,023.5 | 19,953.3 | 19,912.7 | 10,348.9 | 10,688.9 |
| – Of which in customers' securities accounts | 5,966.4 | 5,865.0 | 8,814.6 | 8,777.4 | 4,382.2 | 4,521.3 |
| Own funds within the meaning of BWG, €m | | | | | | |
| | 31/3/2011 | 31/12/2010 | 31/3/2011 | 31/12/2010 | 31/3/2011 | 31/12/2010 |
| Risk-weighted assets | 4,348.5 | 4,345.1 | 10,089.3 | 9,795.8 | 5,732.9 | 5,736.5 |
| Own funds | 555.4 | 567.4 | 1,594.4 | 1,635.1 | 835.6 | 853.2 |
| – Of which Tier 1 | 414.8 | 416.6 | 1,028.0 | 1,028.7 | 593.3 | 596.7 |
| Surplus own funds before operational risk | 207.5 | 219.8 | 784.4 | 849.0 | 375.9 | 392.8 |
| Surplus own funds after operational risk | 180.7 | 194.8 | 725.2 | 789.8 | 353.3 | 370.2 |
| Tier 1 ratio, % | 9.54 | 9.59 | 10.19 | 10.50 | 10.35 | 10.40 |
| Own funds ratio, % | 12.77 | 13.06 | 15.80 | 16.69 | 14.58 | 14.87 |
| Performance, % | | | | | | |
| | Q1 2011 | 2010 | Q1 2011 | 2010 | Q1 2011 | 2010 |
| Return on equity before tax | 8.1 | 8.9 | 11.3 | 10.6 | 9.9 | 9.6 |
| Return on equity after tax | 7.0 | 7.7 | 9.6 | 9.1 | 7.9 | 7.6 |
| Cost:income ratio | 49.9 | 48.8 | 49.0 | 50.3 | 47.7 | 47.2 |
| Risk:earnings ratio | 28.2 | 33.1 | 30.2 | 32.6 | 26.3 | 28.7 |
| Resources | | | | | | |
| | Q1 2011 | 2010 | Q1 2011 | 2010 | Q1 2011 | 2010 |
| Average number of staff | 890 | 872 | 2,028 | 1,996 | 787 | 794 |
| Branches and other business units | 56 | 55 | 144 | 143 | 42 | 41 |

Consolidated Financial Statements as at and for the Three Months Ended 31 March 2011

Page

| | |
|---|-----------|
| Details of the Income Statement | 25 |
| (1) Net interest income | 25 |
| (2) Impairment charge on loans and advances | 25 |
| (3) Net fee and commission income | 26 |
| (4) Net trading income | 26 |
| (5) General administrative expenses | 26 |
| (6) Other operating income net of other operating expenses | 26 |
| (7) Profit/(loss) from financial assets designated as at fair value through profit or loss (FV) | 26 |
| (8) Profit/(loss) from available-for-sale financial assets (AFS) | 26 |
| (9) Income tax expense | 26 |
| Details of the Balance Sheet | 27 |
| (10) Cash and balances with the central bank | 27 |
| (11) Receivables from other banks | 27 |
| (12) Receivables from customers | 27 |
| (13) Impairment allowance balance | 27 |
| (14) Trading assets | 27 |
| (15) Financial assets designated as at fair value through profit or loss | 27 |
| (16) Available-for-sale financial assets | 27 |
| (17) Held-to-maturity financial assets | 28 |
| (18) Investments in entities accounted for using the equity method | 28 |
| (19) Intangible assets | 28 |
| (20) Property and equipment | 28 |
| (21) Investment property | 28 |
| (22) Deferred tax assets | 28 |
| (23) Other assets | 28 |
| (24) Payables to other banks | 28 |
| (25) Payables to customers | 29 |
| (26) Liabilities evidenced by paper | 29 |
| (27) Trading liabilities | 29 |
| (28) Provisions | 29 |
| (29) Deferred tax liabilities | 29 |
| (30) Other liabilities | 29 |
| (31) Subordinated debt capital | 29 |
| Additional disclosures required by IFRSs | 30 |
| (32) Segmental reporting | 30 |
| (33) Contingent liabilities and commitments | 30 |
| (34) Events after the interim reporting date | 31 |
| (35) Balance of derivatives outstanding | 31 |
| (36) Material transactions with related parties and persons | 31 |

