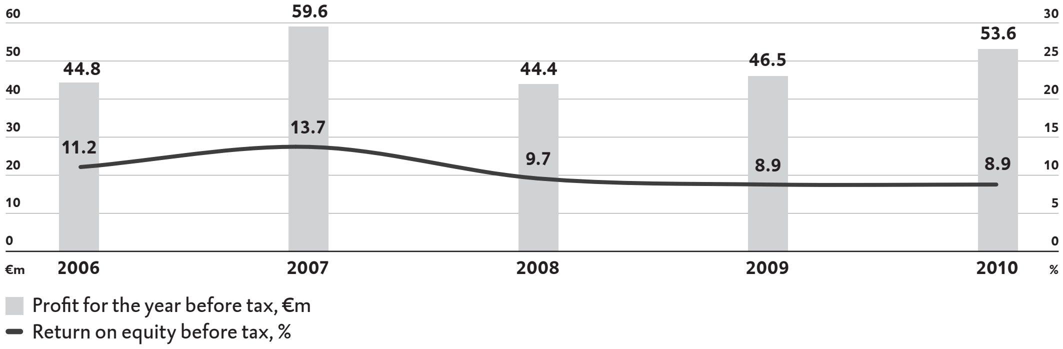
An Annual Report About Responsible Action

Annual Report 2010

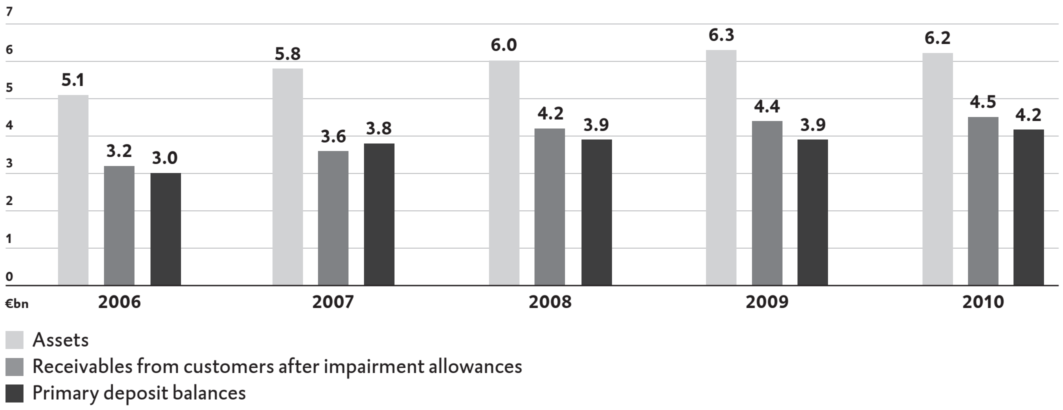
BKS Bank
3 Banken Gruppe

Living out our responsibilities is the motto of this Annual Report. That is why we have done without colours, print finishing and expensive binding this year. We are using the €10,000 this will save to help the SOS Children's Village in Moosburg, Carinthia, switch to an energy-efficient heating system. Specifically, the village will be connected to the *MS Fernwärme Moosburg* district heating network, which uses a wood-chip fuelled boiler.

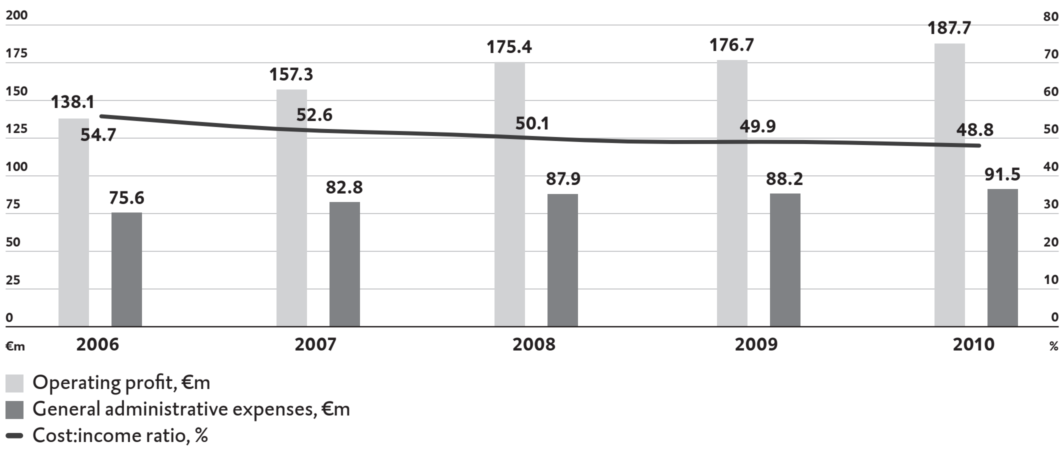
PROFIT



BALANCE SHEET



COST:INCOME RATIO



THREE-YEAR COMPARISON

	2010	2009	2008
Income account, €m			
Net interest income	143.6	132.3	130.2
Charge for impairment losses on loans and advances	(47.6)	(37.4)	(20.0)
Net fee and commission income	42.5	39.7	40.8
General administrative expenses	(91.5)	(88.2)	(87.9)
Profit for the year before tax	53.6	46.5	44.4
Consolidated net profit	46.4	40.4	41.9
Balance sheet data, €m			
Assets	6,238.2	6,315.9	5,975.7
Receivables from customers after allowance for impairment losses on loans and advances	4,498.2	4,350.2	4,186.1
Primary deposit balances	4,158.5	3,907.9	3,945.1
Of which savings deposit balances	1,847.2	1,804.6	1,677.5
Of which liabilities evidenced by paper, including subordinated debt capital	667.6	564.7	452.0
Equity	627.8	577.5	464.7
Customer assets under management	10,023.5	9,343.5	8,739.3
Of which in customers' securities accounts	5,865.0	5,435.6	4,794.2
Own funds within the meaning of BWG, €m			
Risk-weighted assets	4,345.1	4,258.4	4,087.7
Own funds	567.4	514.7	450.9
Of which Tier 1 capital	416.6	369.5	281.9
Surplus own funds before operational risk	219.8	174.0	123.9
Surplus own funds after operational risk	194.8	150.8	102.7
Tier 1 ratio, %	9.59	8.68	6.90
Own funds ratio, %	13.06	12.09	11.03
Performance, %			
Return on equity before tax	8.9	8.9	9.7
Return on equity after tax	7.7	7.8	9.2
Cost:income ratio	48.8	49.9	50.1
Risk:earnings ratio (credit risk in % of net interest income)	33.1	28.3	15.4
Resources			
Average number of staff	872	872	860
Branches	55	55	54
BKS Bank's shares			
No. of ordinary no-par shares (ISIN AT0000624705)	30,960,000	30,960,000[1]	4,380,000
No. of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000[1]	300,000
High: ordinary/preference share, €	18.4/15.4	18.2/15.3[1]	113.5/101.0
Low: ordinary/preference share, €	15.9/13.7	16.5/13.6[1]	110.0/92.0
Close: ordinary/preference share, €	18.4/15.44	18.1/14.7[1]	110.0/92.0
Market capitalization, €m	595.8	586.8	509.4
IFRS earnings per share in issue, €	1.44	1.25[1]	9.09
Dividend per share, €	0.25[2]	0.25[1]	1.50
P/E: ordinary/preference share	12.9/10.9	14.7/12.0	12.3/10.3

[1] Taking into account the six-for-one stock split on 5 June 2009 and the one-for-six raising of share capital (one extra share for every six already held) on 23 October 2009.

[2] Proposal to the 72nd Annual General Meeting on 18 May 2011.

Contents

* Sections marked with an asterisk are parts of the Consolidated Financial Statements or Group Management Report.

Living Out Our Responsibilities On A Daily Basis

The Management Board

From left to right: Dieter Krassnitzer, Heimo Penker (CEO), Herta Stockbauer.

Dear Shareholder,

The 2010 financial year was very tough for all of us. We were faced with a difficult environment dominated by uncertainty in the financial markets, a persistently weak real economy, increased credit risks and a flood of new regulations. Within the bank, we had to cope with the big internal changes associated, above all, with reorganizing our branch network, reconfiguring our customer segments and redesigning credit processes.

Nonetheless, we did extremely well. Our consolidated net profit reconfirmed how robust our business model is even when the economic environment as a whole is challenging. Both our key sources of profit — net interest income before impairment charges and net fee and commission income — and general administrative expenses were very satisfactory in the year under review. Profit before tax came to €53.6 million, which was 15.2 per cent up on 2009. Consolidated net profit was higher than at any time since 2007, coming to €46.4 million. Given the state of the market, risk costs naturally continued to rise in the course of the year. Our cost:income ratio improved from 49.9 per cent in 2009 to a historical low of just 48.8 per cent in the year under review. Our balance sheet assets came to more than €6.2 billion. Growth on the assets side of the Balance Sheet was due mainly to a steady increase in receivables from customers, which grew by 4.1 per cent to over €4.6 billion. Growth on the equity and liabilities side of the Balance Sheet was driven by a pleasing increase in so-called *primary* deposit balances, which grew by 6.4 per cent to nearly €4.2 billion.

We are also pleased to be able to report that the bank's capital position is a comfortable one. Following a raising of share capital funded from internal resources carried out in 2009 that increased our share capital by €6.2 million (nominal) to €56.2 million, a six-for-one stock split and a one-for-six raising of share capital (one extra share for every six already held) that increased our share capital to €65.5 million (nominal), our bank has a very good own funds base. Our Tier 1 ratio at year end was 9.6 per cent, which was over twice the legal requirement, and our surplus own funds came to approximately €220 million. According to our initial internal estimates, this means that BKS Bank is already 'Basel III ready.'

Our numbers were therefore very respectable compared with those of our competitors. Moreover, we used the crisis to make our position even stronger, completing a number of successful projects to create structures that will open up big opportunities in the future.

The consistent separation of front-office and back-office activities is enabling sales staff to focus even more closely on our customers and selling activities, while back office units can concentrate on optimizing transaction processing and analyzing credit risks. As was confirmed by a study published after the project's completion, reconfiguring our customer segments was exactly the right way to more effectively harness the considerable market potential offered by small business owners and self-employed customers. This is particularly true in the investment field.

We were also able to maintain our strategy of sustainable growth outside Austria. We launched securities operations at our Slovenian branches and offices in record time; we put an up-to-date organizational structure in place in Croatia; and considerable progress was made setting up our branch in Bratislava. As a result, nothing now stands in the way of successfully launching banking operations in Slovakia, which has the biggest growth potential of any eurozone country.

Finally, we implemented a health programme — *A Bank with Heart* — that was supported equally by our employees and the Staff Council, and we took action to promote the mobility and development of young management staff, including above all female management staff. The measures taken by BKS Bank to make it easier for employees to combine having a family and a career recently underwent the internationally recognized *berufundfamilie* (JobAndFamily) audit process, and we were awarded the basic certificate by Austrian Secretary of State Christine Marek. As these and many other activities again showed, corporate social responsibility is a real priority for us and part of the corporate culture that we actively promote.

Even if forecasts for 2011 are slightly better than they were for 2010, we cannot hope to enjoy a strong economic tailwind. The present state of the economy and, in particular, the short-term economic outlook are still plagued by major uncertainties. However, the danger of another plunge into recession seems to be over. The threats to growth are still to be found in the United States, which is suffering from an unemployment problem that is only slowly improving, the debt crisis in a number of peripheral eurozone countries and the political instability of several Arab countries.

The major central banks have prolonged their low interest rates policy. However, given the rise in inflation caused by the increase in raw material prices, at least small hikes in key rates by the ECB and the US Federal Reserve no longer seem unlikely this year. As for the outlook for the financial markets, regulatory reforms are now taking concrete shape a good two years after the near-collapse of the global financial system. During the G20 summit in Seoul, the major financial centres adopted the Basel III Accord. In the next few years, banks around the world will have to raise enormous amounts of capital to improve their risk-bearing capacities.

BKS Bank is well prepared to face these new challenges and seize new opportunities. We are continuing to consistently apply our customer-orientated strategy — a strategy that is based on risk discipline, capital efficiency and earnings diversification. Our profit for the year 2010 has enabled us to make another substantial addition to our reserves and distribute a dividend to match our results. However, we have mixed feelings about the multiple burdens that will be imposed by Basel III, the new deposit guarantee system and Austrian bank tax. They could quickly overload the entirety of the Austrian banking system, in turn hurting business in the region. We will have to hold our own in a landscape in which the competition for primary deposits is tough, credit risks are still higher than normal and the propensity to invest is weak. However, we are confident that we will remain well able to do so in the future operating as a part of the *3 Banken Group*.

We will have to carry out wide-ranging preparations for Basel III during 2011. A compliance organization built on broader foundations should help us reinforce our bank's reputation and the image of the BKS Bank brand. These assets have given us a crucial competitive advantage, especially during the crisis. We will be setting definite new trends in the market as we reposition our securities operations, strive for market leadership in Carinthia and open more branches in our growth markets.

We warmly invite you as a shareholder to continue with us on our prosperous path of sustainable growth. We would like to take this opportunity to thank our staff very much for the contribution they made to the successful implementation of our business policy and their willingness to accept change during 2010.

Heimo Penker (CEO) Herta Stockbauer Dieter Krassnitzer

Living Out Our Responsibilities

Sustainability

Photo: Wilke.

Professor Christian Friesl

Christian Friesl is Head of the Social Policy Division of the Federation of Austrian Industries (*Industriellenvereinigung*). His remits include Migration and Integration, Corporate Social Responsibility and Women/Work/Family Life. In addition to his work for the Federation of Austrian Industries, Christian Friesl is also University Professor at the Institute of Practical Theology at Vienna University. He was project leader during the creation of, among others, the Austrian Youth Values Study (1991, 2000, 2006) and the European Values Study (1990, 1999, 2008). Christian Friesl began his academic career with a theology degree at Vienna University (post-doctorate thesis in the field of pastoral theology in 2001), and he attended an MBA course for executives at the Vienna University of Business and Economics from 2005 to 2007.

Christian Friesl has held various positions in an honorary capacity, for instance as the President of Catholic Action Austria (1997 – 2003), as a member of the board of trustees of Austria Wien Football Club, as a member of the board of trustees and council of the European Alpbach Forum and as a member of the management board of the Caritas Socialis *Privatstiftung* (private foundation).

10 Years of CSR in Austria
A Stocktaking

Guest Commentary by Professor Christian Friesl
Federation of Austrian Industries

Corporate Social Responsibility has been a topical issue in Austria for some 10 years. Grounds enough to take stock and attempt to look forward.

What good is CSR?

A tried and tested definition by the EU Commission describes CSR as a model for companies 'whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis. … Through CSR, businesses contribute to sustainable development.'[1] In other words, CSR is a model that combines a company's commercial role with ecological and social challenges, and this happens on a systematic, committed and voluntary basis.

It is important for CSR to be effective. First of all, we need to look at its social impact: improved conditions for employees — e.g. helping them to combine their private lives with their professional careers — the equal treatment of men and women and corporate health care. Increasingly, companies are playing a role as problem solvers in the field of ecological responsibility, for instance by being efficient in their use of energy and resources. Or contributing to greater fairness in the globalized market economy, which is a particular challenge for multinationals.

CSR must be effective within society. That is the whole idea. However, the CSR model also includes benefiting the company. This can take the form of higher employee loyalty and an improved corporate culture. If CSR is properly applied, there may also be financial effects like an increase in enterprise value, higher revenues or lower costs. The strategic implications include factors like stronger customer loyalty, risk mitigation and a strengthened market position. However, benefits for the company are not a necessary consequence of using CSR. They will only develop in combination with a strategic approach and long-term implementation.

CSR: Where we are now and where we are heading

The corporate social responsibility model has won through and proven its worth over the past 10 years. In Austria, neither companies nor the associations that represent them nor the so-called 'social partners' can ignore CSR. The 'TRIGOS' company awards are a good example. BKS Bank has been intensively supporting these awards in Carinthia for many years. Some 800 companies have competed for them in the seven years since they were created, and the number is growing.

To begin with, it was mostly bigger companies that showed an interest in CSR, but increasingly, initiatives by and for SMEs are being launched.[2] And the economic crisis is pushing CSR forward. Some companies and industries that have not worried much about their CSR practice in the past (e.g. the wholesaling and retailing sector and the banking industry) are becoming more and more interested in the subject. The completion of ISO Standard *26000 – Social responsibility* in 2010 was another step forward towards establishing CSR internationally.

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[1] European Multi Stakeholder Forum on Corporate Social Responsibility (EMSF), Final Draft Version on Forum Report, Brussels 2004, 4.

[2] See, for instance, the activities of *CSR Dialogforum Oberösterreich* (www.csraustria.at) in Upper Austria or the *Verantwortung zeigen* platform (www.verantwortung-zeigen.at) in Carinthia.

Based on our experience with CSR to date, at least three things can be expected to happen in the near future:

- 'Classical' CSR will integrate social and ecological dimensions into corporate activities. Donating to environmental and social projects, improving employees' working conditions and training are undoubtedly the most common features of classical CSR activities.

- A 'strategic' variant of CSR goes a step further. Its goal is to unite business and society. A product, service or business model is used to create 'shared value'—value-added that benefits both society and the company. The keys to the success of strategic CSR are longevity and a close connection to the company's core operations.

- A third, 'sociopolitical' variant of CSR addresses the corporate sector's responsibility to society. Like the Federation of Austrian Industries, it operates where the two systems interface and works to create the right conditions within companies and politics. Our success in helping employees combine their family and professional lives is one of the factors on which our competitiveness will depend, as will our quality of life and demographic developments. Successfully integrating people from a migrant background into the working world is important for social cohesion as well as helping solve the shortage of skilled workers.

When it comes to content, one can say the following: Initially, CSR practice was dominated by individual social and ecological projects. Today, CSR processes and strategies are yielding greater benefits to both society and the companies themselves.

What's next: 'Social Investment'

CSR is a model that companies can use to commit to and systematically live up to their social responsibilities. It already has its place in existing companies. One new development is that creative corporate activities are now being initiated and companies are even being created to implement social responsibility under the heading of *Social Investment*.

- *Social Entrepreneurship* is when 'social entrepreneurs' solve problems using new business models, as it were, 'alongside' the market and the state.

- *Venture Philanthropy* is a form of investment where private money is invested to make the social or ecological activities of NGOs or social enterprises possible.

- *Ashoka* has already existed for some years. Its mission is to promote and support 'social entrepreneurs.'[3] *Ashoka* plans to begin operating in Austria in 2011.

The social investment model is multifaceted. It cannot yet be adequately evaluated. It may be a way of solving social problems as well as creating jobs that goes beyond CSR. In doing both, it may take the pressure off the welfare state, which is reaching its limits in many areas.

What we are missing: The social debate

As CSR and social investment show, we are now seeing movement in the question of the social challenges faced by companies. The debate has been taken up by companies, experts and researchers but still not enough by politics and society. Although a number of ministries in Austria are involved in CSR projects,

[3] www.ashoka.org.

the public sector does not have a CSR strategy. Meanwhile, Germany has already adopted a national corporate social responsibility strategy, namely in October 2010 (the Corporate Social Responsibility 'Action Plan'). A communication initiative to make the general public aware of the topic of CSR would be helpful either hand in hand with or as a result of such a strategy.

We are also lacking a debate in society at the level of the economic system above the CSR model, especially in the light of our experiences during the crisis. Although reforms of the financial markets are being considered at a supranational level (EU, G20), a broader discussion about learning from the crisis has yet to take place in society. In this connection, we are not seeing a well-founded debate about a 'new' (eco)social market economy at either the Austrian or the EU level.

After 10 years of CSR in Austria, we can take stock as follows: Companies can and should use CSR to strive for a 'different economy' that, particularly after the crisis, is more strongly committed to ecological and social criteria. However, 'companies' are not 'the economy'. Greater incentives and demand among the general public—especially in their role as consumers—would take the CSR model a step forward. The 'different economy' needs good companies and good public citizens.

Durch die Bank engagiert (Totally Committed)

BKS Bank acts responsibly, benefiting its shareholders, the enterprise, society, its employees and the environment.

Trustworthiness, keeping our word, commitment and growth that we are able to sustain without outside help are important elements of our business policies. We put long-term, sustainable growth that provides a lasting basis for our bank's success above short-term or risky profit maximization. We aim to ensure that we can provide our shareholders with stable dividends and solid price performance, can be a reliable partner to our business associates and can be a secure employer to our staff. That is why sustainability is included as a separate point in our Mission Statement.

Our support of the TRIGOS Initiative is a mark of our CSR activities.

Alongside our commitment to the sustainability-orientated activities that we undertake for and in our bank's name, we also encourage other companies to take socially responsible action and to be regional amplifiers for the CSR concept. We have been able to do so by setting up the TRIGOS Carinthia and TRIGOS Styria awards and being an active member of *respACT* and the regional *Verantwortung zeigen!* (show responsibility) network. Our actions within BKS Bank itself focus on our employees and social issues, mirroring the object our enterprise.

We began developing a new sustainability strategy together with *PriceWaterhouseCoopers* in 2010, and this process will continue in 2011. The starting point was a sustainability rating process carried out by *oekom* that BKS Bank underwent in 2010. According to the overall result of the rating process carried out by this respected CSR rating agency, BKS Bank's performance was average for the industry, and in some areas such as *Staff and Suppliers* and *Corporate Governance and Business Ethics*, BKS Bank was actually far better than the average. At the same time, the rating documents revealed interesting new areas of action that we will now be exploring even more thoroughly.

Staff

BKS Bank is taking intensive action to promote the compatibility of family and career.

A service provider is only as good as the people it employs. In other words, our staff are our most important asset. For this reason, BKS Bank has always been particularly active in this area. For instance, it was the first company in Carinthia to have a toddler group. Our taking care of small children enables parents to return from parenthood leave quickly and makes it easier for many to successfully combine having a family with pursuing a career. A flexitime system (flexible hours without core hours of work) and flexible part-time working models have long since been as much a permanent feature of our company as basic and advanced training during working hours. Our employees also greatly appreciate the various allowances and social benefits that we offer them.

BKS Bank has had the state 'JobAndFamily' Quality Seal since November 2010.

Standards are already high, but BKS Bank wants to continue to improve. In the year under review, we underwent a 'JobAndFamily' audit, after which Management Board member Herta Stockbauer and our Audit Officer Petra Ibounig-Eixelsberger were presented with the basic 'JobAndFamily' certificate by Austrian Secretary of State Christine Marek.

The audit evaluated what we were already doing to make it easier to combine a career with having a family, and a team of employees developed an extensive plan that includes new benefits and services. The period foreseen for implementing the planned changes will end in 2012. As a consequence of the benefits and services developed in the course of the audit, our bank now has new issues to address, including, for instance, caring for relatives and the anonymous psychological support that is to be given to employees in crisis situations. In addition, we have set up an information platform in the bank's intranet that offers employees rapid and efficient access to answers to any frequently asked questions about long-term care, health and childcare. We have also developed an extensive package of measures relating to parenthood, parenthood leave and returning to work. In the future, BKS Bank will be integrating employees on parenthood leave more effectively into internal information flows and making it possible for them to stand in for colleagues who are ill or on holiday during their parenthood leave. In this way, we hope to encourage employees to continue to do some work for BKS Bank during parenthood leave. The aim is to keep them more involved in the company as parents so as to make returning to work easier. We expressly want fathers to take fatherhood leave, so any remaining prejudices against doing so must be removed. During the audit process, we also discovered that many parents need help coping with the long summer holidays. In a first step, we are offering children places in holiday camps in cooperation with the Carinthian International Club and the KELAG Wörtherseelöwen Volleyball Club. We are also looking into whether BKS Bank could provide crèche facilities for employees' children outside Head Office in the form of places in children's groups or kindergartens or by setting up special BKS Bank childcare facilities (possibly in collaboration with other companies).

Help caring for relatives, coaching in crisis situations and optimized parenthood leave management are among the results of the audit.

A Bank With Heart

In its fifth year, our *Banking on Health* programme is thriving as never before. In the spring, 383 employees had their real cardiac age measured by means of heart rate variability under our motto for the year, which is *A Bank with Heart*. In the course of lectures, doctors gave them advice about effectively preventing cardiovascular disease, which is still Europe's number one killer.

BKS Bank is taking preventative medical action.

In addition, nearly 250 employees seized the opportunity to attend a four-hour first aid refresher course held by Red Cross workers. Alongside immediate measures like cardiac massage, artificial respiration, checking breathing and stopping bleeding, employees practised resuscitation using a defibrillator. Since the summer of 2010, Head Office and all of BKS Bank's regional head offices have been equipped with these devices. A defibrillator can end heart arrhythmias like ventricular fibrillation with the help of targeted electric shocks, greatly improving sufferers' chances of surviving.

BKS Bank received the Quality Seal for Workplace Health Promotion for its efforts to improve its employees' health. This seal is awarded by the Austrian Network for Workplace Health Promotion and the Healthy Austria Fund. The main requirements for a company to be awarded this Quality Seal include, to name just a few, the sustainability of the programme, the accessibility of measures for all employees, suitable project control and the continuous training and further training of those who are responsible for the programme. BKS Bank was given the Quality Seal by the Austrian Minister of Health Alois Stöger, who praised BKS Bank's 'strong commitment to health care' during the award ceremony in Villach's Bambergsaal hall.

Austrian Minister of Health Alois Stöger awarded BKS Bank the Quality Seal for Workplace Health Promotion.

Videos Provide a Visual Accompaniment to the Code of Conduct

Preserving our integrity and ensuring ethical behaviour are of particular importance at every level of BKS Bank. Among other things, this has been formulated by BKS Bank in its Vision and Mission Statement, in agreements with the workforce, in its conflicts of interest policy and in Management's clear commitment to these principles in a code of conduct. During the year under review, this code, which was developed within the bank in 2009, also entered into force at our subsidiaries and branches abroad and was translated into the appropriate languages. In order to deal with topics that can be unwieldy or highly sensitive — e.g. banking secrecy, adhering to quality standards, dress codes, mobbing and sexual harassment — in a more comprehensible and succinct way, we had six video clips made and are distributing them through the bank's intranet. Views have been above-average, showing how good the response of our employees to these entertaining messages has been.

Code of Conduct: a clear commitment to adhering to the law, supervisory requirements and social standards; sensitive topics are addressed in entertaining video clips.

BKS Bank attaches great importance to increasing the proportion of women in management positions.

We also continued our efforts to increase the proportion of women in management positions in 2010. For instance, we invited female employes to attend a seminar especially created for them to tell them about the demands made on management staff and to show them ways of combining having a family with having a career. We looked at the personal situation of each participant to sound out whether a management position would be an option for her. The seminar was quickly booked out and will again be part of our training programme in 2011.

Our Innovative 'Money and Refractories' Project for Apprentices

BKS Bank systematically promotes young people and runs an extensive trainee programme for graduates of universities and technical colleges. Between eight and 10 trainees receive comprehensive training each year. For a number of years, we have been selectively offering bank employee apprenticeships again. Currently, they are being completed by 12 apprentices in Carinthia, Styria and Burgenland.

We developed a unique new form of cooperation with the global refractories market leader *RHI*. The apprentices at BKS Bank and *RHI* exchanged jobs for a day to get to know each other's working conditions. This enabled the apprentices to broaden their horizons in a quite special way. Plunging into a completely unknown working world by exchanging industrial work for classical office or service jobs helped build mutual understanding. Practical exercises were accompanied by special lectures. One thing was clear to all the participants and the organizational team led by occupational health practitioner Dr. Stefan A. Bayer: The programme should continue in 2011.

Society

BKS Bank's CSR activities concentrated on its existing sales territories. We supported charitable, cultural and educational projects, and we also strove to motivate other companies to take CSR action themselves.

Money and Refractories
The apprentices at BKS Bank exchanged their business suits for boiler suits. During a unique new form of cooperation between global refractories market leader *RHI* and our bank, 48 apprentices exchanged jobs and got to know a new working world. For one day, BKS Bank's apprentices visited the *RHI* Factory in Radenthein, and *RHI*'s apprentices were guests at our Head Office, gaining insight into topics of importance in each other's areas of apprenticeship. At the refractories works, they made a component. At BKS Bank, the apprentices learnt about the way young people handle their money.

The *berufundfamilie* 'JobAndFamily' Audit
For a long time, BKS Bank has been offering its employees a raft of benefits and services to help them combine having a family with having a career. For instance, BKS Bank was the first company in Carinthia to set up a crèche. In addition, BKS Bank has for years been offering its employees a flexitime model without core hours of work, flexible part-time working options and numerous fringe benefits and allowances. The existing catalogue of services and benefits was evaluated and extended, earning us the basic 'JobAndFamily' audit certificate. The new measures will be implemented by the end of 2012.

Banking on Health
BKS Bank offers its employees an extensive health scheme. The focus changes each year. In 2010, the programme's motto was *A Bank with Heart*. Employees were able to check their real cardiac age and attend Red Cross first aid training courses. In addition, Head Office and all our regional head offices were equipped with defibrillators. In the spring, BKS Bank was delighted to be awarded the Quality Seal for Workplace Health Promotion. It was presented to us by the Austrian Minister of Health Alois Stöger.

Dem Unternehmen

BKS Bank AG

wird das Gütesiegel des
Österreichischen Netzwerkes für Betriebliche Gesundheitsförderung
für die Jahre **2010** bis **2012** verliehen.

Dieses Gütesiegel zeichnet die vorbildliche Implementierung
von BGF nach den Qualitätskriterien des
Europäischen Netzwerkes für Betriebliche Gesundheitsförderung (ENWHP)
aus.

Jänner 2010

Chairman Prof. Dr. Karl Kuhn
ENWHP

Alois Stöger, diplomé
Bundesministerium für Gesundheit

Mag. Christoph Hörhan
Fonds Gesundes Österreich

Felix Hinterwirth
Österreichische Kontaktstelle für
Betriebliche Gesundheitsförderung

BUNDESMINISTERIUM FÜR GESUNDHEIT

Fonds Gesundes Österreich

OÖ GKK FORUM GESUNDHEIT

BKS Bank was awarded the Quality Seal for Workplace Health Promotion in the spring of 2010.

Kärntner in Not **(Carinthian in need) celebrates its 10th anniversary in 2010. BKS Bank has supported this aid project from the outset.**

BKS Bank's partnership with *Kärntner in Not* (Carinthian in need) is one of its most important. *Kärntner in Not* began as an aid project set up by the *Kleine Zeitung* newspaper to help socially disadvantaged families in Carinthia. Money is donated to the project by the readers of *Kleine Zeitung*, which is Austria's biggest regional newspaper. In 2010, *Kärntner in Not* celebrated its 10th anniversary with a benefit concert by Rebekka Bakken. It has one employee who works solely for its aid projects and raises a substantial amount of money each year. During the year under review, *Kärntner in Not* was transformed into a charity and underwent numerous audits. As a result, it is now one of the organizations allowed to display Austria's donation quality seal, which means that donations to *Kärntner in Not* are tax deductible. BKS Bank has been supporting *Kärntner in Not* from the outset. This began with a free bank account and various donations in kind like free remittance slips. Today, BKS Bank pays the costs of managing the appeal. This ensures that all donations are really used for a charitable purpose and don't have to be spent on administrative costs.

Warmth for an SOS Children's Village

A long-standing and thriving partnership with the Moosburg SOS Children's Village.

We have a long-standing partnership with the Moosburg SOS Children's Village. Since 2007, its children have been travelling safely in a VW bus paid for by BKS Bank, and this year, we are helping the village connect to a biomass district heating system. To date, the 18 buildings in the Children's Village have been heated by a 51-year-old oil-fired heating system with a closed circular pipeline and 18 separate burners. This outdated heating system is a heavy polluter. Combined with Moosburg's frequent fog, it greatly increases the risk of the children suffering from asthma or other bronchial ailments. The new heating system will significantly reduce emissions and cut the SOS Children's Village's costs. In addition, fossil fuels will be replaced by local biomass, protecting local jobs. BKS Bank's donation of €10,000 has been financed by the special way we have designed this Annual Report: We have been able to give the SOS Children's Village's what we have saved compared with the cost of the 2009 Annual Report by doing without expensive glossy paper, colour printing or new photos. We are delighted to be giving the children this very special form of warmth.

The Integration Centre run by TIK (Therapy and Integration in Carinthia) also does something special for children with its *Pferde bringen Sonne ins Leben* (horses bring sunshine into your life) project. The project's creator, Christiane Benger, works closely with the *Verein für Therapie und Integration* (association for therapy and integration) in Carinthia to enable children from families at risk of poverty to enjoy remedial exercise on horseback and horseback riding. It has also been possible to persuade the Carinthian provincial government to support the project, making 700 therapeutic sessions possible in 2010. At the moment, therapy has to take place in the open, regardless of the weather. In the long term, the therapeutic benefits

Kärntner in Not (Carinthian in need)
This project was set up by the *Kleine Zeitung* newspaper. BKS Bank pays the annual cost of one employee at *Kärntner in Not*. This contribution enables the *Kleine Zeitung* newspaper to pass all donations directly on to the needy without having to deduct any administrative costs. BKS Bank has been supporting *Kärntner in Not* since its creation 10 years ago. Its jubilee was celebrated by a benefit concert by Rebekka Bakken.

TIK (Therapy and Integration in Carinthia)
Pferde bringen Sonne ins Leben (horses bring sunshine into your life): TIK is a charity that helps children and young people with disabilities and/or special needs. BKS Bank helped it break the ground for a new indoor hippotherapy school that will increase the therapeutic benefits of its activities in the long term.

Mothers' Refuge in Ljubljana
To celebrate the opening of its Ljubljana-Trnovo branch, BKS Bank sponsored *Materinski Dom*, which helps mothers in need.

Pannonische Tafel Eisenstadt
BKS Bank's branches in Eisenstadt and Neusiedl donated 400 bags of pasta to the *Pannonische Tafel Eisenstadt* charity.

TIK: Horses bring sunshine into the lives of children and young people.

can only be increased if the project has a roof over its head. For this reason, the ground for an indoor therapeutic riding school was broken in 2010 with BKS Bank's help.

BKS Bank's charitable activities are not restricted to its original market in Carinthia. To give just a few more examples, in Burgenland, it supports the *Pannonische Tafel Eisenstadt* charity, which offers socially disadvantaged people foodstuffs at a greatly reduced cost, and it helps the *Sonderpädagogisches Zentrum* (special education centre) in Mattersburg through the *Kronehit-Kindertraum* appeal. In Ljubljana, it supports the *Materinski Dom* mothers' home, which offers shelter to mothers and children in distress.

BKS Bank's employees demonstrate their responsibility.

Our employees themselves also helped the underprivileged last year. In Carinthia, *Verantwortung zeigen!* (the 'show responsibility' initiative) held its first Commitment Day, during which teams from profit-orientated enterprises spent a day helping not-for-profit organizations with a variety of projects. BKS Bank accounted for the largest number of volunteers, with four teams. Twenty-seven of our employees took part in this corporate volunteering day, during which they assisted *Diakonie Carinthia* with two projects (*Hilfswerk* and *Contrapunkt*).

Promoting the arts, culture and education is a special priority.

Besides acting as a sponsor and donating to charity, BKS Bank also focuses on the arts, culture and education. Unlike other companies, which have become less generous in the course of the economic crisis, BKS Bank has kept up its support. We believe that cultural offerings and well-equipped educational facilities are both cornerstones of our society. They therefore continue to deserve our special support when times are tough. Consequently, BKS Bank sponsors a wide variety of cultural institutions such as the Carinthian Summer Music Festival, the Brahms Competition, *Panorama Damtschach*, *Kulturzentrum Burgenland* and *Verein Theatro* (a theatre for young people and children in Vienna). We promote the fine arts mainly by buying works of art, but we are also a long-standing partner of *Kunstverein Kärnten* and Schloss Albeck. For the first time, we sponsored *Synart Tanzenberg*. Sponsorship in the educational field centres mainly on our partnerships with Alpen-Adria University in Klagenfurt and sponsorship of the AHS foreign language competition, the *Junior* competition and the Carinthian Dialogues.

Award-winning CSR: The TRIGOS Carinthia and TRIGOS Styria Awards

One of BKS Bank's foremost priorities is to act as a regional amplifier of CSR activities. Five and four years ago, respectively, we identified the TRIGOS Carinthia and TRIGOS Styria awards as the right way to perform this role. That is how long we have now been awarding these regional prizes to 'Enterprises with Responsibility' in cooperation with the regional partners of the federal TRIGOS awards (additional

***Verantwortung zeigen!* Commitment Day**
The Bank that Ran out of 'Gravel'

During the 2010 *Verantwortung zeigen!* ('show responsibility') Commitment Day, some 120 employees of major Carinthian companies put their energy and manpower at the service of a good cause. Those companies nominated teams who worked without payment on various projects for social welfare institutions. BKS Bank nominated four — and therefore the most — teams. BKS Bank's teams were energetic helpers with projects organized by *Diakonie Kärnten* (preparations for laying out a vegetable garden, renovation work on the annexe of the Ernst-Schwarz House), by *Hilfswerk Kärnten* (renovating the garden) and by *Contrapunkt* (marketing advice). All the teams experienced something special: As Johannes Zebedin, Head of Operations, joked, recalling the laying of washed concrete slabs for *Hilfswerk*, it was the first time ever that our bank ran out of 'gravel' (Austrian slang for money). The missing gravel was rapidly obtained. *Hilfswerk* now has a wonderful garden with, at its centre, a wooden bridge made personally by BKS Bank employees. The *Diakonie* projects were carried out jointly with mentally impaired helpers who actually included a Special Olympics medallist. During the *Contrapunkt* project, our team was impressed by the professionalism of the staff of this non-profit organization and all the things that can be made out of old materials.

Commitment Day: BKS Bank staff energetically helped non-profit organizations.

information can be obtained by logging on to www.trigos.at). In 2010, there were more entries than ever before in both Carinthia and Styria. As this shows, the consistent positioning of these prizes in those provinces is bearing fruit and the example set by the enterprises that have won prizes in the past is spreading to other companies. Prizes were awarded in the categories 'Society', 'The Market', 'The Workplace' and 'Ecology' and in the enterprise sizes 'small', 'medium-sized' and 'large'.

The Environment

'Service providers like ours do not have smoking chimneys, energy-hungry production lines or environmentally hazardous waste sites. Nonetheless, BKS Bank does everything it can to protect the environment. For instance, it thermally renovated a number of branches in 2010, equipping them with external wall insulation and energy-efficient facade elements. Old heating systems were replaced with modern air-source heat pumps, making heating in winter and cooling in summer much more economical. The building service systems at our regional head offices in Klagenfurt and Styria, which, among other things, regulate room temperatures, were renewed, likewise saving energy. The third storey at Head Office will be renovated in 2011. Among other things, we will be improving the insulation under the flat roof and installing an innovative heating and cooling system.

An innovative video conferencing system reduces the number of business trips.

We continued to optimize business travel. Whenever possible, public transport is already used. In the year under review, video conferencing systems were bought for Head Office, our Styria, Vienna and Burgenland regional head offices and our Slovakian branch in Bratislava. In 2011, we will also be equipping Ljubljana and Rijeka with this system. Since the *Oberbank* and *BTV* also have video conferencing systems of the same type, some meetings with people outside the bank and the Group can also be held online.

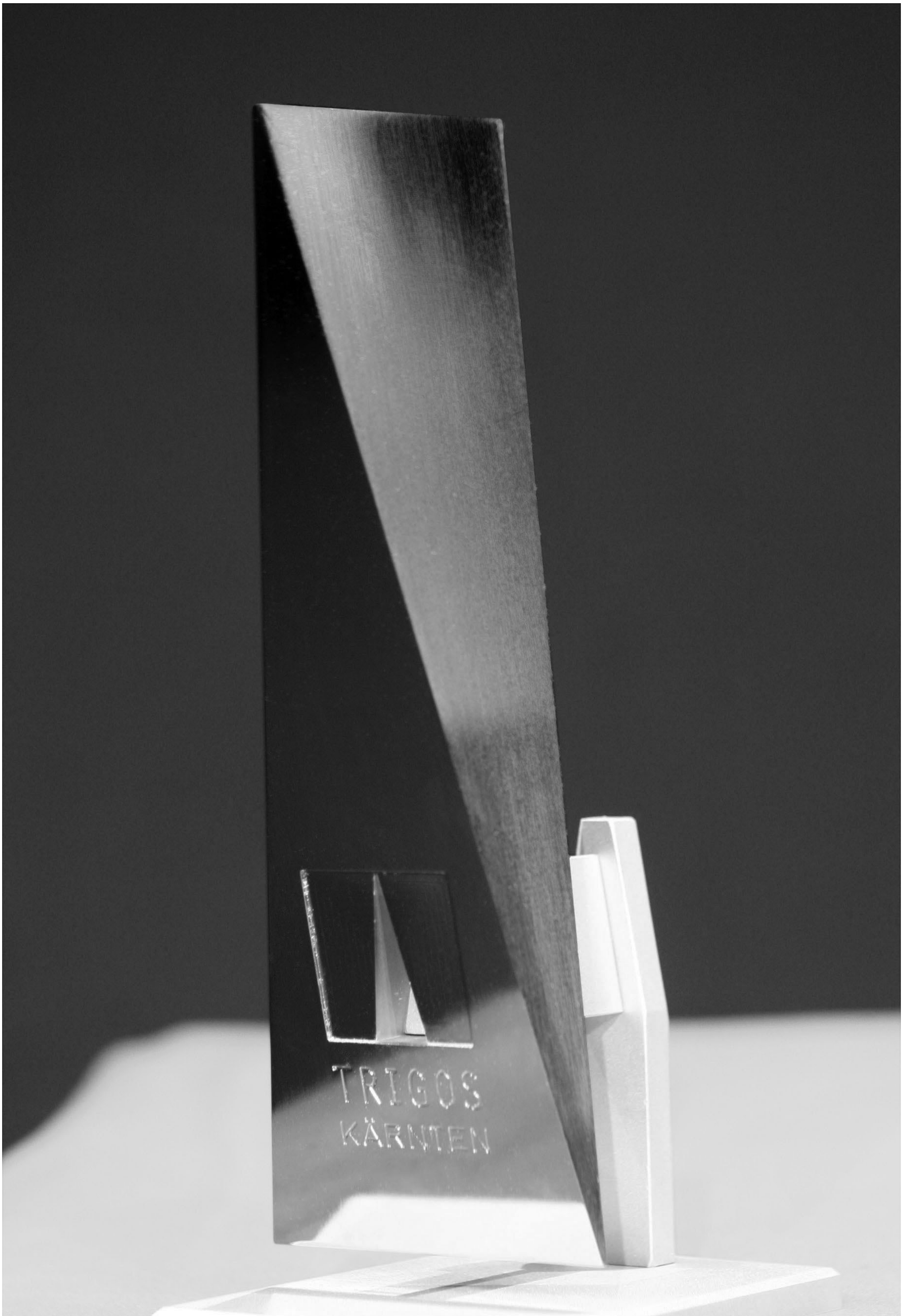
TRIGOS Carinthia and TRIGOS Styria
Once again, BKS Bank awarded the TRIGOS Carinthia and TRIGOS Styria prizes in partnership with the regional organizations of the initiators of TRIGOS Austria (a platform of non-government organizations and the business community). The TRIGOS awards are given to companies whose corporate social responsibility goes beyond the legal requirements. The award categories are 'Society', 'The Market', 'The Workplace' and 'Ecology'.

Martin Gratzer
A Strong Man for a Strong Bank
Martin Gratzer, head of BKS Bank Perchtoldsdorf, is one of Austria's elite shot-putters. His goal is to take part in the 2011 European Athletics Indoor Championships in Paris. Since the year under review, BKS Bank has been the kit sponsor of the man who is undoubtedly its strongest employee.

The Carinthian Summer Music Festival
The Carinthian Summer Music Festival is Carinthia's premier summer cultural event. BKS Bank sponsors the festival to ensure that this quality event can continue to thrill audiences in years to come.

