

Interim Report  
BKS Bank

2008

Results as at and for the 6 months ended 30 June

**BKS Bank**  
3 Banken Gruppe

## The BKS Bank Group at a glance

<b>Income account, €m</b>	<b>H1 2008</b>	<b>H1 2007</b>	<b>H1 2006</b>
Net interest income	60.0	51.8	46.2
Impairment losses on loans and advances	(11.7)	(12.1)	(11.3)
Net fee and commission income	20.9	22.3	21.4
General administrative expenses	(41.8)	(39.0)	(38.1)
Profit for the period before tax	30.1	28.7	22.3
Profit for the period after tax	26.8	25.4	18.6
<b>Balance sheet data, €m</b>	<b>30/6/2008</b>	<b>31/12/2007</b>	<b>31/12/2006</b>
Assets	6,272.7	5,752.7	5,145.4
Receivables from customers after allowance for impairment losses	3,900.9	3,561.6	3,190.1
Primary funds	3,778.0	3,781.8	3,009.1
– Of which savings deposits	1,530.6	1,443.7	1,382.5
– Of which liabilities evidenced by paper, including subordinated debt capital	453.7	451.8	425.6
Equity	447.2	450.5	416.4
Customer funds under management	9,324.4	10,057.9	9,320.4
– Of which in customers' securities accounts	5,546.4	6,276.1	6,311.3
<b>Own funds within the meaning of BWG, €m</b>	<b>30/6/2008</b>	<b>31/12/2007</b>	<b>31/12/2006</b>
Risk-weighted assets	3,930.4	4,039.2	3,598.5
Own funds	404.9	405.1	396.3
– Of which core capital (Tier 1)	235.7	235.9	241.8
Surplus own funds before operational risk	90.4	82.0	108.4
Surplus own funds after operational risk	69.2	82.0	108.4
Core capital ratio, %	6.00	5.84	6.72
Own funds ratio, %	10.30	10.03	11.01
<b>Performance, %</b>	<b>H1 2008</b>	<b>2007</b>	<b>2006</b>
Return on equity before tax	12.9	13.7	11.2
Return on equity after tax	11.3	11.7	9.7
Cost:income ratio	49.9	52.6	54.7
Risk:earnings ratio (credit risk in per cent of net interest income)	19.5	17.7	21.2
<b>Resources</b>	<b>30/6/2008</b>	<b>31/12/2007</b>	<b>31/12/2006</b>
Average number of staff	850	803	721
Branches and offices	52	51	50
<b>BKS Bank's shares</b>	<b>30/6/2008</b>	<b>31/12/2007</b>	<b>31/12/2006</b>
No. of ordinary no-par shares (ISIN: AT0000624705)	4,380,000	4,380,000	4,380,000
No. of no-par preference shares (ISIN: AT0000624739)	300,000	300,000	300,000
High: ordinary/preference share, €	113.50/101.00	125.00/110.00	97.50/74.00
Low: ordinary/preference share, €	111.11/94.00	97.01/73.62	95.90/72.00
Close: ordinary/preference share, €	113.00/98.00	113.50/100.00	96.90/73.62
Market capitalization, € (at end of June)	524.3	527.1	446.5