Income Statement of the BKS Bank Group for the First Quarter of 2011

1 JANUARY – 31 MARCH 2011

| €k | Note | 1/1–31/3/2011 | 1/1–31/3/2010 | +/(-) Change, % |
|---|------|---------------|---------------|-----------------|
| Interest income | | 50,924 | 49,703 | 2.5 |
| Interest expenses | | (20,665) | (19,527) | 5.8 |
| Profit from investments in entities accounted for using the equity method | | 3,547 | 3,008 | 17.9 |
| Net interest income | (1) | 33,806 | 33,184 | 1.9 |
| Impairment charge on loans and advances | (2) | (12,407) | (15,964) | (22.3) |
| Net interest income after impairment charge | | 21,399 | 17,220 | 24.3 |
| Fee and commission income | | 11,663 | 11,868 | (1.7) |
| Fee and commission expenses | | (742) | (637) | 16.5 |
| Net fee and commission income | (3) | 10,921 | 11,231 | (2.8) |
| Net trading income | (4) | 387 | 358 | 8.1 |
| General administrative expenses | (5) | (22,823) | (22,140) | 3.1 |
| Other operating income net of other operating expenses | (6) | 600 | 887 | (32.4) |
| Profit/(loss) from financial assets (FV) | (7) | 2,048 | (10) | >100 |
| Profit/(loss) from financial assets (AFS) | (8) | 93 | 3,171 | (97.1) |
| Profit for the year before tax | | 12,625 | 10,717 | 17.8 |
| Income tax expense | (9) | (1,881) | (1,918) | (1.9) |
| Profit for the period | | 10,744 | 8,799 | 22.1 |
| Minority interests in profit for the period | | (1) | (1) | 0 |
| Consolidated net profit for the period | | 10,743 | 8,798 | 22.1 |

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

| | | 10,743 | 8,798 | 22.1 |
|---|--|---------------|---------------|--------------|
| Consolidated net profit for the period | | 10,743 | 8,798 | 22.1 |
| Income and expenses not recognized in profit or loss | | | | |
| – Exchange differences | | 13 | 57 | (77.2) |
| – Available-for-sale reserve | | (4,161) | 1,550 | >100 |
| – Arising from investments in entities accounted for using the equity | | 3,159 | 1,407 | >100 |
| – Deferred taxes on items taken directly to equity | | 1,044 | (462) | >100 |
| Comprehensive income | | 10,798 | 11,350 | (4.9) |

QUARTERLY REVIEW

| €k | Q1 2011 | Q4 2010 | Q3 2010 | Q2 2010 | Q1 2010 |
|---|---------------|---------------|---------------|---------------|---------------|
| Interest income | 50,924 | 54,478 | 51,416 | 51,205 | 49,703 |
| Interest expenses | (20,665) | 9 | (20,728) | (20,969) | (19,527) |
| Profit from investments in entities accounted for using the equity method | 3,547 | 5,073 | 5,506 | 4,504 | 3,008 |
| Net interest income | 33,806 | 39,513 | 36,194 | 34,740 | 33,184 |
| Impairment charge on loans and advances | (12,407) | (11,221) | (10,522) | (9,853) | (15,964) |
| Net interest income after impairment charge | 21,399 | 28,292 | 25,672 | 24,887 | 17,220 |
| Net fee and commission income | 10,921 | 11,012 | 9,438 | 10,861 | 11,231 |
| Net trading income | 387 | 338 | 93 | 779 | 358 |
| General administrative expenses | (22,823) | (24,288) | (22,649) | (22,395) | (22,140) |
| Other operating income net of other operating expenses | 600 | (1,124) | 268 | (226) | 887 |
| Profit/(loss) from financial assets (FV) | 2,048 | 2,648 | 515 | (1,027) | (10) |
| Profit/(loss) from financial assets (AFS) | 93 | 892 | 502 | (1,589) | 3,171 |
| Profit for the period before tax | 12,625 | 17,770 | 13,839 | 11,290 | 10,717 |
| Income tax expense | (1,881) | (2,458) | (2,339) | (472) | (1,918) |
| Profit for the period | 10,744 | 15,312 | 11,500 | 10,818 | 8,799 |
| Minority interests in profit for the period | (1) | (1) | (1) | (1) | (1) |
| Consolidated net profit for the period | 10,743 | 15,311 | 11,499 | 10,817 | 8,798 |