The Carinthian Skiing Association
Since last summer, Carinthia's women skiers and young skiing hopefuls have been travelling safely in a VW Caddy sponsored by *BKS-Leasing GmbH*. The Carinthian Skiing Association's consistent and extensive work with young people convinced BKS Bank that it should support this project despite its previous reservations about sport sponsorship.

The Burgenland Innovation Prize
In 2010, BKS Bank sponsored the main Burgenland Innovation Prize awarded by WIBAG (*Wirtschaftsservice Burgenland Aktiengesellschaft*). The winner was *Blue Chip Energy GmbH*, whose photovoltaic systems make the energy efficient illumination of greenhouses possible even at night.



The TRIGOS Trophy.
Responsibility deserves a prize.

Responsibility Begins Right At The Top

Corporate Governance

The Company's Boards and Officers

The Management Board

Heimo Penker

Sprecher (official spokesman) of the Management Board; born in Seeboden on Lake Millstatt in 1947; at BKS Bank since 1972; CEO since 2005.

Heimo Penker began his professional career as an assistant lecturer at the Institute of Public Finance of the *Hochschule für Welthandel* (now the Vienna University of Economics and Business Administration) in Vienna. In 1972, he joined BKS Bank, where he worked in various areas. He was appointed to the Management Board in 1984 and became its official spokesman in 1997. His present contract ends on 31 March 2014.

Other posts:
Deputy chairman of the supervisory boards of *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*; member of the supervisory boards of *Oesterreichische Kontrollbank AG*, *Generali Holding Vienna AG*, *BKS Bank d.d.* and *BKS-Leasing a.s.*; vice-president of the *Verband der Österreichischen Banken und Bankiers* (Austrian Bankers' Association), chairman of the banking and insurance division of *Wirtschaftskammer Kärnten* (Carinthian economic chamber), member of the management board of *Bankwissenschaftliche Gesellschaft Österreichs* (the Austrian Society for Bank Research), Honorary Consul of the Republic of Italy, vice-president of the Italian chamber of commerce in Vienna.

Remits within the Management Board:
Within the Management Board, he is responsible for the Corporate and Business Banking, Retail Banking, Human Resources, Public Relations, Marketing and Investor Relations divisions. Heimo Penker has regional responsibility for the bank's business operations in its markets in Carinthia and Styria inside Austria as well as in Italy.

Herta Stockbauer

Born in Klagenfurt in 1960; at BKS Bank since 1992; a member of the Management Board since 2004.

Herta Stockbauer studied commercial science at Vienna's University of Economics and Business Administration and then worked as an assistant professor and lecturer at the Institute of Commercial Science of the Alpen-Adria University in Klagenfurt. She joined BKS Bank in 1992, working in corporate and business banking and securities operations before moving to Controlling and Accounts. She became Head of Department in 1996 and was appointed to the Management Board in 2004. Her current term of office lasts until 1 July 2014.

Other posts:
Chairwoman of the supervisory boards of *BKS Bank d.d.*, *BKS-Leasing a.s.* and *BKS-leasing Croatia d.o.o.*; member of the supervisory board of *Drei-Banken Versicherungs-AG*; member of the management boards of *Industriellenvereinigung Kärnten* and *respACT-austrian business council for sustainable development*; chairwoman of the *Universitätsrat* (university council) of Alpen-Adria University in Klagenfurt; Honorary Consul of the Kingdom of Sweden in the province of Carinthia.

Remits within the Management Board:
Within the Management Board, she is responsible for the International Operations, Accounts and Sales Controlling, Treasury and Proprietary Operations, Capital Markets Law and Construction divisions and for BKS Bank's subsidiaries and equity investments in Austria and abroad; inside Austria, she is responsible for our regional head offices in Burgenland and Vienna, and she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions abroad.

Dieter Krassnitzer

Born in Waiern in 1959; at BKS Bank since 1987; a member of the Management Board since 1 September 2010.

After graduating in business studies, Dieter Krassnitzer worked as a journalist at the stock market magazine *Börsenkurier* and gained a variety of work experience with firms of accountants and tax consultants. He joined BKS Bank in 1987. He has been Head of Internal Audit at BKS Bank since 1992. In 2006, he completed training as a Certified Internal Auditor (CIA©) at the Institute of Internal Auditors in the United States. He was appointed to the Management Board in 2010. His current term of office lasts until 31 August 2015.

Remits within the Management Board:
Within the Management Board of BKS Bank, Dieter Krassnitzer is responsible for the Risk Controlling, Loan Back Office, IT, Business Organization, Technical Services, Drei-Banken-EDV Gesellschaft mbH, Risk Management and Compliance divisions.

The Members of the Supervisory Board and its Committees

Honorary President

Heinrich Treichl: member of the Supervisory Board of *BKS Bank AG* since 21 December 1970; Honorary President for Life since 23 April 1992.

Representatives of the Equity Holders

Hermann Bell, Chairman: born in 1932; appointed until the AGM in 2013; first elected on 24 April 1972; chairman of the supervisory boards of *Oberbank AG*, *Lenzing AG*, *Bauhütte Leitl-Werke GmbH*, *Alois Pöttinger Maschinenfabrik Gesellschaft m.b.H.* and *H. Pöttinger GmbH*.

Franz Gasselsberger, Vice-Chairman: born in 1959; appointed until the AGM in 2015; first elected on 19 April 2002; chairman of the management board of *Oberbank AG*; chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG*; member of the supervisory boards of *CEESEG Aktiengesellschaft*, *voestalpine AG*, *Energie AG Oberösterreich* and *Buy-Out Central Europe II Beteiligungs-Invest AG*.

Peter Gaugg, Vice-Chairman: born in 1960; appointed until the AGM in 2012; first elected on 29 April 1998; official spokesman of the management board of *Bank für Tirol und Vorarlberg AG*; vice-chairman of the supervisory board of *Oberbank AG*; member of the supervisory boards of *Doppelmayr Seilbahnen GmbH*, *Silvretta Montafon Bergbahnen AG* and *Duktus S.A.*

Reinhard Iro: born in 1949; appointed until the AGM in 2013; first elected on 26 April 2000; chairman (ret.) of the management board of *Treibacher Industrie AG*.

Waldemar Jud: born in 1943; appointed until the AGM in 2015; first elected on 19 May 2010; member of the management boards of *Attila Dogudan Privatstiftung* and *Privatstiftung zur Verwaltung von Anteilsrechten*; member of the supervisory boards of *Oberbank AG*, *Do & Co Restaurant & Catering AG*, *HGI Beteiligungs AG*, *Ottakringer Brauerei AG*, *Ottakringer Getränke AG*, *UNIVERSALE International Realitäten GmbH*, *Vöslauer Mineralwasser AG* and *dm drogerie markt GmbH* .

Dietrich Karner: born in 1939, appointed until the AGM in 2015; first elected on 22 May 1997, CEO (ret.) of *Generali Holding Vienna AG*; member of the management board of *DIE ERSTE österreichische Spar-Casse Privatstiftung*; member of the supervisory board of *Bank für Tirol und Vorarlberg AG*; chairman of the supervisory boards of *Generali Holding Vienna AG*, *Generali Rückversicherung AG* and *Generali Versicherung AG*; member of the supervisory board of *Generali Verzekeringsgroep N.V.*

Michael Kastner: born in 1946; appointed until the AGM in 2012; first elected on 19 April 2002; tax consultant; member of the supervisory boards of *Kastner & Öhler Warenhaus AG* and *Kastner & Öhler Beteiligungs AG*.

Wolf Klammerth: born in 1946; appointed until the AGM in 2013; first elected on 30 April 1999; chairman of the supervisory boards of *Wietersdorfer & Peggauer Zementwerke GmbH* and *Intercement d.o.o.*; president of the *Verwaltungsrat* (administrative board) of *Hobas AG*.

Josef Korak: born in 1948; appointed until the AGM in 2014; first elected on 26 April 2005; member of the management board of *Omya Central Europa*; member of the supervisory board of *Shiraishi-Omya GmbH*.

Maximilian Meran: born in 1930; appointed until the AGM in 2014; resigned on 19 May 2010; first elected on 22 May 1997, CEO (ret.) of *BKS Bank AG*.

Karl Samstag; born in 1944; appointed until the AGM in 2012; first elected on 19 April 2002; member of the management board of *Privatstiftung zur Verwaltung von Anteilsrechten*; member of the supervisory boards of *Allgemeine Baugesellschaft-A. Porr AG*, *UniCredit Bank Austria AG*, *Bank Austria Wohnbaubank AG*, *Handl Tyrol GmbH*, *Oberbank AG*, *Bank für Tirol und Vorarlberg AG*, *Flughafen Wien AG*, *Österreichisches Verkehrsbüro AG*, *Schoeller-Bleckmann Oilfeld Equipment AG*, *Signa Property Funds Holding AG*, *Sigma Prime Selection AG* and *VAMED AG*.

Robert Zadrazil; born in 1970; appointed until the AGM in 2014; resigned on 19 May 2010; first elected on 11 May 2006; CEO and chairman of the management board of *Schoellerbank AG*.

Delegated by the Staff Council

Helmuth Binder: born in 1950; first delegated on 1 January 2005; staff representative; BKS Bank Graz.
Gerhard Brandstätter: born in 1959; first delegated on 1 August 1995; staff representative; BKS Bank Spittal.
Margit Daniel: born in 1957; first delegated on 1 October 2009; staff representative until 19 May 2010; BKS Bank Burgenland.
Josef Hebein: born in 1952; first delegated on 26 July 1999; Chairman of the Central Staff Council of BKS Bank.
Herta Pobaschnig: born in 1960; first delegated on 1 June 2007; staff representative in the Supervisory Board; BKS Bank Head Office.
Hanspeter Traar: born in 1956; first delegated on 1 January 2003; staff representative in the Supervisory Board; BKS Bank Klagenfurt.

Representatives of the Regulatory Authority

Alois Schneebauer: born in 1954; *Staatskommissär* (state commissioner), appointed as of 1 August 1999.
Johann Wittmann: born in 1959; *Stellvertretender Staatskommissär* (deputy state commissioner), appointed as of 1 August 2003.

Committees set up by the Supervisory Board

Audit Committee: The following members of the Supervisory Board belong to this committee: Hermann Bell (Chairman), Franz Gasselsberger, Peter Gaugg, Michael Kastner, Waldemar Jud, Josef Hebein, Herta Pobaschnig and Hanspeter Traar. The Audit Committee meets at least twice a year.

Working Committee: The following members of the Supervisory Board belong to this committee: Hermann Bell (Chairman), Franz Gasselsberger, Peter Gaugg, Michael Kastner, Josef Hebein and Hanspeter Traar.

Credit Committee: The following members of the Supervisory Board belong to this committee: Hermann Bell (Chairman), Franz Gasselsberger, Peter Gaugg, Josef Hebein, Hanspeter Traar.

Personnel Committee: to 25 November 2010.
Members: Hermann Bell (Chairman), Peter Gaugg.

Nominations Committee: from 25 November 2010.
Members: Hermann Bell (Chairman), Peter Gaugg.

Remuneration Committee: from 25 November 2010.
Members: Hermann Bell (Chairman), Peter Gaugg, Dietrich Karner.

All board members currently in office can be contacted at *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee.

Hermann Bell
Chairman of the Supervisory Board
Appointed until the AGM in 2013
CEO (ret.) of the *Oberbank*

Dear Sir or Madam,

Regular communication between the Management Board and the Supervisory Board regarding the bank's business position and strategic orientation.

2010 was another difficult financial year for banks. During the year, the Supervisory Board advised the Management Board of BKS Bank on the enterprise's management and monitored the conduct of business on a regular basis paying primary attention to core areas, namely financial, liquidity, investment and personnel planning, in accordance with the controlling responsibilities incumbent upon it by virtue of the law, the Memorandum and Articles of Association (*Satzung*) and Austria's Code of Corporate Governance. The Management Board always gave the members of the Supervisory Board extensive real-time written and verbal reports on the business situation and important transactions at *BKS Bank AG* and the other Group members. The Supervisory Board was thus involved in all decisions of essential importance to the enterprise and, if necessary, approved them after discussing and examining them in detail. The members of the Supervisory Board carefully examined, critically questioned and approved Management decisions and actions that required approval by virtue of the law, the Memorandum and Articles of Association or standing orders. This was done by way of draft resolutions proposed to plenary meetings of the Supervisory Board or on the basis of written information. As the Chairman of the Supervisory Board, I, moreover, was in regular and close contact with the members of the Management Board to discuss with them aspects of enterprise strategy, the enterprise's current business performance and the efficiency of risk management activities.

The Supervisory Board held four ordinary meetings during the financial year (one a quarter). Some of the tasks performed by the Supervisory Board's Audit, Working, Credit and Personnel Committees were performed in meetings and some were performed by way of decisions made by circular resolution. In each case, however, these decisions were promptly reported to the plenary meetings of the Supervisory Board.

Examination and discussion of and decisions on topics that include the Annual Financial Statements, the Code of Corporate Governance, the bank's business and risk position, credit matters, investment plans and personnel matters.

The main topics dealt with during all ordinary meetings were the economic situation, the enterprise's strategic development and important events. These were discussed in detail with the Management Board. During the first meeting in the financial year, which took place on 30 March 2010, the Supervisory Board dealt, among other things, with the Annual Financial Statements for 2009, the Audit Committee's reports, credit matters, transactions by board members and preparations for the 71st Ordinary General Meeting (AGM). The changes to the Code of Corporate Governance made necessary by the amendment of the *Aktienrechts-Änderungsgesetz* (Austrian stock corporation act) and the presentation of guidelines for the compensation of Management Board members prepared by the Personnel Committee were also on the agenda, as was the Management Board's report on plans to enlarge the branch network. Among other things, the second meeting of the Supervisory Board, held immediately after the 71st AGM, dealt with the routine election of the Chairman's committee, the appointment of the Supervisory Board's committees, the report on the credit applications already approved by the Credit Committee and the appointment of the existing Head of the Internal Audit Department, Dieter Krassnitzer, as the third member of the Management Board.

Besides the Management Board's report on the current financial year, the main focuses of the Supervisory Board's meeting on 30 September were a preview of the year's results, an account of the Group's risk position, the enterprise's strategic goals and main thrust, personnel matters, information about the raising of share capital by *BKS Bank d.d.* in Croatia, notification of the EU branch in Bratislava and the on-the-spot audits carried out by *OeNB* and the *FMA* (Austrian Financial Market Authority) during the year under review. During the fourth meeting on 25 November, the Management Board commented on the BKS Bank Group's performance on the basis of the Segmental, Risk and Audit Reports and presented the budget for 2011 to the plenary meeting of the Supervisory Board. In addition to credit matters, the investment budget and the amount of BKS Bank's own securities that it plans to issue in 2011 were discussed and a detailed report was given on plans to relocate, open or close branches.

The Supervisory Board's committees performed the tasks assigned to them by the Supervisory Board as a whole with great conscientiousness. The Supervisory Board's Audit Committee met ahead of plenary meetings of the Supervisory Board on 30 March and 30 September. In its spring meeting, it concerned itself in detail — assisted by the bank auditor — with the examination and preparation of the adoption of the Annual Financial Statements of *BKS Bank AG* for 2009 as well as the Consolidated Financial Statements for 2009 and the Management Board's reports on BKS Bank's risk position and on adherence to the Code Corporate Governance and compliance and anti-money laundering regulations. Two of the main focuses of its autumn meeting were on preparing the year-end audit for 2010 and on the financial reporting process. During both meetings, it critically examined and evaluated the efficiency of the internal audit process, the quality of BKS Bank's risk management activities, enterprise reporting processes, the BKS Bank Internal Control System (ICS) and the independence of the auditor of the annual accounts and, finally, gave its approval.

The number of representatives of the equity holders is reduced to 10.

The appointments of Franz Gasselsberger and Dietrich Karner are renewed. Waldemar Jud joins the Supervisory Board.

The number of representatives of the equity holders on the Supervisory Board was reduced from 11 to 10 in line with the Code of Corporate Governance, with both Maximilian Meran and Robert Zadrazil resigning as of the end of the 71st AGM. On the other hand, the appointments of Franz Gasselsberger and Dietrich Karner were renewed for the maximum period permitted by the Memorandum and Articles of Association. The AGM was able to welcome Professor Waldemar Jud as a new member of the Supervisory Board. He too is appointed until the end of the 2015 AGM. The attendance rate of the representatives of the equity holders and the staff representatives was again high in 2010, at roughly 87 per cent. Dietrich Karner was unable to attend two meetings, and Reinhard Iro, Waldemar Jud, Josef Korak, Karl Samstag, Helmuth Binder und Gerhard Brandstätter each apologized for their absence from one meeting. The absent members of the Supervisory Board took part in voting via proxies. No member of the Supervisory Board missed more than half of its plenary meetings.

The Annual Financial Statements of BKS Bank AG receive an unqualified auditor's report and are adopted . . .

As the Auditor, *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt*, audited *BKS Bank AG*'s accounts, Annual Financial Statements and Management Report. According to the results of the audit, the legal requirements were satisfied, and the audit did not give rise to any objections. The Annual Financial Statements and Management Report and the Auditor's audit reports were made available to all the members of the Supervisory Board. The Annual Financial Statements received an unqualified auditor's report. The Supervisory Board endorsed the results of the audit and expressed its approval of the Annual Financial Statements and Management Report presented by the Management Board as well as the Profit Appropriation Proposal.

. . . as are those of the BKS Bank Group.

During its meeting on 30 March 2011, the Audit Committee examined the Consolidated Financial Statements and the Corporate Governance Report and reported thereon to the Supervisory Board. The Supervisory Board endorses the results of the audit, expresses its approval of the Annual Financial Statements and Management Report presented by the Management Board and approves the company's Annual Financial Statements for 2010, which are thus final for the purposes of *§ 96 Abs. 4 Aktiengesetz*. The Supervisory Board concurs with the Management Board's proposal that, having allowed for the changes in share capital carried out in 2009, an undiminished dividend of €0.25 per share be distributed out of net profit for the year 2010, resulting again in a distribution of €8,190,000, and that the remaining profit be carried forward to a new account.

The Consolidated Financial Statements as at and for the period ended 31 December 2010, which were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Group Management Report, which was prepared in accordance with Austrian commercial law, were audited by *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt*. This audit too did not give rise to any objections and the legal requirements were satisfied. It is the opinion of the bank auditor that the Consolidated Financial Statements present fairly, in all material respects, the assets, liabilities and financial position of the BKS Bank Group at 31 December 2010 and of its profit or loss and cash flows during the financial year from 1 January to 31 December 2010 in accordance with the IFRSs as adopted by the EU. The Supervisory Board endorses the results of the audit and expresses its approval of the Consolidated Financial Statements and Group Management Report submitted to it by the Management Board.

Thanks to the Management Board and staff.

On behalf of the Supervisory Board, I thank the Management Board, management staff and other employees of BKS Bank for their dedication and acknowledge their contribution to the enterprise's attainment of its goals, including, above all, increasing profit for the year before tax by about one sixth. This was an outstanding achievement.

Klagenfurt am Wörthersee,
March 2011

Hermann Bell, Chairman

Corporate Governance at BKS Bank

Responsible Corporate Governance

BKS Bank's business policies and its sustained success path have always been founded on the principles of good corporate governance and transparency. We pursue sustainable and long-term goals. One of the enterprise's foremost goals is to preserve its independence and autonomy. However, we also see it as one of BKS Bank's primary obligations to achieve long-term growth in enterprise value in order to offer our shareholders an adequate increase in the value of their investment and, on the basis of mutual trust and respect, to be a secure employer to our staff. We want to underpin our independence — which is guaranteed by a syndicate agreement between *Oberbank*, *BTV* and *Generali* — with the help of sustained earning power and a prudent risk policy. Apart from the commitment of our Management and staff to BKS Bank and its independence, long-standing alliances with reliable partners like *Wüstenrot* and *Generali* make essential contributions to our stability. No single shareholder is in a position to directly or indirectly control BKS Bank on its own.

Good corporate governance is key to our success.

A stable shareholder structure and BKS Bank's membership of the 3 *Banken Group* guarantee our independence.

The Supervisory Board and Management Board of our listed company — *BKS Bank AG* — are therefore unreservedly committed to the principles of responsible corporate governance as set out in Austria's Code of Corporate Governance. This commitment is founded on trust-based relations with BKS Bank's shareholders, customers, employees and business associates. Close cooperation between the Managing Board and the Supervisory Board, a reasonable system of compensation that is consistent with the bank's financial standing, the avoidance of conflicts of interest and transparent and detailed business reporting are also core elements of this ethos. BKS Bank's enterprise-wide frame of action for sustainable good corporate governance takes its bearings from the regulations contained in Austrian stock corporation, stock market and capital markets law, on European Commission recommendations, on the corresponding OECD guidelines and on our Memorandum and Articles of Association and the standing orders of the Management Board and Supervisory Board.

The Management Board and Supervisory Board have voluntarily and clearly affirmed their commitment to Austria's Code of Corporate Governance.

Recommendations of the Austrian Code of Corporate Governance

The Austrian Code of Corporate Governance (ÖCGK), first published in 2002, sets out principles of good corporate governance. Since its publication, investors have seen it as an important aid to orientation. The Code is based on voluntary declarations of commitment and goes beyond the legislative requirements that apply to stock corporations. As the representatives of *BKS Bank AG*, which is a listed company, the Management Board and Supervisory Board have always expressly welcomed the goals and aims of this body of rules and resolved to voluntarily commit to the principles of the Code. To this end, during its meeting on 30 March 2010, the Supervisory Board voted unanimously to apply the Austrian Code of Corporate Governance in accordance with the 2010 version developed by the Austrian Working Party for Corporate Governance under the chairmanship of its capital markets development officer Richard Schenz. This version contains changes to conform to the *Aktienrechts-Änderungsgesetz* (Austrian stock corporate law amendment act) of 2009 and the European Commission's recommendation of 30 April 2009 on regulating the compensation of members of the management of listed enterprises.

Amendment of the Austrian Code of Corporate Governance to conform to the *Aktienrechts-änderungsgesetz* and EU Commission recommendations with effect from 1 January 2010.

The standards for responsible corporate governance are subject to regular revision by the *Österreichischer Arbeitskreis für Corporate Governance* (Austrian Working Group on Corporate Governance). They are divided into three groups: the L Rules (*Legal Requirements*) comprise mandatory legal standards; non-compliance with the C Rules (*Comply or Explain*), is allowed but must be explained; finally, the Code includes the R Rules (*Recommendations*), which are mere proposals and do not require any explanations or disclosures. The commitment to applying Austria's Code of Corporate Governance implies that non-compliance with so-called C Rules (*Comply or Explain*) requires explanation. BKS Bank continued to adhere to virtually all the

BKS Bank's declaration of commitment to the Code of Corporate Governance is available at www.bks.at. Click on Investor Relations » Corporate Governance.

recommendations in the Code of Corporate Governance that were applicable to it during 2010. However, each year, it explains which of the Working Group's recommendations cannot be applied because of the specific circumstances of *BKS Bank AG* or the *3 Banken Group* or the legislative provisions governing banks.

BKS Bank explains its non-compliance with C Rules as set out in the Code of Corporate Governance

BKS BANK'S EXPLANATIONS OF NON-COMPLIANCE WITH C RULES (*Comply or Explain*)

Rule 2 C (one share – one vote): Besides ordinary shares, BKS Bank has also issued non-voting preference shares. The preferred interest in profits offers BKS Bank's preference shareholders an attractive investment variant.

Rule 16 C: Since 1 September 2010, the Management Board as a body with collective responsibility has had three equal members. Management Board decisions regarding the taking on of business obligations and risks by the bank must be unanimous. Until 31 August 2010, the Management Board had two members, and if for no other reason, was not permitted to have a chairperson because of the 'four eyes' principle enshrined in the *Bankwesengesetz* (Austrian banking act).

Rules 30 C and 31 C: The remuneration of the members of the Management Board is reported in the Annual Report of BKS Bank as an aggregated line item in accordance with the legal requirements. For data protection reasons and out of respect for their right to privacy, remunerations of individual members of the Management Board are not reported.

Rule 45 C: Because of the way our shareholder structure has evolved, representatives of the largest single equity holders have been elected to the Supervisory Board. Since the principal shareholders are likewise banks, their representatives also hold positions on the boards of other banks that compete with BKS Bank. However, this group of people are committed without compromise to the independence rules so as to avoid conflicts of interest as well as to fulfilling their obligations to the other shareholders.

Rule 52 C: Rule 52 C states that the Supervisory Board should not have more than 10 members (without staff representatives). We hereby state that the number of representatives of the equity holders in the Supervisory Board of BKS Bank was reduced from 11 to 10 during the year under review. Consequently, the bank has adhered to this rule since the 71st AGM.

The Management Board

The three-member Management Board manages BKS Bank on its own responsibility and supervises the members of the Group.

Since the appointment of Dieter Krassnitzer by the Supervisory Board as of 1 September 2010, the Management Board of *BKS Bank AG* has had three members. The number of members was increased to take account of the steady growth in BKS Bank's markets and business volumes and the associated host of new tasks and responsibilities. The members of BKS Bank's Management Board manage the enterprise on their own responsibility. In the performance of their activities, they concern themselves primarily with the bank's strategic orientation and defining its corporate goals. They are also responsible for managing and monitoring the operative business segments. Furthermore, the Management Board takes suitable precautions to ensure that all the relevant legislation is adhered to. When remits are assigned, the member of the Management Board with a particular remit has primary responsibility for his or her field of duties. However, the other members of the Management Board remain extensively informed about the enterprise as a whole and fundamental decisions are submitted to the Management Board as a whole for approval.

Within his or her own areas of responsibility, each of the three members of the Management Board is closely involved in day-to-day operations and continuously informed about business developments and specific transactions. During scheduled meetings of the Management Board and meetings held for specific reasons, the members discuss matters of note, strategic issues and the measures that are to be taken. These are put into effect by each member of the Management Board within his or her area of activity or by the Management Board as a whole. The remits of the members of the Management Board are shown below. If possible, Management Board decisions are made unanimously. The preparation of Management Board decisions is based on an extensive internal reporting system. The Management Board has access to detailed and reliable information about the Group's business performance, financial position and profit or loss, its plans, its success in attaining its goals and the existing risks.

Selected transactions are discussed and approved by the Management Board as a whole in a spirit of cooperation.

The clear separation between enterprise management and enterprise supervision required by Austrian stock corporation law requires the Management Board to report regularly and in full to the Supervisory Board. In the spirit of the Code of Corporate Governance, the Management Board therefore regularly discusses with the members of the Supervisory Board and, in particular, with its Chairman, the enterprise's current business performance and fundamental issues relating to its assets, liabilities, financial position and profit or loss as well as the risk positions of BKS Bank and the other members of its Group. However, as set out in the standing orders, certain Management Board decisions of particular import require Supervisory Board approval. This applies, for instance, to the granting of large loans and the buying or selling of strategic equity investments. The Management Board's reporting duties also include preparing regular quarterly reports on the business performance of the Group as a whole. The Supervisory Board can decide to supplement the list of transactions defined as being subject to approval in legislation (*§ 95 Abs. 5 AktG*). Such a catalogue is contained in the standing orders of the Management Board and Supervisory Board.

Certain decisions specified in standing orders must be approved by the Supervisory Board.

MANAGEMENT BOARD REMITS

Heimo Penker	Herta Stockbauer	Dieter Krassnitzer
Internal Audit	Internal Audit	Internal Audit
Corporate and Business Banking	International Operations	Risk Controlling
Retail Banking	Accounts and Sales Controlling	Loan Back Office
Human Resources	Treasury & Proprietary Operations	IT, Business Organization, Technical Services
Public Relations, Marketing, Investor Relations	Capital Markets Law	3-Banken-EDV Gesellschaft
Regional Remits Austria: Carinthia, Styria Abroad: Italy	Construction	Risk Management
	Subsidiaries and Equity Investments	Compliance
	Regional Remits Austria: Burgenland, Vienna Abroad: Slovenia, Croatia, Hungary, Slovakia	

The Supervisory Board

Strict separation between management (the Management Board) and supervision (the Supervisory Board).

The Supervisory Board consists of 10 representatives of the equity holders and five members delegated by the enterprise's Staff Council. It supervises the Management Board and helps it with fundamental decisions. It also makes decisions on the matters specified by the law, the Memorandum and Articles of Association and the standing orders. It is, in particular, responsible for examining the annual financial statements of *BKS Bank AG* and the BKS Bank Group. The rights and duties of the staff representatives are basically the same as those of the representatives of the equity holders. This applies, in particular, to their rights to information, their supervisory rights, their duties of care, their obligations of secrecy and any liability in the event of a breach of duty. Like the representatives of the equity holders, the staff representatives must abstain from voting if they have a personal conflict of interest.

The Supervisory Board as a whole met four times during the 2010 financial year. The report by the Chairman of the Supervisory Board, Hermann Bell, provides details of the Supervisory Board's activities during the year under review starting on page 34 of this Annual Report.

All the members of BKS Bank's Supervisory Board are independent.

C Rule 53 of the Code of Corporate Governance requires the majority of the representatives appointed to the Supervisory Board to be independent. This means that they should not maintain any business or personal relationship with the company or its Management Board that could give rise to a material conflict of interest and would therefore be likely to influence a member's conduct. All of the representatives of the equity holders on BKS Bank's Supervisory Board are banking and business experts with relevant experience in the banking and financial fields. All of them have, in a personal statement, declared their independence. Even outside the scope of its ordinary banking activities, BKS Bank does not have any business dealings with subsidiaries or persons that could affect their independence.

The Supervisory Board performs its challenging tasks during its regular plenary meetings and within its special committees.

The Chairperson of the Supervisory Board plays an important role. He or she is responsible for organizing the Supervisory Board, preparing meetings, coordinating the work of committees and ensuring successful cooperation with the Management Board. In addition, he or she chairs the Supervisory Board's regular meetings and the AGM. As a rule, the Supervisory Board as a whole performs its tasks during its plenary meetings. However, because of the bank's specific circumstances, it delegates certain matters to expert committees to make the Supervisory Board's work more efficient when dealing with complex issues. These committees meet the requirements of the *Aktiengesetz* and the Code of Corporate Governance.

The following committees had been set up in the year under review and/or exist now:

Audit Committee: Among other things, the Audit Committee is responsible for supervising the financial reporting process and auditing the effectiveness of BKS Bank's Internal Control System (ICS), Internal Audit and the risk management system. It also supervises the auditing and preparation of the adoption of the Annual Financial Statements, the Management Report and the Profit Appropriation Proposal and it checks the Auditor's independence. In the year under review, the Audit Committee, which had eight members, was also required to examine any consolidated financial statements, make a recommendation regarding the choice of Auditor, and report thereon to the Supervisory Board as a whole. The Audit Committee also takes note of the Management Board's reports on current developments and on adherence to regulations in the fields of corporate governance, compliance (compliance activity reports) and anti-money laundering.

Working Committee: This committee, which has six members, is convened as required. It is in permanent contact with the Management Board, giving it a suitable basis for supervising the company's management. In addition to preparatory powers, it also has decision-making powers. Cases referred to it must subsequently be brought to the attention of the Supervisory Board as a whole.

Credit Committee: As a rule, the Credit Committee makes decisions on new loans and on extending loans, leases and guarantees by way of circular resolutions. The Supervisory Board as a body is subsequently informed about decisions made by the five members of the Credit Committee at its next plenary meeting.

Nominations Committee: This committee makes recommendations regarding the filling of vacant posts on the Management Board and deals with succession planning issues. It consists of the Chairperson and one other member of the Supervisory Board.

Remuneration Committee: The Remuneration Committee consists of the two members of the Nominations Committee and one other member of the Supervisory Board. It regulates relations between BKS Bank and the members of the Management Board and performs the tasks relating to the bank's remuneration policy that have been assigned to it by the *Bankwesengesetz* (Austrian banking act). All three members have expertise and experience in the field of remuneration policy.

Independence Guidelines for the Supervisory Board of BKS Bank

- A member of the Supervisory Board shall not in the previous three years have been a member of the management board or management staff of the company or of a subsidiary of BKS Bank. A prior activity as a member of a management board shall not be deemed to mean that that person is not independent if, above all, every requirement of *§ 87 Abs. 2 AktG* having being met, there are no doubts that the office is being exercised independently.
- A member of the Supervisory Board shall not maintain a business relationship with BKS Bank or one of its subsidiaries to an extent that is material to that Supervisory Board member or have done so in the past year. The same applies to business relationships with entities in which the member of the Supervisory Board has a considerable economic interest. The approval by the Supervisory Board of individual transactions as described in L Rule 48 shall not automatically be deemed to mean that that person is not independent. The conclusion or existence of normal banking contracts with the company will not affect that member's independence.
- A member of the Supervisory Board shall not in the past three years have been BKS Bank's auditor or a shareholder in or member of or employee of the auditing company performing the audit.
- A member of the Supervisory Board shall not be a member of the management board of another company in which a member of BKS Bank's Management Board is a supervisory board member unless the one company is associated with the other within the scope of a group or has a business interest in it.
- A member of the Supervisory Board shall not be a close relative (direct descendent, spouse, partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the Management Board or of a person in one of the positions described in the above points.

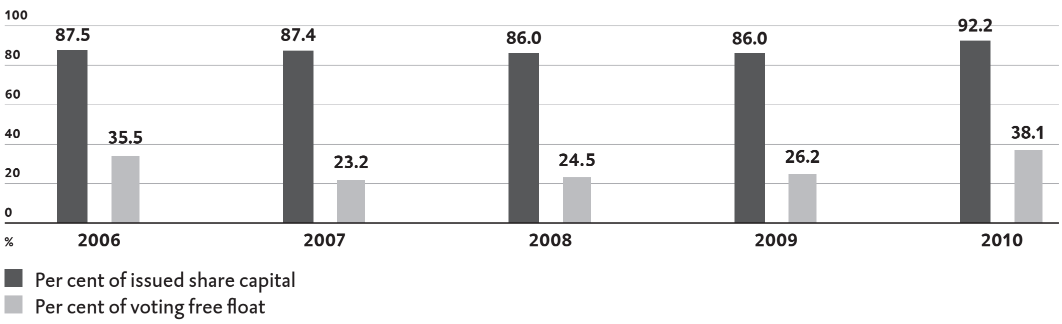
BKS Bank elucidates the independence criteria laid down by the Supervisory Board in accordance with C Rule 53 of the Code of Corporate Governance . . .

. . . which it has published on the website at www.bks.at. Click on Investor Relations » Corporate Governance.

Shareholders and General Meeting

BKS Bank has issued 30,960,000 ordinary no-par shares and 1,800,000 no-par preference shares. Shareholders with voting rights exercise their rights at the General Meeting, where they exercise their voting rights and are involved in major company decisions by virtue of the law or the Memorandum and Articles of Association. In general, resolutions are decided by a simple majority of the votes cast or, if the approval of a proposal requires a majority of the share capital represented, by a simple majority of the share capital represented. Sometimes, Austrian law or provisions in the Memorandum and Articles of Association require a bigger majority for specific measures. Moreover, the shareholders with voting rights are responsible for voting on the appropriation of

ATTENDANCE AT THE AGM



net profit and on discharge of the members of the Management Board and the Supervisory Board from liability. Amendments to the Memorandum and Articles of Association and plans for changes to the enterprise's share capital must also be submitted to them for approval.

Preference shareholders' voting rights are limited, but they receive a guaranteed minimum dividend.

As stated in BKS Bank's explanation of its non-compliance with C Rule 2 of the Code of Corporate Governance, preference shareholders are an exception to the one-share-one-vote rule. However, when it comes to dividend distributions — which have, in the past, been the same for all share classes — the Memorandum and Articles of Association give them preferred treatment. The minimum dividend payable to preference shareholders, which is payable immediately or, if that is not possible, in a later period, is 6 per cent of their respective interest in the company's profit. With the exception of voting rights, such preference shares give every shareholder all their rights under shares. BKS Bank published the agenda of and the results of the votes cast at the 71st AGM on 15 May 2010 on BKS Bank's website. Click on Investor Relations.

Remuneration Report

The Remuneration Report states the criteria used when setting the remuneration for BKS Bank's Management Board and Supervisory Board and elucidates the amounts and structures of payments to the members of the Management Board and Supervisory Board as well as the Auditor's auditing fees and services.

The criteria applied within BKS Bank's remuneration system include the enterprise's long-term business success.

Previously, the Supervisory Board assigned responsibility for every aspect of remuneration of the members of the Management Board and the functions of a remuneration committee to the Personnel Committee. However, during its meeting on 25 November 2010, it set up separate remuneration and nomination committees. In principle, the remuneration of each active member of the Management Board of BKS Bank depends on the scope of that member's areas of activity and responsibility, his or her contribution to the enterprise's business performance and reasonable standards in the industry. In the year under review, remuneration paid to the members of the Management Board totalled €1,011 thousand. Roughly 60 per cent of the total consisted of fixed payments and about 40 per cent comprised performance-based payments that depended on the bank's medium- and long-term development. The performance-based payments, whose amount is limited, are based on sustained profits, the attainment of goals and assessments of the recipient's performance. In other words, they also depend on non-financial criteria.

Under Austrian law, the Management Board is appointed for a maximum of five years. When a member's duties end, his or her termination benefits will depend essentially on legislative provisions (*Angestelltengesetz* [Austrian salaried employees act] and the *Banken-Kollektivvertrag* [collective agreement for banks]). Old-age benefits are regulated in different ways at BKS Bank. The amount of company pension promised to each member of the Management Board by contract depends on the duration of his or her service graduated over a period of up to 40 years and is based on his or her most recent fixed remuneration component. The company pension of one member of the Management Board will be based on an individual contract. The company pensions of the other two members of the Management Board have been regulated within the scope of a defined contribution pension fund solution. The total remuneration paid to the members of the Management Board during the financial year is disclosed in note (44) to the Annual Financial Statements on page 125. Pensions paid to former members of the Management Board came to €731 thousand. Under the standing orders of the Management Board, additional duties of the Management Board must be approved by the Supervisory Board. No remuneration is paid for the exercise of offices within companies belonging to the BKS Bank Group.

D&O insurance for the Management and Supervisory Boards.

A directors and officers (D&O) insurance policy is in place and is paid for by BKS Bank. Among other things, it provides insurance cover for claims brought against the Management Board and Supervisory Board for compensation in relation to financial losses.

Remuneration of the members of the Supervisory Board is clearly regulated.

The annual remuneration of the members of the Supervisory Board and their attendance fees are decided by the General Meeting. From the 2008 financial year, the Chairperson of the Supervisory Board has been awarded remuneration of €15,000, his or her deputies have been awarded remuneration of €11,000 each and the other representatives of the equity holders have been awarded remuneration of €9,000 each. The attendance fee in each case is €100. Staff representatives perform their duties within the scope of their employment. Neither remuneration nor benefits were paid for work performed personally, including in particular advisory and intermediary services rendered.

BKS Bank has not set up a stock option scheme for members of the Management Board or members of the Supervisory Board or management staff and does not intend to do so. The remuneration of the Supervisory Board, including attendance fees, totalled €113 thousand in the year under review.

No stock option scheme is in place for members of the Management Board, members of the Supervisory Board or management staff.

BKS Bank did not grant any loans to members of the Supervisory Board during the year under review. Nor did it grant loans to members of the Management Board or persons or entities related to them on terms and conditions that were not customary in the industry, and no such contracts were concluded with them. Moreover, outside the scope of its banking activities, BKS Bank does not have any business dealings with subsidiaries or persons that could affect its independence.

During the 70th AGM, *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigstelle Klagenfurt*, was tasked with auditing *BKS Bank AG*'s financial statements and those of its group for the year 2010. The fees charged during 2010 for performing the statutory audit and audits performed in accordance with regulatory requirements and for rendering audit related services totalled €546 thousand.

Disclosure of the fees paid to the Auditor.

AUDIT FEES AND AUDITING SERVICES

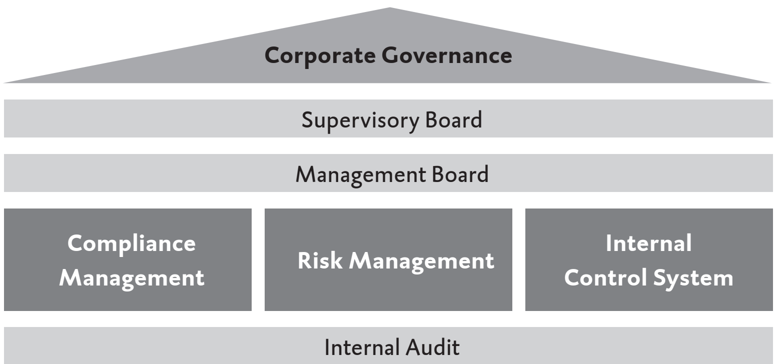
€k	2010	2009
Fees for statutory audits	350	329
Other fees	196	95
Total fees	**546**	**424**

Risk Management

The goals of BKS Bank's risk management activities are to ensure that we remain liquid, that we can return the customer assets entrusted to us and that the capital invested in us by our shareholders remains unimpaired. Given the breadth of our business model, it is therefore essential for us to effectively identify, measure, aggregate and manage risks and to allocate an appropriate amount of equity to each business activity. We manage our risks and our use of capital with the help of a framework of principles and guidelines in combination with organizational structures and measurement and monitoring processes that are well thought-out and finely tuned to our business model. These also encompass the activities of the companies in the Group. Every time we accept a risk, we assess whether it is viable in the light of our risk-bearing capacity and worthwhile from a risk/return point of view.

Efficient risk management ensures that all corporate risks are captured and managed.

SUPERVISION OF THE ENTERPRISE



Our risk policy principles and guidelines are enshrined in BKS Bank's risk strategy. They are reviewed and updated by the Management Board and communicated throughout the Group on an annual basis. The resulting risk analysis is passed on to the Management Board and the operating units that are affected (risk taking units) and brought to the attention of the Supervisory Board on a quarterly basis in quarterly reports and the plenary report. A detailed report on BKS Bank's risk policy and risk management activities is provided in the Risk Report, from page 85, and in point (45) of the Notes from page 126.

Internal Control System

The BKS Bank Internal Control System safeguards the quality of enterprise reporting processes.

Our Group-wide Internal Control System (ICS) — which is based on generally accepted international standards — ensures the reliability of corporate reporting to Management and to the Supervisory Board's committees. Based on an audit plan approved by the Management Board and a Group-wide assessment of the risks associated with all of the enterprise's activities, Internal Audit audits operational processes on an annual basis to measure potential risks and to identify ways of improving efficiency. In addition, it monitors adherence to legal requirements, internal guidelines and processes. Besides performing the tasks assigned to it by the *Aktiengesetz* and *BWG*, the Audit Committee is also responsible for monitoring the effectiveness of the BKS Bank Internal Control System.

Compliance and Anti-Money Laundering Activities

Our strong compliance culture guarantees integrity and fairness to the participants in the capital markets.

In order to satisfy the provisions of Austrian stock corporation and stock exchange law, the *Emittenten-Compliance-Verordnung* (Austrian issuer compliance directive) and *WAG 2007* (the Austrian securities supervision act), *BKS Bank AG* has its own compliance code. It is derived from the Austrian banking industry's Standard Compliance Code to suit the needs of our bank. This compliance code is applicable to the Management Board and all of BKS Bank's employees from the time they join BKS Bank to the termination of their employment. It covers all information that becomes known to employees while they are employed and that is relevant for compliance purposes. Accordingly, BKS Bank expects its employees to act with integrity and a sense of responsibility to their bank customers and the enterprise, to handle so-called *insider information* with care and to strictly separate the enterprise's affairs from their private interests so as to prevent conflicts of interest.

During the year under review, the members of our Compliance Organization, who report directly to the Management Board and are not involved in active securities operations, defined 17 so-called *confidentiality areas* of a permanent nature and one *ad hoc* confidentiality area of limited duration, and they took proactive action to minimize risks in the securities segment. In accordance with the principle of commensurateness, the Compliance Organization was involved in all informational and reporting processes within the bank that were of relevance for compliance purposes in close cooperation with Internal Audit and Risk Controlling, which are both administrative departments. The Management Board, the Supervisory Board's Audit Committee and then, in turn, the Supervisory Board as a whole and the *FMA* were kept regularly informed about the Compliance Organization's activities. An active complaints management system has been in place at BKS Bank for over 10 years to make sure that our quality standards are maintained.