## The 3 Banken Group at a glance

Income account, €m	BKS Bank Group		Oberbank Group		BTV Group	
	H1 2008	H1 2007	H1 2008	H1 2007	H1 2008	H1 2007
Net interest income	60.0	51.8	139.7	133.2	71.5	55.3
Impairment losses on loans and advances	(11.7)	(12.1)	(31.3)	(33.3)	(12.3)	(13.7)
Net fee and commission income	20.9	22.3	49.1	51.8	21.6	24.9
General administrative expenses	(41.8)	(39.0)	(102.4)	(97.8)	(47.2)	(44.5)
Profit for the period before tax	30.1	28.7	57.8	56.2	30.1	27.6
Profit for the period after tax	26.8	25.4	52.7	49.8	25.6	23.5
Balance sheet data, €m	30/6/08	31/12/07	30/6/08	31/12/07	30/6/08	31/12/07
Assets	6,272.7	5,752.7	14,835.4	14,330.8	8,605.1	8,053.3
Receivables from customers after allowance for impairment losses	3,900.9	3,561.6	9,106.1	8,499.2	5,479.5	5,160.0
Primary funds	3,778.0	3,781.8	9,187.1	8,839.6	6,233.0	6,173.1
– Of which savings deposits	1,530.6	1,443.7	3,066.0	2,899.2	1,136.7	1,126.9
– Of which liabilities evidenced by paper, including subordinated debt capital	453.7	451.8	1,741.3	1,694.8	1,237.2	1,283.0
Equity	447.2	450.5	901.1	889.5	533.5	537.3
Customer funds under management	9,324.4	10,057.9	16,833.5	16,887.3	10,552.5	10,982.1
– Of which in customers' securities accounts	5,546.4	6,276.1	7,646.4	8,047.7	4,319.5	4,809.0
Own funds within the meaning of BWG, €m	30/6/08	31/12/07	30/6/08	31/12/07	30/6/08	31/12/07
Risk-weighted assets	3,930.4	4,039.2	9,823.3	10,079.1	5,553.1	5,586.9
Own funds	404.9	405.1	1,354.6	1,293.6	639.4	662.3
– Of which core capital (Tier 1)	235.7	235.9	720.8	720.5	384.3	394.0
Surplus own funds before operational risk	90.4	82.0	566.7	485.2	195.1	215.4
Surplus own funds after operational risk	69.2	82.0	520.8	485.2	175.9	215.4
Core capital ratio, %	6.00	5.84	7.34	7.15	6.87	7.05
Own funds ratio, %	10.30	10.03	13.79	12.83	11.49	11.85
Performance, %	H1 2008	2007	H1 2008	2007	H1 2008	2007
Return on equity before tax	12.9	13.7	13.0	13.2	11.3	11.4
Return on equity after tax	11.3	11.7	11.9	12.0	9.6	10.2
Cost:income ratio	49.9	52.6	53.5	52.8	50.5	51.1
Risk:earnings ratio	19.5	17.7	22.4	24.8	17.2	23.7
Resources	30/6/08	31/12/07	30/6/08	31/12/07	30/6/08	31/12/07
Average number of staff	850	803	1,983	1,879	870	849
Branches and offices	52	51	126	126	43	42



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

Welcome to our second Internet letter to our shareholders in 2008. Based on our financial statements as of and for the six months ended 30 June 2008, we will be taking a detailed look at the BKS Bank Group's assets and financial position and the results of its operations during the first half of 2008. The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs). The tables provided with this Semi-Annual Financial Report elucidate the BKS Bank Group's operational performance and the 3 Banken Group's key numbers. At this juncture, we would like to point out that the Semi-Annual Financial Report is not subject to a statutory audit and, therefore, has not been audited in full or reviewed by an auditor.

Despite the volatile environment, BKS Bank continued to develop well. Profit for the period was 5.6 per cent up on the first half of 2007 to €26.8 million, and our consolidated assets grew by 9.0 per cent to roughly €6.3 billion during the first six months of 2008. In other words, we did well in the first half well despite adverse conditions in the banking industry.

Take a look with us at the economic environment and other noteworthy developments at BKS Bank. We will, above all, be reviewing our activities in connection with the anticipated withdrawal of the *UniCredit Group* as a 3 Banken Group equity holder.

## The economic setting in which banks are operating

For the first time in four years, the global economic growth rate is likely to drop below the 3 per cent mark this year. However, although economic growth in the United States is rather weak, the emerging economies of Asia and Eastern Europe in particular are still performing well. To date, the United States has been spared the recession that many were fearing. However, clear signs of economic recovery have yet to emerge despite highly expansionary budget and monetary policies. The United States' GDP is only likely to grow by about 1.4 per cent this year. Even if the international financial crisis emanating from the US, though still smouldering, appears to have lost some of its significance, its impact was evident worldwide during the first half. It was felt directly in the form of massive write-downs in the financial sector in the wake of the property crisis and indirectly in the form of economic pessimism — now severe — triggered by a perceptible decline in real incomes.