Balance Sheet of the BKS Bank Group as at 31 March 2011

ASSETS

| €k | Note | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|---|------|------------------|------------------|------------------|
| Cash and balances with the central bank | (10) | 100,961 | 114,922 | (12.1) |
| Receivables from other banks | (11) | 180,836 | 151,161 | 19.6 |
| Receivables from customers | (12) | 4,648,122 | 4,647,335 | 0.0 |
| – Impairment allowance balance | (13) | (157,593) | (149,149) | 5.7 |
| Trading assets | (14) | 563 | 408 | 38.0 |
| Financial assets designated as at fair value through profit or loss | (15) | 123,726 | 127,560 | (3.0) |
| Available-for-sale financial assets | (16) | 317,712 | 309,999 | 2.5 |
| Held-to-maturity financial assets | (17) | 660,751 | 614,401 | 7.5 |
| Investments in entities accounted for using the equity method | (18) | 293,363 | 285,524 | 2.7 |
| Intangible assets | (19) | 11,593 | 11,775 | (1.5) |
| Property and equipment | (20) | 73,809 | 73,097 | 1.0 |
| Investment property | (21) | 16,844 | 16,543 | 1.8 |
| Deferred tax assets | (22) | 18,399 | 15,873 | 15.9 |
| Other assets | (23) | 22,364 | 18,726 | 19.4 |
| Total assets | | 6,311,450 | 6,238,175 | 1.2 |

EQUITY AND LIABILITIES

| €k | Note | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|-------------------------------------|------|------------------|------------------|------------------|
| Payables to other banks | (24) | 1,263,171 | 1,283,998 | (1.6) |
| Payables to customers | (25) | 3,552,554 | 3,490,971 | 1.8 |
| Liabilities evidenced by paper | (26) | 426,691 | 404,201 | 5.6 |
| Trading liabilities | (27) | 713 | 490 | 45.5 |
| Provisions | (28) | 82,579 | 82,642 | (0.1) |
| Deferred tax liabilities | (29) | 13,049 | 12,154 | 7.4 |
| Other liabilities | (30) | 77,454 | 72,541 | 6.8 |
| Subordinated debt capital | (31) | 265,993 | 263,361 | 1.0 |
| Equity | | 629,246 | 627,817 | 0.2 |
| Total minority interests and equity | | 629,245 | 627,818 | 0.2 |
| Minority interests in equity | | 1 | (1) | >100 |
| Total equity and liabilities | | 6,311,450 | 6,238,175 | 1.2 |

EARNINGS AND DIVIDEND PER SHARE

| | 31/3/2011 | 31/3/2010 |
|---|------------|------------|
| Average number of shares in issue | 32,230,584 | 32,187,042 |
| Dividend per share, € | 0.25 | 0.25 |
| Earnings per share, € (diluted and undiluted) | 1.34 | 1.09 |

Earnings per share compares consolidated net profit for the year 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 |
| Planned distribution | | | | (8,190) | (8,190) |
| Taken to retained earnings | | | 38,239 | (38,239) | 0 |
| Profit for the period | | | | 10,744 | 10,744 |
| Gains and losses taken directly to equity | | | 55 | | 55 |
| Increase in share capital | | | | | |
| Other changes | | | (1,182) | | (1,182) |
| – Arising from use of the equity method | | | 492 | | |
| – Arising from changes in treasury shares | | | (1,668) | | |
| At 31 March 2011 | 65,520 | 97,929 | 455,052 | 10,744 | 629,245 |
| Available-for-sale reserve | | | | | 17,847 |
| Deferred tax reserve | | | | | (1,675) |