BKS Bank is firmly committed to the 'know-your-customer' principle.

BKS Bank continued to prioritize measures to prevent money laundering and terrorism financing in 2010. A combination of online screening of all money flows (*Siron EMBARGO*) with daily transaction analyses and the profiling and monitoring of customer data made it easier to detect conspicuous financial transactions. These were singled out by the filters of our automated systems and data quality controls, examined centrally and, if necessary, reported to the responsible authorities. Our AML activities focused on carefully observing existing money laundering guidelines and the recommendations of the Financial Action Task Force on Money Laundering (FATF) and the *Bundeskriminalamt* (BKA: federal bureau of criminal investigation), on routinely checking establishments of business relationship with politically exposed persons (PEPs) and on the automated Group-wide checking of the transaction behaviour of existing and new customers against international sanction lists to ensure that transactions were normal banking transactions and plausible and to determine whether there were grounds for suspicion. The Austrian federal government's 'transparency package' took account of the FATF's critical assessment of the Austrian financial market in line with the times by applying stricter anti-money laundering standards. Among other things, it extended the scope of suspicious activity reports, gave the money laundering registration office and financial market supervisors more responsibilities, gave anti-money laundering officers clearer powers and introduced more control of gambling.

No director's dealing reports during the year under review.

Under *§ 48 d BörseG* (Austrian stock exchange act), the members of the Management Board of BKS Bank, the members of the Supervisory Board and persons standing in a close relationship to those persons are obliged to disclose the purchase or sale of BKS Bank shares if the amount of the transactions carried out for their own account during a calendar year equals or exceeds €5,000. During the year under review, no reportable purchases were reported to BKS Bank's Compliance Officer for further notification to the Austrian Financial Market Authority. On the reporting date, the total number of BKS Bank shares held by the members of the Management Board and Supervisory Board — 2,597 ordinary no-par shares and 11,062 no-par preference shares — came to considerably less than one per cent of the shares issued by the company.

Measures for the Advancement of Women

BKS Bank has responded to the urgent, EU-wide appeal to significantly increase the proportion of women in management positions in business and public service so as to even out the inequality of opportunity between men and women, which is still rife.

BKS Bank continues its initiatives to promote professional equality between men and women.

The proportion of women in BKS Bank's workforce has risen sharply in recent years, to 56 per cent, as has the number of women in management positions. Nonetheless, the proportion of women in management positions is still behind that of men, at about 20 per cent. Since we already offer employees a great many family-friendly options and benefits — such as a flexitime model without core hours of work, flexible part-time working models, staff share ownership schemes and attractive opportunities for further training — career opportunities are wide open to women at BKS Bank. We continued to add to the range of measures in this area during 2010, motivating women in the workforce to aim for management positions. To do so, we offered them a special seminar during which they could look at the possibility of holding a management position within the scope of a self-evaluation process. The benefits and services developed during the 'JobAndFamily' audit process that took place in 2010 (see also the section on *Staff* in the chapter on *Sustainability* beginning on page 18) will facilitate such decisions.

Responsibility Towards Our Shareholders

Investor Relations

BKS Bank's Shares

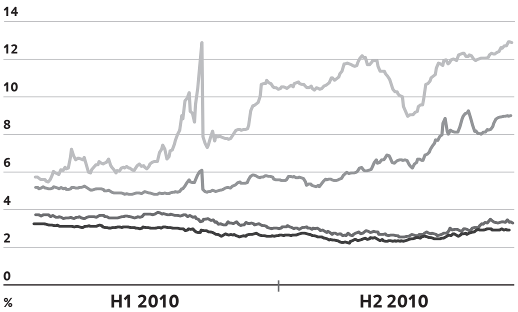
Sentiment Rollercoaster in the International Financial Markets

The international financial markets are under the spell of the debt crisis in the eurozone's peripheral countries and the US Federal Reserve's policy of quantitative easing.

The international financial markets went through a period of high volatility during the year under review. Growing concern about the public finances of a number of peripheral eurozone countries and the possibility that the United States might slide back into recession (double dip) greatly increased the level of uncertainty among market participants. Although the creation of a €500 billion rescue package — the European Financial Stability Facility, made up of guarantees and loans for the weaker countries in the eurozone — and the Federal Reserve's pragmatic quantitative easing helped stabilize conditions in the key financial markets, risk aversion proved slow to diminish and was particularly apparent in the second and third quarters. Notwithstanding a predominantly positive reporting season in Europe and the United States, these developments were reflected by a shift away from equity products, a temporary widening of credit spreads, a rise in interbank rates and gold prices and high investor interest in benchmark government bonds. The MSCI World Equity Index had fallen by about 8 per cent by mid-year. The positive economic and company numbers and favourable share prices only came to the fore in the final quarter of 2010.

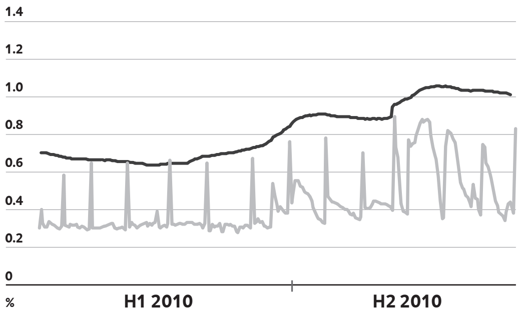
In the bond markets, the yield on US 10-year benchmark bonds flattened off to 2.47 per cent by the end of August, having started the year at 3.84 per cent. However, it was still about 35 basis points above the yields on comparable euro bonds, which sank to as low as 2.12 per cent. Investors' nervousness was, above

LONG-TERM GOVERNMENT BOND YIELDS



- Euro benchmark bonds (10-year)
- US Treasuries (10-year)
- Irish government bonds (10-year)
- Greek government bonds (10-year)

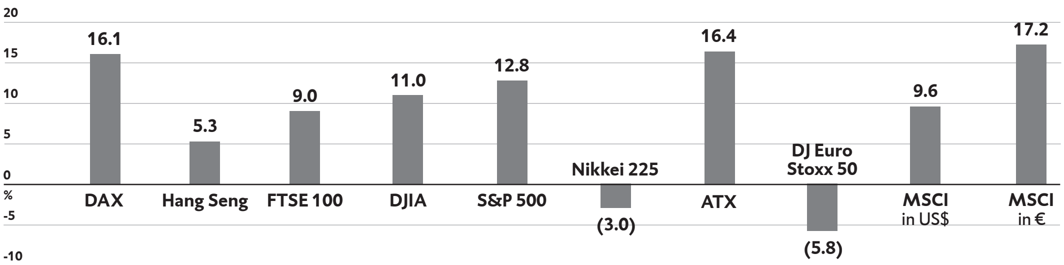
MONEY MARKET RATES



- EONIA Over Night Index Average
- 3-month EURIBOR

Sources: Bloomberg, OeNB.

PERFORMANCE OF THE KEY STOCK INDICES



Close of Year	Frankfurt	Hong Kong	London	New York		Tokyo	Vienna	Zurich	Worldwide	
2010	6,914.19	23,035.45	5,899.90	11,577.51	1,257.64	10,228.92	2,904.47	2,792.82	1,280.07	97.43
2009	5,957.43	21,872.50	5,412.90	10,428.05	1,115.10	10,546.44	2,495.56	2,966.24	1,168.47	83.16

■ Movement in the index versus the end of the previous year

Sources: Yahoo, OnVista.

all, mirrored by a wide gap in yields between 10-year German *Bunds* and, say, Greek and Irish government bonds. On the other hand, there was growing investor interest in long-term US Treasuries despite the United States' massive debts. This was, not least, contributed to by purchases by the Federal Reserve. By the end of August, the Euribor 3-month rate had risen by about 19 basis points to 0.89 per cent, and over the year as a whole, it rose by 30 basis points to 1.0 per cent. The ECB reacted to growing tension in the financial markets by intervening in selected eurozone government bond markets so as to stem the risk premiums on those securities, some of which had got out of hand. The Federal Reserve's announcement that it would be starting a new round of monetary expansion by buying bonds to stimulate the economy prolonged the rise in the price of gold, which went up to over US$1,400 an ounce, and it also visibly solidified bond yields and share prices.

Prolonged monetary policy easing gives a boost to the capital markets in the second half and makes gold prices soar.

As a result, despite the turbulent conditions, the key stock markets performed surprisingly well. Most stock markets — that is, with the exception of markets in the countries affected by the European debt crisis (the so-called PIIGS) — closed the 2010 trading year at annual highs. The MSCI World Equity Index in euros published by *MSCI Barra* closed at 97.43 points, which was 17.2 per cent up on the beginning of the year. Its equivalent in US dollars rose by 9.6 per cent to 1,280.07 points. Two other US indices in US dollars — the Dow Jones Industrial Average and the S&P 500 — advanced by 11.0 and 12.8 per cent, respectively, to 11,577.51 and 1,257.64 points. While the DAX and FTSE 100 performed solidly on the back of stable fundamentals, rising by 16.1 and 9.0 per cent, respectively, the broader DJ Euro Stoxx 50 fell by 5.8 per cent to 2,792.82 points. This was mainly due to the negative performance of a number of Southern European stocks. Similarly, Asia's most important index — Japan's Nikkei 225 — paid the price for a US$/¥ exchange rate that was increasingly damaging to Japanese exports in a turbulent year in the stock market, suffering a 3.0 per cent correction. On the other hand, despite a severe slump in the ATX that took it to a low of 1,450 points in March, the Vienna Stock Exchange was able to take advantage of positive developments abroad and stimulus from the Austrian reporting season over the rest of the year. The ATX closed the 2010 trading year with a big year-on-year gain of 16.4 per cent to 2,904.47 points. The market capitalization of all the stocks traded in the official *Amtlicher Handel* segment and the *Geregelter Freiverkehr* regulated OTC segment came to €115.7 billion, compared with €99.0 billion at the end of the previous year.

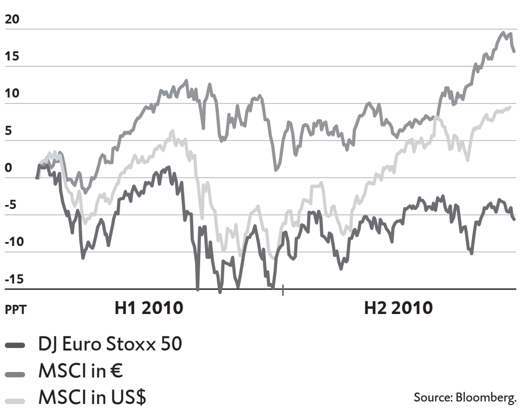
The key stock markets perform surprisingly well.

Performance of BKS Bank's Shares

Both BKS Bank's ordinary no-par shares and its no-par preference shares stayed in a narrow corridor during 2010. Having been trading at €18.1 and €14.7, respectively, at the beginning of the year, they entered a slight downtrend that took them to lows of €15.85 and €13.74 in autumn but then rose sharply until year-end. BKS Bank's ordinary no-par share closed the trading year at €18.35, and the no-par preference share was trading at €15.40 . We attribute these price movements to a number of factors. In the first half in particular, the escalating debt crisis in several financially weak EU Member States and discussion about the multiple burdens that will be created by *Basel III*, the new deposit guarantee system and Austrian bank tax led

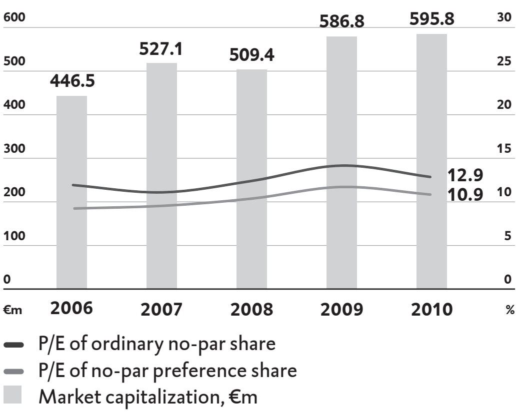
BKS Bank's shares continued to do well during the 2010 trading year.

SHARE INDICES COMPARED



Source: Bloomberg.

MARKET CAPITALIZATION AND P/Es OF BKS BANK's SHARES



Aiming for Sustainable Growth in Enterprise Value is the Essence of our Business Policy
BKS Bank's strategy has always been to aim for sustainable, long-term growth in its enterprise value, in turn creating value added for its shareholders. This is a sustained path that has continued since the enterprise's IPO in 1986. It has been reflected by a big increase in market capitalization from about €92.7 million at that time to roughly €596 million at the end of 2010.

to considerable uncertainty in the investor community. The latter affected the prices of bank shares in particular. On the other hand, in the final months of the year, investors' attention seems to have turned to the still attractive P/Es of BKS Bank's shares thanks, above all, to our excellent and crisis-resistant business performance. At year-end, the BKS ordinary no-par share had a P/E of 12.9, as against 14.7 at the end of 2009. The no-par preference share's P/E was 10.9, as against 12.0 at the end of the previous year.

The BKS ordinary no-par share is a rewarding long-term investment.

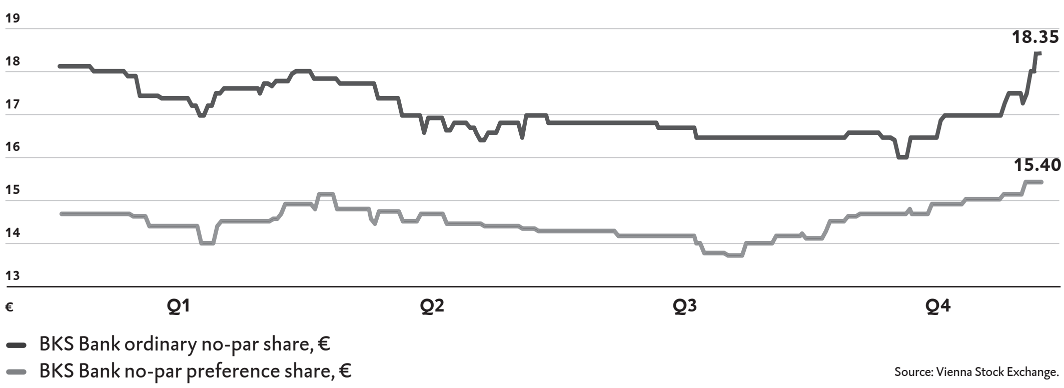
Throughout the many periods of turbulence that the international capital markets have gone through in the interim, BKS Bank's shares have done well since our IPO. An original BKS Bank shareholder who acquired shares on 17 June 1986— the day when the ordinary no-par share was launched on the Vienna Stock Exchange — at their issue price of öS425 (öS100 nominal) has enjoyed a substantial profit. Allowing for all the changes in nominal capital, dividend distributions and price movements that have taken place since then, the annual average return up to the end of the 2010 reporting year was about 8.04 per cent after tax.

BASIC INFORMATION ABOUT BKS BANK'S SHARES

	2010	2009	2008
Ordinary no-par shares in issue (ISIN AT0000624705)	30,960,000	30,960,000[1]	4,380,000
No-par preference shares in issue (ISIN AT0000624739)	1,800,000	1,800,000[1]	300,000
Closing price: ordinary/preference share, €	18.35/15.4	18.1/14.7[1]	110.0/92.0
High: ordinary/preference share, €	18.35/15.4	18.2/15.3[1]	113.5/101.0
Low: ordinary/preference share, €	15.9/13.7	16.5/13.6[1]	110.0/92.0
Market capitalization, €m	595.8	586.8	509.4
IFRS earnings per share in issue, €	1.44	1.25[1]	9.09
Dividend per share, €	0.25[2]	0.25[1]	1.50
P/E: ordinary/preference share (Basis: *BKS Bank AG*)	12.9/10.9	14.7/12.0	12.3/10.3
Dividend yield: ordinary no-par share, %	1.36	1.38	1.36
Dividend yield: no-par preference share, %	1.62	1.70	1.63

1 Taking into account the six-for-one stock split on 5 June 2009 and the one-for-six raising of share capital (one extra share for every six already held) on 23 October 2009.
2 Proposal to the 72nd AGM on 18 May 2011.

PERFORMANCE OF BKS BANK'S SHARES



Source: Vienna Stock Exchange.

Shareholder Structure

Following a raising of share capital in the amount of €15.52 million (nominal) in 2009 — €6.16 million (nominal) of which was raised out of internal funds and €9.36 million of which was raised through a 'one additional share per six' raising of share capital in October 2009 — *BKS Bank AG* has subscribed share capital of €65.52 million (nominal). After a six-for-one stock split in June 2009, this share capital is represented by 30,960,000 ordinary no-par bearer shares and 1,800,000 non-voting no-par bearer preference shares. Instead of each share having a par value, it is the number of shares in issue that is fixed at any one time. In other words, a no-par share represents the respective interest in our share capital (i.e. share capital divided by the number of shares in issue).

Share capital is represented by 30,960,000 ordinary no-par shares and 1,800,000 no-par preference shares.

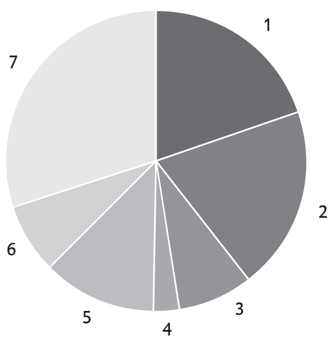
BKS Bank AG's ordinary no-par shares have been listed on the Vienna Stock Exchange since 1986, the no-par preference shares since 1991. Both share classes are traded in the *Standard Auction Market* segment. The preference shares, which account for roughly 5.5 per cent of the company's share capital, give their holders preferential treatment in respect of distributions of dividends. The associated minimum dividend, payable immediately or, if that is not possible, in a later period, is 6 per cent of the interest in profit represented by the shares. This minimum dividend must always be paid if it is covered by net profit. If the minimum dividend for a financial year is not paid or is not paid in full, the arrears must be paid out of net profit in later financial years.

BKS Bank's stable shareholder structure allows it to actively steer its positive long-term development without outside interference. The *Oberbank* in Linz holds 19.54 per cent of the voting rights and *BTV* in Innsbruck holds 19.65 per cent. Together, these two big regional banks and BKS make up the *3 Banken Group*. *Generali 3 Banken Holding AG*, Vienna, holds 7.88 per cent of the ordinary no-par shares. These three core shareholders — *Oberbank*, *BTV* and *Generali 3 Banken Holding AG* — have concluded a syndicate agreement; together, they own 47.07 per cent of the voting rights in *BKS Bank AG*. The syndication of the company's stock strengthens BKS Bank's independence, and the syndicate partners' interests are united within the scope of cooperation and sales alliances. The syndicate agreement consists essentially of arrangements regarding the joint exercise of voting rights at general meetings and the syndicate partners' mutual rights of first refusal.

A well-balanced ownership structure and a syndicate agreement safeguard our independence.

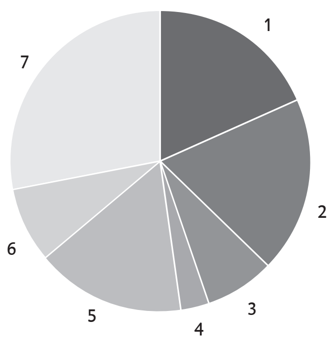
BKS Bank AG's biggest single equity holder is *CABO Beteiligungsgesellschaft mbH*. This is a wholly-owned subsidiary within the *UniCredit Bank Austria AG Group*, which is based in Vienna. Including the shares held directly by *UniCredit Bank Austria AG*, the *UniCredit Group* holds 37.10 per cent of the voting rights. *Wüstenrot Wohnungswirtschaft reg. Gen. mbH*, Salzburg, owns another 3.11 per cent. The free float accounts for

SHAREHOLDER STRUCTURE OF BKS BANK



By voting interest

1	*Oberbank AG*	**19.54%**
2	*Bank für Tirol und Vorarlberg AG*	**19.65%**
3	*Generali 3 Banken Holding AG*	**7.88%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**3.11%**
5	Free float	**12.72%**
6	*UniCredit Bank Austria AG*	**7.46%**
7	*CABO Beteiligungs GmbH*	**29.64%**



By equity interest

1	*Oberbank AG*	**18.52%**
2	*Bank für Tirol und Vorarlberg AG*	**18.91%**
3	*Generali 3 Banken Holding AG*	**7.44%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**2.98%**
5	Free float	**16.12%**
6	*UniCredit Bank Austria AG*	**8.02%**
7	*CABO Beteiligungs GmbH*	**28.01%**

Employees share in the enterprise's profits, giving them added motivation.

No shareholder has a controlling interest.

roughly 12.72 per cent of the voting rights in *BKS Bank AG*. A significant proportion thereof is held by BKS Bank staff and by investors who stand in a close relationship to BKS Bank. At the end of 2010, *BKS-Belegschaftsbeteiligungsprivatstiftung*, which exists solely to distribute in full to employees of BKS Bank their investment earnings in accordance with *§ 10 Abs. 1 KStG*, held 97,700 ordinary no-par shares and 56,400 no-par preference shares, giving it 0.32 per cent of the voting rights. Otherwise, *BKS Bank AG* is not aware of any groupings that could result in control of the enterprise by one or more shareholders. Consequently, it is the opinion of the Management Board of *BKS Bank AG* that measures to prevent abuse of control are not needed. All shareholder rights can be exercised in accordance with Austrian company law, including, in particular, the *Aktiengesetz* (Austrian stock corporation act). At year-end, the held-for-trading portfolio of treasury shares consisted of 267,385 ordinary no-par shares and 203,342 no-par preference shares.

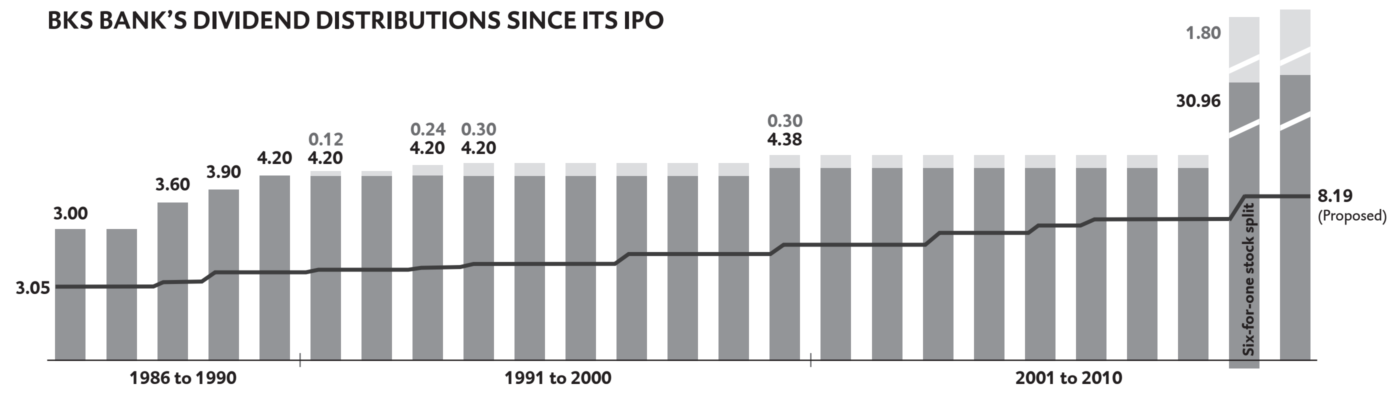
As also shown above, in terms of equity interests, the *UniCredit Group* has a total stake of 36.03 per cent in *BKS Bank AG* (adding together the shares of *CABO Beteiligungsgesellschaft m.b.H.* and the shares held directly by *UniCredit Bank Austria AG*). The *Oberbank* holds a stake of 18.52 per cent, *BTV* of 18.91 per cent and *Generali 3 Banken Holding AG* of 7.44 per cent. *Wüstenrot Wohnungswirtschaft reg. Gen. mbH* has a stake of 2.98 per cent. Free float accounts for about 16.12 per cent of the shares.

Resolutions passed at the 71st Annual General Meeting

The 71st AGM of *BKS Bank AG* was held on 19 May 2010. About 92.2 per cent of the voting stock was represented, as was roughly 38.1 per cent of the free float.

Among other things, during this meeting, the shareholders adopted the recommendation to distribute a dividend of €0.25 per share from the net profit reported as at 31 December 2009. Given the total of 32,760,000 ordinary no-par shares and no-par preference shares in issue, this resulted in a total distribution of €8.19 million. The dividend payment date was 27 May 2010. The remaining profit was carried forward to a new account subject to *§ 65 Abs. 5 Aktiengesetz*. The AGM unanimously discharged the members of the Management Board and the members of the Supervisory Board in office during the 2009 financial year from liability. Against the backdrop of the reduction in the total number of representatives of the equity holders on the Supervisory Board from 11 to 10, the AGM voted to renew the appointments of Franz Gasselsberger and Dietrich Karner to the Supervisory Board for the maximum permitted period and to appoint Waldemar Jud as a new member of the Supervisory Board. *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft* was charged with auditing the conduct of business in the BKS Bank Group and at *BKS Bank AG* for the 2011 financial year. In addition, the AGM authorized the Management Board to acquire the Company's own shares in the period up to and including 19 November 2012 in an amount of up to 5 per cent of the Company's share capital for securities trading purposes in conformity with *§ 65 Abs. 1 Z 7 AktG* and in an amount of up to 10 per cent of the Company's share capital for no specific purpose in conformity with *§ 65 Abs. 1 Z 8 AktG*. Finally, the Memorandum and Articles of Association of BKS Bank were amended in line with the legislative provisions contained in the *Aktienrechts-Änderungsgesetz* (Austrian stock corporate law amendment act).

BKS BANK'S DIVIDEND DISTRIBUTIONS SINCE ITS IPO



Number of ordinary no-par BKS Bank shares and no-par preference BKS Bank shares in issue, millions — Dividend distribution, €m

Profit Appropriation Proposal

In the continuing pursuit of an ambitious dividends policy, we will be recommending to the shareholders of BKS Bank at the 72nd AGM on 18 May 2011 the payment of another dividend of €0.25 per share out of *BKS Bank AG*'s net profit. This would result in a total distribution of roughly €8.19 million. This corresponds to a return of 1.36 per cent on the ordinary no-par shares and 1.62 per cent on the no-par preference shares based on their prices at the end of 2010. The resulting payout ratio would be 26.3 per cent.

A Balanced and Shareholder Friendly Dividend Policy
When appropriating net profit, BKS Bank strives to achieve a balance between strengthening its equity base and offering shareholders an attractive return. During the past 10 years, our payout ratio has ranged between 26.3 and 47.1 per cent of *BKS Bank AG*'s net profit for the year. The Management Board will be asking the 72nd AGM on 18 May 2011 to approve another dividend of €0.25 per share.

Investor Relations Communication

Extensive corporate reporting in the interests of fair disclosure.

In the interests of fair disclosure, BKS Bank gives its shareholders, employees, customers, the media and interested members of the general public detailed, real-time information about the enterprise's position. The preferred Internet platform for all company information of relevance for corporate governance purposes is the website at www.bks.at. In addition, regular publications that are reportable under the *ad hoc* criteria set out in the EU Transparency Directives are also available on *OeKB*'s *EmittentenPortal.Austria* (Austrian issuers portal) and via the APA-OTS *euro adhoc* service. This applies, in particular, to publications of annual and semi-annual financial reports and the interim reports on our results as at 31 March and 30 September and to announcements of new bond issuances, planned changes to material equity investment thresholds, changes in share capital and other similar measures that require disclosure.

Note on the Disclosure Directive
Information about the Disclosure Directive is provided on our website at www.bks.at. Click on Investor Relations.

2011 Financial Calendar

31 March 2011:	Press Conference to present the Annual Financial Statements for 2010
1 April 2011:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2010 in the Internet and in the official *Wiener Zeitung* gazette
18 May 2011:	72nd Annual General Meeting
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

Investor Relations Contact:
Herbert Titze
Head of Investor Relations
Phone: +43(0)463-5858-120; email: herbert.titze@bks.at

A Responsible Enterprise

The Enterprise

Management Structure

MANAGEMENT BOARD

Heimo Penker
Herta Stockbauer
Dieter Krassnitzer

CENTRAL ADMINISTRATIVE DEPARTMENTS

Office of the Management Board
Herbert Titze

Controlling and Accounts
Hubert Cuder

Personnel Management
Werner Laure

Internal Audit
Robert Raunig

HEAD OFFICE

Corporate and Business Banking
Viktor König

Retail Banking
Karl Mertel

International and Treasury Division
Josef Morak

Credit Risk Management
Michael Oberwalder

Loan Back Office
Georg Köferle

Operations
Johannes Zebedin

REGIONAL HEAD OFFICES

Klagenfurt
Wolfgang Mandl
Diethmar Wölle

Villach
Georg Ahammer
Sabine Lax

Spittal/Drau
Gottfried Kindler

Styria
Werner Boruta
Nikolaus Juhász

Vienna
Gunnar Haberl

Burgenland
Wolfgang Bauer
Günther Perner

ABROAD

Branches
Slovenia (Ljubljana-Bežigrad, Ljubljana-Trnovo, Maribor, Celje)

Subsidiaries
BKS Bank d.d. (Rijeka)
BKS-Leasing a.s. (Bratislava)
BKS-leasing d.o.o. (Ljubljana)
BKS-leasing Croatia d.o.o. (Zagreb)

Representative Offices
Slovenia (Ljubljana)
Croatia (Zagreb)
Italy (Padova)
Hungary (Sopron)
Slovakia (Bratislava)

As in February 2011.

Corporate Strategy

BKS Bank was set up as a pure corporate and business bank in 1922. Since then, a reliable and predictable business policy and stable, long-term customer relations have been at the centre of our corporate strategy. This has not changed since we launched retail banking operations in 1964. BKS Bank is a solid partner to customers within its market territories. As for its employees, creating new jobs and securing existing ones are at the heart of its corporate policy.

Consequently, the purpose of growth is not short-term profit maximization. It takes place in such a way as to ensure maximum success in the long term. Highly speculative transactions and opaque investments are not and never have been an option for our bank. Adherence to laws, directives and internal guidelines is assured by a compliance organization suited to the scale, structure and complexity of our operations.

Geographically, we only expand in small steps. For instance, we normally enter a new foreign market with a leasing company. Banking operations, which are much more resource-intensive, follow later. In each market, banking operations begin with a limited line of products and services specially designed to meet that market's primary needs. Further products and services then follow gradually. In general, BKS Bank only takes on projects at home and abroad that it can handle without outside help. Recent turbulence in the financial markets has made it clear that our sustained strategy of organic growth is also right in tough years. BKS Bank has always made profits, including in periods when others have suffered losses or come close to doing so. Even in crisis years, our assets and loan and savings portfolios have always grown.

These successes are made possible by well trained employees who provide our customers with extensive and risk sensitive advice. Similarly, the targeted selection of management staff combined with an excellent training programme and the performance-based remuneration of the members of the Management Board and management staff (with variable components based on the attainment of long-term goals) also makes an essential contribution to our Bank's positive performance.

BKS Bank's customer base includes corporate and business banking and retail banking customers. They are offered all the products and services that are normally available from a so-called *universal bank*. BKS Bank's core areas of expertise in the corporate and business banking segment include finance, the investment of surplus liquid funds and domestic and foreign payments. In the retail banking segment, they are financial and investment consultancy services and home finance. If BKS Bank cannot supply a financial product or service itself — for instance in the leasing, investment fund, building society or insurance fields — it offers customers these services through the shared subsidiaries and associates of the *3 Banken Group* and its allies *Generali Versicherung AG* and *Bausparkasse Wüstenrot AG*.

Membership of the 3 *Banken Group* ensures us a stable ownership structure.

Cost-consciousness goes without saying for every member of BKS Bank's management staff. Among other things, this enables us to achieve cost:income ratios that are among the best of any Austrian bank. Our membership of the *3 Banken Group* — the other members of which are *Oberbank AG* and *Bank für Tirol und Vorarlberg AG* (*BTV*) — is one of the reasons for our good cost structure. For instance, shared subsidiaries and associates like *3-Banken-EDV Gesellschaft mbH* give us access to the latest cost-efficient IT solutions. However, the most important aspect of this partnership for BKS Bank is the system of cross-shareholdings in place between the sister banks, which has been proving its worth for decades. It makes hostile takeover attempts virtually impossible and ensures the long-term stability of our ownership structures.

Markets

BKS Bank's territories did not change in 2010. We continued to concentrate on the Austrian provinces of Carinthia, Styria, Burgenland, Vienna and Lower Austria. Abroad, BKS Bank provides both banking and leasing services in Slovenia and Croatia. To date, it has had only a leasing company in Slovakia, but banking operations will follow by the end of the first quarter of 2011. The so-called 'EU branch' that is currently under development for this purpose will be located in Bratislava. Our presence in Italy and Hungary will remain limited to representative offices that make it easier for our corporate and business banking customers to enter those markets but are not operational units. The map and table below provide an overview of BKS Bank's activities abroad. Our customers also have full access to the branch and office networks of our sister banks *Oberbank* and *BTV*.

Geographical expansion takes place in small steps.

The branch is still the most important interface to our customers. Consequently, the targeted expansion of our branch network will continue in years to come. During the year under review, we opened a new branch in Ljubljana-Trnovo and the Maribor branch was relocated and equipped with a counter. In addition, we adapted and modernized several of our branches in Austria.

Our sales network will go on growing in 2011. In addition to the new branch in Bratislava, we will be opening another branch in *Wiedner Hauptstrasse*, Vienna, and in Slovenia. Addresses and contacts for each branch are available at www.bks.at.

BKS BANK'S CORE MARKET

Vienna

Regional head office, head office of a leasing company or representative office.

● Direktionen, Hauptsitze Leasinggesellschaften, Repräsentanzen

BKS BANK'S ACTIVITIES ABROAD

Country	Banking	Leasing	Representative Office
Slovenia	Ljubljana, Maribor, Celje	*BKS-leasing d.o.o.*, Ljubljana	Ljubljana
Croatia	*BKS Bank d.d.*, Rijeka, Zagreb Branch	*BKS-leasing Croatia d.o.o.*, Zagreb	Zagreb
Slovakia	Cross-border operations	*BKS-Leasing a.s.*, Bratislava	Bratislava
Italy	Cross-border operations		Padova
Hungary	Cross-border operations		Sopron

Customers, Products and Services

Resegmentation of our customer groups is completed.

BKS Bank is a so-called *universal bank* that offers its customers a complete range of banking products and services. It serves both corporate and business banking and retail banking customers. The *Retail* project launched back in 2009 was completed in 2010. The aim of this project was to restructure our customer segments. Previously, our corporate and business banking segment encompassed all our business customers, including self-employed customers and small businesses. The retail banking segment only contained jobholders.

Since 1 July, a total of 4,902 self-employed customers and small businesses previously included in the corporate and business banking segment — and accounting for total loans outstanding of about €100 million and deposit balances of about €230 million — were transferred to the retail banking segment. We believe that this will not only enable us to improve the quality of service for these customers (the needs of the self-employed and small businesses being similar to those of personal banking customers) but will also increase our cross-selling rate.

This resegmentation followed detailed preparatory work in the IT field. Furthermore, the in-branch staff who are now servicing retail banking customers received intensive training, ideally preparing them to help their new customers.

BKS Bank — a Solid Partner to Corporate and Business Banking Customers for Generations

Having originally been set up exclusively as a bank for corporate and business banking customers, BKS Bank has always been an important service provider to industry and SMEs in numerous sectors, and many companies have already had banking relationships with us for decades. This is because BKS Bank's customers appreciate the fact that decisions are made locally. Thanks to our commitment to the 'know-your-customer' principle, our corporate and business banking account managers know each company personally. They regularly hold meetings with customers, and visits to companies are frequent. This strengthens mutual trust. Company owners know that BKS Bank will continue to be a reliable partner when times are tough. For instance, the credit squeeze was never an issue at BKS Bank, and we quickly amended our advisory focuses to meet the special challenges that arose during the crisis years. On the other hand, BKS Bank is not just well-informed about its customers' numbers and hard facts. It is also good at weighing up the soft facts about a company.

BKS Bank was servicing some 12,900 corporate and business banking customers in 2010. Because of the resegmentation we described at the beginning of this section, this figure is not directly comparable with the previous year. Customers were offered an extensive line of products and services ranging from traditional loan and investment products to special services.

Liquidity management services and subsidies advice are still in demand in 2010.

The situation in the markets was only slightly improved. As a result, the demand for liquidity management and receivables protection services remained brisk. Intensive use was also made of our subsidies advice services. The corporate and business banking account managers at our regional head offices are supported by our Head Office specialists. In general, BKS Bank favours individual made-to-measure solutions developed to meet customers' needs and does not offer customers off-the-peg solutions. This is made possible by the excellent training programme completed by all our account managers. Our newly created corporate and business loan management structure has also proven its worth. The analysis and expert processing lines introduced at Head Office in 2009 have made the processing of our customers' financing projects even more professional while improving the quality of our ratings and project evaluations.

Retail Banking Customers are an Attractive Target Group

BKS Bank has also been offering jobholders its products and services since 1964. Since the year under review, small businesses and self-employed customers have also been included in the retail banking segment. Our advisory services emphasize BKS Bank's outstanding know-how in the investment and financial consultancy and home loan fields. In recent years, we have established an excellent position in the market with our *WohnCoach* advisors. They are specially trained account managers able to offer customers much more than the usual information about loans and subsidies. A new partnership with a Carinthia-wide network of various handicraft businesses capable of offering house builders complete packages in their region will make our position even stronger.

One secret to BKS Bank's success is that it provides quality advice, not cheap products.

BKS Bank's account packages and saving products face stiff competition. Since an account is often the first point of business contact with a customer who will subsequently use other services as well, it is particularly important for any bank to be competitive in the accounts market. BKS Bank's offerings are based on a balanced value for money approach. This appeals to customers for whom quality is important and who are not just looking for the cheapest possible supplier. When it comes to savings products, customers still wanted security. Nonetheless, placements of many of our own issuances also went very well during the year under review. Deposit interest rates were still competitive and eroding margins are intolerable in the long term, so here too, BKS Bank acted with prudence when deciding what terms and conditions to offer. It did however prove true that customers as a rule attach more importance to having a secure bank at their side than, say, earning 1/8 per cent more interest. Savings deposit balances grew to €1.85 billion as a result. This was substantially more than balances at the end of 2009, which was already a record year.

Reorientation of our Investment Consultancy Services has Begun

When investing, customers value BKS Bank's product and risk know-how. Nonetheless, we were still feeling customers' dented confidence in the financial and capital markets in wake of the financial crisis. BKS Bank is assuming that in years to come customers will still behave differently than before the crisis. For this reason, we began a project to strengthen BKS Bank's investment consultancy services. This process will be completed in 2011.

Although customers can do their banking directly from their PC using our online banking service and online shop — and like to do so — most of the advice we give to retail banking customers is provided at one of our branches. Despite the growing importance of contracts concluded over the Internet, we believe that the branch will long remain the most important location for dealing with customers. BKS Bank therefore invested in a number of alterations, opened a new branch in Ljubljana-Trnovo and relocated one branch (Maribor) during 2010. The 'EU branch' in Bratislava, a branch in Vienna (*Wiedner Hauptstrasse*) and another branch in Slovenia (Kranj) will be added to the branch network during 2011.

Communication

Employees are always kept posted about anything important happening within BKS Bank.

Openness and transparency are central to BKS Bank's internal and external communication activities. The most important source of information for employees is our intranet, through which the latest information about products, campaigns and key company numbers as well as a variety of special activities and offers for staff can be accessed from any workstation. Personal communication takes place during various *jours fixes* between employees and management staff and with the Management Board, which holds information events at every regional head office twice a year. During these events, staff are told about the progress of important projects, current company results, the bank's strategic orientation and much more. Afterwards, the Management Board is available for one-on-one talks in an informal setting. In addition, a quality staff magazine updates employees on what is going on in the bank twice a year in words and pictures. To strengthen our 'we feeling', the Staff Council regularly invites staff to parties and company outings, and these are popular with employees.

BKS Bank's external communication activities also depend strongly on letting people experience things for themselves. This is done by regularly inviting customers to events. The highlights in the year under review were undoubtedly the lectures given by the well-known philosopher Professor Konrad Paul Liessmann within the scope of Business Club opening events in Velden, Graz and Baden. At the same venues, the satirists Robert Palfrader and Florian Scheuba delighted their audiences with their *Men for One Night* programme. Smaller groups of customers were invited to attend workshops on specific topics, these being more effective than lectures. Developments in the capital markets were the main focus of our external communication activities for retail banking customers in 2010. Corporate and business banking customers were kept informed about current economic events and new subsidies. In addition, our regional head office in Styria was co-organizer of a Hungary forum at the Graz Fair. As it showed, the Hungarian market offers companies attractive opportunities for entry precisely now.

Konrad Paul Liessmann, Robert Palfrader and Florian Scheuba prove to be real customer pullers.

BKS Bank naturally made use of classical advertising techniques during the year under review. The focus was on adverts in selected printed media and on show window posters, indoor displays and mail shots. We also held a number of successful competitions. For instance, one customer in Wolfsberg can take pleasure in a new electric bicycle, and another won a weekend driving a new Fiat 500 convertible. The most important tools of our online communication activities are our websites, which are in the languages of all our markets and English. To date, our newsletter has only been circulated within Austria. A relaunch of www.bks.at is in preparation, and a relaunch of all its sub-pages will follow at a later date in 2011. BKS Bank's use of social media has been sparing so far, but we are continuing to press ahead with the development of our online shop.

Employees

As our areas of operation have grown to include the regions of Slovenia, Croatia and Slovakia that are close to the Austrian border, the environment in which our employees work has changed considerably in recent years. However, the average size of the workforce in 2010 was unchanged versus the previous year at 872 (full-time equivalent). In terms of the number of heads in the workforce, BKS Bank had 1,055 employees at year-end, 168 of whom were working for BKS Bank abroad. The increase was mainly a reflection of our business growth in Slovenia and Croatia, and a number of new staff were also taken on at Head Office in Klagenfurt. Above all, we needed specialists to step up Group-wide dialogue and the transfer of specialist know-how. In Slovakia, we recruited 10 employees for the new EU branch, which will open its doors in the first quarter of 2011.

The number of employees at BKS Bank remains unchanged in 2010.

As in 2009, BKS Bank did not lay off staff anywhere in the organization because of the economic situation. We are proud to be a secure employer for our staff. However, in the past two years, we have been asking our employees for greater flexibility and willingness to accept change than ever before. The restructuring that has kept BKS Bank so firmly on course (e.g. the revision of corporate and business loan management processes and the resegmentation of customer groups) led to changes in the way we do things, some of which were major. For instance, there was an increase in the number of employees whose jobs moved to Head Office in Klagenfurt and who had to commute for a while. At the same time, we continued our strict policy of reducing unused vacation time and cutting back on flexitime credits and only allowing essential overtime. BKS Bank is very grateful to its employees for their cooperation in this regard. It enabled us able to keep a tight grip on our staff costs, which came to €61.3 million in the year under review.

Crisis-proof jobs in a challenging working environment.

On the other hand, our outlay on training remained high. Seventy-five seminars took place at BKS Bank's own training centre in Pörtschach in 2010, and many of our employees also attended training modules held by external providers. In addition to the advanced professional and personality development training modules that are permanently on offer, our training activities focused on the retail banking account managers who are now also servicing self-employed and small business customers. We reviewed our training system for management staff. Besides a mentoring programme, the highlights of this multi-module system included informal meetings with senior managers from the industrial sector. In 2010, the chairwoman of the management board of *Infineon Technologies Austria AG*, Monika Kircher-Kohl, put herself at our disposal for this purpose.

Targeted mentoring helps us fill key posts.

The training system for management staff is reviewed and a mobility programme is launched.

One of the things BKS Bank aims to do is motivate its employees to work outside their home region as well as close to home. We therefore launched a mobility programme in the year under review. It encourages employees to work at a foreign location — for instance in Ljubljana or Rijeka — or in another Austrian province for an agreed period. Everything needed in the area (apartment, mobility, etc.) is organized for the participants in the mobility programme, and they are also offered financial incentives.