The eurozone's economic horizon has also darkened following a strong start to the year. Ever higher crude oil price peaks, the export unfriendly strength of the euro and the lows in the financial markets brought about by the subprime crisis have all taken their toll. Further reductions in real economic growth forecasts for the eurozone (most recently to just 1.7 per cent *per annum*) and corrections to inflation forecasts (ECB experts are predicting average rates of inflation of 3.2 to 3.6 per cent in the eurozone during 2008) have likewise aggravated tension at the European Central Bank. The ECB was already signalling a rates hike to defend its strict strategy of stability back in June, so the 25 basis point increase to 4.25 per cent on 3 July had been generally expected. The marked difference between interest rates in the eurozone and North America was one of the principal reasons for the steady rise in the euro versus the US dollar. Between the beginning of the year and the end of June, the exchange rate moved from US\$1.4688/€ to US\$1.5764/€, and it stood at US\$1.4734/€ on 20 August. The exchange rate of the Swiss franc — a funding currency of importance to our bank — stood at SFr1.6056/€ at the end of June, compared with SFr1.6529/€ at the beginning of the year and SFr1.6177/€ on 20 August.

The tightness of liquidity in the money market continued to be felt. The eurozone yield curve stayed very flat throughout the first half and was sometimes inverted. Until the time of writing, money market rates, which have a crucial impact on banks' funding activities, remained stuck at about 70 basis points above the ECB's key rate.

Outside the commodity and precious metal markets, which were to a large degree speculation-driven, investors had a very bad first half. The euro-based MSCI World Equity Index closed the second quarter at 90.873 points, compared with 110.966 points at the beginning of the year and 91.694 points on 20 August. Measured in terms of the performance of the Euro STOXX 50 index, share prices in the eurozone fell by roughly 24 per cent overall between the beginning of January 2008 (4,399.72 points) and the end of June (3,352.81 points). Austria's ATX was also affected by the financial crisis, slumping from 4,509.24 points at the beginning of the year to 3,943.15 points at the end of June and 3,495.24 points on 20 August. On the other hand, the price of oil (Crude Oil WTI Cushing) rose by 52 per cent to US\$143 a barrel during the first half and peaked at US\$147.50 a barrel on 11 July. On 19 August, it was trading at US\$114.53 a barrel.

The Austrian economy stood its ground relatively well during the first half of 2008 and is expected to grow by roughly 2.3 per cent in real terms over the year as a whole. WIFO (the Austrian Institute of Economic Research) believes that capacities in the material goods, construction and tourism sectors in particular will continue to be well utilized. However, visible exports are only likely to grow by about 5 per cent in real terms because of weak demand on the part of several of Austria's major trading partners. Private households are also under growing pressure. In the wake of the massive rise in energy and food prices, inflation climbed to a 15-year high of 3.9 per cent in June. Perceptible losses of real income and greater restraint among lenders have further reduced the scope for an increase in consumer spending. As a result, the real growth of private consumption is expected to remain below average this year at 1.1 per cent, compared with 1.4 per cent in 2007.

As stated in the latest financial markets stability report published by OeNB (the Austrian Nationalbank), the direct effect on Austrian banks of turbulence in the financial markets has to date been only marginal, thanks above all to the fact that their international business activities tend to focus on Central, Eastern and Southeastern Europe. Growth in these regions is still being driven primarily by domestic demand fuelled by growing credit-financed consumer spending and investment. However, Austria's banks have not been immune to the indirect effects of turbulence in the money and capital markets. Because risk premiums have remained high, they too have been finding it harder to borrow in the interbank market. In addition, massive value fluctuations in the capital markets significantly reduced their earnings in core business segments during the first half.

## The BKS Bank Group's development during the first half of 2008

Despite difficult conditions that also impacted on BKS Bank's business development, both the Balance Sheet and the Income Statement at the end of the first half present a pleasing overall picture that is free from unwelcome surprises.