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 |
| Planned distribution | | | | (8,190) | (8,190) |
| Taken to retained earnings | | | 32,251 | (32,251) | 0 |
| Profit for the period | | | | 8,799 | 8,799 |
| Gains and losses taken directly to equity | | | 2,552 | | 2,552 |
| Increase in share capital | | | | | |
| Other changes | | | 87 | | 87 |
| – Arising from use of the equity method | | | (280) | | |
| – Arising from changes in treasury shares | | | 185 | | |
| At 31 March 2010 | 65,520 | 97,929 | 408,519 | 8,799 | 580,767 |
| Available-for-sale reserve | | | | | 12,686 |
| Deferred tax reserve | | | | | (2,341) |

Cash Flow Statement

CASH FLOWS

| | €k | 1/1–31/3/2011 | 1/1–31/3/2010 |
|--|----|----------------|----------------|
| Cash and cash equivalents at end of previous period | | 114,922 | 131,642 |
| Net cash from/(used in) operating activities | | 45,070 | (74,716) |
| Net cash from/(used in) investing activities | | (59,729) | 25,362 |
| Net cash from financing activities | | 698 | 9,169 |
| Cash and cash equivalents at end of period | | 100,961 | 91,457 |

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 three months ended 31 March 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., Bratislava¹
- IEV Immobilien GmbH, Klagenfurt
- Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG, Klagenfurt
- BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt
- BKS Hybrid alpha GmbH, Klagenfurt
- VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt
- LVM Beteiligungs Gesellschaft mbH, Vienna
- BKS Hybrid beta GmbH, Klagenfurt

Entities accounted for using the equity method:

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

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

Consolidation policies

All material subsidiaries directly or indirectly under the control of BKS Bank were included in the Consolidated Financial Statements. During 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 classification-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. 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 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 financial year.

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 remaining 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 (FV)* using the fair value option. 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 diminution of the expected 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 the 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 carrying amounts of assets or liabilities for the purposes of IFRSs and the tax base. 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).

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 2009: 4.75 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 in profit or loss.

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

Calculation of goodwill

A goodwill impairment test is performed annually. When goodwill 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 flows in the most recent plan year.

The parameters used for discounting purposes are the yield on 10-year federal 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 contains income and expenses arising from our proprietary trading activities. Positions in the trading book are 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 | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|---|---------------|---------------|------------------|
| Interest income from: | | | |
| Credit operations | 37,913 | 36,050 | 5.2 |
| Fixed-interest securities | 8,094 | 7,676 | 5.4 |
| Lease receivables | 2,893 | 3,409 | (15.1) |
| Shares and investments in other entities | 1,715 | 2,296 | (25.3) |
| Investment property | 309 | 272 | 13.6 |
| Total interest income | 50,924 | 49,703 | 2.5 |
| Interest expenses on: | | | |
| Deposits from customers and other banks ¹ | 14,310 | 14,095 | 1.5 |
| Liabilities evidenced by paper | 6,263 | 5,340 | 17.3 |
| Investment property | 92 | 92 | 0.0 |
| Total interest expenses | 20,665 | 19,527 | 5.8 |
| Profit from investments in entities accounted for using the equity method | | | |
| Income from investments in entities accounted for using the equity method | 4,188 | 3,950 | 6.0 |
| Financing costs of investments in entities accounted for using the equity method ² | (641) | (942) | (32.0) |
| Profit from investments in entities accounted for using the equity method | 3,547 | 3,008 | 17.9 |
| Net interest income | 33,806 | 33,184 | 1.9 |

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

² Based on the average 3-month Euribor.