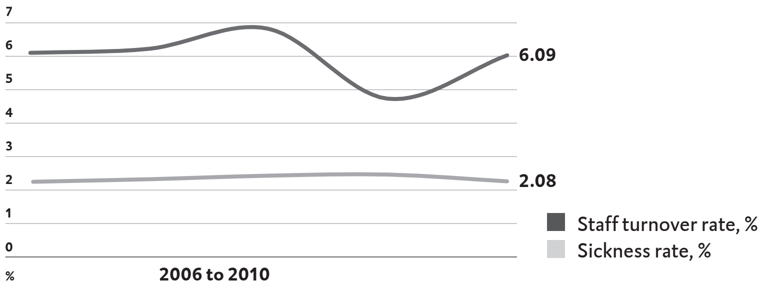
Family-friendly and women-friendly personnel policies are prioritized.

We also pressed ahead with our efforts to increase the number of women in management positions. Female employees were offered a special seminar where they had an opportunity to find out what striving for a management position involves. Combining having children with having a career and the demands on management staff were just two of the topics it dealt with. Since BKS Bank already has a lot of family-friendly offerings, like a flexitime model without core hours of work, flexible part-time working models, staff share ownership schemes and attractive advanced training opportunities, it is always possible to combine having children with having a career at BKS Bank. Among other things, this has been evidenced by the fact that 95 per cent of our female staff return to BKS Bank after motherhood leave. The benefits and services developed during this year's 'JobAndFamily' audit process (see the section on *Employees* in the chapter on *Sustainability* from page 18) will make this even easier.

BKS Bank is an attractive employer.

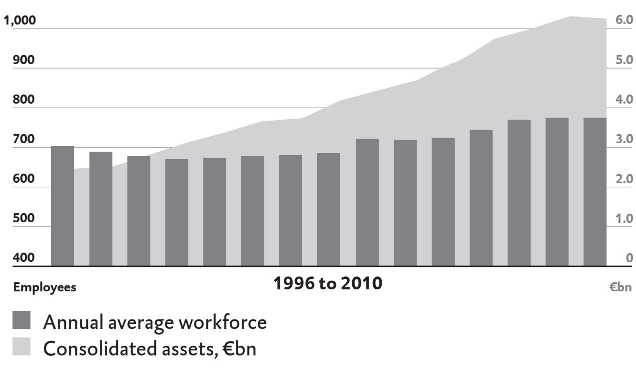
As a number of indicators show, people appreciate BKS Bank's efforts to be an excellent employer, the result being that Personnel Management processed over 2,100 unsolicited applications for jobs in the year under review. The average period of service with us is 16.6 years (in Austria) and 153 employees have already been with us for more than 30 years. We believe this proves that people like working for BKS Bank and identify strongly with the enterprise, as is underscored by our low staff turnover and sickness rates.

STAFF TURNOVER AND SICKNESS RATES

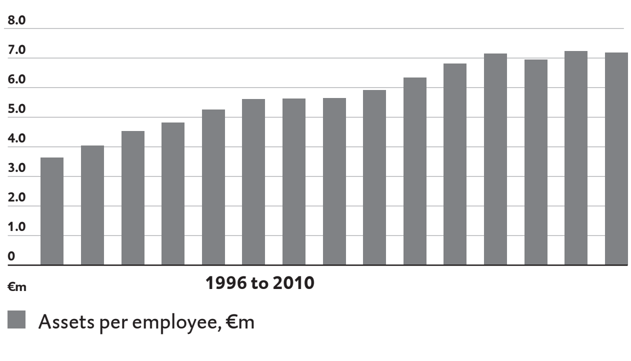


The Dedication of our Staff is a Gauge of our Sustainable Growth
Our staff numbers and balance sheet assets over a longer period illustrate the contributions our employees make to the growth of the BKS Group.

SIZE OF WORKFORCE AND BALANCE SHEET ASSETS



BALANCE SHEET ASSETS PER EMPLOYEE



Organization und IT

The Organization and IT Division is subject to constant change, so it requires special attention. A faultlessly functioning and completely up-to-date IT system and an attractive branch network are, namely, key to success in banking. Consequently, after staff costs, BKS Bank's Organization and IT costs are its second largest item of expenditure. IT costs came to €12.9 million in 2010, and we invested about €4 million in building projects.

3-Banken-EDV Gesellschaft mbH (*3BEG*), a subsidiary within the *3 Banken Group*, handles BKS Bank's IT projects. *3BEG* has centres of excellence in Linz, Innsbruck and Klagenfurt. Their main areas of activity differ. For instance, the centre of excellence in Klagenfurt is responsible for lending and deposit-taking applications and controlling and accounts. Joint development work has made it possible to optimize IT projects and minimize purchase and licence costs.

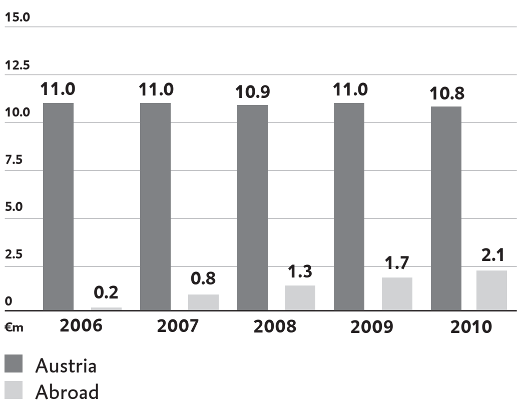
Changeover to Windows Vista Completed

In 2010, *3BEG* finished a major BKS Bank project, completing the changeover at all our branches and Head Office to a version of the Windows Vista operating system that has been especially adapted to our banking needs. During this project, we also replaced all the PCs at our branches. Our employees are benefiting from improved reliability and shorter access times. In addition, the new equipment needs less servicing, reducing the amount of work that needs to be done by technicians on the spot.

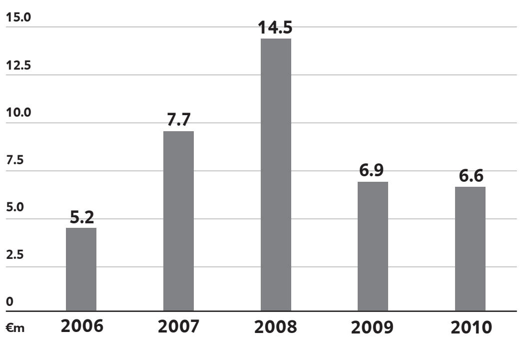
Our major IT projects during 2010 were the changeover to Windows Vista, the resegmentation of our customer groups and further improving data security.

The reassignment of some business customers to the retail banking segment also involved a great deal of effort and expense (see the section on *Customers, Products and Services* on page 59 and the *Segmental Report* from page 92). Programmes and licences needed to be adapted, some processes needed to be redefined and our retail banking account managers had to be trained in the use of software with which they were in part unfamiliar. During the revision of our corporate and business loan management processes, IT systems were fine-tuned based on our experience in the first few months of their implementation. *3BEG* also worked on adapting the applications that were affected by changes in consumer protection law. The data protection and data security project that has been ongoing at the level of *3BEG* for years was extended to BKS Bank. This project has three focuses: general principles, e-mail security and the organization of data on servers. It has always centred around one question: 'How can we more effectively protect our corporate data against access from outside and misuse by our employees?' Three working parties (Awareness, Technology, Data) have developed a raft of proposals that will be put into effect during 2011. In a first stage, the authorization system that gives employees access to customer data was revised and tied more closely to their area of activity.

IT COSTS



INVESTMENT OUTLAY



Abroad, *3BEG* helped BKS Bank with, among other things, the launch of securities operations in Slovenia and the enlargement of the range of products and services for personal banking customers in Croatia. The latter was completed in 2010. In addition, it did extensive preparatory work on the new branch in Bratislava to ensure that it will already have a fully-functioning IT system when it opens. BKS Bank's systems in Austria were made multi-language and multi-country capable for the first time, BKS Bank having previously had separate country-specific systems in Slovenia and Croatia.

Alongside its work for our banking subsidiary in Slovakia, *3BEG* again has an extensive programme of other projects to tackle in 2011. They include adjusting the rating system and revising the retail loan application process as well as resource-intensive work on the centre of excellence for securities operations made necessary by legislation regarding the new unrealized gains tax. In addition, our core banking system should finally be replaced by the new system by the end of 2011.

The Construction Group keeps our Branches State of the Art

***BKS-Leasing a.s.* and the Bratislava branch move to new high quality premises.**

In Austria, the Construction Group's year centred on three big reconstruction projects. It completely renovated our branches in Marz and the Villach branches on *Ossiache Zeile* and *Karawankenweg*. It installed a video conferencing room at Head Office that will considerably reduce business trips. Abroad, a new branch in Ljubljana-Trnovo was opened as part of our continuing expansion, the Maribor branch moved to a new, highly frequented location and office space was created in a very smart location for the Bratislava branch that is currently under development. Its floor space of about 16,000 square feet means that *BKS-Leasing a.s.* will also be able to relocate to the same building at *Eurovea Central 1*, making it the future place of work for over 60 of the Group's employees.

We will be opening another branch in Vienna during 2011, namely in *Wiedner Hauptstrasse*. The *Welzenegg* and *Ebenthal* branches will be relocated to create one large centre of excellence, and the *Wolfsberg - Am Weiher* and *Oberpullendorf* branches will be completely renovated. The sales network abroad will be enlarged by the addition of a new branch in Slovenia (Kranj) and an office in Varaždin (Croatia).

Aiming for Barrier Free BKS Bank Branches

A 2010 study by the Operations Department pointed the way for future building projects. It focused on people with special needs, examining space at our Styrian regional head office and the *Kaiserfeldgasse* branch for barriers in cooperation with *CEDOS - der Partnernetzwerk für Barrierefreiheit* (an Austrian barrier free partnership). We checked how well our branches were equipped to serve the visually impaired and hard of hearing and people with restricted mobility or intellectual impairments. The space was analyzed by people with various impairments who had been specially trained for this task by *CEDOS*. The study concentrated mainly on the rooms used by customers and staff. The conclusion was that recently renovated space met most of the requirements but that there was still room for improvement in some areas. For instance, in future, we will be taking care to make glass doors and surfaces more visible, extending the banisters of staircases a little beyond the last step and using bigger lettering on signs. We are also assessing whether some of the counter tables could be a little lower to make it easier for wheelchair users to do their banking. It goes without saying that our findings in Graz will be integrated into all of BKS Bank's future building projects. Most of BKS Bank's branches already have barrier-free entrances. BKS Bank has been granted a subsidy to make the entrances of the Graz branch on *Sparbersbachgasse* and the Klagenfurt branch on *Radetzkystrasse* barrier-free.

However, the Construction Group's biggest project will be happening directly at Head Office, where the third floor is to be redesigned as a pilot project for an 'open office organization concept' that will set new standards for the equipment of BKS Bank employees' workstations. During the conversion process, we will not just be redesigning the inside of the building; we will also be taking the opportunity to instal state-of-the-art insulation above the ceiling on the top floor as well as doing other things (e.g. replacing the window glass) to improve working conditions for our staff. During these conversion works, which will last several months, the 60 or so affected staff will work elsewhere, which will involve relocating them beforehand. The conversion works should be finished in late summer 2011.

The third floor at Head Office will become a pilot project for an 'open office organization concept' in 2011.

Key Equity Investments

EQUITY INVESTMENTS IN BANKS AND OTHER FINANCIAL SERVICES PROVIDERS

Equity Interest	>50%	20% – 50%	10% – 20%	<10%
BKS-Leasing GmbH	100.00%			
BKS-Immobilienleasing GmbH	100.00%			
BKS-leasing d.o.o.	100.00%			
BKS-leasing Croatia d.o.o.	100.00%			
BKS Bank d.d.	100.00%			
BKS-Leasing a.s.	100.00%			
Alpenländische Garantie-GmbH		25.00%		
Oberbank AG			16.95%	
3 Banken-Generali Investment-GmbH			15.43%	
Bank für Tirol und Vorarlberg AG			13.59%	
Oesterreichische Kontrollbank AG				3.06%
BWA Beteiligungs- und Verwaltungs AG				0.89%
PayLife Bank GmbH				1.44%

OTHER EQUITY INVESTMENTS (SUBSIDIARIES AND ASSOCIATES)

Equity Interest	>50%	20% – 50%	10% – 20%	<10%
BKS Immobilien-Service GmbH	100.00%			
IEV Immobilien GmbH	100.00%			
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	100.00%			
BKS Zentrale-Errichtungs- u. Vermietungs GmbH	100.00%			
VBG Verwaltungs- und Beteiligungs GmbH	100.00%			
VBG-CH Verwaltungs- und Beteiligungs GmbH	100.00%			
BKS Hybrid alpha GmbH	100.00%			
BKS Hybrid beta GmbH	100.00%			
BKS-2000 Beteiligungsverwaltungs GmbH	100.00%			
– Beteiligungsverwaltung GmbH		30.00%		
– Generali 3 Banken Holding AG			16.40%	
– 3-Banken Beteiligung GmbH		30.00%		

OTHER EQUITY INVESTMENTS (NON-BANKS)

Equity Interest	>50%	20% – 50%	10% – 20%	<10%
Drei-Banken-EDV Gesellschaft mbH		30.00%		
Drei-Banken Versicherungs-AG		20.00%		
Einlagensicherung der Banken & Bankiers GmbH				3.10%
CEESEG AG (formerly Wiener Börse AG)				0.38%

Key Dates in the Enterprise's History

1922	A. v. Ehrfeld enters into a limited partnership with *Bayerische Hypotheken- und Wechselbank* called *Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co.* Initially, the bank only has corporate and business banking customers. Its first Head Office is in Klagenfurt. In the same year, the bank acquires branches in Villach and Spittal/Drau. Wolfsberg follows a year later.
1928	Years of effort to transform the limited partnership into a stock corporation lead to the formation of *Bank für Kärnten* (bank for Carinthia). Despite the global crisis, the bank's development in the years that follow is slow but healthy and well balanced.
1939	The company's name is changed from *Bank für Kärnten* to *Bank für Kärnten Aktiengesellschaft*.
1943	*Creditanstalt-Bankverein* contributes the branches it already has in Carinthia to *Bank für Kärnten Aktiengesellschaft*. In the post-war period, the bank plays a key role in economic reconstruction in the region it serves.
1964	The bank adds small personal loans to its range as a new line of business. In the years that follow, it gradually enlarges its branch network.
1965	The bank enters into its successful alliance with the *Wüstenrot* building and loan association.
1970	The first joint *Drei-Banken* (3 Banks) bond is issued in partnership with *Bank für Oberösterreich und Salzburg* and *Bank für Tirol und Vorarlberg*.
1983	A branch is opened in Graz and the bank expands across the Carinthian border under its new name *Bank für Kärnten und Steiermark Aktiengesellschaft* (BKS: Bank for Carinthia and Styria). *Alpenländische Garantie-GmbH*, Linz (*ALGAR*) is set up. This company safeguards BKS and its sister banks *Bank für Oberösterreich und Salzburg* and *Bank für Tirol und Vorarlberg* against any losses on big loans.
1986	The BKS ordinary share is launched in the *Amtlicher Handel* (official trading) segment on the Vienna Stock Exchange. At the time, BKS Bank's share capital is divided into 3.0 million shares with a nominal value of öS100 each.
1988	BKS enters the leasing market and sets up insurer *Drei-Banken Versicherungs-AG* together with its sister banks.
1990	The first branch in Vienna opens.
1991	BKS and its sister banks set up IT subsidiary *Drei-Banken-EDV GmbH*. Construction of the new Head Office building at *St. Veiter Ring 43* begins to plans by architect Wilhelm Holzbauer. It opens on schedule in November 1993.
1998	Conclusion of an extensive sales and cooperation agreement with the *Generali Vienna Group* covering the insurance and investment fund sectors. After the departure of our long-standing shareholder *Bayerische Hypotheken- und Wechselbank*, the *Generali Group* acquires roughly 7.44 per cent of BKS Bank's ordinary shares. Our international expansion begins with the opening of a representative office in Zagreb and the acquisition of a leasing company in Ljubljana (now called *BKS-leasing d.o.o.*).
2000	BKS and its sister banks make their first high-publicity joint appearance as the *3 Banken Group*.
2002	Formation of *BKS-leasing Croatia d.o.o.*, which is based in Zagreb.
2003	Acquisition of a majority stake in *Die Burgenländische Anlage & Kredit Bank AG* (*Die BAnK*).
2004	The first banking branch in Slovenia opens, in Ljubljana.
2005	*Die BAnK* is merged into BKS. Representative offices are set up in Italy and Hungary. The company is renamed as *BKS Bank AG*.
2006	BKS acquires *Kvarner banka d.d.*, Rijeka, and commences banking operations in Croatia.
2007	A representative office is set up in Bratislava and BKS acquires *KOFIS Leasing* in Slovakia. It is assimilated into the BKS Bank Group and renamed as *BKS-Leasing a.s.*
2008	*Kvarner Banka d.d.* is renamed as *BKS Bank d.d.* and a branch is opened in Zagreb.
2009	A six-for-one split of BKS Bank shares takes place and the company's issued share capital increases to €65.52 million in the course of a raising of share capital. Since then, its share capital has been represented by 30,960,000 ordinary no-par shares and 1,800,000 no-par preference shares.
2010	Securities operations begin in Slovenia and retail banking operations in Croatia are expanded.

Growing Responsibly

Group Management Report

The Economic Environment

The Economic Picture is still Bright but Unstable

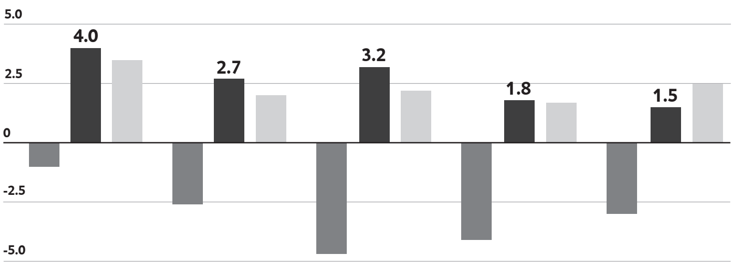
The global economy: robust, but the growth of world trade and global industrial output flag.

The global economy emerged from the afterpains of the deepest recession in decades during 2010 — albeit with regional variations in tempo — and continued to stabilize. In real terms, it grew by 4.5 per cent. However, permanent solutions have yet to be found for the structural problems exposed by the stubborn financial crisis. While the most important developing countries in Latin America and Asia and the emerging markets in Africa came out of the economic shadows early after the economic slump that took place around the turn of 2008/2009, recovery in the developed economies was still slow. The growth in world trade also slowed during 2010 after a lightning resurgence in the 2009/2010 winter half year, although its growth was still well above the long-term average at 16.0 per cent. Global capacity utilization remained below average. To date, inflationary pressure has stayed low. Factoring out the volatility of energy and food prices, core inflation in most industrialized countries — including the eurozone and the United States — was still below 2 per cent. Renewed nervousness in the financial markets had a knock-on effect on the international raw material markets. Both the price of oil and the quoted prices of industrial and precious metals were significantly up on the previous year. At the end of December, Brent crude was trading at US$94.3 a barrel, or about 17.4 per cent more than at the beginning of the year. In addition, the significant increase in investors' demand for gold as a supposedly crisis-proof investment drove a sharp rise in its price. Having still cost US$1,097.32 at the beginning of the year, a fine ounce of this precious metal was already trading at US$1,418.75 at the end of 2010, having increased by about 30 per cent in value.

United States: industrial and export sectors stable, persistent structural problems in the property and construction sectors and the labour market.

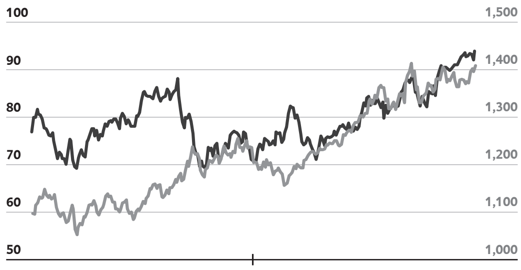
In the United States in particular, the wished-for recovery of GDP growth was significantly weaker than during comparable economic cycles in the past — with real growth coming to 2.7 per cent — as concern about the possibility of a renewed slide into recession grew. The US economy went through a phase of moderate growth in the year under review. However, it was marred by persistently high unemployment. The steady rise in industrial output, which was fuelled by exports and private household demand for consumer durables, was dented by structural problems in the property and constructions sectors. The property sector continued to shrink and people laid off in it had difficulty finding jobs in other sectors. In addition, private household indebtedness was still high. Similarly, the financial sector had yet to recover fully. The US Federal Reserve significantly increased the money supply as the economic numbers weakened to combat the developing deflationary risks. On 3 November, having already bought US Treasuries worth US$1,750 billion in the market since the end of 2008, the Federal Reserve Open Market Committee announced additional massive intervention to boost the economy in the form of further quantitative easing. Buying additional Treasuries in the amount of up to US$600 billion reduced capital market yields even more so as to temporarily revive private consumption and demand in the corporate sector.

INTERNATIONAL ECONOMY



Real GDP growth versus previous year, %
2009 2010 2011 (forecast)
Source: WIFO.

CRUDE OIL AND GOLD PRICES



Brent Crude Oil, US$
Gold, US$
Source: Bloomberg.

The eurozone economy also gained ground. However, the ECB's real growth forecast for the whole of 2010 was just modest given the deep slump that preceded it, at 1.7 per cent (2011: 1.5 per cent). In many industrialized countries, reductions in exploding public sector deficits against the backdrop of weak investment growth and the continuing need for major reforms in the financial sector were achieved with tax hikes that were sometimes drastic and by rigorous cuts in public spending. Not least, so far, the marked regional imbalances that have been particularly apparent in the peripheral countries have also prevented a self-sustaining recovery. Countries like Greece, Spain, Italy and Ireland have proven less able to benefit from the economic updraft than Central and Western Europe. In addition, once the property bubble had burst, building investment was particularly hard hit in a number of EU regions. On the other hand, the German economy, which focuses primarily on exporting capital goods, enjoyed a robust revival of its exports that was driven mainly by recovery in the world's high growth regions (e.g. Asia).

The eurozone: a moderate recovery, while the risks caused by high public sector deficits and problems in Southeastern Europe and Ireland remain.

WIFO estimates Austria's real GDP growth at 2.0 per cent in 2010 following a decline of 3.9 per cent in 2009. Austrian industry was the pillar of this growth. It was able to benefit from the economic upwind in the developing countries of Asia and Latin America. Above all, it thrived as a supplier to the German economy with its ties to the global market and other eurozone countries. Output of material goods profited particularly. Although the utilization of capacities was now satisfactory, the propensity to invest was slow to increase. Gross fixed investment having flattened off again in the year under review, falling by 3.1 per cent in real terms, WIFO is predicting the first marginal recovery of about 2.5 per cent in 2011. Private consumption has proved to be a stabilizing but not very dynamic factor, increasing by 1.1 per cent in real terms. The construction sector was still suffering from the crisis, shrinking by 4 per cent in real terms, but its development was not homogeneous in 2010. While the demand for new housing and civil and underground engineering projects flagged, the outlook for the commercial and other building construction segments has recently become more optimistic. The jobless rate (*Eurostat* figure) could drop from 4.5 per cent in the year under review to about 4.4 per cent by 2011.

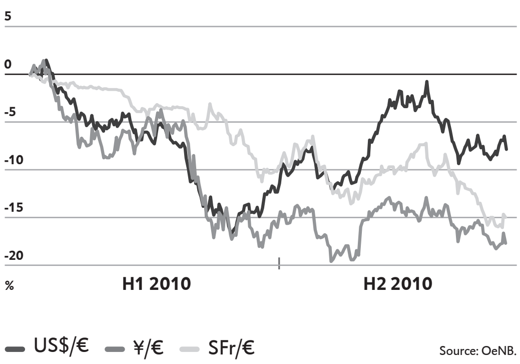
Austria: exports grow strongly but investment is subdued and the construction sector remains weak.

The real economy continued to recover in most Central and Eastern European countries, but the situation in Central Europe and the CIS countries was better than in most of Southeastern Europe. The economic recovery was supported by foreign demand and inventory accumulation. Trends continued to vary from country to country. The uptrend in Poland, Slovakia, the Czech Republic and Estonia set in back at the end of 2009 and has been comparatively strong, but the recovery in Hungary, Latvia and Lithuania and, above all, Bulgaria and Romania did not begin until the middle of 2010 and has, to date, remained weaker.

Eastern Europe: economic developments vary.

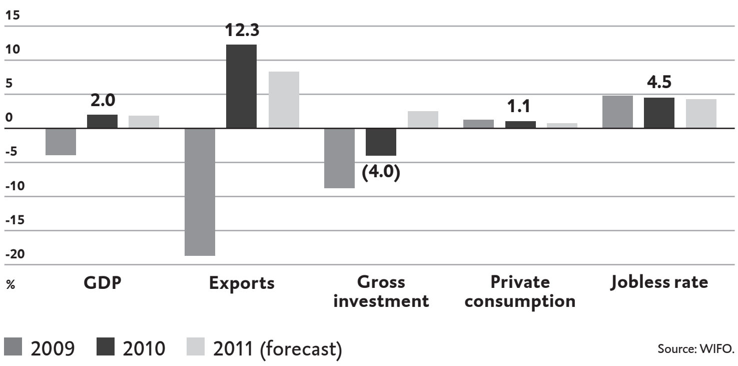
Because capacity utilization across the economy as a whole was still poor inside the eurozone, the ECB Council with its commitment to price stability stayed on its existing monetary policy path, leaving its minimum bid rate on its main refinancing operations in euros and its peak refinancing and deposit facility rates unchanged at their all-time lows of 1.0, 1.75 and 0.25 per cent, respectively. Similarly, the Federal Reserve

KEY EXCHANGE RATES



Source: OeNB.

ECONOMIC INDICATORS IN AUSTRIA



Source: WIFO.

ECB and Fed: low interest rate policies prolonged

Open Market Committee in the United States decided to maintain the target range for the federal funds rate unchanged in a corridor close to zero. On the other hand, some central banks in the big developing countries were forced to tighten their monetary policies to prevent their economies from overheating.

Exchange rates: euro and US dollar under pressure.

At times during the year, the US$/€ rate moved outside its comparatively narrow corridor. The euro started the year at US$1.4389, and its development was long dominated by worries about the monetary union's long-term future. However, in the end, the US economy's subdued economic outlook became the focus of attention again. As a result, having bottomed out at US$1.1942 in June, Europe's single currency recovered much of the ground it had previously lost by the end of the year. Major central banks in other countries such as Japan, Switzerland and Brazil felt compelled to brake their currencies' appreciation by intervening in the currency markets. Although the euro was trading at US$1.3362 at the end of December, it lost about 7.8 per cent against the US dollar over the year as a whole. The euro performed even more poorly against two other internationally important currencies, namely the yen and the Swiss franc, losing almost 18 per cent against the yen and about 15.2 per cent against the Swiss franc during 2010.

Within the European monetary union, the debt and confidence crisis exposed the need for extensive action. While yields on long-end securities issued by first-class public sector borrowers generally fell to very low levels, yields on bonds from a number of eurozone countries with particularly severe budget problems (Greece, Ireland, Portugal and Spain) rose sharply as doubts about their solvency grew. Market participants' concern about the solvency of several eurozone countries subsided with the creation of the European Financial Stability Facility, the publication of the stress tests of major European banks and the approval of rigorous consolidation programmes. The publication of the new capital adequacy requirements and the timetable for implementing the reform of the Basel Framework allayed serious fears about the medium-term and long-term outlook for the banking sector.

Recovery of the Austrian Financial System

The Austrian financial sector: a definite recovery, even though conditions remain difficult.

Despite persisting uncertainties in the international arena, the Austrian banking industry proved to be astonishingly crisis-proof in 2010. According to the latest *OeNB* statistics, Austria's banks are expected to report net profit for 2010 of about €7.20 billion, compared with €6.73 billion in 2009. At the same time, impairment losses on loans and advances are expected to have fallen sharply to €3.06 billion (2009: €4.42 billion), and impairments of securities are believed to have fallen to €0.40 billion (2009: €4.09 billion). According to *OeNB*, the annual foreign net profits of all the reporting banks, most of which are still made in the countries of Eastern and Southeastern Europe, should exceed €3 billion again, having only come to €0.04 billion in 2009. According to the figures available at the end of September 2010, the aggregated non-consolidated assets of Austria's banks came to €987.5 billion.

The economy's recovery boosted corporate profits and, consequently, internal funding. The growth in lending to private households was driven by an increase in home construction loans, whereas consumer lending was down on the previous year. Loan interest rates dropped to historical lows, leading to a perceptible fall in borrowing costs for both companies and private households. Allowing for the effects of movements in exchange rates, the growth in foreign currency loan portfolios slowed in the first three quarters of 2010. Among other things, this was due to joint appeals by *OeNB* and the *FMA* (Austrian Financial Market Authority) to take the inherent risks associated with these kinds of loan seriously. Balances in the deposits segment were a reflection of the dynamic growth of sight and time deposit balances. That growth took place at the expense of savings deposit balances, reducing their contribution to the total loan portfolio by about 2.5 percentage points to an estimated 54.4 per cent in the year under review.

Progress in our Regions

Carinthia

Carinthia is the market where BKS Bank's history began in 1922. The bank did not take its first step across the provincial border until 1983, when it set up a branch in Graz. Carinthia is still correspondingly important to BKS Bank. Although Styria and Slovenia in particular account for a big proportion of its profits and assets, Carinthia remains its main market. BKS Bank has very strong roots in the province in both the corporate and business banking and retail banking segments, and it has had business dealings with many companies in Carinthia for generations. As a result, we have a market share of about 25 per cent in the Carinthian corporate and business banking market and about 13 per cent in the retail banking segment. We hope to further increase both figures.

BKS Bank is one of the most important financiers of the Carinthian economy. It again supported numerous projects during the year under review. An average of 542 people worked for us in Carinthia in 2010. The revision of our corporate and business loan management processes centralized various tasks, so the proportion of our employees working for us in Carinthia continued to increase. The number of branches was virtually unchanged at 26.

The weak economy and stiff competition in the SME market are a challenge for BKS Bank's account managers.

In Carinthia, the recession still had a major impact in the year under review, and a variety of business and political scandals weakened the province's image as a business location. Only a few industries saw a tangible recovery, for example the semiconductor industry, led by *Infineon Technologies Austria AG*. Other sectors of the economy, including those that are highly dependent on orders from the public sector, only began to feel the crisis in 2010.

The environment was still tough for small and medium-sized enterprises as well. Although we believe that investments that have been postponed to date will take place in 2011, undoubtedly creating potential, the SME segment is also getting more and more attractive to our competitors. This is because, in the present funding climate, many banks want to reduce their dependence on large volume funding and deposits and will now be focusing more closely on creditworthy small and medium-sized enterprises — a segment that they have often treated as a sideline in the past. This was already heating up terms-based competition in the year under review, and we can assume that the trend will continue in 2011.

Styria

BKS Bank has been operating in Styria since 1983. It has grown steadily in the province since opening its first branch there. We now have 12 Styrian branches. There are six in Graz, and one each in Deutschlandsberg, Feldbach, Gleisdorf, Hartberg, Leibnitz and Weiz. Every branch is well established and performing satisfactorily in the market.

Thanks to our skilled advisory services and reliability, we have managed to position ourselves in this market as a potent provider of banking services to both retail banking and corporate and business banking customers. Consequently, Styria is the second largest contributor to both our assets and our profits. In 2010, BKS Bank had an average of 89 employees in Styria. They were servicing roughly 1,690 companies and 21,320 retail banking customers. Here too, we felt growing competitive pressure in the SME segment, but the Styrian economy was still more robust than Carinthia's. The budding recovery in the car market, which brought many car makers record order levels and often caused purchasers long waits for their new cars, restored some momentum to the automobile cluster.

Vienna, Burgenland and Lower Austria

Since opening its first branch in Vienna in 1990, BKS Bank has gradually developed the South-East axis between Klagenfurt and Vienna. In 2010, BKS Bank's customers were able to use our three branches in Vienna, two branches in Lower Austria and six branches in Burgenland. Another branch will open in *Wiedner Hauptstrasse* in Vienna in 2011. The strong presence of the major banks means that the Viennese market is hotly contested. As a result, special strategic skill is needed for a regional bank to thrive there. BKS Bank scores with intensive customer support. It is perceived as a respectable, dependable and scandal-free David alongside the Goliaths, and our investment know-how is particularly valued in the country's capital.

The number of retail banking customers in Burgenland tops 14,000 for the first time.

BKS Bank also has a positive image in Burgenland. Following the assimilation of *Burgenländische Anlage- und Kreditbank AG* in 2005 (this bank having been acquired and then extensively reconstructed in 2003), it too was renamed as *BKS Bank*. The brand development process has now been completed and is a success. BKS Bank performed well in Burgenland during the year under review. We are especially pleased to report that the number of retail banking customers being serviced in Burgenland topped 14,000 for the first time.

We believe that our Burgenland region will continue to deliver good results in the future. BKS Bank's principal goals in Burgenland are an increase in primary deposit balances and growth in the number of new customers. Burgenland immediately neighbours the EU Member States Slovakia and Hungary, so companies based there have many opportunities to profit from those countries' growth and to enter into new cross-border alliances. In particular, economic growth in Slovakia is expected to remain well above the eurozone average in 2011.

Our two branches in Lower Austria (*Wiener Neustadt* and *Perchtoldsdorf*) are among the BKS Bank Group's newest and are currently strengthening their market positions. For organizational purposes, the *Wiener Neustadt* branch counts towards our Burgenland region, whereas *Perchtoldsdorf* counts towards Vienna. In all, BKS Bank employed an average of 88 people in its Vienna and Burgenland regions in 2010 (31 in Vienna, 57 in Burgenland).

Slovenia

To begin with, BKS Bank expanded exclusively within Austria, but it went international in 1998 when it entered the Slovenian market by setting up a representative office and acquiring a leasing company (now *BKS-leasing d.o.o.*). Our experience in the leasing segment proved its worth when we opened our first banking branch in Slovenia, which neighbours Austria, in 2004. Initially, we concentrated solely on loan operations, successfully developing our first market shares in the Slovenian market.

On average, the BKS Bank Group employed a total of 56 people in Slovenia during the year (2009: 45), eight of whom were working for our leasing subsidiary (2009: 8). At year-end, our four Slovenian branches had a total loan portfolio of €428.7 million, and if one includes cross-border operations, BKS Bank's loan portfolio in the Slovenian market came to €546.2 billion. This made Slovenia our third most important region after Carinthia and Styria, and it has long since overtaken Burgenland und Vienna.

However, growth in 2010 was down on the high rates of growth recorded in prior years, and the economic crisis did have an impact on Slovenia. Many companies were very careful about making new investments, denting our new business volumes. On the other hand, we are pleased to report that BKS Bank's retail banking operations in Slovenia developed well. As a result, home loans made up for some of the corporate sector's reticence. Credits risks in the year under review were at a higher level, as predicted, than in 2009. Overall, BKS Bank's charge for credit risk in Slovenia came to €1.8 million. We want to significantly expand our investment operations, continue to strengthen our loan operations — especially in the retail banking segment — and broadly diversify our portfolio accordingly.

Loan operations continue to dominate in Slovenia, retail banking operations grow strongly.

BKS Bank has been operating as a fully fledged bank in Slovenia since 2010. It offers its customers a comprehensive line of products and services most recently rounded off by the addition of securities operations. BKS Bank is only the second Austrian bank to be connected directly to the Ljubljana Stock Exchange. This means that our customers can, among other things, place orders directly on the Ljubljana Stock Exchange using our Online Banking service. It goes without saying that BKS Bank now also offers its customers investment consultancy services. As in Austria, the emphasis is on developing highly risk-aware, long-term investment strategies. Investors are offered advice about shares, bonds and structured products. High net worth clients are offered personal asset management services.

The launch of securities operations completes our expansion of the product line.

The other highlights in 2010 included the opening of the *Ljubljana-Trnovo* branch and the relocation of the *Maribor* branch to better and much more spacious premises that have made it possible to start providing counter services. The enlargement of the branch network in Slovenia will continue in 2011 with the opening of a branch in Kranj, and sales of retail banking products will also be stepped up. On the organizational front, we are already working on consistently separating front office operations from risk management activities, and this process should soon be completed.

Croatia

Croatia is the second foreign market where the BKS Bank Group is currently carrying on banking and leasing operations. We entered this market in 2002 when we set up *BKS-leasing Croatia d.o.o.*, and we acquired *Kvarner Banka d.d.*, now renamed as *BKS Bank d.d.*, in 2007. In 2010, the BKS Bank Group employed 62 people in Croatia (2009: 62), 10 of whom (2009: 9) were working for our leasing subsidiary.

BKS Bank d.d. had assets of €102.2 million at 31 December 2010, as against €81.0 million at the end of 2009. *BKS-leasing Croatia d.o.o.* had a lease portfolio worth €50.5 million (2009: €56.1 million), and because of the effects of the economic crisis, its charge for credit risk increased substantially. The loan portfolio at *BKS Bank d.d.* itself grew by 23.3 per cent to €72.0 million, and we are happy to report that the charge for impairment losses on loans and advances remained low.

Since the 2010 financial year, BKS Bank has been operating as a so-called *universal bank* in Croatia. Its product and services line, which previously concentrated mainly on lending to corporate and business banking customers and providing time and savings deposit services to retail banking customers, was extended to include all the products and services usually on offer from a universal bank with the exception of securities operations. This means that our customers can now have salary accounts, and thanks to the enlarged line of savings products and services, we are better able to use so-called *primary funds* to fund our lending operations, which still predominate. This is possible because the lifting of the restrictions on growth in the Croatian financial sector at the end of 2009 is allowing our lending operations to grow more than before. To make good use of this opportunity, *BKS Bank d.d.*'s share capital was increased from HRK60 million to HRK120 million by a raising of share capital in June.

Raising of the share capital of *BKS Bank d.d.* to support further growth.

Alongside the extension of the product and services line, *BKS Bank d.d.*'s year was also dominated by extensive restructuring. This created a new organizational structure in line with Group policy that includes consistent separation between front office operations and risk management activities complete with a suitable back-office solution. *BKS Bank d.d.* expects Croatia to recover only slowly from the crisis in 2011. It will therefore be correspondingly cautious as a lender, and the growth of its leasing operations will remain restrained in 2011. It plans to strengthen its retail banking segment and launch securities operations, and a sales office will be opened in Varaždin.

Slovakia

Extending the product and services line creates the basis for future success.

2010 was the last financial year in which BKS Bank's activities in Slovakia were limited to leasing operations. The preparations for opening a banking branch are close to completion. This new branch, which will be set up in Bratislava as an 'EU branch', will open its doors at the end of the first quarter of 2011. For the time being, 10 people will be working there for the BKS Bank Group. Initially, they will be offering corporate and business banking customers savings products, accounts and loans as well as payment services. A product and service line for retail banking customers will only be introduced in a second stage. Gradually extending the product and service line in this way has proven highly effective in other foreign BKS Bank markets in the past.

Banking operations will begin in 2011; the crisis is felt in the leasing market.

BKS Bank entered the Slovakian market in 2007 when it acquired a leasing company now called *BKS-Leasing a.s.* It had 25 employees in Slovakia in 2010 (2009: 29) and ended the year with a lease portfolio worth €45.8 million (2009: €47.5 million). The leasing market was particularly hard hit by the crisis. As a result, like every other leasing company in Slovakia, *BKS-Leasing a.s.* suffered a decline in new business compared with the previous year. A slight improvement is to be expected in 2011.

Italy and Hungary

BKS Bank has a representative office in each of these countries (Padova and Sopron). Italian customers like to draw upon the expertise of our centres in Villach and Klagenfurt to help with their investments. Our Burgenland regional head office grants small quantities of cross-border loans to Hungarian customers. At present, we do not plan to enter either market with either bank branches or leasing companies.

Notes on the Scope of Consolidation

BKS Bank has been preparing its financial statements in accordance with IFRSs since 2005.

BKS Bank has been preparing its financial statements in accordance with the International Financial Reporting Standards since 2005. These Consolidated Financial Statements were likewise prepared in accordance with the IFRSs as adopted by the EU.

The Members of the Group

The BKS Bank Group is made up of 18 subsidiaries and entities accounted for using the equity method.

The overview that follows lists the entities required by the International Financial Reporting Standards to be classified as members of the BKS Bank Group in the 2010 financial year. The consolidated group on which Group analyses are based currently consists of 18 banks and other financial service providers and entities that render banking-related ancillary services. These entities include our leasing companies in Austria and abroad as well as *Alpenländische Garantie-Gesellschaft mbH* and *Drei-Banken Versicherungs-Aktiengesellschaft*.

Given the sizes of the various companies in the Group, its consolidated net profit is predominantly generated by *BKS Bank AG*. The consolidated members of the BKS Bank Group comprised the banks and other financial service providers and entities rendering banking-related services that were controlled by *BKS Bank AG*. Minority interests in profit for the year were deducted when calculating consolidated net profit. Other material equity investments of *BKS Bank AG* where the company held a stake of over 20 per cent were recognized in the Consolidated Income Statements in the amount of its interest in each entity's profit for the year. In other words, they were accounted for using the equity method. The carrying amount of an equity investment was adjusted according to our interest in the change in the net assets of the entity in question.

BKS Bank AG held stakes of 16.95 and 13.59 per cent, respectively, in the *Oberbank* and *Bank für Tirol und Vorarlberg AG* (*BTV*), and it owned 18.51 and 15.10 per cent, respectively, of the voting rights. The exercise of voting rights is regulated by syndicate agreements. This allows participation in those two banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. In accordance with the mandatory standard *IAS 28 Investments in Associates*, these investments were therefore accounted for in the Consolidated Financial Statements using the equity method even though those banks lacked the status of subsidiaries of *BKS Bank AG* and the threshold stake of 20 per cent was not held.

The *Oberbank* and *BTV* are accounted for in the Consolidated Financial Statements using the equity method.

The other consolidated entities, most of which are designated as real estate companies, render banking-related ancillary services. *BKS Hybrid beta GmbH*, Klagenfurt, was consolidated as of 30 September 2010.

Banks and Other Financial Service Providers

BKS Bank AG
The parent of the BKS Bank Group is *BKS Bank AG*, which is headquartered in Klagenfurt. *BKS Bank AG* recorded profit before tax of €31.2 million in 2010, making a substantial contribution to consolidated profit. Assets of roughly €5.95 billion also underlined its dominant role within the Group.

BKS-Leasing Gesellschaft mbH
BKS-Leasing Gesellschaft mbH is headquartered in Klagenfurt. It has been carrying on motor vehicle and movable property leasing business in BKS Bank's core operating territories in Austria since 1988. As a wholly owned subsidiary of *BKS Bank AG*, it makes up a group as defined by the *KStG* (Austrian corporation tax act) together with *BKS-Immobilienservice Gesellschaft mbH*. It had share capital of €40.0 thousand

THE MEMBERS OF THE GROUP

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		*Drei-Banken Versicherungs-Aktiengesellschaft*, Linz

- Consolidated
- Accounted for using the equity method

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		

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

and assets of €120.8 million at the end of 2010. *BKS Bank AG* acts as group parent and provides nine employees and the back-office infrastructure used for the sale and management of leases.

BKS-Immobilienleasing Gesellschaft mbH
BKS-Immobilienleasing Gesellschaft mbH was founded in 1989. It is headquartered in Klagenfurt. It handles all of BKS Bank's real estate leasing activities. It specializes in the acquisition, construction, renting, letting and management of real estate. 99.75 per cent of its share capital of €40.0 thousand is held by *BKS-Leasing Gesellschaft mbH*. *Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG*, Klagenfurt, holds 0.25 per cent.