The consolidated group for the purposes of this Consolidated Semi-Annual Financial Report consists of 11 banks and other financial service providers, with BKS Bank AG dominating the Group's accounts. Besides *Alpenländische Garantie Gesellschaft mbH*, *Drei-Banken Versicherungs-Aktiengesellschaft*, *Kvarner banka d.d.* and our five leasing subsidiaries in Austria and abroad, *International Accounting Standard (IAS) 28 Investments in Associates* also requires us to include our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg (BTV)* in the Consolidated Financial Statements as associates. This is because even though BKS Bank controls, directly and/or indirectly, less than 20 per cent of the voting power in these entities, it can exert a significant influence as the result of a syndicate agreement. Three other consolidated entities are designated as real estate companies. They render banking-related ancillary services.

### Banks and other financial service providers

BKS Bank AG, Klagenfurt	BKS-Leasing GmbH, Klagenfurt	BKS-Immobilienleasing GmbH, Klagenfurt	BKS-leasing d.o.o., Ljubljana
BKS-leasing Croatia d.o.o., Zagreb	BKS-Leasing a.s., Bratislava <sup>1</sup>	Kvarner banka d.d., Rijeka	
Alpenländische Garantie GmbH, Linz	Oberbank AG, Linz	Bank für Tirol und Vorarlberg AG, Innsbruck	Drei-Banken Versicherungs-AG, Linz

### Other consolidated entities

BKS Zentrale-Errichtungs- u. Vermietungs GmbH, Klagenfurt	IEV Immobilien GmbH, Klagenfurt	Immobilien Errichtungs- u. Vermietungs GmbH & Co. KG, Klagenfurt
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■ Consolidated    ■ Accounted for using the equity method

<sup>1</sup> BKS leasing a.s. and BKS Finance s.r.o. make up a subgroup.

## Assets and financial position

### Assets

The BKS Bank Group's assets grew steadily, increasing by €0.52 billion or 9.0 per cent to €6.27 billion between the beginning of 2008 and the end of the period under review. Growth on both the assets and the equity and liabilities side of the Balance Sheet was driven mainly by customer business. Receivables from customers fell just

short of the €4 billion mark at the end of the first half to total €3.99 billion. This was already roughly 64 per cent of our balance sheet total. IFRSs require an allowance for impairment losses to be deducted from receivables from customers. We were able to reduce this deduction as at the end of the second quarter by 1.3 per cent to €95.0 million.

BKS Bank AG naturally accounted for the lion's share of the pleasing growth in our loan portfolio. There was a vigorous increase both in new lending in Austria and in lending via our branches in Slovenia, and there was also a substantial increase in receivables generated by our leasing subsidiaries in Austria and abroad. Most of the growth in the loan portfolio was euro-denominated. There was only a marginal change in our foreign currency loan ratio, which came to 22.2 per cent.

The financial assets presented in Notes 15 to 18 grew by 10.4 per cent to €1.19 billion. Financial assets designated as at fair value through profit or loss increased by 46.5 per cent to €104.9 million. This line item consists mainly of financial instruments hedged against the risk of market price fluctuations using the fair value option within the scope of the asset liability management process. Volatile financial markets reduced our holdings of available-for-sale financial assets (AFS) by 0.5 per cent to €0.40 billion, with revaluation gains and losses being recognized in equity. On the other hand, carefully targeted investments increased our holdings of held-to-maturity financial assets (HtM) to €0.47 billion.

Reflecting market conditions, we stepped up our interbank operations. This increased receivables from other banks by 6.4 per cent to €0.94 billion.

### **Equity and liabilities**

On the equity and liabilities side of the Balance Sheet, payables to other banks rose sharply, increasing by 36.5 per cent to €1.91 billion. On the other hand, there was a minimal decrease in payables to customers, which fell by 0.2 per cent to €3.32 billion. The inflow of savings deposits was particularly steady, our customers' heightened risk aversion in the wake of the international credit market crisis increasing this primary funds item to €1.53 billion as savers looked for a safe haven. This took it past the €1.5 billion mark for the first time.