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

| €k | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|--|---------------|---------------|------------------|
| Impairment allowances | 13,904 | 17,170 | (19.0) |
| Impairment reversals | (1,615) | (1,205) | 34.0 |
| Direct write-offs | 196 | 100 | 96.0 |
| Recoveries on receivables previously written off | (78) | (101) | (22.8) |
| Impairment charge on loans and advances | 12,407 | 15,964 | (22.3) |

(3) NET FEE AND COMMISSION INCOME

| €k | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|--|---------------|---------------|------------------|
| Fee and commission income from: | | | |
| Payment services | 4,588 | 4,602 | (0.3) |
| Securities operations | 3,279 | 3,244 | 1.1 |
| Credit operations | 2,658 | 2,693 | (1.3) |
| International operations | 518 | 737 | (29.7) |
| Other services | 620 | 592 | 4.7 |
| Total fee and commission income | 11,663 | 11,868 | (1.7) |
| Fee and commission expenses arising from: | | | |
| Payment services | 316 | 288 | 9.7 |
| Securities operations | 247 | 203 | 21.7 |
| Credit operations | 70 | 91 | (23.1) |
| International operations | 44 | 8 | >100 |
| Other services | 65 | 47 | 38.3 |
| Total fee and commission expenses | 742 | 637 | 16.5 |
| Net fee and commission income | 10,921 | 11,231 | (2.8) |

(4) NET TRADING INCOME

| €k | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|--------------------------------------|---------------|---------------|------------------|
| Price-based contracts | 37 | 72 | (48.6) |
| Interest rate and currency contracts | 350 | 286 | 22.4 |
| Net trading income | 387 | 358 | 8.1 |

(5) GENERAL ADMINISTRATIVE EXPENSES

| €k | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|--|---------------|---------------|------------------|
| Staff costs | 15,276 | 15,079 | 1.3 |
| – Wages and salaries | 11,592 | 11,475 | 1.0 |
| – Social security costs | 2,491 | 2,404 | 3.6 |
| – Costs of retirement benefits | 1,193 | 1,200 | (0.6) |
| Other administrative costs | 6,068 | 5,609 | 8.2 |
| Depreciation/amortization | 1,479 | 1,452 | 1.9 |
| General administrative expenses | 22,823 | 22,140 | 3.1 |

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

| €k | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|---|---------------|---------------|------------------|
| Other operating income | 1,338 | 1,293 | 3.5 |
| Other operating expenses | (738) | (406) | 81.8 |
| Other operating income net of other operating expenses | 600 | 887 | (32.4) |

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

| €k | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|---|---------------|---------------|------------------|
| Revaluation gains and losses on derivatives | 1,972 | (487) | >100 |
| Gain/(loss) as a result of using the fair value option | 76 | 477 | (84.1) |
| Profit/(loss) from financial assets designated as at fair value through profit or loss | 2,048 | (10) | >100 |

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

| €k | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|---|---------------|---------------|------------------|
| Revaluation gains and losses and realized gains and losses | 93 | 3,171 | (97.1) |
| Profit/(loss) from available-for-sale financial assets | 93 | 3,171 | (97.1) |

(9) INCOME TAX EXPENSE

| €k | 1/1–31/3/2011 | 1/1–31/3/2010 | + /(-) Change, % |
|---------------------------|----------------|----------------|------------------|
| Current tax | (2,409) | (1,727) | 39.5 |
| Deferred tax | 528 | (191) | >100 |
| Income tax expense | (1,881) | (1,918) | (1.9) |

Details of the Balance Sheet

(10) CASH AND BALANCES WITH THE CENTRAL BANK

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--|----------------|----------------|------------------|
| Cash in hand | 29,171 | 30,119 | (3.1) |
| Credit balances with central banks of issue | 71,790 | 84,803 | (15.3) |
| Cash and balances with the central bank | 100,961 | 114,922 | (12.1) |

(11) RECEIVABLES FROM OTHER BANKS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|-------------------------------------|----------------|----------------|------------------|
| Receivables from Austrian banks | 73,660 | 82,164 | (10.4) |
| Receivables from foreign banks | 107,176 | 68,997 | 55.3 |
| Receivables from other banks | 180,836 | 151,161 | 19.6 |