BKS-leasing d.o.o.;
BKS-leasing Croatia d.o.o.
Two additional, wholly owned leasing companies, *BKS-leasing d.o.o.*, headquartered in Ljubljana, and *BKS-leasing Croatia d.o.o.*, headquartered in Zagreb, successfully exploit BKS Bank's historical business links with the so-called *Alpe-Adria* region. *BKS-leasing d.o.o.*, which had share capital of €260.0 thousand and a portfolio worth €71.0 million at the end of the year under review, was acquired in 1998. Within BKS Bank's organizational structure, *BKS-leasing d.o.o.* is responsible for working the lease finance sector of the Slovenian market. The Group's leasing subsidiary in Croatia was set up in 2002. The business activities of these two companies focus primarily on motor vehicle, movable property and real estate leasing.

BKS-Leasing a.s.
BKS-Leasing a.s. was set up in March 2007 as *KOFIS Leasing a.s.* and renamed in October 2007. It is headquartered in Bratislava and also has branches in Žilina, Košice and Banskà Bystrica. It had 25 employees in the year under review and share capital of €15.0 million at year-end. At the close of the 2010 financial year, this leasing subsidiary, which makes up a subgroup together with *BKS-Finance s.r.o.*, had a portfolio worth approximately €48.6 million.

BKS Bank d.d.
BKS Bank AG has held a majority interest in *BKS Bank d.d.* in Croatia (formerly *Kvarner banka d.d.*), which is headquartered in Rijeka and has a branch in Zagreb, since September 2006. Since June 2009, it has held a stake of 100 per cent. Previously, this Croatian subsidiary mainly specialized in lending to small and medium-sized industrial enterprises, while retail banking customers only had access to its saving and time deposit services. However, in 2010, the infrastructure of a fully fledged bank was put in place. In the year under review, the 52 employees at *BKS Bank d.d.* succeeded in increasing its assets to the equivalent of €102.2 million.

Oberbank AG
Oberbank AG was set up in 1869 under the name *Bank für Oberösterreich und Salzburg*. It is headquartered in Linz. It is accounted for in the Consolidated Financial Statements of BKS Bank using the equity method. It is a leading independent provider of banking services to medium-sized enterprises in its core regional markets, namely Upper Austria and Salzburg Province. It has branches in Vienna, Lower Austria, Bavaria, the Czech Republic, Slovakia and Hungary. It had an average workforce of about 2,000 during the year under review. It ended the year with share capital of €86.3 million, consolidated assets of €16.8 billion and profit for the year before tax of €114.5 million, making it, once again, one of Austria's most profitable and well capitalized banks.

Bank für Tirol und Vorarlberg AG
Bank für Tirol und Vorarlberg AG (*BTV*) was founded in 1904. It is anchored in its core markets in Tirol and Vorarlberg, which are in Western Austria. It is the third independent bank in the *3 Banken Group*, on an equal footing with the *Oberbank* und BKS Bank. *BTV*—which also operates in Vienna, Eastern Switzerland, Veneto, South Tyrol, Bavaria and Baden-Württemberg—had a workforce of 794 and consolidated assets of nearly €8.9 billion at the end of the 2010 financial year. It had share capital of €50.0 million. The *BTV Group* recorded profit for the year before tax of €61.8 million in the year under review.

Alpenländische Garantie-Gesellschaft mbH

Alpenländische Garantie-Gesellschaft mbH (*ALGAR*), Linz, is a *3 Banken Group* joint venture. It was set up as a bank in 1983. *ALGAR* is not profit-orientated. Its purpose is to mitigate the large loan risks of the three banks that are its equity holders. It does so by guaranteeing loans, advances and leases and by assuming liability in other ways. Fifty per cent of *ALGAR*'s share capital of €3.0 million is held by the *Oberbank*. Twenty-five per cent stakes are held by *BTV* and BKS Bank. The BKS Bank Group accounts for its investment in *ALGAR* using the equity method.

Drei-Banken Versicherungs-Aktiengesellschaft

Insurer *Drei-Banken Versicherungs-Aktiengesellschaft* (*3BV-AG*), Linz, was set up in 1988. It sells its own risk insurance products and brokers the endowment and property insurance products of *Generali Versicherung AG* as an insurance agent. This long-standing ally of the *3 Banken Group* holds 20 per cent of *3BV-AG*'s stock. The *Oberbank* holds a stake of 40 per cent in *3 BV-AG*'s share capital of €7.5 million. *BTV* and BKS Bank hold 20 per cent each.

Other Consolidated Entities

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt, built and now lets BKS Bank's Head Office building on *St. Veiter Ring*. *BKS Bank AG* holds an indirect stake of 100 per cent in this company through *BKS-Leasing GmbH* and *VBG Verwaltungs- und Beteiligungs GmbH*. This company has share capital of €36.4 thousand.

Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG;
IEV Immobilien GmbH

Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG purchases, lets and sells land and buildings and carries out construction projects of all kinds. As a BKS Bank subsidiary, it is primarily responsible for building and letting business premises within the BKS Bank Group. *Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG* is managed by *IEV Immobilien GmbH* as a general partner. *BKS Bank AG* holds direct stakes of 100 per cent in these companies, both of which are headquartered in Klagenfurt.

BKS Hybrid alpha GmbH;
BKS Hybrid beta GmbH

The principal object of *BKS Hybrid alpha GmbH*, Klagenfurt, which was set up in September 2008, and of *BKS Hybrid beta GmbH*, which was set up in April 2009, is to issue hybrid bonds and use the proceeds from such issuances to purchase the supplementary capital bonds (*Ergänzungskapitalanleihe*) of *BKS Bank AG*. Pursuant to the provisions of *§ 24 Abs. 2 Z 6b BWG* (Austrian banking act), the proceeds from the issuance of these hybrid capital instruments are equity and thus qualify as core Tier 1 capital of *BKS Bank Kreditinstitutsgruppe*.

VBG-CH Verwaltungs- und Beteiligungs GmbH;
LVM Beteiligungs Gesellschaft mbH

BKS Bank AG also holds 100 per cent of the shares in *VBG-CH Verwaltungs- und Beteiligungs GmbH*, which, in turn, holds 100 per cent of the shares in *LVM Beteiligungs Gesellschaft mbH*. These companies' principal object is to grant funds to foreign subsidiaries in the BKS Bank Group.

Profit

Good Profit for the Year

Profit for the year well up on 2009.

As expected, 2010 was another difficult financial year. The recession only faded slowly, and customer confidence in the capital and financial markets remained weak. The debt crises in Greece, Portugal, Italy, Ireland and Spain put permanent pressure on the euro that, for a long time, also shaped events in the stock market. Simultaneously, tension in the interbank market took time to ease. In the banking sector, liquidity management retained an importance that one would never have imagined before the crisis. In this turbulent setting, BKS Bank proved to be well positioned thanks to the restructuring and cost cuts it had carried out coupled with a business policy that has always been very conservative. Our results in 2010 remained highly satisfactory. Profit for the year after tax came to €46.4 million, which was 14.8 per cent up on the previous year, and profit for the year before tax was all of 15.2 per cent up on the previous year to €53.6 million (2009: €46.5 million). The decisive factors were a marked increase in profit from financial assets and our respectable net interest and net fee and commission income. As in prior periods, active cost discipline also contributed to the uptrend.

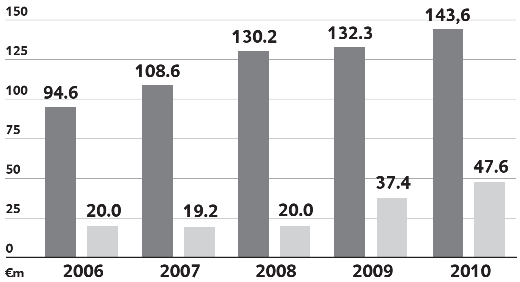
Net Interest Income Satisfactory, Impairment Charge Increased

Net interest income accounts for the biggest slice of profit, namely €143.6 million; however, the impairment charge increases again.

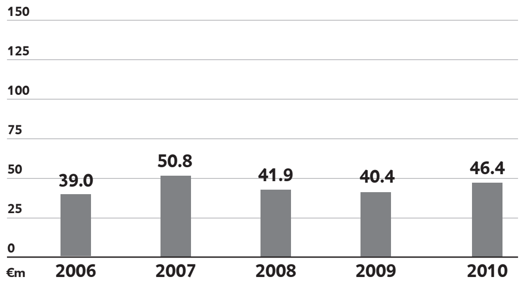
Net interest income is BKS Bank's most important component of profit. Net interest income before impairment charges on loans and advances developed well, growing by 8.6 per cent from €132.3 million to €143.6 million. Against the backdrop of low interest rates, BKS Bank was able to reduce its interest expenses by more than the market-induced drop in interest income. However, as we predicted last year, our extremely cautious impairment charge was still high. Having come to just €37.4 million in 2009, it totalled €47.6 million in 2010. Many companies only began to feel the effects of the economic crisis in the course of 2010. Corporate and business banking customers were particularly hard hit by the increase in the need for impairment charges. Nonetheless, net interest income after impairment charges was 1.3 per cent up on 2009 to €96.1 million. Profit from investments in entities accounted for using the equity method (primarily the *Oberbank* and *BTV*) made an appropriate contribution to this total, increasing by €2.1 million to €18.1 million.

IFRSs require impairment losses on loans and advances to be deducted directly from net interest income. In 2010, BKS Bank increased this charge from just under €10 million to €47.6 million to allow for the difficult market conditions. As the economy is likely to recover somewhat this year, we believe that this line item will decrease slightly in 2011. According to economic forecasts, growth in Austria and BKS Bank's most important markets should be higher than the eurozone average, which will also benefit the real economy. This line item is the net balance of impairment allowances and reversals thereof, subsequent recoveries of written-off receivables, direct write-offs and commission payments to *ALGAR*—which the *3 Banken Group* uses to guarantee large loans—as well as collective assessments of impairment of the portfolio carried out in accordance with IAS 39 para. 64, which came to €5.2 million. Direct write-offs fell

NET INTEREST INCOME AND IMPAIRMENT CHARGE ON LOANS AND ADVANCES



CONSOLIDATED NET PROFIT AFTER TAX



Net interest income before impairment charges   Impairment charge on loans and advances

IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€m	2010	2009	2008
Direct write-offs	2.2	3.7	1.2
Impairment allowances	50.0	38.6	24.0
Impairment reversals	(4.3)	(4.4)	(4.9)
Recoveries on receivables previously written off	(0.4)	(0.5)	(0.4)
Impairment charge on loans and advances	**47.6**	**37.4**	**20.0**

by 40.5 per cent to €2.2 million. Impairment allowances came to €50 million, but we were able to carry out impairment reversals totalling €4.3 million. The impairment charge on loans and advances came to 0.9 per cent of outstanding receivables less contingent liabilities.

Net Fee and Commission Income Grows but could be Even Stronger

The uptrend in service operations in the fourth quarter of 2009 continues in 2010.

The positive trend in service operations that had already begun to emerge at the end of 2009 continued in 2010. As a result, net fee and commission income came to €42.5 million in the year under review, which was €2.8 million more than in 2009. Its growth was driven by an increase of 8.4 per cent in fee and commission income from payment services, which came to €16.3 million, and the same increase of 8.4 per cent in fee and commission income from lending operations, which came to €10.2 million. We were also pleased with the increase in fee and commission income from securities operations, which grew by 4.7 per cent to €11.6 million. However, these figures fell far short of our earnings in the years before the crisis and have the potential to increase further. BKS Bank plans to realign its securities operations to set new priorities in this field and satisfy changing customer needs even more effectively. The process of putting these changes in place will begin in 2011.

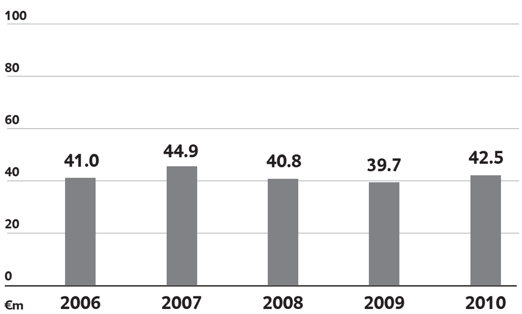
Net Trading Income is Steady but Low

Our net trading income consists of earnings from foreign exchange trading and trading in price and interest rate derivatives. It came to €1.6 million, which was 9.4 per cent or roughly €0.1 million up on the previous year. The rather small contribution it made to profit for the year compared with net interest income and net fee and commission income underlines the fact that BKS Bank steers away from risky trading activities and applies strict standards to its proprietary trading operations.

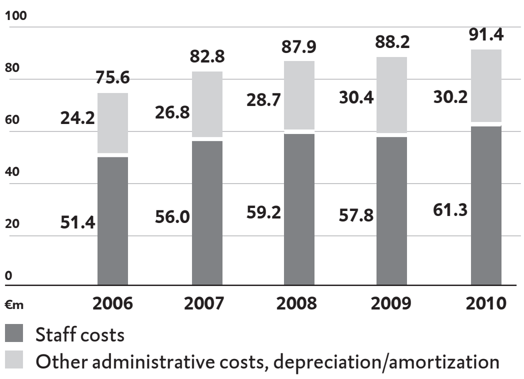
Marked Increase in Profit from Financial Assets

In contrast to the two preceding financial years, we made a profit from financial assets in 2010. It came to €5.1 million. Both our profit from financial assets requiring designation as at fair value through profit or loss (FV) and our profit from available-for-sale assets (AFS) increased by over 100 per cent. Within the category of financial assets designated as at fair value through profit or loss, our profit from the revaluation

NET FEE AND COMMISSION INCOME



GENERAL ADMINISTRATIVE EXPENSES



KEY COMPONENTS OF THE INCOME STATEMENT

€m	2010	2009	2008
Net interest income	143.6	132.3	130.2
Impairment charge on loans and advances	(47.6)	(37.4)	(20.0)
Net fee and commission income	42.5	39.7	40.8
Net trading income	1.6	1.4	1.4
Profit/(loss) from financial assets	5.1	(4.5)	(23.1)
General administrative expenses	(91.5)	(88.2)	(87.9)
Profit for the year before tax	**53.6**	**46.5**	**44.4**
Income tax expense	(7.2)	(6.1)	(2.5)
Consolidated net profit	**46.4**	**40.4**	**41.9**

Loss from financial assets turns into a profit.

of derivatives (€39 thousand) and the gain from using the fair value option (€2.1 million) were both substantially up on 2009. The same was true of the unrealized and realized gains included in the line item *Profit/(loss) from available-for-sale financial assets*, which came to €3.0 million.

General Administrative Expenses Reflect our Cost Discipline

Staff costs account for the increase in general administrative expenses; rigorous cost management continues.

We continued to use our resources responsibly in 2010. Our general administrative expenses increased by just 3.7 per cent to €91.5 million. This is all the more noteworthy given that, as is generally true of a service provider, most of our expenditure was due to staff costs. Totalling €61.3 million, they accounted for roughly two thirds of BKS Bank's aggregate general administrative expenses. It is particularly important to BKS Bank to offer secure employment to its workforce, so layoffs remained out of the question even in the difficult year under review. We are proud to report that our average workforce was unchanged at 872 in 2010, and there was actually a small increase in the number of 'heads' in the workforce.

The annual pay rises that take place under collective agreements are an important driver of staff costs. Although the rise was smaller in 2010 than in previous years, mirroring the state of the economy, at 0.75 per cent, it increased staff costs by €0.3 million. We remained true to our policy of only hiring new staff where we absolutely had to. Consequently, new staff were mainly recruited for the branch that is under development in Bratislava, to cope with our international growth and to fill new specialist positions at Head Office. Employees with longer periods of service at BKS Bank made another particularly valuable contribution to keeping staff costs as low as possible as they reduced their flexitime credits and unused vacation times. The calculation of the provision for so-called 'social capital' was based on an interest rate of 4.25 per cent (2009: 4.75%), which means that we lay within the range required for IFRS-compliant financial reporting. At the same time, we reduced our salary trend rate from 2.50 to 2.25 per cent. Together, these measures increased costs by €1.1 million.

We managed to continue to reduce our other administrative costs in 2010, cutting them by 0.9 per cent to €23.9 million. Among other things, we cut marketing costs and we kept a particularly close eye on our routine operating expenses and office costs. However, we gave priority to important investment projects like reopening our branch in Trnovo, rebuilding a number of branches, relocating the Maribor branch and constantly refining our powerful IT systems, and these projects were completed as planned. Depreciation/amortization was virtually static on the previous year at €6.3 million.

Ratios as Good as in 2009

BKS Bank's equity base having grown sharply from €577.5 million to €627.8 million, our returns on equity (ROE) before and after tax were back at their good prior-year levels, coming to 8.9 and 7.7 per cent, respectively. Our cost:income ratio (CIR) continued to develop very well, reaching 48.8 per cent. This was well below our internal 55 per cent benchmark. On the other hand, the risk:earnings ratio and credit risk in per cent of receivables from customers fell short of the previous year, coming to 33.1 and 0.9 per cent, respectively, reflecting the increase in the impairment charge on loans and advances. However, we expect these ratios to improve during the current 2011 financial year.

KEY PERFORMANCE INDICATORS

	2010	2009	2008
ROE before tax (profit for the year in % of average equity)	8.9%	8.9%	9.7%
ROE after tax	7.7%	7.8%	9.2%
ROA after tax (profit for the year in % of average assets)	0.7%	0.7%	0.7%
Cost:income ratio	48.8%	49.9%	50.1%
Risk:earnings ratio (credit risk in % of net interest income)	33.1%	28.3%	15.4%
Credit risk in % of customer receivables incl. contingent liabilities	1.0%	0.8%	0.5%
IFRS earnings per share in issue, €	1.44	1.25[1]	9.09

[1] Allowing for the six-for-one stock split on 5 June 2009.

Assets, Liabilities, Financial Position

BKS Bank's assets decreased slightly during the financial year under review, namely by 1.2 per cent from €6.3 billion to €6.2 billion. This was mainly attributable to a significant cut-back in interbank activities. Nonetheless, the key line items on the balance sheet — receivables from customers and so-called *primary* deposit balances — continued to grow.

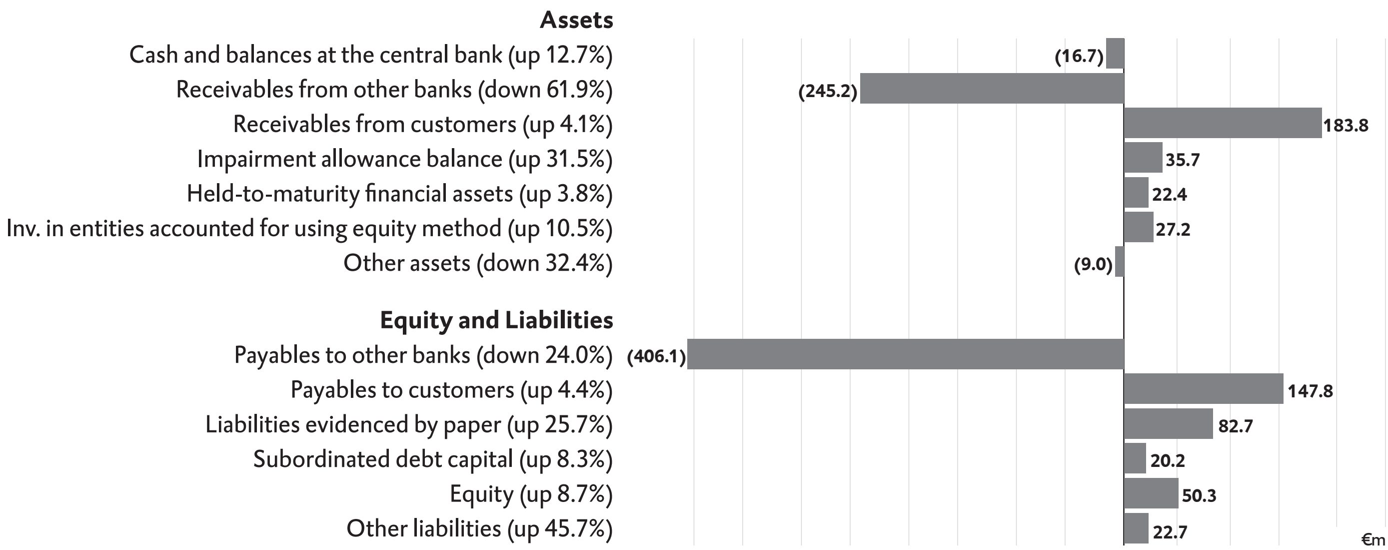
Balance Sheet Assets

Customer Loan Portfolio grows by 4.1 per cent

As an important ally to business, BKS Bank strives to help its customers with their investment plans as best it can and to grant them the loans they need. Despite our strict lending guidelines, receivables from customers therefore increased by 4.1 per cent to €4.6 billion in the year under review. Most of this total, namely €4.2 billion, was lent through the Group parent BKS Bank, with the Group's leasing companies in Austria and abroad and *BKS Bank d.d.* in Croatia accounting for a significant portion of the loan portfolio. Slovenia already overtook Burgenland and Vienna to become the BKS Bank Group's third most important credit market.

Primary deposit balances at a record level; the goal for 2011 is to increase the proportion of longer-term balances.

IMPORTANT CHANGES IN LINE ITEMS ON THE BALANCE SHEET COMPARED WITH 31 DECEMBER 2009



Lending Operations Dominated by Corporate and Business Banking Customers

Most lending took place in the corporate and business banking segment, which accounted for €3.6 billion (increase of 2.9 per cent) or nearly 78 per cent of the loan portfolio under management by BKS Bank. The portfolio of loans to retail banking customers grew by 8.5 per cent to €1.0 billion during the period under review. The bulk of receivables from customers (about €1.8 million) have terms of over five years, with customers using their loans and advances for longer-term capital and property investments. As we have already said, the charge for impairment losses on loans and advances had to be increased. At the balance sheet date, the resulting impairment allowance balance was €149.1 million, compared with €113.4 million at the end of 2009. Most of the increase was accounted for by loans granted to corporate and business banking customers (as described below in the segmental reports from page 92). Credit risk in the retail banking segment was very low.

The cut-back in foreign currency loans continues despite the strong Swiss franc.

BKS Bank continued the process of reducing the portfolio of foreign currency loans. For more than two years, we have not been granting any new foreign currency loans in the retail banking segment, and we have been making customers special offers to encourage them to convert their existing foreign currency loans into euros. However, our efforts have been hampered by record high Swiss franc exchange rates. At year-end 2010, the proportion of foreign currency loans in relation to total loans in the portfolio was 19.7 per cent, having still been 19.9 per cent at the end of 2009.

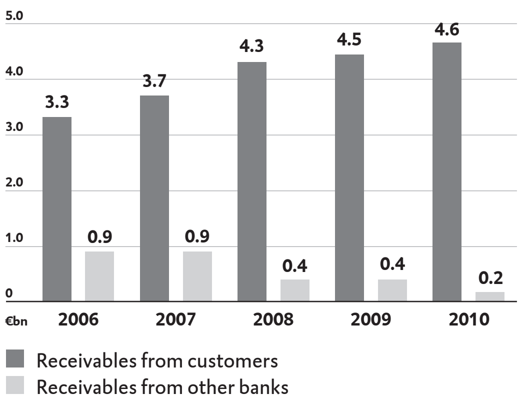
Lack of confidence in the interbank market; BKS Bank lends significantly less to banks.

BKS Bank went on reducing its receivables from other banks, which totalled €151.2 million at the end of the year. This shows just how shaky confidence in the interbank market still was. In 2007 — the last complete financial year without an economic or financial crisis — BKS Bank's receivables from other banks still came to over €880 million.

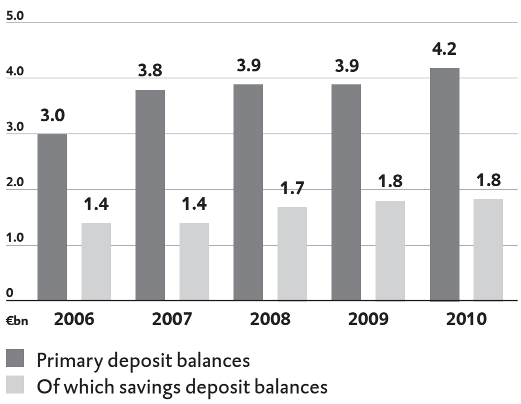
Financial assets — presented in detail in points (15) through (18) of the Notes — increased from €1.28 billion at the end of 2009 to €1.34 billion at the balance sheet date in 2010. This line item comprises financial assets designated as at fair value through profit or loss, available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets and investments in other entities accounted for using the equity method. Financial assets designated as at fair value through profit or loss increased by 3.4 per cent to €127.6 million in 2010. The AFS portfolio shrank slightly, decreasing by 0.4 per cent to €310 million, but the HTM portfolio grew by 3.8 per cent to €614.4 million. We invested mainly in fixed-income federal bonds to support our liquidity management activities. There was also an increase in our investments in entities accounted for using the equity method — consisting mainly of investments in our sister banks *BTV* and *Oberbank* — which came to €285.5 million.

Other assets decreased to €18.7 million, compared with €27.7 million at the end of 2009. The decrease resulted from a decline in the positive fair values of derivative financial instruments (fall of 20.6 per cent) and a drop in *Other items* to €8.0 million. At 31 December 2010, cash and balances with the central bank

LOAN PORTFOLIO



PRIMARY DEPOSIT BALANCES



came to €114.9 million. This line item comprises the cash and cash equivalents presented in detail in the Cash Flow Statement in the Notes on page 107. Our remaining balance sheet assets such as trading assets, property and equipment, intangible assets, deferred tax assets (shown as separate line item on the Balance Sheet) and investment property changed little in 2010. The line item *Trading assets* includes the derivative financial instruments in the trading book, which were measured at fair value, and their positive fair values. There were no other trading assets in the portfolio at year-end.

Balance Sheet Equity and Liabilities

Primary Deposit Balances are a Sustainable Source of Funds

BKS Bank benefits from the fact that it has always been structured in such a way as to keep lending and so-called *primary funds* in balance. This means that primary deposits are our bank's principal source of funds. We therefore foster their growth by offering customers appropriate terms and conditions. The fruit of our efforts is that primary deposit balances topped €4 billion for the first time to total €4.2 billion at year-end.

Once again, savings deposits balances accounted for the bulk of primary deposit balances, increasing by 2.4 per cent to €1.8 billion. We managed not just to sustain the high levels recorded in the previous year but also to attract new savers. This growth was supported by new issuances of our own securities worth €165.4 million that were successfully distributed among our retail banking customers by our account managers. That notwithstanding, we want to increase this total even more in years to come. In particular, we want to step up issuances of longer-maturity securities to enable us to fund longer-term loans. In all, our own securities in issue, comprising liabilities evidenced by paper and subordinated debt capital, increased by 18.2 per cent to €667.6 million.

Although the institutional deposits market was still hotly contested, BKS Bank was able to increase sight and time deposit balances by 6.8 per cent to a total of €1.6 billion by 31 December 2010. Thanks to our larger primary deposits base, we were able to significantly reduce our use of the interbank market to raise liquidity. Payables to other banks fell by 24.0 per cent to €1.3 billion.

Our equity was strengthened significantly by taking €32.4 million to retained earnings and by way of income and expenses taken directly to equity in the amount of €8.5 million, increasing it to €627.8 million (2009: €577.5 million). Our good profit for the year naturally also had a very positive effect on equity.

Equity is strengthened significantly.

Own Funds

BKS Bank Kreditinstitutsgruppe manages its own funds in accordance with the provisions of the *Bankwesengesetz* (Austrian banking act) that are in force from time to time. 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. In the year under review, the own funds requirement for credit risk was still 8.0 per cent of the basis of assessment for the purposes of § 22 *Abs. 2 BWG* (banking book), taking as the basis the sum of the bank's weighted receivables (comprising assets, off-balance sheet positions and derivatives). The calculation of the own funds requirement for the trading book is regulated by the provisions of *§ 22 o BWG*. Potential risk calculated in this way is measured against eligible own funds.

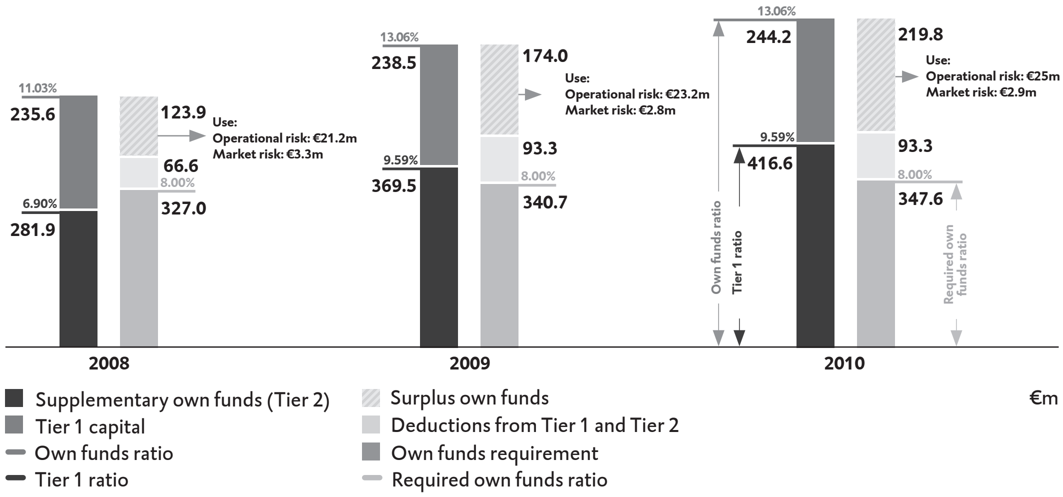
BKS Bank AG's share capital was already increased in two stages in 2009, namely by €6.16 million (nominal) out of internal funds and by €9.36 million (nominal) by issuing 4,680,000 new ordinary no-par shares. This took it up to a total of €65.52 million. Eligible own funds calculated using the standardized approach increased by €52.7 million versus the end of the previous year to total €567.4 million.

The basis of assessment for the banking book increased from €4.26 billion to €4.35 billion, which was mainly attributable to the increase in loans and advances to customers. Nevertheless, our Tier 1 ratio and own funds ratio were still both up on the end of 2009 to 9.59 per cent and 13.06 per cent, respectively, and well above the statutory minima of 4.0 per cent (Tier 1) and 8.0 per cent (own funds). Surplus own funds were at a record high of €219.8 million, and even after taking account of the capital charge of €25.0 million required for operational risk, they still came to €194.8 million. This created an excellent basis for future lending growth for which capital charges will be required. Moreover, we have also prepared ourselves well to face the stricter regulatory requirements that are likely to come with Basel III. We will be continuously examining how the Basel III proposals and other regulatory proposals will impact on certain transactions and our bank's business model. As things stand at the moment, we firmly believe that BKS Bank is already 'Basel III ready.'

OWN FUNDS

(Method of Calculation: Basel II)	31/12/2010	31/12/2009	31/12/2008
Share capital	65.5	65.5	50.0
Hybrid capital	40.0	20.0	20.0
Reserves net of intangible assets	311.1	284.0	211.9
Tier 1 capital	**416.6**	**369.5**	**281.9**
Tier 1 ratio	9.59%	8.68%	6.90%
Hidden reserves within the meaning of § 57 *BWG*	10.3	10.3	5.6
Eligible supplementary capital	155.8	149.8	154.9
Balance of gains and losses taken to equity	65.2	63.9	61.3
Eligible subordinated liabilities	12.9	14.5	13.8
Supplementary own funds (Tier 2)	**244.2**	**238.5**	**235.6**
Deductions from Tier 1 and Tier 2	93.3	93.3	66.6
Eligible own funds	**567.4**	**514.7**	**450.9**
Own funds ratio	13.06%	12.09%	11.03%
Basis of assessment for the banking book	4,345.1	4,258.4	4,087.7
Own funds requirement	**347.6**	**340.7**	**327.0**
Own funds requirement for the trading book	2.9	2.8	3.3
– Of which arising from open currency positions	2.2	1.9	2.3
Own funds requirement for operational risk	25.0	23.2	21.2
Surplus own funds (disregarding operational risk)	**219.8**	**174.0**	**123.9**
Surplus own funds (taking account of operational risk)	**194.8**	**150.8**	**102.7**

OWN FUNDS OF THE KREDITINSTITUTSGRUPPE



Basel III
Basel III contains the proposals adopted by the Basel Committee for Banking Supervision in December 2010. They are intended to make the financial world more stable in the event of a new crisis by raising capital adequacy requirements and introducing capital conservation buffers. In the future, Basel III will require an absolute bare minimum for core Tier 1 capital of 4.5 per cent. A capital conservation buffer of 2.5 per cent has been introduced to prevent a bank's equity base from being eroded by excessive profit distributions.
Based on a minimum ratio of 8.0 per cent and including the capital conservation buffer, the minimum total capital ratio will be 10.5 per cent. The Basel III proposals are to be put into effect as early as 1 January 2013. A transition period until 2019 has been announced during which the capital ratios will gradually be increased. According to estimates for the entirety of the Austrian banking industry made by *OeNB* on the basis of the Quantitative Impact Study (QIS), own funds requirements will increase by between €15 billion and €18 billion.

Risk Report

As active participants in transactions in the financial market, banks are of course exposed to the market's risks. 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. The risk management process therefore actively anticipates changes in market conditions to limit possible losses on business activities and to optimize our risk/earnings profile.

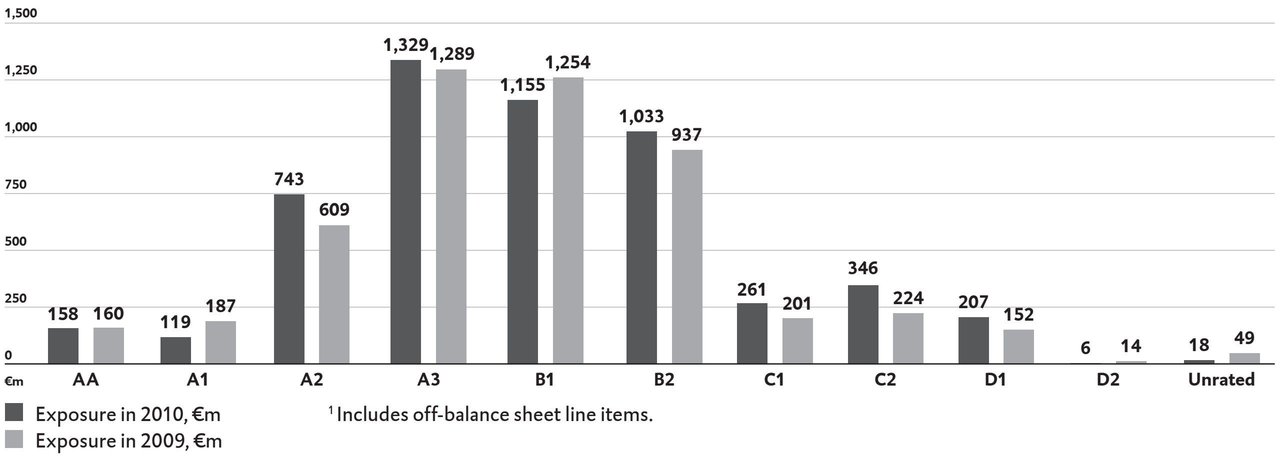
BKS Bank's risk policy standards, accountabilities and management principles are enshrined both in its business policies and in its risk strategy, which targets the efficient deployment of own funds from a risk and return point of view. A detailed presentation of the risk principles applied, the associated organizational structures and our risk measurement and risk monitoring processes can be found in the section of the Notes to the Consolidated Financial Statements entitled *Management of Overall Bank Risk*. 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.

Risk management is enshrined at the heart of our business principles.

Credit Risk

Credit risk is BKS Bank's most important risk category. Our credit risk management objectives are the long-term optimization of the relationship between risk and return in BKS Bank's lending operations and the attainment of the credit risk targets that have been budgeted for.

RECEIVABLES FROM CUSTOMERS, BY RATING [1]



[1] Includes off-balance sheet line items.

63 per cent of all loans are deemed to be fully collectible.

During the year under review, BKS Bank's total loan portfolio inclusive of contingent liabilities increased to €5.4 billion. BKS Bank has a 10-class internal rating system. Rating classes AA to B1 account for about 63 per cent of the loan portfolio. In these rating classes, the ability of borrowers to repay their borrowings is unlimited.

When acquiring new business, the focus is on customers in this risk range. Customers in the rating classes B2 and C1 are classed as having a heightened risk of default. We classify receivables rated C2 to D2 as carrying an acute risk of default or being in default/irrecoverable.

The average credit standing of our corporate and business banking customers in the 2010 financial year was not as good as in 2009. The fall in average loan quality was predominantly due to the migration of existing customers to weaker rating classes, the business and performance indicators used in the rating process having worsened as a result of the crisis.

Our impairment allowance balance totalled €149.1 million. Economic conditions were still difficult, leading to impairment allowances of €47.6 million, or €10.2 million more than in 2009. There was a corresponding deterioration in our risk:earnings ratio, which rose from 28.3 to 33.1 per cent during the year. While this gauge of credit risk in relation to net interest income improved from 6.0 to 3.2 per cent in our reconfigured retail banking segment, it increased from 44.7 to 49.9 per cent in the corporate and business banking segment, where volumes are much higher.

***ALGAR* secures the *3 Banken Group*'s large loan risks.**

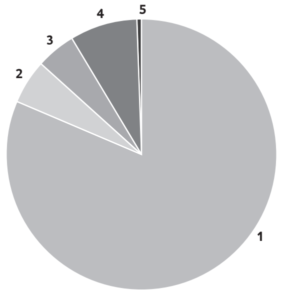
BKS Bank's large loan risks are secured by a cover pool at *Alpenländische Garantie-Gesellschaft mbH (ALGAR)*, which is a *3 Banken* subsidiary. *ALGAR*'s role is to provide security for the large loans granted by any of the three banks in the *3 Banken Group*. It does so by issuing guarantees and letters of indemnity and assuming liability in other ways for loans, advances and leases.

Well-balanced differentiation between sectors and industries . . .

As in prior years, the main sector and industry focuses in the loan portfolio were *Gewerbe* businesses, the industrial sector and private households. These accounted for roughly 63.7 per cent of our total exposure. They were followed, in percentage terms, by retailing and wholesaling and the professions. This gave BKS Bank's loan portfolio a broad and well diversified mix of regions, sectors and industries.

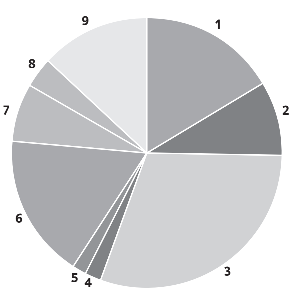
The foreign loan portfolio grew by 4.4 per cent versus the end of 2009. Our business activities abroad focused on business centres in the regions in which we operate near the Austrian border. Slovenia, Croatia

INDIVIDUAL RISK CATEGORIES IN RELATION TO OVERALL BANK RISK



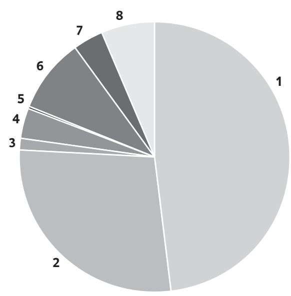
1	Credit risk	**81.5%**
2	Market risk	**5.4%**
3	Operational risk	**4.7%**
4	Liquidity risk	**8.0%**
5	Other risks	**0.4%**

LENDING, BY SECTOR AND INDUSTRY



1	Industry	**16.5%**
2	Retailing, wholesaling	**8.9%**
3	*Gewerbe* businesses	**30.2%**
4	Transport	**2.1%**
5	Public sector	**1.7%**
6	Private individuals	**17.0%**
7	Professions	**7.2%**
8	Tourism	**3.5%**
9	Other	**12.9%**

FOREIGN LENDING, BY COUNTRY



1	Slovenia	**48.3%**
2	Croatia	**27.7%**
3	Italy	**1.3%**
4	Hungary	**3.8%**
5	Czech Republic	**0.1%**
6	Germany	**8.9%**
7	Slovakia	**3.7%**
8	Other	**6.2%**

and Slovakia accounted for roughly 80 per cent of our foreign loan portfolio. We have set a Group-wide ceiling of 25 per cent on the proportion of total lending that can be accounted for by lending to non-banks abroad. In the year under review, this category of lending accounted for 24.5 per cent of the total. For risk management and risk control purposes, we apply different rating standards to Austrian and foreign borrowers. As a rule, our lending guidelines abroad are more stringent and are tailored to the peculiarities of each country.

. . . and regions combined with adequate risk diversification.

The proportion of foreign currency loans in relation to total loans in the portfolio fell by 20 basis points to 19.7 per cent between the end of 2009 and the reporting date. During 2010, the portfolio of Swiss franc foreign currency loans was reduced by SFr166.0 million to SFr983.4 million. In other words, we effectively implemented, on a sustainable basis, BKS Bank's strategy of permanently reducing the total portfolio of foreign currency loans in line with *FMA* recommendations. The granting of foreign currency loans to consumers is generally no longer allowed.

Reduction of the foreign currency loan portfolio.

Market Risk

Market risks result from changes in interest rates, equity prices, commodity prices and foreign exchange rates. They are mainly a consequence of adverse and unanticipated changes in economic and competitive conditions. Differing maturities and interest rate adjustment periods lead to interest rate risks on the assets and liabilities side of the account. Generally, they can be hedged against by a combination of on-balance sheet and off-balance sheet transactions. At the end of 2010, the ratio of BKS Bank's interest rate risk to its eligible own funds assuming a shift in rates of 200 basis points — this ratio must be reported in the interest rate statistics prepared for *OeNB* — came to 3.97 per cent, as against 4.54 per cent at the end of the previous year.

Painstaking observation of all market risk related indicators.

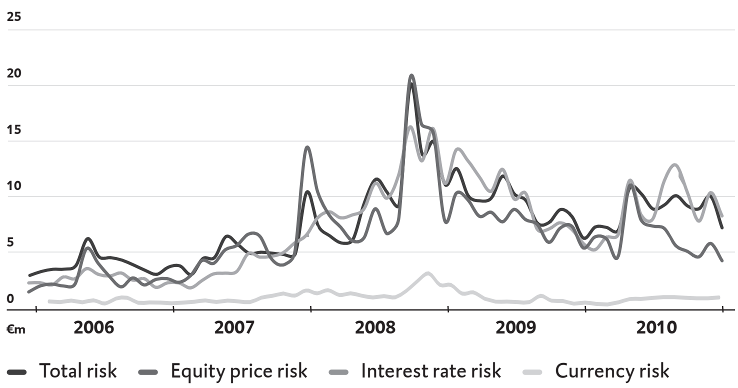
Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always kept its currency risks low. Consequently, open currency positions are only held in small amounts and for a short period. As for equity price risk, BKS Bank mainly invests in Austrian stocks and shares. The proportion of shares and equity funds in our treasury portfolio is limited to 10 per cent. At year-end 2010, they accounted for 4.19 per cent of the portfolio.

At 31 December 2009, the *economic capital* needed to cover market risk on a going-concern basis came to €7.2 million, compared with €6.2 million at the end of the previous year. Overall, BKS Bank did not suffer any excessive fluctuations in value at risk during 2010.

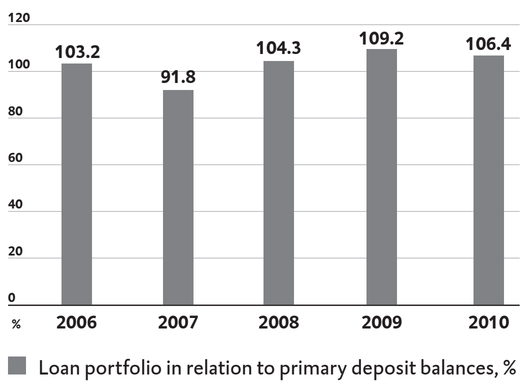
Liquidity Risk

One of the key roles of banks in the international financial markets system is performing maturity transformation. This is necessary because investors want prompt access to their assets whereas borrowers

MARKET RISKS (VALUE AT RISK)



LOAN:DEPOSIT RATIO



Careful, forward-looking liquidity management.

want long-term credit. Performing this task constantly leads to liquidity surpluses and deficits that, under normal market conditions, will be balanced out through transactions with other banks. However, during the recent financial crisis, this market only functioned to a very limited degree, and it was not yet restored to full functionality in the financial year under review. This difficult market situation remained a serious challenge for us. However, thanks above all to our conservatism, it was a challenge we were able to master. The central banks' role as a source of liquidity remained an important one.