Other liabilities — sight and time deposits — fell by 4.9 per cent to €1.79 billion during the first six months of the year. It was above all institutional customers who entrusted their liquid funds to us in the form of time deposits. Although the rise in money market rates during the period under review made it more difficult to place paper in the capital markets, we were able to maintain the balance of BKS Bank's own securities at a high level of €453.7 million. New issuances of €42.8 million compared with redemptions of €34.9 million.

Including subordinated debt capital, which increased to €0.22 billion, BKS Bank's primary funds stabilized at roughly the same high level as at year-end 2007, totalling €3.78 billion. As a result, our primary funds sufficed to fund virtually all our lending to customers.

The stock markets' shaky performance reduced the asset value of our customers' securities accounts by €0.73 billion to €5.55 billion.

Let us look at our equity, which is detailed in the Statement of Changes in Equity on page 19. Subscribed capital and the capital reserve did not change, but both retained earnings and the balance of gains and losses recognized in equity did. We have already mentioned the €17.9 million fall in the balance of gains and losses recognized in equity. It was the result of mark-to-market revaluations of our portfolio of financial assets and the weak price performance of securities.

## Own funds

BKS Bank changed the way it calculates its own funds ratio and basis of assessment as of the beginning of 2008, bringing them into line with the EU Solvency Directive. The new calculation method takes its bearings from *Basel II*. In future, the calculation of minimum own funds requirements will be much more risk-sensitive. Banks can choose between various models and approaches to capturing credit risk. *Basel II* has also changed the way market risk is captured. Operational risk is a new addition for which capital charges are now likewise required. BKS Bank uses the standardized approach when calculating its own funds requirement for credit and operational risks.

Comparisons with the figures for the previous year are of limited value, but one can say that the Bank's eligible own funds stood at the same high level as at the end of the first quarter of 2008 at approximately €405 million. The strong growth in business volumes gave us a basis of assessment for the banking book of €3.93 billion, resulting in an own funds ratio of 10.3 per cent. Because of the new method being used to calculate it, our core capital ratio, which had fallen as a result of additions to our investments in Croatia and Slovakia, rose back to 6.0 per cent. We had surplus own funds of €90.4 million, and even allowing for capital charges for operational risk, we still had surplus own funds of €69.2 million.

Own funds of BKS Bank Kreditinstitutsgruppe			
€m	30/6/2008	31/12/2007	31/12/2006
(calculation in 2006 and 2007: <i>Basel I</i> ; in 2008: <i>Basel II</i> )			
Share capital	50.0	50.0	50.0
Disclosed reserves net of treasury shares and intangible assets	185.7	185.9	191.8
<b>Core capital (Tier 1)</b>	<b>235.7</b>	<b>235.9</b>	<b>241.8</b>
Hidden reserves	5.6	5.6	5.6
Eligible supplementary capital	161.0	155.8	154.3
Gains and losses recognized in equity	59.0	60.7	54.0
Eligible subordinated liabilities	11.1	14.0	7.2
<b>Supplementary own funds (Tier 2)</b>	<b>236.7</b>	<b>236.1</b>	<b>221.1</b>
Deductions from Tier 1 and Tier 2	66.6	66.6	66.6
<b>Eligible own funds</b>	<b>404.9</b>	<b>405.1</b>	<b>396.3</b>
Own funds ratio	10.30%	10.03%	11.01%
Basis of assessment for the banking book	3,930.4	4,039.2	3,598.5
<b>Own funds requirement</b>	<b>314.4</b>	<b>323.1</b>	<b>287.9</b>
Own funds requirement for the trading book	4.5	2.9	1.4
— Of which arising from open currency positions	2.4	0.9	—
Own funds requirement for operational risk	21.2	—	—
<b>Surplus own funds</b>	<b>69.2</b>	<b>82.0</b>	<b>108.4</b>
<b>Surplus own funds (disregarding operational risk)</b>	<b>90.4</b>	<b>82.0</b>	<b>108.4</b>