(12) RECEIVABLES FROM CUSTOMERS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--|------------------|------------------|------------------|
| Corporate and business banking customers | 3,617,195 | 3,607,883 | 0.3 |
| Retail banking customers | 1,030,927 | 1,039,452 | (0.8) |
| Receivables from customers | 4,648,122 | 4,647,335 | 0.0 |

(13) IMPAIRMENT ALLOWANCE BALANCE

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--------------------------------------|----------------|----------------|------------------|
| At beginning of period under review | 149,149 | 113,401 | 31.5 |
| + Added | 13,145 | 47,195 | (72.2) |
| – Reversed | (1,615) | (4,258) | (62.1) |
| – Used | (3,091) | (7,147) | (56.8) |
| + Exchange differences | 5 | (42) | >100 |
| At end of period under review | 157,593 | 149,149 | 5.7 |

(14) TRADING ASSETS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--|------------|------------|------------------|
| Bonds and other fixed-interest securities | 0 | 0 | 0.0 |
| Positive fair values of derivative financial instruments | | | |
| – Currency contracts | 0 | 0 | 0.0 |
| – Interest rate contracts | 563 | 408 | 38.0 |
| Trading assets | 563 | 408 | 38.0 |

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

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--|----------------|----------------|------------------|
| Bonds and other fixed-interest securities | 79,873 | 82,097 | (2.7) |
| Loans | 43,853 | 45,463 | (3.5) |
| Financial assets designated as at fair value through profit or loss | 123,726 | 127,560 | (3.0) |

(16) AVAILABLE-FOR-SALE FINANCIAL ASSETS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|---|----------------|----------------|------------------|
| Bonds and other fixed-interest securities | 169,877 | 178,621 | (4.9) |
| Shares and other variable-yield securities | 99,810 | 83,365 | 19.7 |
| Investments in other associates and in subsidiaries | 32,876 | 32,864 | 0.0 |
| Other equity investments | 15,149 | 15,149 | 0.0 |
| Available-for-sale financial assets | 317,712 | 309,999 | 2.5 |

(17) HELD-TO-MATURITY FINANCIAL ASSETS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|---|----------------|----------------|------------------|
| Bonds and other fixed-interest securities | 660,751 | 614,401 | 7.5 |
| Held-to-maturity financial assets | 660,751 | 614,401 | 7.5 |

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

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|---|----------------|----------------|------------------|
| Oberbank AG | 196,543 | 189,772 | 3.6 |
| Bank für Tirol und Vorarlberg AG | 91,883 | 90,815 | 1.2 |
| 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 | 293,363 | 285,524 | 2.7 |

(19) INTANGIBLE ASSETS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--------------------------|---------------|---------------|------------------|
| Goodwill | 8,888 | 8,888 | 0.0 |
| Other intangible assets | 2,705 | 2,887 | (6.3) |
| Intangible assets | 11,593 | 11,775 | (1.5) |

(20) PROPERTY AND EQUIPMENT

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|-------------------------------|---------------|---------------|------------------|
| Land | 2,718 | 2,679 | 1.5 |
| Buildings | 48,400 | 48,192 | 0.4 |
| Other | 22,691 | 22,226 | 2.1 |
| Property and equipment | 73,809 | 73,097 | 1.0 |

(21) INVESTMENT PROPERTY

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|----------------------------|---------------|---------------|------------------|
| Land | 8,274 | 8,248 | 0.3 |
| Buildings | 8,570 | 8,295 | 3.3 |
| Investment property | 16,844 | 16,543 | 1.8 |

(22) DEFERRED TAX ASSETS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|----------------------------|---------------|---------------|------------------|
| Deferred tax assets | 18,399 | 15,873 | 15.9 |

(23) OTHER ASSETS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--|---------------|---------------|------------------|
| Positive fair values of derivative financial instruments | 10,749 | 8,628 | 24.6 |
| Other items | 9,414 | 8,021 | 17.4 |
| Deferred items | 2,201 | 2,077 | 6.0 |
| Other assets | 22,364 | 18,726 | 19.4 |