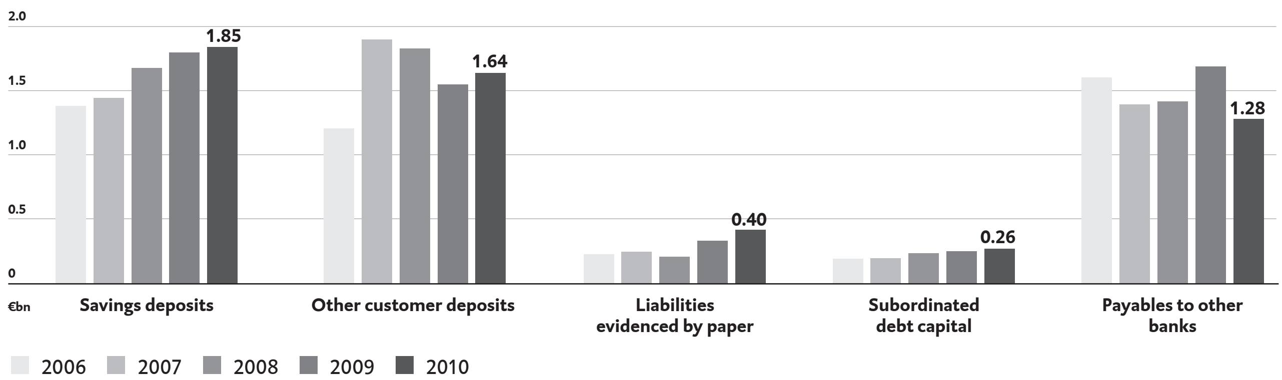
Since the middle of 2010, liquidity management and, therefore, ensuring our solvency at all times has been done with the help of a daily maturity gap analysis for each main currency. Limits have been defined at the short end to set boundaries to our liquidity risks. To ensure liquidity, we mainly hold highly-liquid securities that are eligible for refinancing at the ECB and, as a lender, prefer to acquire 'tenderable' assets.

One of BKS Bank's goals is to reduce its dependence on deposits from other banks. The supply of long-term funds is being assured by stepping up our issuances of our own securities and attracting savings deposit balances. The chart below provides a breakdown of our various sources of funds. In all, placements of our own securities, which comprise liabilities evidenced by paper and subordinated debt capital, came to €165.4 million during the year under review. We measure so-called *deposit concentration* to evaluate the deposit withdrawal risk caused by the possibility of a run on deposits. This variable illustrates the dangers associated with relying on large deposits. Depending on its development, it can lie between zero and one. At 31 December 2010, BKS Bank had a deposit concentration of 0.32, as against 0.31 at the end of the previous year. In other words, its dependence on large deposits was low.

The loan:deposit ratio is an essential gauge of the sustainability of liquidity management activities, showing the relationship between the loan portfolio and primary deposit balances. The benchmark we have in mind is 100 per cent. We therefore see the ratio of 106.4 per cent recorded at the end of 2010 as an important step forward in our efforts to attract primary deposits, following a ratio of 109.2 per cent at the end of 2009. It proved possible to fund most of the growth in the loan portfolio through inflows of primary deposits, which comprise saving, sight and time deposits and the proceeds from issuances of our own securities.

Recent events in the global financial markets have led to stricter regulation of the financial sector and, consequently, of the business activities of Austrian banks like BKS Bank. Higher capital adequacy standards and stricter official controls are inevitable. On 16 December 2010, the Basel Committee on Banking Supervision presented a final version of the new capital adequacy and liquidity standards (*Basel III*). The liquidity requirements that have been published require banks to adhere to short-term and medium-term liquidity requirements (liquidity coverage ratio, net stable funding ratio). BKS Bank has been taking the steps needed to meet the new standards. One of those steps was participation in the Quantitative Impact Study (QIS).

FUNDS FROM EXTERNAL SOURCES



Operational Risk

Experience in recent years has heightened our awareness of the need for the active management and reporting of operational risk. Consequently, we carry out regular risk assessments on a bottom-up basis every three years, as we did in the year under review. We did so via our intranet using a standardized questionnaire. The survey took place at the level of group and branch heads and the CEOs of our leasing companies. During this financial year, we will continue to develop process and risk optimization measures on the basis of the results of the questionnaire with the help of close coordination and cooperation between Risk Controlling, Internal Audit, the Legal Department and Credit Risk Management.

As in prior years, our regulatory capital requirement for operational risk was calculated using the standardized approach. Our regulatory own funds requirement in the year under review was €25 million. This compared with actual operational risk losses of just €0.8 million.

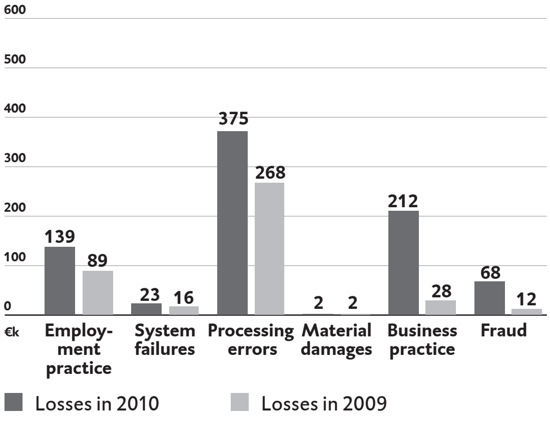
Equity Investment Risk

BKS Bank's policy in this area is only to acquire equity investments that are conducive to its banking operations. When investing in subsidiaries, the emphasis during the year under review was on acquiring strategic partners in the banking and financial institution sectors and ancillary, banking-related service industries. BKS Bank does not strive to acquire equity investments in countries whose legal, political or economic situations are judged to be risky or to trade on a regular basis in such investments. Risk in the bank's current equity investment portfolio is felt to be small. The indicator used to evaluate our equity investment risk is the proportion of our assets accounted for by equity investments on the balance sheet. Risk is deemed to be low if this figure is less than 10 per cent . At the end of 2010, it was 5.4 per cent, and we do not intend to take on any larger equity investment risks in the future.

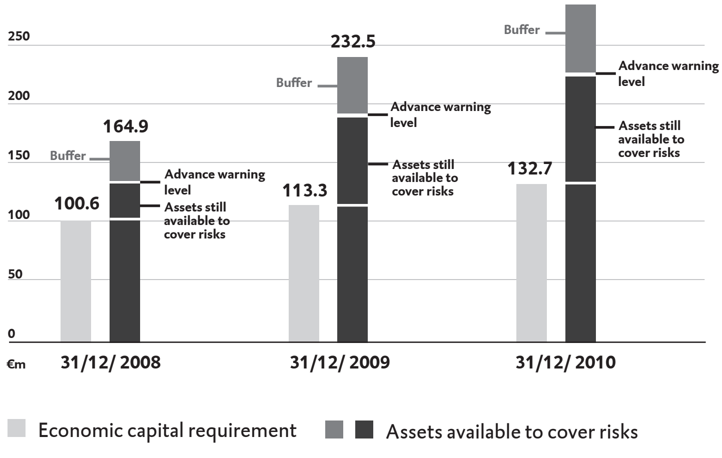
Calculating our Risk-bearing Capacity

The results of measuring the different categories of risk are aggregated to obtain a total potential loss (economic capital requirement). During the calculation of the bank's risk-bearing capacity, this is compared with the assets available to cover risks. At 31 December 2010, our economic capital requirement calculated on a going concern basis was €132.7 million, compared with €113.3 million a year earlier. The corresponding assets available to cover risks came to €281.7 million, compared with €232.5 million at the end of 2009. An advance warning threshold of 80 per cent of the assets available to cover risks was set for the purpose of monitoring our risk-bearing capacity.

OPERATIONAL RISK: RISK LOSSES BY CATEGORY



CALCULATION OF RISK-BEARING CAPACITY ON A GOING CONCERN BASIS



As in the previous year, the economic capital requirement for credit risk was BKS Bank's biggest risk capital requirement. Credit risk in the corporate and business banking segment accounted for about 75 per cent of our total risk, and credit risk as a whole was responsible for roughly 81.5 per cent of our potential loss. Market risk was responsible for 5.4 per cent. Stress tests carried out on a worst-case scenario basis increased our risk capital requirement by 57 per cent as of 31 December 2010.

Acting Responsibly In Every Segment

Segmental Reports

Segmental Reports

BKS Bank's segmental reporting is based on the organizational structure of the Group, which underlies its internal management reporting system. This structure is geared to its three major business divisions, namely *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. Consequently, segmental reporting is 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 point out that, because of the altered segment definitions, comparability across the five-year reviews contained in these segmental reports is limited.

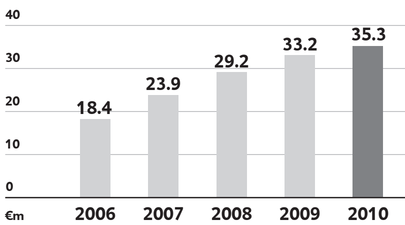
The Corporate and Business Banking Segment
Roughly 12,900 customers were serviced in the corporate and business banking segment. Since BKS Bank originally operated as a pure corporate and business bank, this division has the longest tradition. The segment remained the most important source of profit during the 2010 reporting year. At the same time, corporate and business banking customers were the biggest borrowers. 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 all 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 Retail Banking Segment
As we have said, for the first time, this segment included small business entrepreneurs, doctors and self-employed customers in addition to personal banking customers and jobholders. Roughly 123,000 customers were serviced in the retail banking segment. Besides the retail operations of *BKS Bank AG*, it also encompassed 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 was indispensable to BKS Bank because about 83 per cent of savings deposit balances and roughly one third of sight and time deposit balances—that is, 58.1 per cent of primary deposit balances—came from retail banking customers, making this segment our bank's most important source of funds.

The Financial Markets Segment
The financial markets segment encompassed the profits from BKS Bank's financial assets. It took in profits from equity investments, from securities held in BKS Bank's own portfolios and from receivables from and payables to other banks. In addition, it encompassed earnings from maturity transformation (interest rate term structure management).

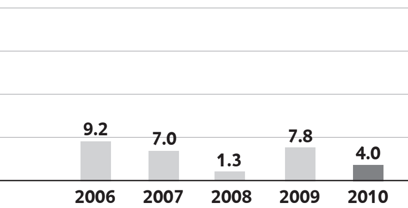
PROFIT FOR THE YEAR BEFORE TAX, BY SEGMENT

CORPORATE AND BUSINESS BANKING



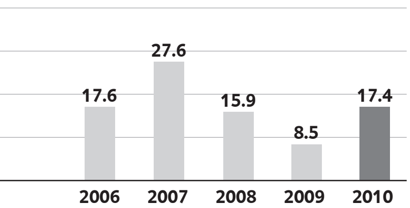
ROE	10.3	12.0	13.3	14.1	14.2
CIR	41.7	41.7	40.4	32.5	29.8
RER	43.9	36.4	33.3	44.7	49.9

RETAIL BANKING



ROE	17.2	13.0	2.8	17.9	8.8
CIR	80.3	82.9	94.3	82.4	90.6
RER	3.8	6.6	4.9	6.0	3.2

FINANCIAL MARKETS



ROE	11.6	17.5	9.1	3.6	5.8
CIR	20.2	24.2	15.2	33.3	32.1

Corporate and Business Banking Segment

Still thought highly of in the corporate sector: an independent regional bank with short decision-making chains.

BKS Bank has been a successful banking provider to a great many companies in its catchment area for many years, and it remained so in 2010. The healthy performance of BKS Bank's corporate and business banking segment reflects trust built up over years and a reliable business policy that includes continuing to stand by one's customers when times are hard. Moreover, customers have been increasingly appreciative of BKS Bank's consistent positioning of itself in recent years as an independent regional bank where decision-making chains are short, so this too is an important success factor. Overall, the corporate and business banking segment remained our most important source of profit. Profit for the year before tax came in this segment came to €35.3 million, which was €2.1 million up on the previous year and accounted for over 65 per cent of the Group's total profit for the year before tax.

We are pleased to report that we were able to maintain our sizeable customer base during the period under review. BKS Bank mainly targets industrial manufacturers, so-called *Gewerbe* businesses and wholesalers and retailers. We primarily address small and medium-sized enterprises (SMEs). New business with large enterprises is managed with great care to prevent an unnecessary increase in credit risk. Nonetheless, in the year under review, we won out against our competitors in bids for a number of large subsidized investment projects and export finance contracts, underscoring the skill of our account managers in the corporate and business banking segment.

The corporate and business loan portfolio totalled €3.61 billion at the end of 2010, or about 3 per cent more than at the close of 2009. As a result, corporates and businesses accounted for more than three quarters of all lending by the BKS Bank Group. This is convincing evidence of BKS Bank's strong position in the market as a facilitator of Austrian companies' investment plans. Customers were offered access to all the usual financing products and we held advice sessions with each corporate and business owner to develop the individualized loan, lease and subsidized finance packages that best suited their particular enterprise.

Savings deposit balances grow by 5.8 per cent, sight and time deposits by 10.4 per cent.

Loans are still BKS Bank's most important product in the corporate and business banking segment. However, the demand for deposit and investment products is growing. As a result, corporate and business banking customers accounted for over €312 million of savings deposit balances at the end of 2010, following an increase of 5.8 per cent over the year. Unlike savings deposit balances, sight and time deposit balances are very sensitive to the behaviour of institutional investors. Terms were better than in 2009, causing these deposits to increase again and generating growth of 10.4 per cent to €1.1 million.

A closer focus on cross-selling bears fruit.

We intensively market saving and time deposit products to companies, and the same is true of insurance products. The aim is to increase our cross-selling rate. We already had a great deal of success doing so in the insurance market during 2010. In the corporate and business banking segment, BKS Bank works together with *3 Banken Versicherungsmakler GmbH*—a shared *3 Banken* subsidiary—in this field. The company's specially trained advisors accompany our corporate and business banking account managers on visits to customers, making it possible to cater for our customers' insurance needs, which are often very complex, to their complete satisfaction. Company pension products and, of course, products that mitigate entrepreneurial risks were again particularly in demand among corporates and businesses.

CORPORATE AND BUSINESS BANKING SEGMENT

€k	2010	2009	2008
Net interest income	93,343	78,890	55,254
Impairment charge on loans and advances	(46,567)	(35,233)	(18,426)
Net fee and commission income	21,338	20,011	23,066
General administrative expenses	(34,758)	(32,873)	(32,263)
Other operating profit	1,945	2,380	1,551
Profit for the year before tax	**35,301**	**33,175**	**29,182**
Segment's contribution to consolidated profit before tax	61.9%	71.3%	65.7%
ROE before tax	14.2%	14.1%	13.3%
Cost:income ratio	29.8%	32.5%	40.4%

2011: greater emphasis on acting as a customer's principal provider of banking services in 2011.

We also upgraded the range of payment products and services available to our customers, meeting all the new European standards (SEPA). We tied the prices of the products and services used by companies more closely to their credit standing, and *3-Banken-EDV Gesellschaft mbH* continued to refine the instruments needed to do so. These include a best terms calculator and our automatic terms adjuster. We will continue to extend this line during 2011. Being the principal provider of banking services to customers includes offering them regular advice sessions with our corporate and business banking account managers who, thanks to their excellent training, are often able to give companies valuable tips.

BKS Bank is confident that it is well positioned to face future challenges in the corporate and business banking segment and to continue to make the good annual profits being mirrored by its key performance indicators. The profit for the year before tax of €35.3 million already reported above was the result of a substantial improvement in net interest income. This increased from €78.9 million to €93.3 million, more than making up for the increase in the charge for impairment losses on loans and advances from €35.2 million in 2009 to €46.6 million in the year under review. The need for an increase in the charge for impairment losses worsened the segment's risk:earnings ratio to 49.9 per cent. Notwithstanding the segment's strong earning power, this figure needs to be improved to the levels recorded in prior years. The success of our cross-selling efforts increased net fee and commission income to €21.3 million, compared with €20.0 million in 2009. General administrative expenses increased by just €34.8 million. In conjunction with the segment's outstanding profit for the year, this led to another improvement in its cost:income ratio, which fell below the 30 per cent mark to 29.8 per cent. Its return on equity was virtually static on the year at 14.2 per cent.

Retail Banking Segment

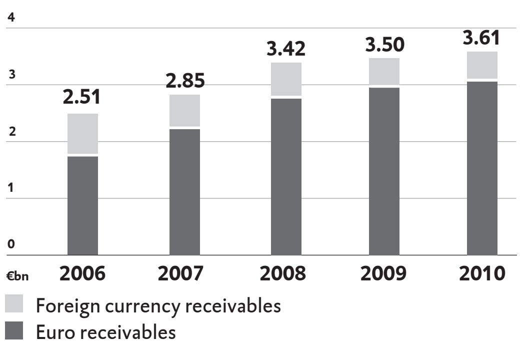
Successful resegmentation in the retail banking segment.

The reconfiguration of the retail banking segment has created a raft of new sales opportunities for staff at BKS Bank's branches and improved advisory services for the customers who were transferred to this segment. This is because the needs of small business owners, doctors and self-employed customers are often closer to those of jobholders than to the needs of larger companies, particularly when it comes to investments and loans. Together with a project to reduce the burden of administrative work on branch staff, which was also completed in the year under review, reconfiguration should boost this segment's profits in years to come.

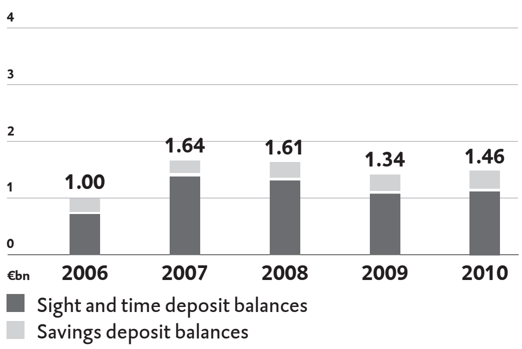
The hotly contested retail banking segment will become more competitive.

The retail banking segment continued to be hotly contested in the market during 2010. It seems likely that securities operations, which accounted for the lion's share of net fee and commission income before the financial crisis, will not return to pre-crisis levels for some time to come. In addition, the savings deposit and issuance markets are very competitive. As a result, margins have continued to decline because every bank is still highly dependent on primary deposits as a source of funds. At the same time, modern branches cost money. BKS Bank knows how tough the environment is and is taking appropriate countermeasures. Besides the restructuring we have already mentioned, we will be reconfiguring our securities

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



PAYABLES TO CORPORATE AND BUSINESS BANKING CUSTOMERS



operations in 2011. Among other things, we will be offering high net worth customers individualized financial advice, and, in addition, we will be providing new brokerage services. Moreover, these are just some of the cornerstones of the changes we are planning. The reorganization of our securities unit that is needed to implement this project has already begun.

3,000 new salary and pension accounts.

We were very pleased with the hard work of BKS Bank's retail banking account managers under these difficult market conditions. Roughly 3,000 new salary and pension accounts were opened during the period under review, laying the foundations for further business. In addition, the Group's aggregate primary funds grew to €4.2 billion. Since retail banking customers accounted for about 50 per cent of this total, they remained the principal suppliers of this important source of funds at BKS Bank. Savings deposit balances also continued to grow during the year under review, although after the unusual events of the year before — when well publicized problems at a competing bank meant that deposits with us were higher than usual — our principal aim was to sustain balances at their existing high levels. Savings deposit balances in the retail banking segment came to €1.5 billion, which was €25 million more than at the end of the previous year. The trend towards safe forms of investment continued. As a result, *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts and the on-demand BKS *Sparcard* saving card accounts were particularly in demand. At the same time, the building society contract remained one of the most popular savings products. As usual, BKS Bank cooperated with *Wüstenrot* in this area, concluding some 4,500 new contracts in the period under review.

Primary deposits are BKS Bank's main source of funds.

Securities operations are slow to recover.

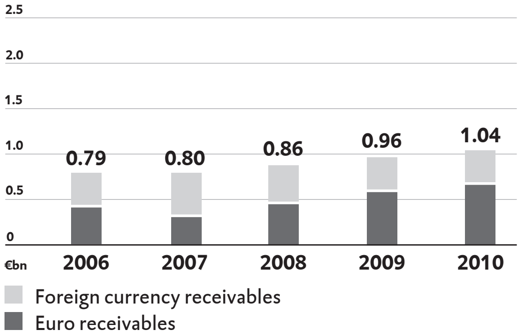
While traditional savings products still thrived, securities operations were slow to recover. Although price gains in the international stock markets boosted the value of our customers' securities accounts to €5.87 billion and fee and commission income from portfolios increased slightly, customers were hesitant to make new investments. Consequently, even if securities operations accounted for a bigger slice of net fee and commission income than in 2009, they have more potential.

***3 Banken-Generali Investment-Gesellschaft* grows faster than the market as a whole.**

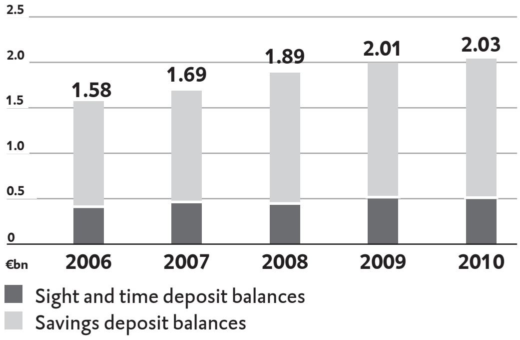
On the other hand, *3 Banken-Generali Investment-Gesellschaft* — the investment fund company of the *3 Banken Group* and *Generali Holding* — performed well compared with the rest of the market. Funds under management by this company grew by 11.6 per cent to €5.13 billion, recording nearly twice the growth rate of the market as a whole. The company's innovative management concepts, which included investing more in high-dividend equities and implementing a fixed fund duration, were much in demand. A tangible asset strategy based on a combination of equities, commodities, gold and property investments remained popular in both 'public' and 'special' funds. The *3 Banken Österreich-Fonds* was again the best fund in its class, delivering a performance of 32.3 per cent.

A number of international awards confirmed the quality of our fund management services. BKS Bank especially congratulates the fund managers at its Klagenfurt management centre. In 2010, they won the German funds prize for the best fund of funds in Germany in the '60-month bond fund of funds' category for the *3 Banken Renten-Dachfonds*, and they also won the Austrian Morningstar Fund Award in the *Anleihen Euro Global* bonds category. In addition, the *3 Banken Renten-Dachfonds* won second place in the 'bond fund of funds over five years' category at the Austrian fund of fund awards.

RECEIVABLES FROM RETAIL BANKING CUSTOMERS



PAYABLES TO RETAIL BANKING CUSTOMERS



Focus on providing insurance advice bears fruit.

BKS Bank's emphasis on providing advice about private pensions and savings was totally in step with the times. More and more people are being affected by growing uncertainty about the size of state pensions when they retire in the future and about when they will be able to retire. Financial provisions for the future made with the help of suitable advisory support can usually close the gap between a state pension and the pension someone wants. Many of the products that are normally used to provide for the future are insurance products. In this field, BKS Bank acts as a strategic partner of insurer *Generali Versicherung AG* through *3-Banken Versicherungs-AG*, which is a shared subsidiary of the *3 Banken Group*.

During 2010, we mainly sold classical regular-premium endowment insurance policies in cooperation with *Generali*. Both the number of policies and premium volumes increased. There was more demand for single-premium endowment insurance policies than in prior years. Among other things, this increase in demand was due to a regulation contained in the *Budgetbegleitgesetz* (ancillary budget act) and in force from 2011 under which single-premium policies must now have a duration of at least 15 years instead of 10 to qualify for tax relief. In all, *3-Banken Versicherungs-AG* concluded 44,862 contracts, 37,535 of which were risk insurance policies of the company itself and 5,702 of which were *Generali* endowment insurance policies. Premium volumes recorded in partnership with *3 Banken Versicherungsmakler GmbH* were 1.9 per cent up on 2009 to €70 million, with BKS Bank accounting for 25.3 per cent or €17.7 million of that total.

Personal loans are a stable factor; credit risk in the retail banking system remains low.

The retail loan portfolio totalled exactly €1 billion at the end of 2009, which was 8.5 per cent more than at the end of the previous year. Among other things, this was attributable to the broadening of the product and services line in BKS Bank's markets abroad. An advertising campaign launched in both Slovenia and Croatia that asked 'Is you apartment too small?' created a great deal of attention and generated good contract numbers. The number of new contracts was slightly lower than in the past in Austria, but renovation loans in particular were still in demand. We are especially pleased to be able to report that the credit risk on personal loans remained very low, and we were able to continue to reduce it in 2010. Since the autumn of 2008, all new loans granted by BKS Bank have been euro loans. We launched an advisory programme back in 2009 to help customers convert their outstanding foreign currency loans into euro loans, and it continued in 2010. This resulted both in conversions to euro loans and in the conversion of numerous bullet loans into repayment loans. About 65 per cent of all the loans granted to retail banking customers were now euro loans (2009: approximately 63 per cent).

The foreign currency loan portfolio continues to shrink.

These intensive efforts have little impact on profit.

Despite all the efforts we have described, our successes were reflected little by profit in the retail banking segment. The market was highly competitive. This resulted in a substantial decline in net interest income, which fell from €37.0 million to €31.4 million. We were able to reduce the charge for impairment losses on loans and advances from €2.2 million to €1 million, and net fee and commission income increased significantly, growing by €1.4 million, but this was not enough to make up for the fall in net interest income. An increase in general administrative expenses of €1.1 million to €47.9 million also contributed to the year-on-year drop of nearly half in the segment's profit for the year before tax, which came to €4.0 million. This sharp decline also affected the segment's performance ratios. For instance, the return on equity in the retail banking segment fell from 17.9 to 8.8 per cent and the cost:income ratio stayed well above the 75 per cent target at 90.6 per cent. On the other hand, the segment's risk:earnings ratio developed satisfactorily, falling to 3.2 per cent.

RETAIL BANKING SEGMENT

€k	2010	2009	2008
Net interest income	31,394	36,950	32,273
Impairment charge on loans and advances	(993)	(2,201)	(1,570)
Net fee and commission income	20,192	18,744	16,955
General administrative expenses	(47,902)	(46,805)	(47,574)
Other operating profit	1,282	1,119	1,204
Profit for the year before tax	**3,973**	**7,807**	**1,288**
Segment's contribution to consolidated profit before tax	7.4%	16.8%	2.9%
ROE before tax	8.8%	17.9%	2.8%
Cost:income ratio	90.6%	82.4%	94.3%

Financial Markets

BKS Bank's Asset Liability Management (ALM) Committee remained responsible for the proactive management of the so-called *structural income* earned in the financial markets segment during the 2010 financial year. Structural income includes earnings from interbank trading, proprietary securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements. The committee's management activities concentrated mainly on the prudent handling of market risks. The risk/return situation and the anticipated market scenario were sounded out whenever investments or disinvestments took place.

ALM: prudent management of market risks.

Because of the sharp drop in market interest rates during 2010, managing market risk proved to be very challenging. In particular, deposit terms and conditions were affected by the growing pressure on margins. Prevailing interest rates also created proprietary portfolio investment policy problems in that long-term investments in fixed rate securities might suffer impairments when interest rates rise.

Profit contributed by the entities accounted for using the equity method, namely the *Oberbank*, *BTV*, *ALGAR* and *Drei-Banken Versicherungs-AG*, was a stable pillar of earnings in the financial markets segment, and income from our investments in *Oesterreichische Kontrollbank AG* and *Europay Austria Zahlungsverkehrssysteme GmbH* was also appreciable. BKS Bank's portfolio of investments in entities accounted for using the equity method increased by a total of €27.2 million. Most of the increase was accounted for by our interest in the profits of our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*.

Profit in the financial markets segments was more than twice as high as in the previous year. This segment closed the 2010 financial year with profit for the year before tax of €17.4 million. The remarkably big increase in profit was attributable mainly to a marked improvement in *Profit/(loss) from financial assets* in this segment. Following a loss of €4.5 million in 2009, a profit of €5.1 million was made in 2010. The segment's net interest income was also significantly up on the previous year, as a result of which its return on equity increased by 2.2 percentage points to 5.8 per cent. It proved possible to reduce general administrative expenses by about €0.6 million to €5.8 million. However, impairment of the goodwill of a subsidiary in the amount of €3.3 million was charged to this segment as a part of *Other operating expenses*. It was mainly a reflection of poor new business volumes in the sales territory of *Leasing a.s.* in Slovakia. The segment's very satisfactory overall performance reduced its cost:income ratio by 1.2 percentage points to 32.1 per cent.

Financial markets segment accounts for 32.5 per cent of profit for the year before tax.

As in the corporate and business banking and retail banking segments, front-office activities are strictly separated from back-office activities in the financial markets segment. Particular attention was paid to rigorously managing the risks connected with banking operations. No loans to other banks were impaired during the year under review. As a breakdown of receivables from other banks using BKS Bank's 10-class rating system shows, virtually all of BKS Bank's correspondents were in the top AA to A3 rating classes. Our network of correspondents consisted of some 350 banks with which we had regular money dealings.

Our correspondents have very good ratings.

FINANCIAL MARKETS SEGMENT

€k	2010	2009	2008
Net interest income	19,150	17,452	43,167
Impairment charge on loans and advances	0	0	0
Net fee and commission income	755	551	1,446
General administrative expenses	(5,831)	(6,461)	(6,990)
Profit/(loss) from financial assets	5,102	(4,511)	(23,052)
Profit for the year before tax	**17,426**	**8,457**	**15,948**
Segment's contribution to consolidated profit before tax	32.5%	18.2%	35.9%
ROE before tax	5.8%	3.6%	9.1%
Cost:income ratio	32.1%	33.3%	15.2%

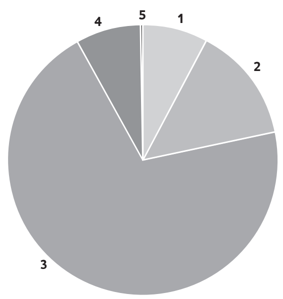
Liquidity assured by primary deposit balances.

BKS Bank again renewed its efforts to attract primary deposits during 2010 so as to reduce its dependence on entering into liabilities in the money market. The BKS Bank Group was able to satisfy its long-term funding needs by issuing a total of seven tranches of its own securities for €165.4 million. The focus was on placing a supplementary capital bond and a hybrid bond issued by subsidiary *BKS Hybrid beta GmbH* in order to strengthen the structure of the Group's own funds.

BKS BANK NOTES ORIGINATED IN 2010

Name	ISIN	Nominal Amount
3% BKS Bank-Obligation 2010-2014/1	AT0000A0GZJ5	€30.0m
BKS Bank Ergänzungskapital Stufenzins-Obligation 2010-2020/2	AT0000A0HB39	€16.0m
3% BKS Bank Obligation 2010-2016/3	AT0000A0JG08	€25.0m
BKS Bank Stufenzins-Obligation 2010-2016/4	AT0000A0LH94	€15.0m
BKS Hybrid beta GmbH Anleihe 2010	AT0000A0K1U8	€20.0m
BKS Bank Memo Garant 2010-2014	AT0000A0G6H0	€10.0m
Variable BKS-Obligation 2010-2019/PP	AT0000A0GZ57	€40.0m

RECEIVABLES FROM OTHER BANKS, BY BKS BANK RATING

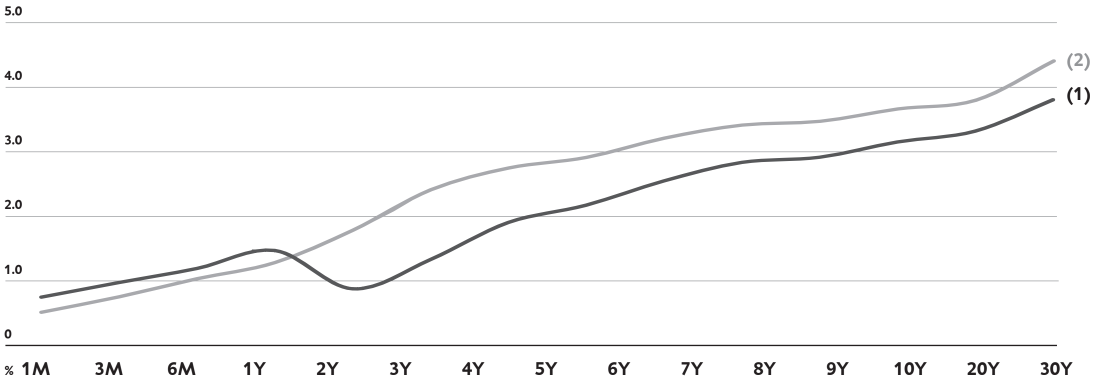


1	Rating class AA	**7.95%**
2	Rating class A1	**13.92%**
3	Rating class A2	**70.13%**
4	Rating class A3	**7.89%**
5	Other	**0.11%**

SELECTED MONEY AND CAPITAL MARKET RATES

Sources: OeNB, ISDA.

YIELD CURVES (31 DECEMBER 2010 VERSUS 31 DECEMBER 2009)



(1) Yield curve at 31 December 2010 (2) Yield curve at 31 December 2009

Basis for charting yield curves: Euribor rates for the money market and the *Deutsche Bund* curve for the capital market.

Sources: Reuters, OeNB.

Outlook for 2011

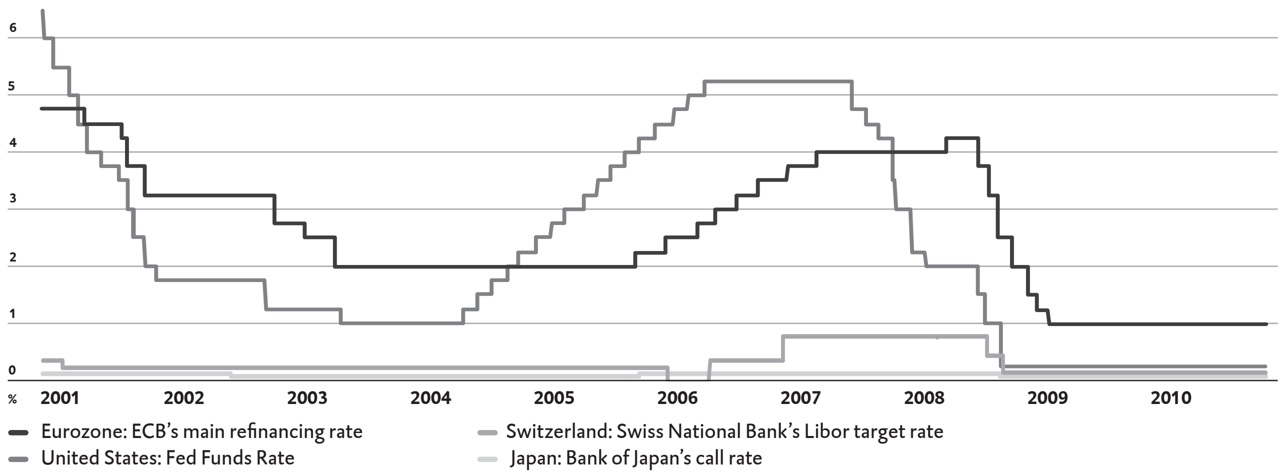
Global economy: recovery will continue at a slower pace; increased risk potential because of fears of a political wildfire in the Arab world.

The global economy was still growing at a moderate pace during the first few weeks of this 2011 financial year. Increasingly, the recovery is self-sustaining. WIFO is predicting real global GDP growth of 4.1 per cent in 2011, and world trade is expected to grow by 10 per cent in real terms. At the moment, growth rates differ. On the one hand, there are the economically robust and rapidly growing economies of the emerging markets, where the stimulus comes from China; on the other, there are the structurally weakened and highly indebted countries. This is true of the global economy in general and the United States and the eurozone in particular. Alongside the escalating budget deficit in the United States, the International Monetary Fund sees the Achilles heels of financial stability and recovery of the global economy in the debt crisis in Europe's so-called PIIGS, the persistent weakness of the American property market and the risk of bubbles in a number of emerging markets and developing countries on account of excessive capital inflows. In addition, recovery in the global economy has been pushing up the demand for raw materials, sharply increasing their prices in recent weeks and months. Furthermore, there is growing fear in the markets of a political wildfire in the Arab world that could reduce crude oil production. At the beginning of February, the price of crude oil (Brent) topped US$100 a barrel in response to high death tolls in Tunisia, Egypt, Yemen and Libya, and prices of industrial raw materials have also risen drastically. Moreover, a barrel of US benchmark West Texas Intermediate (WTI) cost US$96.97 at the end of February, although futures for delivery in December 2012 were trading at US$103.3 a barrel, suggesting that the market participants do expect stable oil prices in the medium term. If the current high prices of oil are not just temporary or if they actually rise even further, inflationary pressures are likely to have a knock on effect on sensitive sectors like the automotive, aviation and construction industries.

United States: moderate real GDP growth of 2.2 per cent.

Recently, GDP in the United States has continued to recover because of a palpable revival in industrial output and consumer spending and, thanks to growing export numbers, positive net exports. It should grow by 2.2 per cent in real terms over 2011 as a whole. In addition, in February, an economic indicator of importance to the financial markets — the US ISM Purchasing Managers Index (PMI) — was at its highest level since May 2004, at 61.4 points. The US central bank's Federal Open Market Committee (FOMC) is prolonging its present expansionary monetary policy and has left the Fed Funds Rate unchanged at between zero and 0.25 per cent. It has also confirmed its second round of quantitative easing. By the end of June 2011, the US central bank will have bought Treasuries worth another US$600 billion to keep interest rates low and, therefore, to stimulate demand.

KEY RATES



Eurozone: economic recovery at two different speeds weakens GDP growth to 1.5 per cent.

Because of the big economic gap between the Central and Northern European economies and those of the Southern peripheral countries, the overall recovery of GDP in the eurozone has been modest. Judging by the latest surveys and leading indicators, the German economy and the economies of Germany's neighbours that have strong economic ties with it are feeling a particularly strong economic upcurrent, resulting in GDP growth rates of about 2.4 per cent. This is well above the average of 1.5 per cent that is being forecast for the eurozone. Recently, positive economic signals have also been coming from the regions close to Austria's borders that lie within BKS Bank's catchment area. On the other hand, Greece, Spain, Portugal and Ireland will still be stuck in the economic shadows in 2011.

Austria: continuing economic recovery; GDP growth of 2.2 per cent.

Austria's economy is continuing to recover. WIFO is predicting real GDP growth of 2.2 per cent. Confidence within the industrial sector, growing new business volumes, rising order levels and the recovery of capital investment for plant and machinery all suggest that Austrian exports and the output of material goods will continue to grow particularly strongly in the coming quarters. Since real incomes will only rise slowly and the saving rate will stay high at 10.2 per cent, the real increase in private consumption will be just modest at 0.9 per cent.

Rising inflation is having an impact: the ECB is priming the financial markets for higher interest rates in the eurozone.

Although inflation has exceeded the ECB's tolerance limit of 2 per cent for a number of weeks, the ECB Council decided to leave its key rate unchanged at 1 per cent during its most recent monetary policy meeting on 3 March. According to recent statements made by the ECB President, Jean-Claude Trichet, the guardians of the eurozone's currency see a mild tightening of the monetary policy reins as early as the spring of 2011 as a possibility but not yet a certainty given the inflation risk. Over the year, the ECB's key rate is therefore likely to move between 1.0 and 1.5 per cent.

Against the backdrop of the macroeconomic landscape we have described, our bank is excellently prepared to face new challenges and to seize new opportunities. We will continue to consistently apply our customer-orientated strategy — a strategy that is based on risk discipline, capital efficiency and earnings diversification.

Thanks to its financial strength and strategic orientation, BKS Bank is well prepared to face the challenges that 2011 will bring.

As for BKS Bank's medium-term development, the business climate should become brighter and generally positive. Based on the foundations provided by our excellent equity base, we will continue to expand our classical banking operations in our Austrian and foreign markets and will apply our proven business model as before. Because of the flat euro yield curve and the high, competition-driven pressure on margins, the present signs are that net interest income will only move sideways on both the assets and liabilities side of the equation. On the other hand, the outlook for fee and commission business has become noticeably brighter. Securities operations in particular should continue to recover, which is also one of the aims of our project to reposition our securities operations. We will be turning important business policy focuses into reality. To do so, 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 developing an extensive compliance management system as an additional, 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 economic recovery will allow a perceptible reduction in the impairment charge on loans and advances.

In view of our satisfactory performance during the 2010 reporting year and given a stable market environment, we believe that our profit for the year 2011 will enable us to augment our reserves, thus further increasing BKS Bank's enterprise value, and, as in prior years, distribute a dividend to match our results. However, in the medium and long term, we are confronted with serious uncertainties in the form of regulatory requirements that are, to a large extent, uncoordinated. We have mixed feelings about the multiple burden that will be imposed by Basel III, the new deposit guarantee system and the Austrian bank tax (which will already cost us about €1.7 million in 2011). They could quickly overload the Austrian banking system, in turn harming this country's economy.

Responsibility Pays Off

Consolidated Financial Statements

CONTENTS OF THE NOTES

NOTES ON FINANCIAL REPORTING IN ACCORDANCE WITH IFRSs

BKS Bank prepared its Consolidated Financial Statements for the 2010 financial year in accordance with the provisions of the IFRSs and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as exempting consolidated financial statements within the meaning of *§ 59a BWG* (Austrian banking act) in conjunction with *§ 245a UGB* (Austrian enterprises code). During the preparation of these Consolidated Financial Statements, all standards whose application was mandatory for the financial year were applied. Comparative figures for the previous year were also based on the relevant standards.

Austrian enterprise law is founded on the principle of business prudence. It focuses primarily on maintaining capital value and protecting creditors. The IFRSs, whose application has also been mandatory for listed enterprises within the EU since 2005, give priority to the information needs of investors rather than the protection of creditors. Consequently, annual financial statements prepared in accordance with IFRSs present an entity's assets, liabilities, financial position and profit or loss and its cash inflows and outflows according to actual circumstances. Such annual financial statements comprise a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, statements regarding recognition and measurement policies and explanatory notes, inclusive of a segmental report. To enhance the informational value of annual financial statements, the IASB (International Accounting Standards Board) is placing growing emphasis on measurement to fair value. This measurement principle represents a weakening of the prudence principle in favour of the measurement of profit or loss on an accrual basis and adherence to the going-concern principle, the main focuses being on intelligibility, relevance and comparability.

During the 2010 financial year, we continued to base our segmental reporting on internal management arrangements (the *management approach*) in accordance with the provisions of IFRS 8. However, having changed our segmentation approach, we have adapted our segmental reporting for 2009 and 2010 accordingly. During resegmentation, retail business banking customers were added to the personal banking segment to create the new retail banking segment. A total of 4,902 self-employed and small business customers previously included in the corporate and business banking segment and accounting for total loans outstanding of about €100 million and deposit balances of roughly €230 million were added to this new segment during the third quarter of 2010. See note (36) for details.

Unless stated otherwise, all figures in the Notes to the Consolidated Financial Statements that follow are in thousands of euros (€k).