## Performance

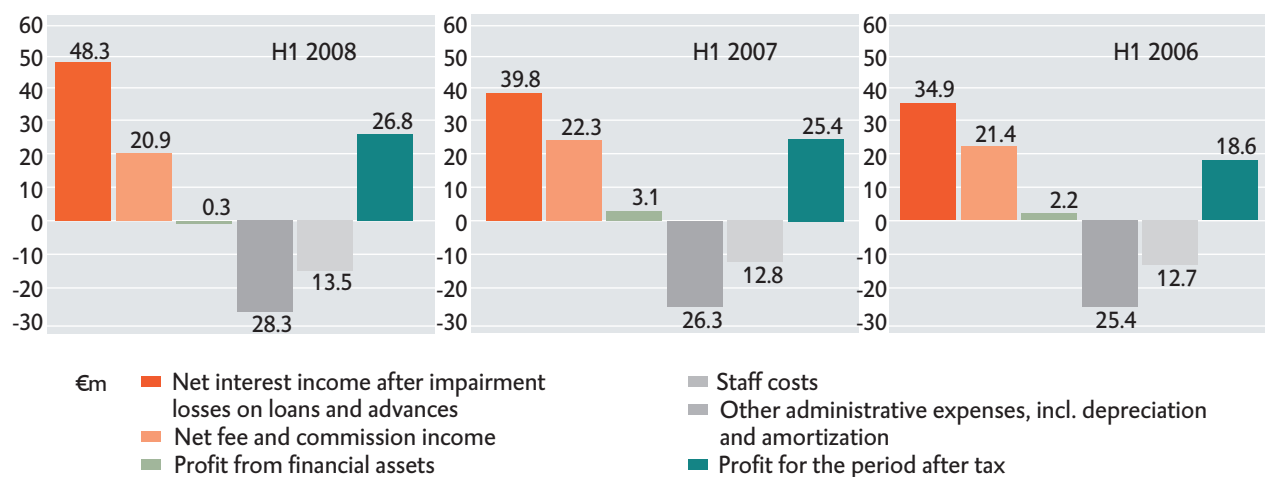
Despite an increasingly unstable market environment, BKS Bank continued to grow strongly during the first half. Profit for the period was 5.6 per cent up on the same period of 2007 to €26.8 million. However, tangible nervousness on the part of our customers led to a structural shift in profit components. It was particularly evident in the securities segment. Net interest income after impairment losses on loans and advances remained the stable bedrock of our earning power and our most important profit pillar, increasing by over a fifth compared with the same period of 2007 to €48.3 million. Alongside uninterrupted growth in receivables from customers and an increase in profit from entities accounted for using the equity method, the first-time consolidation of *BKS Leasing a.s.* and profit from other Group members in Austria and abroad also contributed to this pleasing growth. In addition, it is worthy of note that we were only required to recognize impairment losses on loans and advances of €11.7 million in the Income Statement, as against €12.1 million in the same period of 2007. As a result, our risk costs were static in relation to risk-weighted assets.

Net fee and commission income from services developed comparatively poorly, failing to live up to our expectations. As a result, it was 6.1 per cent down on the high comparative figure for the first half of 2007, at €20.9 million. Above all, our income from securities business has fallen sharply in recent months in the wake of the slump in the capital markets that began to develop in October 2007. The bright spots were commission-generating credit operations and our solid earnings from domestic and international payment services.

Given the troubled state of the markets, our net trading income of €1.4 million was good. Similarly, the balance of revaluation gains and losses on derivatives, included in the line item *Financial assets*, improved to negative €0.3 million on a mark-to-market basis.<sup>1</sup> This compared with negative €2.2 million after the first quarter of 2008.