(24) PAYABLES TO OTHER BANKS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--------------------------------|------------------|------------------|------------------|
| Payables to Austrian banks | 932,460 | 961,280 | (3.0) |
| Payables to foreign banks | 330,711 | 322,718 | 2.5 |
| Payables to other banks | 1,263,171 | 1,283,998 | (1.6) |

(25) PAYABLES TO CUSTOMERS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--|------------------|------------------|------------------|
| Savings deposit balances | 1,822,349 | 1,847,218 | (1.3) |
| Corporate and business banking customers | 295,904 | 312,012 | (5.2) |
| Retail banking customers | 1,526,445 | 1,535,206 | (0.6) |
| Other payables | 1,730,205 | 1,643,753 | 5.3 |
| Corporate and business banking customers | 1,247,198 | 1,149,255 | 8.5 |
| Retail banking customers | 483,007 | 494,498 | (2.3) |
| Payables to customers | 3,552,554 | 3,490,971 | 1.8 |

(26) LIABILITIES EVIDENCED BY PAPER

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|---------------------------------------|----------------|----------------|------------------|
| Issued bonds | 299,970 | 279,800 | 7.2 |
| Other liabilities evidenced by paper | 126,721 | 124,401 | 1.9 |
| Liabilities evidenced by paper | 426,691 | 404,201 | 5.6 |

(27) TRADING LIABILITIES

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|----------------------------|------------|------------|------------------|
| Interest rate contracts | 713 | 490 | 45.5 |
| Trading liabilities | 713 | 490 | 45.5 |

(28) PROVISIONS

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|---|---------------|---------------|------------------|
| Provisions for post-employment benefits and similar obligations | 69,327 | 69,082 | 0.4 |
| Provisions for taxes (current tax) | 3,996 | 4,026 | (0.7) |
| Other provisions | 9,256 | 9,534 | (2.9) |
| Provisions | 82,579 | 82,642 | (0.1) |

(29) DEFERRED TAX LIABILITIES

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|---------------------------------|---------------|---------------|------------------|
| Deferred tax liabilities | 13,049 | 12,154 | 7.4 |

(30) OTHER LIABILITIES

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|--|---------------|---------------|------------------|
| Negative fair values of derivative financial instruments | 46,240 | 54,490 | (15.1) |
| Other items | 30,269 | 16,518 | 83.2 |
| Deferred items | 945 | 1,533 | (38.4) |
| Other liabilities | 77,454 | 72,541 | 6.8 |

(31) SUBORDINATED DEBT CAPITAL

| €k | 31/3/2011 | 31/12/2010 | + /(-) Change, % |
|----------------------------------|----------------|----------------|------------------|
| Supplementary capital | 255,993 | 223,361 | 1.2 |
| Hybrid capital | 40,000 | 40,000 | 0.0 |
| Subordinated debt capital | 265,993 | 263,361 | 1.0 |

(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. 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 resegmentation 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 | |
|--|----------------|--------------|--------------------------------|--------------|-------------------|--------------|
| | Q1 2011 | Q1 2010 | Q1 2011 | Q1 2010 | Q1 2011 | Q1 2010 |
| Net interest income | 7,746 | 7,881 | 21,481 | 22,116 | 4,426 | 3,084 |
| Impairment charge on loans and advances | (426) | (448) | (9,093) | (15,516) | (2,888) | 0 |
| Net fee and commission income | 5,134 | 5,731 | 5,485 | 5,346 | 178 | 145 |
| Net trading income | 0 | 0 | 0 | 0 | 387 | 358 |
| General administrative expenses | (11,736) | (11,765) | (9,086) | (8,366) | (1,339) | (1,584) |
| Other operating income net of other operating expenses | 300 | 360 | 438 | 683 | 31 | (8) |
| Profit from financial assets | 0 | 0 | 0 | 0 | 2,141 | 3,161 |
| Profit for the period before tax | 1,018 | 1,759 | 9,225 | 4,263 | 2,936 | 5,156 |
| Average risk-weighted assets | 573,165 | 512,318 | 3,145,771 | 3,116,692 | 572,905 | 627,973 |
| Average allocated equity | 45,853 | 40,986 | 251,662 | 249,335 | 323,074 | 281,882 |
| ROE based on profit for the period | 8.9% | 17.2% | 14.7% | 6.8% | 3.6% | 7.3% |
| Cost:income ratio | 89.0% | 84.2% | 33.2% | 29.7% | 26.7% | 44.3% |
| Risk:earnings ratio | 5.5% | 5.7% | 42.3% | 70.2% | 16.3% | — |