Income Statement of the BKS Bank Group for the 2010 Financial Year

FULL YEAR

€k	Note	2010	2009	+/(-) Change, %
Interest income		206,802	232,317	(11.0)
Interest expenses		(81,262)	(116,019)	(30.0)
Profit from investments in entities accounted for using the equity method		18,091	16,013	13.0
Net interest income	(1)	**143,631**	**132,311**	**8.6**
Impairment charge on loans and advances	(2)	(47,560)	(37,434)	27.1
Net interest income after impairment charge		**96,071**	**94,877**	**1.3**
Fee and commission income		45,333	42,625	6.4
Fee and commission expenses		(2,791)	(2,922)	(4.5)
Net fee and commission income	(3)	42,542	39,703	7.2
Net trading income	(4)	1,568	1,433	9.4
General administrative expenses	(5)	(91,472)	(88,217)	3.7
Other operating income net of other operating expenses	(6)	(195)	3,259	>100
Profit/(loss) from financial assets (FV)	(7)	2,126	(2,134)	>100
Profit/(loss) from financial assets (AFS)	(8)	2,976	(2,377)	>100
Profit for the year before tax		**53,616**	**46,544**	**15.2**
Income tax expense	(9)	(7,187)	(6,103)	17.8
Profit for the year		**46,429**	**40,441**	**14.8**
Minority interests in profit for the year		(4)	(3)	33.3
Consolidated net profit for the year		**46,425**	**40,438**	**14.8**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit for the year	46,425	40,438	14.8
Income and expenses not recognized in profit or loss			
– Exchange differences	(340)	(614)	(44.6)
– Available-for-sale reserve	4,042	16,704	(75.8)
– Arising from investments in entities accounted for using the equity method	5,652	881	>100
– Deferred taxes on items taken directly to equity	(841)	(4,425)	(81.0)
Comprehensive income	**54,938**	**52,984**	**3.7**

QUARTERLY REVIEW

€k	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Interest income	54,478	51,416	51,205	49,703	50,966
Interest expenses	(20,038)	(20,728)	(20,969)	(19,527)	(20,425)
Profit from investments in entities accounted for using the equity method	5,073	5,506	4,504	3,008	4,163
Net interest income	**39,513**	**36,194**	**34,740**	**33,184**	**34,704**
Impairment charge on loans and advances	(11,221)	(10,522)	(9,853)	(15,964)	(8,358)
Net interest income after impairment charge	**28,292**	**25,672**	**24,887**	**17,220**	**26,346**
Net fee and commission income	11,012	9,438	10,861	11,231	10,831
Net trading income	338	93	779	358	28
General administrative expenses	(24,288)	(22,649)	(22,395)	(22,140)	(22,585)
Other operating income net of other operating expenses	(1,124)	268	(226)	887	766
Profit/(loss) from financial assets (FV)	2,648	515	(1,027)	(10)	439
Profit/(loss) from financial assets (AFS)	892	502	(1,589)	3,171	(1,234)
Profit for the period before tax	**17,770**	**13,839**	**11,290**	**10,717**	**14,591**
Income tax expense	(2,458)	(2,339)	(472)	(1,918)	(3,335)
Profit for the period	**15,312**	**11,500**	**10,818**	**8,799**	**11,256**
Minority interests in profit for the period	(1)	(1)	(1)	(1)	(3)
Consolidated net profit for the period	**15,311**	**11,499**	**10,817**	**8,798**	**11,253**

Balance Sheet of the BKS Bank Group as at 31 December 2010

ASSETS

€k	Note	31/12/2010	31/12/2009	+/(-) Change, %
Cash and balances with the central bank	(10)	114,922	131,642	(12.7)
Receivables from other banks	(11)	151,161	396,350	(61.9)
Receivables from customers	(12)	4,647,335	4,463,574	4.1
– Impairment allowance balance	(13)	(149,149)	(113,401)	31.5
Trading assets	(14)	408	2,246	(81.8)
Financial assets designated as at fair value through profit or loss	(15)	127,560	123,377	3.4
Available-for-sale financial assets	(16)	309,999	311,233	(0.4)
Held-to-maturity financial assets	(17)	614,401	592,047	3.8
Investments in entities accounted for using the equity method	(18)	285,524	258,325	10.5
Intangible assets	(19)	11,775	14,885	(20.9)
Property and equipment	(20)	73,097	77,154	(5.3)
Investment property	(21)	16,543	16,792	(1.5)
Deferred tax assets	(22)	15,873	13,976	13.6
Other assets	(23)	18,726	27,698	(32.4)
Total assets		**6,238,175**	**6,315,898**	**(1.2)**

EQUITY AND LIABILITIES

€k	Note	31/12/2010	31/12/2009	+/(-) Change, %
Payables to other banks	(24)	1,283,998	1,690,095	(24.0)
Payables to customers	(25)	3,490,971	3,343,211	4.4
Liabilities evidenced by paper	(26)	404,201	321,545	25.7
Trading liabilities	(27)	490	2,119	(76.9)
Provisions	(28)	82,642	78,610	5.1
Deferred tax liabilities	(29)	12,154	9,825	23.7
Other liabilities	(30)	72,541	49,791	45.7
Subordinated debt capital	(31)	263,361	243,190	8.3
Equity		627,817	577,512	8.7
Total minority interests and equity		627,818	577,519	8.7
Minority interests in equity		(1)	(7)	(85.7)
Total equity and liabilities		**6,238,175**	**6,315,898**	**(1.2)**

EARNINGS AND DIVIDEND PER SHARE

	2010	2009
Average number of shares in issue	32,231,639	32,409,793
Dividend per share, €	0.25	0.25
Earnings per share, € (diluted and undiluted)	1.44	1.25

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 2010	65,520	97,929	373,629	40,441	577,519
Distribution				(8,057)	(8,057)
Taken to retained earnings			32,384	(32,384)	0
Profit for the year				46,429	46,429
Gains and losses taken directly to equity			8,513		8,513
Increase in share capital					
Other changes			3,414		3,414
– Arising from use of the equity method			1,824		
– Arising from changes in treasury shares			1,583		
At 31 December 2010	**65,520**	**97,929**	**417,940**	**46,429**	**627,818**
Available-for-sale reserve					19,290
Deferred tax reserve					(2,719)

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Retained Earnings	Profit for the Year	Equity
At 1 January 2009	50,000	40,736	332,009	41,915	464,660
Distribution				(6,984)	(6,984)
Taken to retained earnings			34,931	(34,931)	0
Profit for the year				40,441	40,441
Gains and losses taken directly to equity			12,546		12,546
Increase in share capital	15,520	57,193			72,713
Other changes			(5,857)		(5,857)
– Arising from use of the equity method			(2,378)		
– Arising from changes in treasury shares			(3,724)		
At 31 December 2009	**65,520**	**97,929**	**373,629**	**40,441**	**577,519**
Available-for-sale reserve					9,942
Deferred tax reserve					(1,879)

Pursuant to a resolution passed at the 70th AGM on 29 May 2009, the share capital of *BKS Bank AG* was raised out of internal funds by €6.16 million (nominal) from €50.0 million (nominal) to €56.16 million (nominal). This was followed a six-for-one stock split that took place on 5 June 2009, increasing the number of ordinary no-par shares in issue from 4,380,000 to 26,280,000 and increasing the number of no-par preference shares in issue from 300,000 to 1,800,000. Finally, in October 2009, a one-for-six raising of share capital was carried out (one extra share for every six already held), increasing the company's share capital by €9.36 million (nominal) from €56.16 million (nominal) to €65.52 million (nominal) through the issuance of 4,680,000 new ordinary no-par shares.

Minorities are of secondary importance in the BKS Bank Group's Statement of Changes in Equity (2010: €0.7 thousand; 2009: €6.6 thousand).

Cash Flow Statement

CASH FLOWS

€k	2010	2009
Profit for the year before minorities	**46,429**	**40,441**
Non-cash positions in profit for the year:		
– Depreciation, amortization and impairment charge on receivables and property and equipment	49,194	35,431
– Changes in provisions	8,604	2,227
– Gains and losses on disposals	(5,188)	(4,663)
– Change in other non-cash items	(11,343)	(9,704)
Subtotal	**87,696**	**63,732**
Change in assets and liabilities arising from operating activities after correction for non-cash items:		
– Receivables from customers and other banks, effect of using the fair value option	61,446	(169,027)
– Trading assets	1,838	5,064
– Other assets	8,972	(3,662)
– Payables to customers and other banks	(258,337)	124,210
– Liabilities evidenced by paper	82,656	109,862
– Trading liabilities	(1,629)	461
– Provisions and other liabilities	17,809	(18,000)
Net cash from operating activities	**451**	**112,640**
Proceeds from:		
– Sales of financial assets and property and equipment	112,373	160,352
Outlay on:		
– Purchases of financial assets and property and equipment	(142,044)	(275,198)
– Acquisition of subsidiaries	0	(35)
Net cash from/(used in) investing activities	**(29,671)**	**(114,881)**
Increases in share capital	0	72,713
Dividend distributions	(8,057)	(6,984)
Subordinated liabilities and other financing activities	20,557	(1,081)
Net cash from financing activities	**12,500**	**64,648**
Cash and cash equivalents at end of previous year	**131,642**	**69,235**
Net cash from operating activities	451	112,640
Net cash from/(used in) investing activities	(29,671)	(114,881)
Net cash from financing activities	12,500	64,648
Cash and cash equivalents at end of year under review	**114,922**	**131,642**
Taxes, interest and dividends		
– Income tax paid	2,420	6,047
– Interest received	202,252	240,389
– Interest paid	82,803	125,168
– Dividends received	1,129	655

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 Annual Financial Statements of the BKS Bank Group were prepared in accordance with the provisions of the IFRS standards issued 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/SIC). The Management Board of *BKS Bank AG* signed the Consolidated Financial Statements on 3 March 2011 and approved them for submission to the Supervisory Board. The Supervisory Board has the task of examining the Consolidated Financial Statements and stating whether it approves the Consolidated Financial Statements.

II. Recognition and measurement

Scope of consolidation

Consolidated:
- *BKS Bank AG*, Klagenfurt
- *BKS Bank d.d.*, Rijeka
- *BKS-Leasing Gesellschaft mbH*, Klagenfurt
- *BKS-Immobilienleasing Gesellschaft mbH*, Klagenfurt
- *BKS-leasing d.o.o.*, Ljubljana
- *BKS-leasing Croatia d.o.o.*, Zagreb
- *BKS-Leasing a.s.*, Bratislava [1]
- *IEV Immobilien GmbH*, Klagenfurt
- *Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG*, Klagenfurt
- *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH*, Klagenfurt
- *BKS Hybrid alpha GmbH*, Klagenfurt
- *VBG-CH Verwaltungs- und Beteiligungs GmbH*, Klagenfurt
- *LVM Beteiligungs Gesellschaft mbH*, Vienna
- *BKS Hybrid beta GmbH*, Klagenfurt [2]

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.*

[2] *BKS Hybrid beta GmbH*, Klagenfurt, which was set up in April 2009, was consolidated as of 30 September 2010. *BKS Bank AG* holds 100 per cent of the shares in this company. Its object is to issue hybrid bonds and use the proceeds from such issuances to purchase the supplementary capital bonds (*Ergänzungskapitalanleihe*) of *BKS Bank AG*.

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

The Consolidated 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. 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*. In addition, a collective assessment of impairment of the portfolio was carried out in accordance with IAS 39 para. 64.

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 and intangible assets (non-current) and investment property were recognized at cost of acquisition or conversion less ordinary depreciation or amortization. Annual depreciation and amortization 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 gain or loss was 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 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 % (31 December 2009: 2.50 per cent);
– career trend: 0.25 per cent (31 December 2009: 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 flow 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.

Goodwill in the amount of €3,308 thousand was written off in the year under review.

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 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 reporting date.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	2010	2009	+/(-) Change, %
Interest income from:			
Credit operations	151,056	177,085	(14.7)
Fixed-interest securities	32,280	31,563	2.3
Lease receivables	12,546	14,690	(14.6)
Shares	3,362	3,195	5.2
Investment property	1,012	1,013	(0.1)
Investments in subsidiaries	1,917	495	>100
Other equity investments	4,629	4,276	8.3
Total interest income	206,802	232,317	(11.0)
Interest expenses on:			
Deposits from customers and other banks[1]	58,053	94,609	(38.6)
Liabilities evidenced by paper	22,921	21,173	8.3
Investment property	288	237	21.5
Total interest expenses	81,262	116,019	(30.0)
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	19,723	17,656	11.7
Financing costs of investments in entities accounted for using the equity method[2]	(1,632)	(1,643)	(0.7)
Profit from investments in entities accounted for using the equity method	**18,091**	**16,013**	**13.0**
Net interest income	**143,631**	**132,311**	**8.6**

[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	2010	2009	+/(-) Change, %
Impairment allowances	50,043	38,638	29.5
Impairment reversals	(4,258)	(4,412)	(3.5)
Direct write-offs	2,196	3,719	(41.0)
Recoveries on receivables previously written off	(421)	(511)	(17.6)
Impairment charge on loans and advances	**47,560**	**37,434**	**27.1**

This line item contains impairment charges on lease receivables in the amount of €9.7 million (2009: €4.6 million).

(3) NET FEE AND COMMISSION INCOME

€k	2010	2009	+/(-) Change, %
Fee and commission income from:			
Payment services	17,475	16,062	8.8
Securities operations	12,411	11,769	5.5
Credit operations	10,576	9,956	6.2
International operations	3,782	3,707	2.0
Other services	1,089	1,131	(3.7)
Total fee and commission income	45,333	42,625	6.4
Fee and commission expenses arising from:			
Payment services	1,215	1,059	14.7
Securities operations	795	677	17.4
Credit operations	417	584	(28.6)
International operations	136	188	(27.7)
Other services	228	414	(44.9)
Total fee and commission expenses	2,791	2,922	(4.5)
Net fee and commission income	**42,542**	**39,703**	**7.2**

(4) NET TRADING INCOME

€k	2010	2009	+/(-) Change, %
Price-based contracts	96	71	35.2
Interest rate and currency contracts	1,472	1,362	8.1
Net trading income		**1,433**	**9.4**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	2010	2009	+/(-) Change, %
Staff costs	61,317	57,821	6.0
– Wages and salaries	42,785	41,278	3.7
– Social security costs	12,828	12,470	2.9
– Costs of retirement benefits	5,704	4,073	40.0
Other administrative costs	23,898	24,119	(0.9)
Depreciation/amortization	6,257	6,277	(0.3)
General administrative expenses	**91,472**	**88,217**	**3.7**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	2010	2009	+/(-) Change, %
Other operating income	5,047	4,830	4.5
Other operating expenses	(5,242)	(1,571)	>100
Other operating income net of other operating expenses	**(195)**	**3,259**	**>100**

The annual goodwill impairment test at *BKS-Leasing a.s.* revealed an impairment in the amount of €3.3 million.

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

€k	2010	2009	+/(-) Change, %
Revaluation gains and losses on derivatives	39	(1,288)	>100
Gain/(loss) as a result of using the fair value option	2,087	(846)	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	**2,126**	**(2,134)**	**>100**

Fixed-interest loans to customers in the amount of €45.5 million (31 December 2009: €39.8 million), bonds in the asset portfolio in the amount of €82.1 million (31 December 2009: 83.6 million) and BKS Bank's own issuances in the amount of €84.1 million (31 December 2009: €85.8 million) were hedged by means of appropriate interest rate swaps using the fair value option. The effect of these hedges totalled €2,087 thousand (2009: negative €846.2 thousand). The effect of the fair value option is essentially the amount that cannot be attributed to changes in market risk (credit risk).

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

€k	2010	2009	+/(-) Change, %
Unrealized and realized gains and losses	2,976	(2,377)	>100
Profit/(loss) from available-for-sale financial assets	**2,976**	**(2,377)**	**>100**

Negative €2,446 thousand of unrealized and realized gains and losses was attributable to impairments in 2010. The sale of assets during 2010 had a positive effect of €5,422 thousand.

(9) INCOME TAX EXPENSE

€k	2010	2009	+/(-) Change, %
Current tax	(7,600)	(7,853)	(3.2)
Deferred tax	413	1,750	(76.4)
Income tax expense	**(7,187)**	**(6,103)**	**17.8**

RECONCILIATION FOR 2010

€k	2010	2009
Profit for the year before tax	53,616	46,544
Applicable tax rate	25%	25%
Computed tax expense	13,404	11,636
Effect of differing tax rates	(132)	(177)
Tax savings		
– arising from tax-exempt profit from equity investments	(6,414)	(5,557)
– arising from other tax-exempt income	(1,188)	(2,107)
– arising from other valuation adjustments	(757)	(346)
Additional tax incurred		
– as a result of non-allowable expenses	1,699	734
– arising from other tax effects	924	1,922
Non-periodic tax expenses	(349)	(2)
Income tax expense in period	**7,187**	**6,103**
Effective tax rate	13.4%	13.1%

Details of the Balance Sheet

(10) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2010	31/12/2009	+/(-) Change, %
Cash in hand	30,119	34,100	(11.7)
Credit balances with central banks of issue	84,803	97,542	(13.1)
Cash and balances with the central bank	**114,922**	**131,642**	**(12.7)**

(11) RECEIVABLES FROM OTHER BANKS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Receivables from Austrian banks	82,164	202,233	(59.4)
Receivables from foreign banks	68,997	194,117	(64.5)
Receivables from other banks	**151,161**	**396,350**	**(61.9)**

RECEIVABLES FROM OTHER BANKS, BY TERM TO MATURITY

€k	31/12/2010	31/12/2009	+/(-) Change, %
Due on demand	51,144	29,872	71.2
Up to 3 months	8,331	326,988	(97.5)
From 3 months to 1 year	78,971	22,047	>100
From 1 year to 5 years	12,535	17,443	(28.1)
From 5 years and over	180	0	>100
Receivables from other banks	**151,161**	**396,350**	**(61.9)**

(12) RECEIVABLES FROM CUSTOMERS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Corporate and business banking customers	3,607,883	3,505,555	2.9
Retail banking customers	1,039,452	958,019	8.5
Receivables from customers	**4,647,335**	**4,463,574**	**4.1**

Receivables from customers includes receivables arising from finance leases in the amount of €327.8 million (31 December 2009: €310.8 million). Prior-year figures have also been adjusted to allow for the resegmentation that was carried out (addition of retail business banking customers to the personal banking segment to create the new retail banking segment).

RECEIVABLES FROM CUSTOMERS, BY TERM TO MATURITY

€k	2010	2009	+/(-) Change, %
Due on demand	297,602	146,255	>100
Up to 3 months	772,097	761,829	1.3
From 3 months to 1 year	608,868	591,675	2.9
From 1 year to 5 years	1,194,923	1,168,538	2.3
From 5 years and over	1,773,845	1,795,277	(1.2)
Receivables from customers	**4,647,335**	**4,463,574**	**4.1**

The bulk of lease assets had a maturity of over one year.

(13) IMPAIRMENT ALLOWANCE BALANCE

€k	2010	2009	+/(-) Change, %
At beginning of year under review	113,401	96,178	17.9
+ Added	47,195	33,557	40.6
– Reversed	(4,258)	(4,403)	(3.3)
– Used	(7,147)	(11,948)	(40.2)
+ Exchange differences	(42)	17	>100
At end of year under review	**149,149**	**113,401**	**31.5**

The impairment allowance balance includes provisions for the economic risks arising in connection with leasing operations and impairment charges on lease receivables in the amount of €21.0 million (31 December 2009: €11.5 million).

(14) TRADING ASSETS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities	0	177	(100.0)
Positive fair values of derivative financial instruments			
– Currency contracts	0	117	(100.0)
– Interest rate contracts	408	1,952	(79.1)
Trading assets	**408**	**2,246**	**(81.8)**

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

€k	31/12/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities	82,097	83,582	(1.8)
Loans	45,463	39,795	14.2
Financial assets designated as at fair value through profit or loss	**127,560**	**123,377**	**3.4**

FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS, BY TERM TO MATURITY

€k	31/12/2010	31/12/2009	+/(-) Change, %
Up to 3 months	6,017	4,746	26.8
From 3 months to 1 year	29,596	3,692	>100
From 1 year to 5 years	66,407	67,154	(1.1)
From 5 years and over	25,540	47,785	(46.6)
Financial assets designated as at fair value through profit or loss	**127,560**	**123,377**	**3.4**

(16) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities	178,621	180,758	(1.2)
Shares and other variable-yield securities	83,365	83,591	(0.3)
Investments in subsidiaries and associates	32,864	31,848	3.2
Other equity investments	15,149	15,036	0.8
Available-for-sale financial assets	**309,999**	**311,233**	**(0.4)**

AVAILABLE-FOR-SALE FINANCIAL ASSETS, BY TERM TO MATURITY

€k	31/12/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities			
Up to 3 months	8,319	2,456	>100
From 3 months to 1 year	17,335	12,569	37.9
From 1 year to 5 years	77,559	69,746	11.2
From 5 years and over	75,408	95,987	(21.4)
Available-for-sale financial assets	**178,621**	**180,758**	**(1.2)**

(17) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities	614,401	592,047	3.8
Held-to-maturity financial assets	**614,401**	**592,047**	**3.8**

HELD-TO-MATURITY FINANCIAL ASSETS, BY TERM TO MATURITY

€k	31/12/2010	31/12/2009	+/(-) Change, %
Up to 3 months	15,322	74,952	(79.6)
From 3 months to 1 year	32,997	0	>100
From 1 year to 5 years	281,877	318,011	(11.4)
From 5 years and over	284,205	199,084	42.8
Held-to-maturity financial assets	**614,401**	**592,047**	**3.8**

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

€k	31/12/2010	31/12/2009	+/(-) Change, %
Oberbank AG	189,772	172,403	10.1
Bank für Tirol und Vorarlberg AG	90,815	81,050	12.0
Alpenländische Garantie-GmbH	960	960	0.0
Drei-Banken Versicherungs-AG	3,977	3,912	1.7
Investments in entities accounted for using the equity method	285,524	258,325	10.5

(19) INTANGIBLE ASSETS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Goodwill	8,888	12,196	(27.1)
Other intangible assets	2,887	2,689	7.4
Intangible assets	**11,775**	**14,885**	**(20.9)**

The line item *Goodwill* contains goodwill resulting from the first-time consolidation of *BKS Bank d.d.* in the amount of €8.9 million (31 December 2009: €12.2 million, of which *BKS Bank d.d.* €8.9 million and *BKS-Leasing a.s.* €3.3 million). According to the results of the annual impairment test, *BKS-Leasing a.s.*'s goodwill was impaired in the amount of €3.3 million.

(20) PROPERTY AND EQUIPMENT

€k	31/12/2010	31/12/2009	+/(-) Change, %
Land	2,679	2,720	(1.5)
Buildings	48,192	47,977	0.4
Other	22,226	26,457	(16.0)
Property and equipment	**73,097**	**77,154**	**(5.3)**

(21) INVESTMENT PROPERTY

€k	31/12/2010	31/12/2009	+/(-) Change, %
Land	8,248	8,247	0.0
Buildings	8,295	8,545	(2.9)
Investment property	**16,543**	**16,792**	**(1.5)**

At 31 December 2010, the fair value of our investment property totalled €24,693 thousand (2009: €24,693 thousand).

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (NON-CURRENT) AND INVESTMENT PROPERTY

€k	Equipment	Intangible Assets[1]	Property[2]	Total
Cost at 1 January 2010[3]	138,378	5,738	29,480	173,596
Added	12,577	1,743	271	14,591
Disposals	13,358	807	247	14,412
Cost at 31 December 2010	**137,597**	**6,674**	**29,504**	**173,775**
Accumulated depreciation/amortization	64,500	3,787	12,961	81,248
Carrying amount at 31 December 2010	**73,097**	**2,887**	**16,543**	**92,527**
Carrying amount at 31 December 2009	77,154	2,689	16,792	96,635
Depreciation/amortization in 2010	4,511	1,253	493	6,257

[1] Intangible (non-current) assets. [2] Investment property.
[3] Recalculation of historical cost as at 1 January 2010 in the course of portfolio pruning.
Disposals includes exchange differences in the amount of €84 thousand.

(22) DEFERRED TAX ASSETS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Receivables from customers	603	580	4.0
Trading assets and liabilities	65	249	(73.9)
Impairment allowances	3,511	2,018	74.0
Available-for-sale financial assets	716	156	>100
Held-to-maturity financial assets	253	283	(10.6)
Property and equipment	572	446	28.3
Other assets and liabilities	4,868	5,230	(6.9)
Provisions (for post-employment and termination benefits, other provisions)	5,285	5,004	5.6
Other balance sheet items	0	10	(100)
Deferred tax assets	**15,873**	**13,976**	**13.6**

(23) OTHER ASSETS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Positive fair values of derivative financial instruments	8,628	10,864	(20.6)
Other items	8,021	14,729	(45.5)
Deferred items	2,077	2,105	(1.3)
Other assets	**18,726**	**27,698**	**(32.4)**

(24) PAYABLES TO OTHER BANKS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Payables to Austrian banks	961,280	1,264,074	(24.0)
Payables to foreign banks	322,718	426,021	(24.2)
Payables to other banks	**1,283,998**	**1,690,095**	**(24.0)**

PAYABLES TO OTHER BANKS, BY TERM TO MATURITY

€k	31/12/2010	31/12/2009	+/(-) Change, %
Due on demand	49,677	57,371	(13.4)
Up to 3 months	1,087,867	929,840	17.0
From 3 months to 1 year	102,125	685,859	(85.1)
From 1 year to 5 years	40,875	16,425	>100
From 5 years and over	3,454	600	>100
Payables to other banks	**1,283,998**	**1,690,095**	**(24.0)**

(25) PAYABLES TO CUSTOMERS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Savings deposit balances	**1,847,218**	**1,804,628**	**2.4**
Corporate and business banking customers	312,012	294,982	5.8
Retail banking customers	1,535,206	1,509,646	1.7
Other payables	**1,643,753**	**1,538,583**	**6.8**
Corporate and business banking customers	1,149,255	1,040,840	10.4
Retail banking customers	494,498	497,743	(0.7)
Payables to customers	**3,490,971**	**3,343,211**	**4.4**

Prior-year figures have also been adjusted to allow for the resegmentation that was carried out (addition of retail business banking customers to the personal banking segment to create the new retail banking segment).

PAYABLES TO CUSTOMERS, BY TERM TO MATURITY

€k	31/12/2010	31/12/2009	+/(-) Change, %
Due on demand	1,059,562	1,039,643	1.9
Up to 3 months	951,612	804,134	18.3
From 3 months to 1 year	1,076,281	1,103,500	(2.5)
From 1 year to 5 years	391,022	375,823	4.0
From 5 years and over	12,494	20,111	(37.9)
Payables to customers	**3,490,971**	**3,343,211**	**4.4**

(26) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2010	31/12/2009	+/(-) Change, %
Issued bonds	279,800	235,440	18.8
Other liabilities evidenced by paper	124,401	86,105	44.5
Liabilities evidenced by paper	**404,201**	**321,545**	**25.7**

Other liabilities evidenced by paper includes €84.1 million (2009: €85.8 million) of liabilities measured at fair value (fair value option).

LIABILITIES EVIDENCED BY PAPER, BY TERM TO MATURITY

€k	31/12/2010	31/12/2009	+/(-) Change, %
Up to 3 months	5,939	23,276	(74.5)
From 3 months to 1 year	26,816	0	—
From 1 year to 5 years	281,611	247,032	14.0
From 5 years and over	89,835	51,237	75.3
Liabilities evidenced by paper	**404,201**	**321,545**	**25.7**

(27) TRADING LIABILITIES

€k	31/12/2010	31/12/2009	+/(-) Change, %
Interest rate contracts	490	2,119	(76.9)
Trading liabilities	**490**	**2,119**	**(76.9)**

(28) PROVISIONS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	69,082	69,372	(0.4)
Provisions for taxes (current tax)	4,026	741	>100
Other provisions	9,534	8,497	12.2
Provisions	**82,642**	**78,610**	**5.1**

During the year under review, the calculation of so-called 'social capital' was based on an interest rate of 4.25 per cent (2009: 4.75 per cent).

PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Provision balance at 1 January	69,372	71,093	(2.4)
+ Interest cost	2,811	2,926	(3.9)
+ Service cost	1,255	1,469	(14.6)
– Payments during the year under review	(4,150)	(5,382)	(22.9)
± Actuarial gain/(loss)	896	(734)	>100
– Reversal/transfer of provisions for former employees	(1,102)	—	—
Provision balance at 31 December	**69,082**	**69,372**	**(0.4)**

BREAKDOWN OF PROVISIONS

€k	Post-emp. Benefits & Similar Obligations	Taxes and Other	Total 2010	Total 2009	+/(-) Change, %
Provision balance at 1 January	69,372	9,238	78,610	82,738	(5.0)
+ Changes in scope of consolidation				72	(100.0)
+ Exchange differences	(3)	(4)	(7)	0	—
+ Added	2,426	8,205	10,631	5,677	87.3
– Used	1,615	3,365	4,980	6,355	(21.6)
– Reversed	1,098	514	1,612	3,522	(54.2)
Provision balance at 31 December	**69,082**	**13,560**	**82,642**	**78,610**	**5.1**

(29) DEFERRED TAX LIABILITIES

€k	31/12/2010	31/12/2009	+/(-) Change, %
Receivables from customers	858	879	(2.4)
Trading assets and liabilities	58	249	(76.7)
Financial assets and liabilities designated as at fair value through profit or loss	2,245	1,967	14.1
Available-for-sale financial assets and liabilities	5,212	3,663	42.3
Held-to-maturity financial assets and liabilities	1,091	550	98.4
Property and equipment	65	66	1.5
Other assets and liabilities	1,519	1,281	18.6
Liabilities evidenced by paper	641	1,005	(36.2)
Provisions (for post-employment and termination benefits) and other liabilities	465	165	>100
Deferred tax liabilities	**12,154**	**9,825**	**23.7**

Deferred taxes in the amount of €841 thousand (31 December 2008: €4,425 thousand) were taken directly to equity (*AFS Reserve*).

(30) OTHER LIABILITIES

€k	31/12/2010	31/12/2009	+/(-) Change, %
Negative fair values of derivative financial instruments	54,490	29,752	83.1
Other items	16,518	18,582	(11.1)
Deferred items	1,533	1,457	5.2
Other liabilities	**72,541**	**49,791**	**45.7**

(31) SUBORDINATED DEBT CAPITAL

€k	31/12/2010	31/12/2009	+/(-) Change, %
Supplementary capital	223,361	223,190	0.1
Hybrid capital	40,000	20,000	100.0
Subordinated debt capital	**263,361**	**243,190**	**8.3**

SUBORDINATED DEBT CAPITAL, BY TERM TO MATURITY

€k	31/12/2010	31/12/2009	+/(-) Change, %
From 3 months to 1 year	22,985	25,788	(10.9)
From 1 year to 5 years	110,837	111,074	(0.2)
From 5 years and over	129,539	106,328	21.8
Subordinated debt capital	**263,361**	**243,190**	**8.3**

Additional Disclosures Required by IFRSs

(32) FAIR VALUES

€k			31/12/2010		
	Fair Values Market Values	Fair Values Other	Fair Values Total	Carrying Amounts	Difference 2010
Assets					
Receivables from other banks	—	151,282	151,282	151,161	121
Receivables from customers	—	4,692,470	4,692,470	4,647,335	45,135
Financial assets designated as at fair value through profit or loss	82,097	45,463	127,560	127,560	—
Available-for-sale financial assets	292,991	17,008	309,999	309,999	—
Held-to-maturity financial assets	623,966	—	623,966	614,401	9,565
Investments in entities accounted for using the equity method	284,638	4,937	289,575	285,524	4,051
Equity and liabilities					
Payables to other banks	—	1,284,022	1,284,022	1,283,998	24
Payables to customers	—	3,491,822	3,491,822	3,490,971	851
Liabilities evidenced by paper	281,762	123,936	405,698	404,201	1,497
Subordinated debt capital	259,569	2,350	261,919	263,361	(1,442)

€k			31/12/2009		
	Fair Values Market Values	Fair Values Other	Fair Values Total	Carrying Amounts	Difference 2009
Assets					
Receivables from other banks	—	396,532	396,532	396,350	182
Receivables from customers	—	4,502,427	4,502,427	4,463,574	38,854
Financial assets designated as at fair value through profit or loss	83,582	39,795	123,377	123,377	—
Available-for-sale financial assets	294,551	16,682	311,233	311,233	—
Held-to-maturity financial assets	609,597	—	609,597	592,047	17,550
Investments in entities accounted for using the equity method	273,216	4,872	278,087	258,325	19,762
Equity and liabilities					
Payables to other banks	—	1,691,084	1,691,084	1,690,095	988
Payables to customers	—	3,344,233	3,344,233	3,343,211	1,022
Liabilities evidenced by paper	234,661	86,105	320,766	321,545	(779)
Subordinated debt capital	237,913	2,350	240,263	243,190	(2,927)

The tables above present the fair values of the respective balance sheet items. Fair values are the amounts for which financial instruments could be exchanged between knowledgeable, willing parties in an arm's length transaction on the balance sheet date. The fair values shown in the *Market Values* column were determined by prices quoted on active markets. In general, the fair values shown in the *Other* column were determined using input factors that were observable for the respective assets and liabilities (e.g. the yield curve). In addition, the *Other* column includes assets in the amount of €21,945 thousand (2009: €21,554 thousand) included in the line items *Available-for-sale financial assets* and *Investments in entities accounted for using the equity method*, their value having been determined using internal valuation methods. In general, other items were measured using present value techniques. The *Difference* column shows the respective differences between *Fair Values Total* and *Carrying Amounts*.

(33) INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2010

	Method*	Percentage Held	Assets, €k	Profit/(Loss) for the Year, €k
Alpenländische Garantie-GmbH	E	25.00	195,831	0
Oberbank AG	E	16.95	16,355,987	81,539
Bank für Tirol und Vorarlberg AG	E	13.59	8,683,413	38,267
Drei-Banken Versicherungs-AG	E	20.00	188,313	776
Drei-Banken-EDV Gesellschaft mbH	N	30.00	20,770	(4)

INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2009

	Method*	Percentage Held	Assets, €k	Profit/(Loss) for the Year, €k
Alpenländische Garantie-GmbH	E	25.00	199,948	86
Oberbank AG	E	16.95	15,725,426	64,889
Bank für Tirol und Vorarlberg AG	E	13.59	8,307,551	26,645
Drei-Banken Versicherungs-AG	E	20.00	193,653	1,000
Drei-Banken-EDV Gesellschaft mbH	N	30.00	17,059	(2)

* Method: E = accounted for using the equity method; N = not included.

Of the entities accounted for using the equity method, *Oberbank AG* and *BTV AG* were, for the following reasons, thus accounted for in the Consolidated Financial Statements even though a stake of at least 20 per cent was not held: A syndicate agreement is in place between *BKS Bank*, *BTV AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* in respect of their equity investments in *Oberbank AG*, and a syndicate agreement is in place between *BKS Bank AG*, *Oberbank AG*, *Generali 3 Banken Holding AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* in respect of their equity investments in *BTV AG*.

At year-end, the market value of *BKS Bank AG*'s listed equity investments in *Oberbank AG* and *BTV AG* was €284.6 million (31 December 2009: €273.2 million). In turn, *Oberbank AG* and *BTV AG* held a total of 12,259,083 shares in *BKS Bank AG* (31 December 2009: 12,150,922 shares).

(34) TRANSACTIONS WITH ASSOCIATES

€k	31/12/2010	31/12/2009	+/(-) Change, %
Assets			
Receivables from other banks	49,055	787	>100
Receivables from customers	6,920	10,697	(35.3)
Liabilities			
Payables to other banks	185,294	211,776	(12.5)
Payables to customers	16,333	14,963	9.2

(35) TRANSACTIONS WITH SUBSIDIARIES

€k	31/12/2010	31/12/2009	+/(-) Change, %
Assets			
Receivables from customers	16,474	16,565	(0.5)
Other assets	1,720	247	>100
Liabilities			
Payables to customers	4,037	879	>100

(36) 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. Segmental reporting is based on internal management processes.

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	2010	2009	2010	2009	2010	2009
Net interest income	31,394	36,950	93,343	78,890	19,150	17,452
Impairment charge on loans and advances	(993)	(2,201)	(46,567)	(35,233)	0	0
Net fee and commission income	20,192	18,744	21,338	20,011	755	551
Net trading income	0	0	0	0	1,568	1,433
General administrative expenses	(47,902)	(46,805)	(34,758)	(32,873)	(5,831)	(6,461)
Other operating income net of other operating expenses	1,282	1,119	1,945	2,380	(3,318)	(7)
Profit/(loss) from financial assets	0	0	0	0	5,102	(4,511)
Profit for the year before tax	**3,973**	**7,807**	**35,301**	**33,175**	**17,426**	**8,457**
Average risk-weighted assets	562,919	544,185	3,111,721	2,950,020	572,421	630,612
Average allocated equity	45,034	43,535	248,938	236,002	300,856	235,385
Segment liabilities	2,674,793	2,724,500	1,739,985	1,467,626	1,647,261	1,978,672
ROE based on profit for the year	**8.8%**	**17.9%**	**14.2%**	**14.1%**	**5.8%**	**3.6%**
Cost:income ratio	**90.6%**	**82.4%**	**29.8%**	**32.5%**	**32.1%**	**33.3%**
Risk:earnings ratio	**3.2%**	**6.0%**	**49.9%**	**44.7%**	**—**	**—**

€k	Other		Total	
	2010	2009	2010	2009
Net interest income	(256)	(981)	143,631	132,311
Impairment charge on loans and advances	0	0	(47,560)	(37,434)
Net fee and commission income	257	397	42,542	39,703
Net trading income	0	0	1,568	1,433
General administrative expenses	(2,981)	(2,078)	(91,472)	(88,217)
Other operating income net of other operating expenses	(104)	(233)	(195)	3,259
Profit/(loss) from financial assets	0	0	5,102	(4,511)
Profit for the year before tax	**(3,084)**	**(2,895)**	**53,616**	**46,544**
Average risk-weighted assets	55,837	49,379	4,302,898	4,174,196
Average allocated equity	7,841	6,168	602,669	521,090
Segment liabilities	176,136	145,100	6,238,175	6,315,898
ROE based on profit for the year	**—**	**—**	**8.9%**	**8.9%**
Cost:income ratio	**—**	**—**	**48.8%**	**49.9%**
Risk:earnings ratio	**—**	**—**	**33.1%**	**28.3%**

During the 2010 financial year, we based our segmental reporting on internal management arrangements (the *management approach*) in accordance with the provisions of IFRS 8. However, since we have changed our segmentation approach, we have adapted our segmental reporting for 2009 and 2010 accordingly. During resegmentation, retail business banking customers were added to the personal banking segment to create the new retail banking segment. A total of 4,902 self-employed and small business customers previously included in the corporate and business banking segment and accounting for total loans outstanding of about €100 million and deposit balances of roughly €230 million were added to this new segment during the third quarter of 2010.

(37) NON-INTEREST ASSETS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Non-interest assets	**146,217**	**131,121**	**11.5**

Non-interest receivables from customers less impairments came to €68.6 million (31 December 2009: €56.4 million).

(38) SUBORDINATED ASSETS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Receivables from customers	17,093	17,570	(2.7)
Bonds and other fixed-interest securities	5,190	4,808	7.9
Shares and other variable-yield securities	7,252	9,351	(22.4)

(39) BALANCES IN FOREIGN CURRENCIES

€k	31/12/2010	31/12/2009	+/(-) Change, %
Assets	936,323	936,254	0.0
Liabilities	252,136	316,428	(20.3)

(40) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2010	31/12/2009	+/(-) Change, %
Guarantees	410,626	366,019	12.2
Letters of credit	5,352	2,058	>100
Contingent liabilities	**415,978**	**368,077**	**13.0**
Other commitments	632,580	760,723	(16.8)
Commitments	**632,580**	**760,723**	**(16.8)**

Other commitments consists mainly of credit facilities already on record but not yet utilized.

(41) INVESTMENTS IN SUBSIDIARIES AND SELECTED OTHER EQUITY INVESTMENTS

	M[1]	Equity, €m		Percentage held by BKS Bank		Profit/(Loss) for the Year, €m	
		31/12/2010	31/12/2009	Directly	Indirectly	2010	2009
BKS-Leasing Gesellschaft mbH, Klagenfurt	C	0.49	0.49	100.00		0.01	0.20
BKS-Immobilienleasing Gesellschaft mbH, Klagenfurt	C	1.36	4.03		100.00	0.27	0.62
Immobilien Errichtungs- u. Vermietungs-gesellschaft mbH & Co. KG, Klagenfurt	C	2.00	1.32	100.00		0.07	0.06
BKS Zentrale-Errichtungs- u. Vermietungs-gesellschaft mbH, Klagenfurt[2]	C	1.77	1.37		100.00	0.39	0.28
BKS Immobilien-Service Gesellschaft mbH, Klagenfurt	N	0.22	0.22	100.00		0.72	0.25
BKS 2000-Beteiligungsverwaltungsgesellschaft mbH, Klagenfurt	N	21.50	19.31	100.00		2.26	0.31
Oberbank AG, Linz	E	897.47	854.79	16.95		81.54	64.89
Bank für Tirol und Vorarlberg AG, Innsbruck	E	472.46	449.99	13.59		38.27	26.65
Alpenländische Garantie-Gesellschaft mbH, Linz	E	3.84	3.92	25.00		0.00	0.09
Drei-Banken-EDV Gesellschaft mbH, Linz	N	3.48	3.49	30.00		0.00	0.00
3-Banken Beteiligung Gesellschaft mbH, Linz	N	21.18	23.74		30.00	0.09	0.00
Drei-Banken Versicherungs-Aktiengesellschaft, Linz	E	19.29	18.96	20.00		0.78	1.00
BKS-leasing d.o.o., Ljubljana	C	3.24	2.63	100.00		0.61	0.13
BKS-leasing Croatia d.o.o., Zagreb	C	0.03	0.44	100.00		(0.77)	(0.10)
E 2000 Liegenschaftsverwertungs-GmbH, Klagenfurt	N	0.04	0.02	99.00	1.00	0.20	0.01
VBG Verwaltungs- und Beteiligungs-gesellschaft mbH, Klagenfurt	N	0.56	0.20	100.00		0.11	(0.27)
BKS Bank d.d., Rijeka	C	18.18	10.16	100.00		0.09	0.09
BKS-Leasing a.s., Bratislava	C	17.76	17.74	100.00		0.02	0.49
IEV Immobilien GmbH, Klagenfurt	C	0.04	0.04	100.00		0.00	0.00
BKS Hybrid alpha GmbH, Klagenfurt	C	0.05	0.04	100.00		0.01	0.01
BKS Hybrid beta GmbH, Klagenfurt	C	0.03	—	100.00		(0.01)	—
VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt	C	100.83	91.23	100.00		0.91	0.52
LVM Beteiligungs Gesellschaft mbH, Vienna	C	100.82	91.22		100.00	0.92	0.52

[1] Method: C = consolidated; E = accounted for using the equity method; N = not included on the grounds of immateriality in accordance with § 59 *Abs. 3 BWG* (these companies being immaterial given the specific nature of the BKS Bank Group's banking operations).

[2] *Equity* includes a subordinated *Genussrecht* (profit participation note) in the amount of €3.63 million.

BKS Bank's portfolio of equity investments consisted largely of strategic equity investments in banks (syndicate partners). Its investments in subsidiaries consisted primarily of investments in its strategic partners in the banking and other financial service sectors and banking-related ancillary service industries. Equity investment items comprised equity investments and investments in subsidiaries intended to give lasting support to BKS Bank's business operations. Those equity investments were carried at cost less any impairment charge. We did not record any gains or losses on the disposal of equity investment items during the 2010 financial year.

(42) EVENTS AFTER THE BALANCE SHEET DATE

No material, reportable events took place between the end of the financial year and the preparation of the Annual Financial Statements and their certification by the Auditor.

(43) ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2010	31/12/2009
Money held in trust pursuant to § *230 a ABGB*	Securities	9,973	10,001
Arrangement deposit for stock exchange trading	Securities	1,595	1,594
Deposit for EUREX trading	Securities	50	0
Xetra collateral	Securities	1,208	1,201
Euro-Clear pledge	Securities	3,002	4,998
SEPA collateral for the Slovenia branch	Securities	282	289
Collateral for *OeNB* loans	Securities	121,425	138,434
Collateral for *OeNB* loans	Loans	148,635	162,411
Collateral for funds provided to *Banka Slovenije*	Loans	33,000	33,000

Disclosures Required by Austrian Law

(44) EMPLOYEES, BOARDS AND OFFICERS

	BKS Bank: 2010	BKS Bank: 2009
Average number of salaried (white-collar) staff:		
Salaried staff working for BKS Bank	767	763
Salaried staff working at BKS Bank for entities considered to be related parties	32	37
Salaried staff working at entities considered to be related parties	96	99
Salaried staff of the BKS Bank Group	895	899
– Salaried staff working for entities considered to be related parties from the Group's standpoint	23	27
Average number of non-salaried (blue-collar) staff	39	32
Emoluments of the Management Board, €k	1,011	877
Retirement pensions paid to former members of the Management Board and their surviving dependants, €k	731	718
Expenditure on termination and post-employment benefits for members of the Management Board, €k	830	(24)
Expenditure on termination and post-employment benefits for former members of the Management Board and their surviving dependants, €k	674	290
Expenditure on termination and post-employment benefits for employees (including former employees and their surviving dependants), €k	4,691	4,289
Remuneration paid to members of the Supervisory Board, €k	113	113
Advances and loans granted to members of the Management Board and Supervisory Board (insofar as such were granted, repayments were taking place and they were granted on normal commercial terms and conditions), €k	0	0

Risk Report

(45) MANAGEMENT OF OVERALL BANK RISK

The goal of BKS Bank's risk policy is to detect banking risks early and to actively manage and limit them using effective risk management techniques. Making as efficient use as possible of available capital in the light of our medium-term and long-term strategic goals is at the centre of such risk management activities. The aim is to optimize the trade-off between risk and return and only to enter into risks that we can bear without outside help.

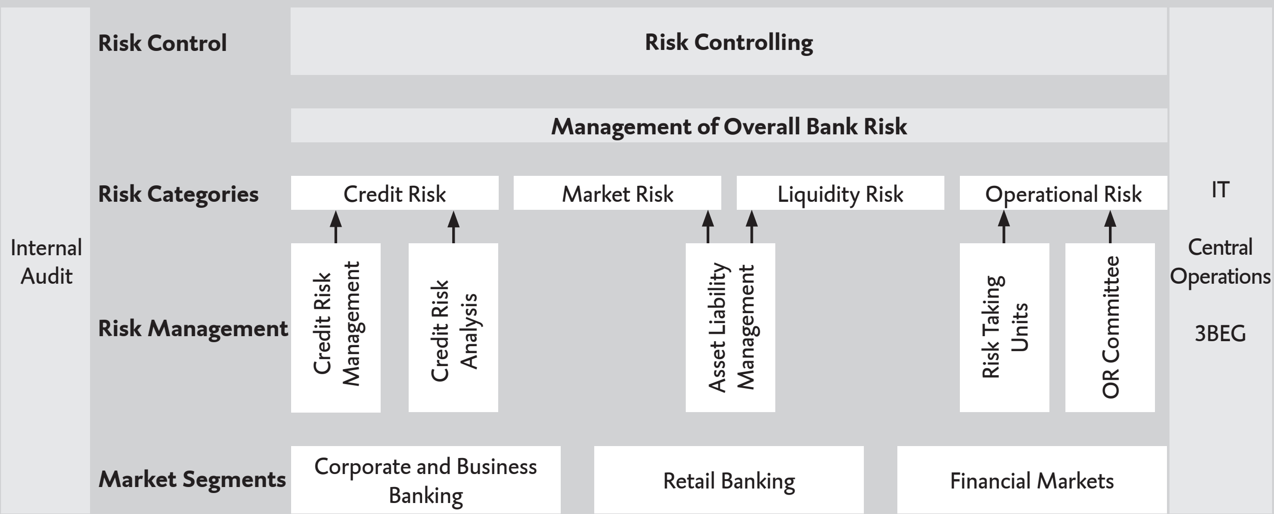
BKS Bank's risk management strategy centres on the conservative handling of banking risks. Risks at BKS Bank are analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. We have made it a rule to constantly review the appropriateness and reliability of our monitoring procedures so as to adapt them as necessary to changing market conditions. Based on official regulatory recommendations, a Management Board member who is not involved in front-office operations has central responsibility for risk management. Our risk strategy is reviewed during the annual budgeting and planning process and approved by the Management Board, with close attention being paid to risk concentration. In addition, the Management Board decides on risk management principles, the limits for all relevant risks and monitoring and management procedures.

Risk Controlling—a central, autonomous controlling unit—supports the Management Board in the performance of these tasks. This department reports regularly to the Management Board and those responsible for operational risk management and assesses the bank's current risk position in the light of the risk limits and its risk-bearing capacity. As an independent watchdog, Risk Controlling ensures that all measured risks lie within the limits set by the Management Board. It is responsible for the development and implementation of risk measurement methods, the ongoing development and refinement of management instruments, independent and neutral risk profile reporting and the development and maintenance of BKS Bank's basic regulatory framework.

As a further independent internal watchdog, BKS Bank's Internal Audit Division audits all operational and business processes, the appropriateness and effectiveness of measures taken by Credit Risk Management and Risk Controlling and the bank's internal control systems.

Credit risk analysis at the single customer level is carried out by the Loan Back Office Department for Austrian borrowers and by the ZKM International Group for foreign borrowers. A vote is taken independently of front office personnel based on this analysis and the applicable internal lending guidelines. Responsibility for problem loans (troubled exposures, cases entrusted to a lawyer, insolvencies) lies with the Credit Risk Management Department, which is also responsible for managing credit risk at the portfolio level.

THE ORGANIZATIONAL FOUNDATIONS OF RISK MANAGEMENT



The Asset Liability Management Committee analyzes and manages the structure of the balance sheet from a market and liquidity risk point of view. It also performs essential tasks in this connection in the financial planning field and lays down measures to mitigate risks.

The risk-bearing capacity analysis process used to assess our internal capital adequacy (ICAAP) as conceived in Basel II (second pillar) is an essential cornerstone of our risk management system. During the risk-bearing capacity analysis process, we assess our capital adequacy once a quarter on the basis of risk measured using internal models. When choosing models, we take the materiality of the risks into account.

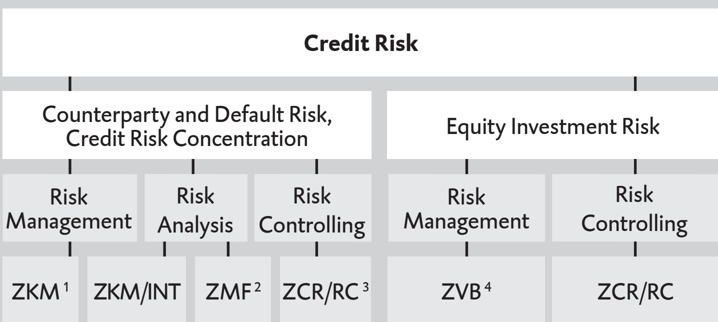
All identified and measured risks are aggregated to obtain a figure for overall bank risk. This aggregated total potential loss is compared with the assets available to cover such a potential loss. At BKS Bank, this is done within the framework of the risk-bearing capacity analysis process. The purpose of the comparison is to ascertain whether the bank is in a position to detect and cover any possible unexpected losses without suffering serious detriment to its business operations and without outside help. The bank's loss ceiling (overall risk limit) is set on the basis of this periodic risk-bearing capacity analysis process. Economic capital is the risk absorption yardstick used to compute the bank's overall risk limit. We define it as the smallest amount of capital needed to cover unexpected losses. In contrast, *expected loss* is calculated on the basis of average losses experienced in the past. Such 'foreseeable costs' are factored into prices as risk premiums (standard risk costs, liquidity premiums) and must be recouped through the terms and conditions imposed on customers. The *unexpected loss* is the maximum actual loss that might exceed this expected loss in a given period and with a previously defined probability (confidence interval). Capital must be available to cover it. At BKS Bank, unexpected losses within a period of observation of one year are predicted on a going-concern basis with a confidence interval of 95 per cent and on a liquidation basis with a confidence interval of 99.9 per cent.

To ensure capital adequacy on a going-concern basis, risk potential and risk-bearing capacity must be matched to one another in such a way that the bank is in a position to absorb an adverse burden while continuing to conduct business in an orderly manner. Ensuring capital adequacy on a liquidation basis is the regulatory requirement that serves to protect creditors. In addition, stress scenarios are defined to quantify the losses that could result from extreme events. Stress test scenarios provide supplementary information to improve estimates of the effects of possible extreme market movements and to make it possible to initiate risk mitigating action in good time. The financial crisis made it particularly clear how important stress testing is if one is to implement effective risk management. Our stress scenarios differentiate between *mild recession*, *worst case* and *greatest relevance* scenarios. All scenarios are considered on a monthly basis, and any countermeasures are agreed on with the Management Board.

The results of risk-bearing capacity analysis procedures together with the development of risks and covering asset balances, the utilization of the risk limit and stress test evaluations are reported to the Management Board and risk management units on a quarterly basis. Economic capital is an important instrument of Group risk management: The overall bank limit derived from the calculation of economic capital is distributed between the individual business segments during the annual budgeting process.

Credit risk

Credit risk is the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by deterioration in a business counterparty's credit standing or, indirectly, by country risk as the result of a counterparty's domicile or place of residence.



[1] Central Credit Risk Management Department
[2] Central Back Office Department
[3] Central Controlling/Risk Controlling Department.
[4] Central Office of the Management Board

Credit risk is BKS Bank's biggest risk category by far, as is evident when one looks at our internal and regulatory capital requirements. Within the 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 measurement and management of our credit risk are based on the following principles:
– We lend on a know-your-customer basis. In other words, loans are only granted after thorough personal and credit checks.
– Loans are generally approved on a dual-control or 'four-eyes' basis (front office and back office).
– All borrowers are rated using our internal rating and scoring systems taking account of both hard and soft facts.
– Credit scoring is also generally carried out on a dual-control or 'four-eyes' basis. When granting loans, we differentiate according to rating class, collateralization and customer group.
– Our credit exposures are reviewed once a year, looking at the borrower's creditworthiness and checking collateral for impairment. Shorter monitoring intervals are mandatory if a borrower's creditworthiness deteriorates materially.
– Collateral requirements are based on the rating class and the products concerned.
– Standardized collateral valuation policies have been defined. Essentially, they are based on average proceeds from liquidation achieved in the past.
– We do not grant loans for purely speculative purposes.
– Lending in markets outside Austria is subject to stricter guidelines depending on the specific features of the country concerned.
– Authority to grant loans is only given to employees who have the requisite qualifications, experience and training.
– The credit approval chain is clearly defined. The size of the loan, permissible collateral shortfall and terms and conditions will be based on the particular customer's credit rating.

Our rating model is the cornerstone of efficient risk management within the BKS Bank Group and an essential part of decision-making processes carried out by Credit Risk Management. The Bank's internal rating models are subject to regular, annual quantitative and qualitative reviews during which each rating model is audited to check whether it accurately captures the risks being measured. The primary goal of the rating validation process is to check the 'selectivity' of the internal rating systems.

The early detection and systematic processing of risk events is another focus of our credit risk management activities. A risk exists if a customer's credit standing is such that one can no longer rule out a loan loss in the near future. The goal is to rapidly identify any need for rehabilitation and take action to rehabilitate the loan efficiently, promptly and in a structured manner. An account manager's responsibility ends completely as soon as an exposure is found to be at risk. From then on, the customer is serviced by Central Credit Risk Management.

Impairment losses are calculated using a standardized process during which impairment charges are recognized on impaired receivables in respect of the collateral shortfalls. Charges are recognized on an item-by-item basis on loans to corporate and business banking customers and to other banks if the customer in question has a collateral shortfall of €70,000 or more. In the case of retail business banking and personal banking customers, charges are recognized on an item-by-item basis if the customer in question has a collateral shortfall of €35,000 or more. Impairments are assessed collectively for loans to customers who are believed to be at risk of default but whose collateral shortfalls are smaller. In addition, BKS Bank has recognized an allowance for incurred but not yet reported losses on the basis of portfolio analysis in accordance with the International Financial Reporting Standards (IAS 39 para. 64). The impairment process is regulated by a Group-wide guideline.

Concentrations of credit risks are managed at the portfolio level. We aim for a balanced distribution of credit exposures by size, and we have set targets for this purpose. At least 30 per cent of our total exposure must be accounted for by loans of less than €400 thousand, and no more than 30 per cent may comprise loans exceeding €10 million. Limits have also been set for individual regions, these being expressed in percentages of BKS Bank's assets. Our lending to individual sectors and industries is also closely monitored. To this end, regular evaluations are carried out, and we maintain a clear strategic focus.

It is BKS Bank's strategy to permanently reduce the total portfolio of foreign currency and repayment vehicle loans.

We have established the following key principles in this area:
– Foreign currency loans can never be granted to consumers.
– Foreign currency loans combined with capital accumulating repayment vehicles are no longer allowed.
– Concrete targets for reducing the foreign currency loan portfolio are set during the annual budgeting process.

We also differentiate between exposures according to loan duration. Longer durations are deemed to increase risks and are subject to special lending conditions.

An organizational firewall is in place between Sales and Credit Risk Management. As a result, the primary responsibility for risk lies with the unit servicing the customer, whereas the secondary responsibility for risk — and, as a result, the second vote — lies with the Loan Back Office Department. Risk management at the portfolio level is the responsibility of the Credit Risk Management Department. Monitoring and reporting at the portfolio level are carried out separately by Risk Controlling. This unit's credit risk reports include regular reports on the credit portfolio, allowing the continuous monitoring of risk and the formulation of management action by Management.

Collateral management is another central pillar of risk management. It is the responsibility of the central Credit Risk Management Department. Extensive written valuation guidelines specify which forms of collateral are permissible. Standardized collateral valuation policies have been defined. Basically, they are based on the average proceeds from liquidation achieved in the past. Real estate collateral is valued and regularly audited by experts from the back office division who are not involved in the lending process.

Equity investment risk

Equity investment risk encompasses the risk of lost dividends, impairments and realized losses and the risk of a decline in the value of hidden reserves caused by the possibility of poor financial performance on the part of entities in which equity investments are held.

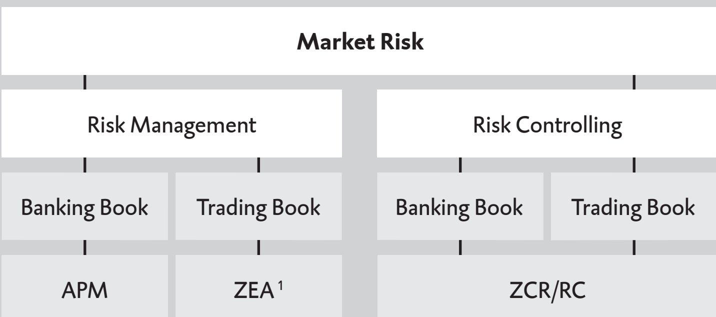
BKS Bank has both strategic and operational equity investment management mechanisms. Strategic equity investment management is handled by the bank's Management, ensuring that, if necessary, suitable steps will be taken to minimize risks and enhance opportunities.

The operational management of equity investments is the responsibility of the Office of the Management Board. The Controlling Department is responsible for risk control. To facilitate the management and control of individual financial risks, we prepare overall annual budgets for the subsidiaries in the Group as well as budgeting for and preparing adapted projections of the profits that are to be expected from equity investments. Monthly reports on operating subsidiaries are an integral part of our Group reporting system.

Market risk

BKS Bank defines market risk as the risk of losses caused by movements in market prices (e.g. equity and bond prices, foreign exchange rates, interest rates) and variables that influence prices (e.g. volatilities and credit spreads). This risk category includes both trading book and banking book positions. Because volumes are small, market risks in the trading book are of minor importance.

We differentiate between three kinds of market risk:
- interest rate risk;
- equity price risk;
- currency risk.



[1] Central International and Treasury Division.

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 Management Board sets the overall limit once a year within the scope of the budgeting process. In doing so, it takes account of the Group's risk-bearing capacity.

The value-at-risk approach (*variance-covariance model*) is used to obtain a quantitative figure for market risk 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 holding period and with a certain probability. Value at risk (VAR) enables us to apply a constant and uniform measure of risk to all our proprietary operations.

For the purposes of risk aggregation during the risk-bearing capacity analysis process, we calculate VAR on a going-concern basis with a confidence interval of 95 per cent and on a liquidation basis with a confidence interval of 99.9 per cent.

The Treasury Division incurs market price risks in the trading book within the limits that have been set. Overnight market price risks are monitored by Risk Controlling. The Management Board is given a daily report on the utilization of limits in the trading book. All regulations pertaining to the trading book are documented in detail in the Treasury Rulebook.

Managing interest rate risk in the banking book is the responsibility of the Asset Liability Management (ALM) Committee. This committee is made up of the Management Board and the heads of the relevant banking departments. The ALM Committee meets once a month to discuss the results of present value and duration analyses, value-at-risk analyses and simulations of changes in interest rates.

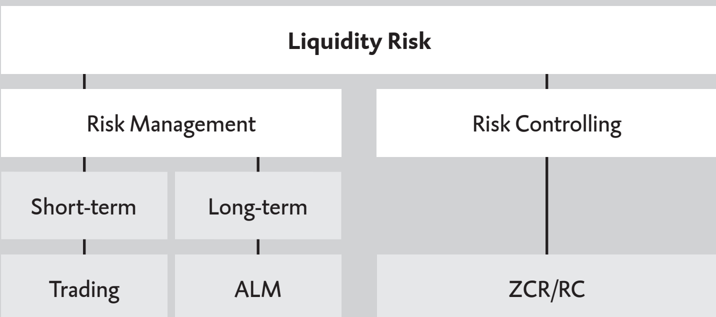
In addition to interest rate risk, we are also subject to currency risks arising from open currency positions. Generally, all loans and deposit balances denominated in a foreign currency are funded or invested in the same currency. Currency risk results from the possibility of changes in the foreign exchange rates applicable to open currency positions. At BKS Bank, these positions have always been very small. Currency positions and the associated own funds requirement are monitored by Risk Controlling in conformity with § 223 *SolvaV* (Austrian solvency directive). Equity price risk in the banking book is managed by the ALM Committee.

Liquidity risk

Liquidity risk is the risk that it may not be possible to meet current or future financial obligations in full or in time. It also includes the risk that, in the event of a liquidity crisis, it may only be possible 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).

The management of liquidity risk is based on the following principles:

– The generation of so-called *primary* deposit balances is of especial strategic importance when it comes to safeguarding liquidity.
– BKS Bank must be as independent as possible from single large deposits. We aim to diversify deposits as much as possible.
– BKS Bank is particularly careful when choosing its providers of funds and maintains close and continuous relations with them. This makes BKS Bank better able to raise funds even when circumstances are exceptional.
– It is part of our strategy to hold mainly highly liquid securities in our proprietary portfolio. These serve as our liquidity reserve.
– Diversifying our funding profile to achieve a mix of investor categories, products and maturities is an important part of our liquidity risk management activities.



– To prevent concentration risks, deposits from other banks are generally limited to €100 million per bank.
– We monitor the diversification of funding from non-bank sources by measuring deposit concentration, for which benchmarks have been defined.
– Emergency plans are in place that lay down a strategy for handling liquidity risks and procedures for closing funding gaps in crisis situations.

Liquidity is managed on an intraday basis by managing daily deposits and withdrawals. This process is based on information about transactions that affect liquidity. It includes information about payment instructions, advance information about upcoming customer transactions provided by Sales, information about proceeds from the bank's own issuances provided by the Securities Back Office Department and information about securities transactions provided by the Treasury Division. Any liquidity peaks are evened out through *OeNB*. The management of medium-term and longer-term liquidity is carried out by the Asset Liability Management Committee. The Risk Controlling Unit is responsible for liquidity risk control, which ensures adherence to the principles, procedures and limits that have been laid down.

In general, weekly, monthly and quarterly reports are prepared. If it is discovered that anything unusual has occurred or if certain early warning scores or limits have been reached, an appropriate *ad hoc* report will be prepared for the Management Board.

All the assets and liabilities of relevance to our funding profile are presented by maturity band in our daily liquidity flow chart. This flow chart presents the funding surplus or shortfall in each maturity band, enabling us to manage our liquidity positions. In addition, we have developed an extensive system of limits (limits for each maturity band, time-to-wall limits) that gives the Management Board and the responsible risk management units a quick overview of the current situation. Analyses are supplemented by reliable stress tests.

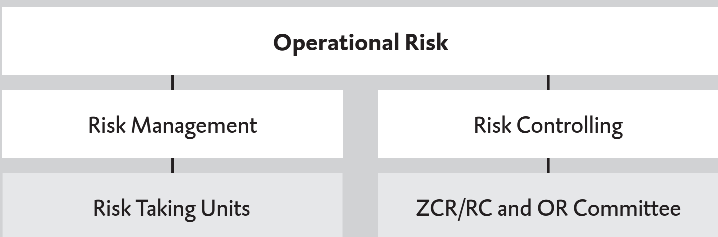
Operational risk
BKS Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Such risks can increase BKS Bank's costs or reduce its profits.

Consequently, 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.

Risk Controlling is responsible for defining our operational risk framework. The implementation of the framework and the daily management of operational risk are the responsibility of our risk taking units.

We use a variety of techniques to ensure the efficient management of operational risk.

Among other things:
– we carry out self-assessments on a bottom-up basis; the result is a specific risk profile for each business segment that clearly highlights areas where the potential risks are high;
– we record operational risk losses in a loss database;
– all measures decided upon as a result of such self-assessments and the analysis of actual losses are recorded and their implementation is monitored;
– quarterly operational risk reports are prepared for the Management Board, the heads of the risk taking units and Head Office divisions and departments.



(46) BALANCE OF DERIVATIVES OUTSTANDING (BANKING BOOK)

€k	Nominal, by Term to Maturity		
	To 1 Year	1 – 5 Years	Over 5 Years
Interest rate contracts	**65,730**	**748,984**	**75,930**
OTC products	65,730	748,984	75,930
Interest rate swaps	65,730	748,984	75,930
– Calls	32,865	374,492	37,965
– Puts	32,865	374,492	37,965
Interest rate options	—	—	—
– Calls	—	—	—
– Puts	—	—	—
Currency contracts	**1,023,674**	**1,009,547**	**—**
OTC products	1,023,674	1,009,547	—
Currency forwards	377,631	92	—
– Calls	188,988	46	—
– Puts	188,643	46	—
Capital market swaps	564,292	1,009,455	—
– Calls	268,386	503,869	—
– Puts	295,906	505,586	—
Money market swaps (currency swaps)	81,751	—	—
– Calls	40,544	—	—
– Puts	41,207	—	—
Securities contracts	**—**	**—**	**—**
Exchange traded products	—	—	—
Stock options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

BALANCE OF DERIVATIVES OUTSTANDING (TRADING BOOK)

€k	Nominal, by Term to Maturity		
	To 1 Year	1 – 5 Years	Over 5 Years
Interest rate contracts	**51,610**	**62,652**	**9,284**
OTC products	51,610	62,652	9,284
Interest rate swaps	51,610	50,670	1,200
– Calls	25,805	25,335	600
– Puts	25,805	25,335	600
Interest rate options	—	11,982	8,084
– Calls	—	5,991	4,042
– Puts	—	5,991	4,042
Currency contracts	**—**	**—**	**—**
OTC products	—	—	—
Currency options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

FINANCIAL INSTRUMENTS (TRADING BOOK)

€k	31/12/2010	31/12/2009
Interest-bearing securities	0	177
Equities and investment fund units	8,038	9,476

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
890,644	**953,474**	**6,075**	**5,125**	**19,473**	**20,908**
890,644	953,474	6,075	5,125	19,473	20,908
890,644	953,474	6,075	5,125	19,473	20,908
445,322	476,737	493	0	14,877	15,163
445,322	476,737	5,582	5,125	4,596	5,745
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
2,033,221	**1,775,438**	**2,241**	**3,703**	**31,798**	**5,116**
2,033,221	1,775,438	2,241	3,703	31,798	5,116
377,723	292,131	1,191	3,171	870	434
189,034	147,432	1,135	3,167	848	428
188,689	144,699	56	4	22	6
1,573,747	1,428,204	930	—	30,167	4,602
772,255	711,801	—	—	—	—
801,492	716,403	930	—	30,167	4,602
81,751	55,103	120	532	761	80
40,544	27,778	12	161	—	—
41,207	27,325	108	371	761	80
—	**—**	**—**	**—**	**—**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
123,546	**161,448**	**230**	**1,026**	**260**	**999**
123,546	161,448	230	1,026	260	999
103,480	143,960	106	296	136	269
51,740	71,980	69	37	51	269
51,740	71,980	37	259	85	—
20,066	17,488	124	730	124	730
10,033	8,744	124	730	—	—
10,033	8,744	—	—	124	730
—	**—**	**—**	**—**	**—**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Positions (securities and derivatives) entered into by our Money, Foreign Exchange and Securities Trading unit to make market gains or take advantage of interest rate fluctuations were assigned to the trading book. Market value is the amount that could be obtained from the sale of a financial instrument in an active market or would need to be paid to purchase it. If a market price was available, this was taken to be a position's fair value. Where market prices were unavailable, we used internal valuation models, including in particular present value techniques.

Closing Remarks by the Management Board

Management Board’s Statement Pursuant to § 82 *Abs.* 4 *BörseG*

The Management Board of *BKS Bank AG* declares that these Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as applicable and as adopted by the EU as well as interpretations thereof by the International Financial Reporting Interpretations Committee (IFRIC) and that they present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group. Furthermore, it declares that the Management Report presents the BKS Bank Group’s business activities as well as the results of its operations and its position in such a way as to present fairly, in all material respects, its assets, liabilities, financial position and profit or loss as well as presenting the material risks and uncertainties to which it is exposed.

Klagenfurt am Wörthersee
4 March 2011

The Management Board

Heimo Penker (CEO)

Member of the Management Board responsible for the Corporate and Business Banking Segment and Retail Segment, 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 responsible for International Operations, Accounts and Sales Controlling, Treasury/Proprietary Trading, Capital Markets Law, Construction, Subsidiaries and Equity Investments. Within Austria, she is responsible for the 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 responsible for Risk Controlling, Risk Management and Compliance, the Loan Back Office, Business Organization and IT and *3BEG*.

Profit Appropriation Proposal

BKS Bank AG's 2010 financial year closed with net profit of €8,339,148.29. We propose that a dividend of €0.25 per share be distributed out of reported net profit as at 31 December 2010. The resulting distribution on 32,760,000 shares would be €8,190,000. Subject to *§ 65 Abs. 5 Aktiengesetz*, we propose that the remainder be carried forward to a new account.

Klagenfurt am Wörthersee
4 March 2011

The Management Board

Heimo Penker (CEO) | Herta Stockbauer | Dieter Krassnitzer

Auditor's Report

(Independent Auditor's Report)

[Translation Provided by the Auditor]

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

BKS Bank AG, Klagenfurt,

as well as the accounts for the financial year from 1 January to 31 December 2010. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, the consolidated comprehensive income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year ended 31 December 2010 as well as the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements and the Accounts

Management is responsible for the group's accounts and the preparation of consolidated financial statements that present fairly, in all material respects, the group's assets, liabilities, financial position and profit or loss in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining an internal control system relevant to the preparation to the preparation of consolidated financial statements that present fairly, in all material respects, the group's assets, liabilities, financial position and profit or loss so that they are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of the Nature and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that present fairly, in all material respects, the entity's assets, liabilities, financial position and profit or loss in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of material accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit, in our opinion, the consolidated financial statements comply with the laws and regulations and present fairly, in all material respects, the assets, liabilities and financial position of the group as of 31 December 2010 and its profit and cash flows for the financial year from 1 January 2010 to 31 December 2010 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Group Management Report

Laws and regulations require us to perform audit procedures whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group. The Auditor's Report must also state whether the group management report is consistent with the consolidated financial statements and whether the disclosures pursuant to *§ 243a UGB* are appropriate.

In our opinion, the group management report is consistent with the consolidated financial statements. The disclosures pursuant to *§ 243a UGB* are appropriate.

Klagenfurt
4 March 2011

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

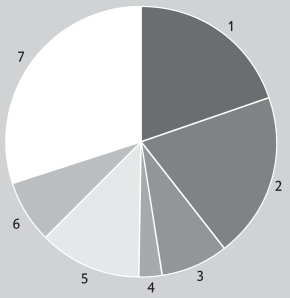
Peter Fritzer
Wirtschaftsprüfer

Wilhelm Kovsca
Wirtschaftsprüfer

(Austrian Chartered Accountants)

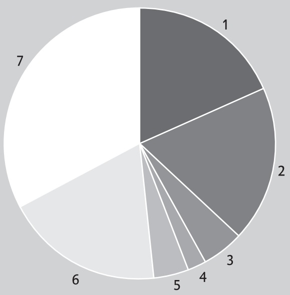
Additional Notes

Overview of the 3 Banken Group



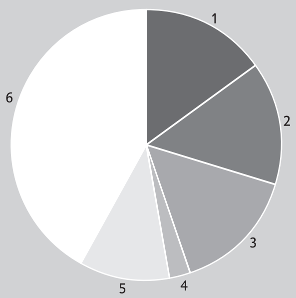
SHAREHOLDER STRUCTURE OF BKS BANK AG

	By Voting Interest	By Capital Share
[1] *Oberbank AG*	19.54%	18.52%
[2] *Bank für Tirol und Vorarlberg AG*	19.65%	18.91%
[3] *Generali 3 Banken Holding AG*	7.88%	7.44%
[4] *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	3.11%	2.98%
[5] Free float	12.72%	16.12%
[6] *UniCredit Bank Austria AG*	7.46%	8.02%
[7] *CABO Beteiligungs GmbH*	29.64%	28.01%
Share capital, €:		65,520,000
Ordinary no-par shares in issue:		30,960,000
No-par preference shares in issue:		1,800,000



SHAREHOLDER STRUCTURE OF OBERBANK AG

	By Voting Interest	By Capital Share
[1] *BKS Bank AG*	18.51%	16.95%
[2] *Bank für Tirol und Vorarlberg AG*	18.51%	17.00%
[3] *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	5.13%	4.62%
[4] *Generali 3 Banken Holding AG*	2.21%	1.98%
[5] Staff shares	4.02%	3.73%
[6] Free float	19.08%	26.57%
[7] *CABO Beteiligungs GmbH*	32.54%	29.15%
Share capital, €:		86,349,375
Ordinary no-par shares in issue:		25,783,125
No-par preference shares in issue:		3,000,000



SHAREHOLDER STRUCTURE OF BANK FÜR TIROL UND VORARLBERG AG

	By Voting Interest	By Capital Share
[1] *BKS Bank AG*	15.10%	13.59%
[2] *Oberbank AG*	14.69%	13.22%
[3] *Generali 3 Banken Holding AG*	15.12%	13.60%
[4] *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	2.53%	2.28%
[5] Free float	10.86%	19.78%
[6] *CABO Beteiligungs GmbH*	41.70%	37.53%
Share capital, €:		50,000,000
Ordinary no-par shares in issue:		22,500,000
No-par preference shares in issue:		2,500,000

The shareholders shown on a white background in the tables have entered into syndicate agreements.

	BKS Bank Group		Oberbank Group		BTV Group	
	2010	2009	2010	2009	2010	2009
INCOME ACCOUNT, €m						
Net interest income	143.6	132.3	318.9	262.4	146.6	131.4
Impairment charge on loans and advances	(47.6)	(37.4)	(103.8)	(90.7)	(42.1)	(44.5)
Net fee and commission income	42.5	39.7	101.2	88.6	43.3	40.3
General administrative expenses	(91.5)	(88.2)	(220.7)	(208.2)	(90.9)	(94.5)
Profit for the year before tax	53.6	46.5	114.5	92.0	61.8	51.3
Consolidated net profit for the year	46.4	40.4	98.4	77.3	49.2	47.8
BALANCE SHEET DATA, €m						
Assets	6,238.2	6,315.9	16,768.4	16,031.4	8,886.6	8,465.4
Receivables from customers after impairment allowances	4,498.2	4,350.2	10,129.7	9,594.0	5,774.8	5,384.9
Primary deposit balances	4,158.5	3,907.9	11,135.3	10,916.4	6,167.6	6,259.6
Of which savings deposit balances	1,847.2	1,804.6	3,447.2	3,399.2	1,284.2	1,412.1
Of which liabilities evidenced by paper, including subordinated debt capital	667.6	564.7	2,232.6	2,040.2	1,287.2	1,275.4
Equity	627.8	577.5	1,160.9	1,035.6	676.1	612.4
Customer assets under management	10,023.5	9,343.5	19,912.7	18,686.8	10,688.9	10,309.0
Of which in customers' securities accounts	5,865.0	5,435.6	8,777.4	7,770.4	4,521.3	4,049.4
OWN FUNDS WITHIN THE MEANING OF BWG, €m						
Risk-weighted assets	4,345.1	4,258.4	9,795.8	9,970.5	5,736.5	5,476.1
Own funds	567.4	514.7	1,635.1	1,534.3	853.2	800.2
Of which Tier 1	416.6	369.5	1,028.7	955.4	596.7	514.6
Surplus own funds before operational risk	219.8	174.0	849.0	734.5	391.5	360.8
Surplus own funds after operational risk	194.8	150.8	789.8	679.5	370.2	339.5
Tier 1 ratio, %	9.59	8.68	10.50	9.58	10.40	9.40
Own funds ratio, %	13.06	12.09	16.69	15.39	14.87	14.61
PERFORMANCE, %						
Return on equity before tax	8.9	8.9	10.6	9.9	9.6	8.8
Return on equity after tax	7.7	7.8	9.1	8.3	7.6	8.2
Cost:income ratio	48.8	49.9	50.3	53.3	47.2	53.7
Risk:earnings ratio (credit risk in % of net interest income)	33.1	28.3	32.6	34.6	28.7	33.8
RESOURCES						
Average number of staff	872	872	1,996	1,990	794	862
Branches and other business units	55	55	143	133	41	41

Glossary

A – E

Available-for-sale (AFS) financial assets are non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets designated as at fair value through profit or loss.

The **banking book** contains all on-balance sheet and off-balance sheet items recognized on a bank's balance sheet that are not assigned to the trading book.

The core aims of **Basel II** are to align capital requirements for banks more closely than before with financial risks and to take account of newer developments in the financial markets and banks' risk management activities. The new Accord, in force since the beginning of 2008, provides for a series of simple and advanced approaches to measuring credit and operational risks so as to determine a bank's own funds requirement.

Basel III is the name of additional recommendations made by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS) to supplement the capital adequacy framework adopted in 2004 (see also *Basel II*). *Basel III* recommends that capital adequacy requirements for banks be increased and that capital conservation buffers be introduced. This should make banks more stable in a crisis and enable them to act with greater strength. In addition, a regulatory framework for liquidity management is to be introduced. The new recommendations were adopted by the Basel Committee on Banking Supervision in 2010 and are to enter into force on 1 January 2013.

The **basis of assessment within the meaning of BWG** is the sum of the assets, off-balance-sheet items and special off-balance-sheet items in the banking book, weighted for business and counterparty risk, as determined in accordance with Austrian bank regulators' rules.

Consolidated entities are material, controlled entities whose assets, equity, liabilities, income and expenses net of consolidation items are accounted for in their entirety in consolidated financial statements.

Corporate social responsibility (CSR) is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.

The **cost:income ratio** compares a bank's operating expenses with its operating income. It is calculated by comparing the bank's general administrative expenses during the financial year under review with its profit from operating activities. Profit from operating activities is made up of net interest income, net fee and commission income, net trading income and other operating profit or loss. This indicator states the percentage of profit from operating activities used up by general administrative expenses, providing information about an entity's cost management and cost efficiency. The lower the ratio, the more economically a company is operating.

Derivatives are financial instruments whose own value changes in response to changes in the market prices or expected prices of other financial instruments. They can therefore be used to hedge against falls in value and to speculate on gains in the value of the hedged item. Options, futures and swaps are the most common types of derivative.

Economic capital: This term describes the financial resources (equity and hidden reserves) that must be held to provide cover for unexpected losses caused by banking risks, including credit, market, liquidity and operational risks. This economic capital is periodically compared with the assets available to cover risks during the risk-bearing capacity analysis process.

Eligible own funds within the meaning of BWG: According to solvency rules, banks must always hold eligible own funds at least in the amounts specified in *§ 22 Abs. 1 Z 1 bis 5 BWG*. Eligible own funds are the sum of Tier 1 capital and supplementary elements (Tier 2) less deductions. Tier 3 capital is only recognizable in respect of regulatory own funds cover for the trading book and open foreign currency positions.

E–I

Entities accounted for using the equity method are entities in which equity investments are held that are not controlled but upon whose financial and business policy decisions a significant influence can be exerted. On a consolidated balance sheet, they are recognized in the amount of the group's interest in their equity. In a consolidated income statement, the group's interest in their profit for a year is recognized according to the equity interest held.

Fair value is defined as the amount for which an asset could currently be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as relevant market prices exist on exchanges or other functioning markets, these are taken to be the fair value of an asset or liability.

FATF (Financial Action Task Force on Money Laundering) is an international anti-money laundering body whose Secretariat is housed at the OECD in Paris. Its task is to analyze money laundering and terrorism financing methods and develop means of combating them.

The **going-concern principle** is the principle according to which financial statements view the entity as continuing in business unless actual or legislative circumstances dictate otherwise. Among other things, this is important when measuring assets.

Hedging is used to protect existing or future positions against the exposure to risks such as currency and interest rate risks. It involves taking a counter-position to another position so as to completely or partially offset risk.

Held-to-maturity (HTM) financial assets are acquired financial instruments with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

A **hybrid bond** is a deeply subordinated, long-term corporate bond. Because a hybrid bond is an equity bond, and depending on its configuration, *BWG* may allow hybrid capital to be counted towards consolidated equity. In the event of insolvency, hybrid bonds will be serviced last of the subordinated obligations, so the interest premium is usually relatively high.

ICAAP (the Internal Capital Adequacy Assessment Process) is the name of the extensive process and associated strategy with which banks determine the amount, composition and distribution of the (internal) capital resources that are adequate to cover all the material banking risks to which they are exposed.

IFRS earnings per share are consolidated net profit for the year divided by the average number of an entity's shares in issue.

Under *Basel II*, the **internal ratings based approach** is a second possible approach to calculating the minimum capital adequacy requirement for credit risk alongside the *standardized approach*. The IRB approach allows banks to use their own, internal estimates of borrowers' creditworthiness. However, a bank's rating processes must meet stringent requirements, and their adequacy will be constantly reviewed by the bank regulators. Banks can choose whether to adopt the foundation IRB approach or the advanced IRB approach.

The **International Financial Reporting Standards** (IFRSs) are the individual financial reporting standards issued by the International Accounting Standards Board (IASB). The purpose of annual financial statements prepared in accordance with IFRSs is to give investors information of relevance to their decisions regarding an entity's assets, liabilities, financial position and profit or loss as well as changes therein over time. In contrast, annual financial statements prepared in accordance with the Austrian *Unternehmensgesetzbuch* (*UGB*: enterprises code) are primarily geared to protecting creditors.

I–O

The **International Swaps and Derivatives Association** (ISDA) is a trade association that represents participants in the OTC derivatives market. It is based in New York.

ISIN stands for *International Securities Identification Number*. The ISIN serves the unique global identification of securities. It replaced Austria's national securities codes (*WKN*: *Wertpapierkennnummer*) in 2003. An ISIN is a 12-character alphanumerical code comprising a two-character international country ID (e.g. AT for Austria), a nine-character national code and a one-digit control key. The ISIN of the ordinary *BKS Bank AG* share is AT0000624705; that of the preference share is AT0000624739.

The **ISM Purchasing Manager's Index** is calculated on the basis of a survey carried out by the US Institute for Supply Management (ISM) of 300 companies in 20 industries in the United States spread representatively across the country. Its purpose is to portray the economy's medium-term development. This leading index is made up of a number of partial indicators, namely incoming orders, output, employment, delivery times and inventory stocks. An index value of more than 50 points to economic growth.

The **liquidity coverage ratio** (LCR): The Basel Committee has implemented the liquidity coverage ratio to ensure that a bank always has short-term resilience to acute stress lasting for 30 days. This is to be achieved by making sure that the net cash outflows under a stress scenario — know as a bank's *liquidity shortfall* — are covered by a liquidity buffer consisting of sufficiently liquid high quality assets.

Market capitalization is the stock market value of an entity on a particular date. It is calculated by multiplying the number of shares in issue by the current stock market price of one share.

Maturity transformation is the professional management of differing maturities and the associated differences between the rates of interest receivable and payable on assets and liabilities on a bank's balance sheet while taking account of current and expected market rate curves and maturity structures.

MiFID (the Markets in Financial Instruments Directive) lays down common rules for securities services within the European Economic Area. MiFID's primary goals are to increase market transparency and promote competition between providers of financial services and, therefore, to improve investor protection.

Modified duration is a measure of the sensitivity of a financial investment to interest rates. It provides a means of approximating future changes in market value.

The **net stable funding ratio** (NSFR): This structural ratio gauges the stability of funding over a one year horizon. It is part of the new liquidity requirements under *Basel III*. The NSFR is designed to ensure that the amount of longer-term (stable) funding employed is sufficient relative to the liquidity profiles of the assets funded. The aim is to reduce banks' dependence on the proper functioning and liquidity of the interbank market.

OTC (over the counter) derivatives are financial instruments traded directly between market participants and not on an exchange.

Own funds are a bank's own capital resources, as opposed to outside capital provided by investors. Depending on their quality, one differentiates between various own fund tiers. At least half of a bank's total eligible own funds must consist of Tier 1 capital. Additional own funds are known as Tier 2. The **own funds ratio** expresses the relationship between a company's own funds and its basis of assessment for the purposes of *BWG*.

P – V

The **P/E ratio** is important to investors when assessing shares. To calculate it, the share's stock market price is divided by the per-share earnings recorded or expected in the relevant period. If the P/E ratio is relatively low, the stock is felt to be cheaply priced; if it is relatively high, it is seen as expensive. The bases for comparing P/E ratios are the interest rate, the P/E ratios of comparable entities, average P/E ratios in the past and, in the case of growth stocks, the expected rate of growth.

Primary deposit balances consist of the customer assets made available to a bank in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated debt capital.

The **return on assets** (ROA) is profit (net profit for the year after minorities) expressed as a percentage of the average balance sheet assets employed.

The **return on equity** (ROE) before or after tax expresses the relationship between profit before or after tax and average equity. The higher this figure is, the more profit the entity has made in relation to its equity.

The **risk:earnings ratio** (RER) expresses the relationship between credit risk costs and net interest income. This percentage states what proportion of net interest income has been used to cover credit risk.

The term **solvency** expresses the relationship between the own funds requirement arising from a bank's (weighted) balance sheet assets and off-balance sheet items and its eligible own funds within the meaning of *BWG*. Solvency is regulated by *§ 22 BWG*.

Parties to a **swap** exchange financial obligations, fixed-interest obligations being exchanged for variable ones (interest rate swap) or sums in various currencies being exchanged (currency swap). Interest rate swaps make it possible to hedge against interest rate risks, resulting in a fixed interest rate that provides a firm basis for calculations. Currency swaps make it possible to hedge against currency risks by swapping amounts denominated in different currencies together with the associated interest payments.

Tier: See *Eligible own funds within the meaning of BWG*.

Tier 1 capital consists of paid-in capital, hybrid capital, reserves and goodwill arising from the elimination of investments in and equity of subsidiaries on consolidation in accordance with the provisions of *BWG* less intangible non-current assets and treasury shares. The **Tier 1 ratio** is Tier 1 capital expressed as a percentage of the basis of assessment (banking book).

The **trading book** contains all positions held by a bank within the scope of its proprietary trading in financial instruments that are held for re-sale or have been acquired so as to exploit, on a short-term basis, existing or expected differences between buying and selling prices or fluctuations in prices or interest rates. Positions not included in the trading book are assigned to the banking book.

Value-at-risk analysis is one means of quantifying risk. The value at risk is the loss that, within a specified holding period and with a specific probability, will not be exceeded.

Forward-looking Statements

This Annual Report 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, which was 3 March 2011. If the assumptions upon which such forecasts were based prove wrong or if risk events — such as those mentioned in the Risk Report — transpire, actual results may differ from those that are currently expected. This Annual Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

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