| €k | Other | | Total | |
|--|--------------|--------------|---------------|---------------|
| | Q1 2011 | Q1 2010 | Q1 2011 | Q1 2010 |
| Net interest income | 153 | 103 | 33,806 | 33,184 |
| Impairment charge on loans and advances | 0 | 0 | (12,407) | (15,964) |
| Net fee and commission income | 124 | 9 | 10,921 | 11,231 |
| Net trading income | 0 | 0 | 387 | 358 |
| General administrative expenses | (662) | (425) | (22,823) | (22,140) |
| Other operating income net of other operating expenses | (169) | (148) | 600 | 887 |
| Profit from financial assets | 0 | 0 | 2,141 | 3,161 |
| Profit for the period before tax | (554) | (461) | 12,625 | 10,717 |
| Average risk-weighted assets | 54,931 | 51,635 | 4,346,773 | 4,308,618 |
| Average allocated equity | 7,942 | 6,940 | 628,532 | 579,143 |
| ROE based on profit for the period | — | — | 8.1% | 7.5% |
| Cost:income ratio | — | — | 49.9% | 48.5% |
| Risk:earnings ratio¹ | — | — | 28.2 | 48.1 |

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

(33) CONTINGENT LIABILITIES AND COMMITMENTS

| €k | 31/3/2011 | 31/12/2010 | + / (-) Change, % |
|-------------------------------|----------------|----------------|-------------------|
| Guarantees | 396,583 | 410,626 | (3.4) |
| Letters of credit | 917 | 5,352 | (82.9) |
| Contingent liabilities | 397,500 | 415,978 | (4.4) |
| Other commitments | 658,340 | 632,580 | 4.1 |
| Commitments | 658,340 | 632,580 | 4.1 |

(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 (31 March 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:

| 31/3/2011 | €k | Nominal, by Term to Maturity | | | | Fair Value | |
|--------------------------------|----|------------------------------|------------------|---------------|------------------|---------------|---------------|
| | | To 1 Year | 1 – 5 Years | Over 5 Years | Total | Positive | Negative |
| Currency contracts | | 1,514,533 | 722,629 | — | 2,237,162 | 4,682 | 26,627 |
| – Of which in trading book | | — | — | — | — | — | — |
| Interest rate contracts | | 126,250 | 802,494 | 82,408 | 1,011,152 | 5,330 | 15,941 |
| – Of which in trading book | | 55,480 | 50,744 | 8,886 | 115,110 | 390 | 483 |
| Securities contracts | | 640 | — | — | 640 | 6 | — |
| – Of which in trading book | | — | — | — | — | — | — |
| Total | | 1,641,423 | 1,525,123 | 82,408 | 3,248,954 | 10,018 | 42,568 |
| – Of which in trading book | | 55,480 | 50,744 | 8,886 | 115,110 | 390 | 483 |

| 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 three months of this financial year with related parties or persons that materially affected the enterprise's financial position or results 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 three months ended 31 March 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 May 2011. If the assumptions upon which such 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 three months ended 31 March 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 31 March 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 three 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 nine months of the financial year."

Klagenfurt am Wörthersee
18 May 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 <i>Wiener Zeitung</i> gazette |
| 18 May 2011: | 72 nd 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 |

Publication details:

Published by *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee, Austria. ☎ +43-463-5858-0.
Internet: www.bks.at; e-mail: bks@bks.at or investor.relations@bks.at.
Edited by the Office of the Management Board of *BKS Bank AG*. Copy deadline date: 18 May 2011.
Translation and English typesetting by Adrian Weisweiler MA (Oxon), London.