General administrative expenses increased by 7.2 per cent to €41.8 million and, therefore, by significantly less than our earnings. This reflected further increases in efficiency. Staff costs increased to €28.3 million. Given the 3.3 per cent hike in salaries carried out under our collective agreement as of February 2008 and the 74 staff year increase in our average workforce, this was within the expected range. One must also take into account that our Slovakian subsidiary *BKS Leasing a.s.*, which is being accounted for in the amount of 29.5 staff years in 2008, was first consolidated as of 1 July 2007. Other administrative expenses, comprising other administrative costs (*Sachaufwand*) and depreciation and amortization of non-current assets, increased only slightly compared with

### Components of the Income Statement



<sup>1</sup> The sum of the line items *Profit from financial assets (FV)* and *Profit from financial assets (AFS)* in the Income Statement on page 17 (Notes 7 and 8).

the first half of 2007 to €13.6 million. This increase occurred against the background of our wide-ranging branch offensive and activities undertaken to boost market awareness of the BKS Bank brand. The first-time consolidation of BKS-Leasing a.s. accounted for roughly €0.5 million of the increase.

## Ratios

Per cent	H1 2008	2007	2006
Cost:income ratio	49.9	52.6	54.7
ROE (before tax)	12.9	13.7	11.2
ROE (after tax)	11.3	11.7	9.7
ROA (after tax)	0.9	0.9	0.8
Risk:earnings ratio	19.5	17.7	21.2

Our profit position having remained satisfactory, our key ratios were also good. Our return on equity before tax of 12.9 per cent was 0.9 percentage points better than the Group benchmark being targeted on a balanced score card basis. We also achieved another important target, namely a cost:income ratio of below 50 per cent, reducing it to 49.9 per cent. Our ROA after tax—the measure of our total return on capital—was static on

the previous year at 0.9 per cent. The risk:earnings ratio expresses the portion of net interest income needed to cover credit risks. A ratio of 20 per cent has been set as the BKS Bank Group's long-term benchmark. We fell just short of this mark as of mid-2008 with a risk:earnings ratio of 19.5 per cent.

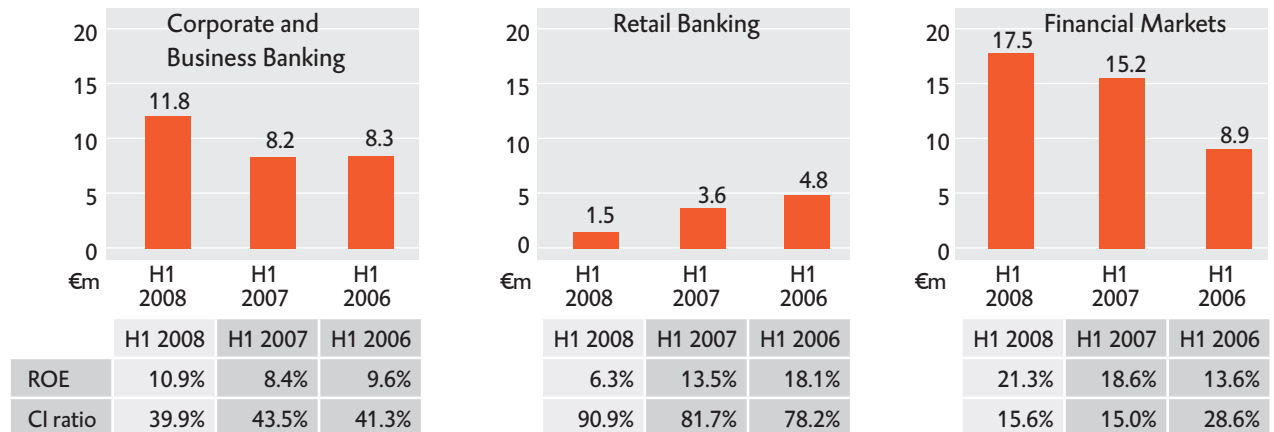
## Segment Report

This Segment Report presents the results recorded in the BKS Bank Group's various business segments. It is based on the same condensed information as is provided to Management on a routine basis. As a quality provider of finance, high-end investment and international business services, BKS Bank has divided its operations into three segments, these being *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. The same segmental subdivisions are also used for the purposes of internal Group control. We measure the performance of each segment on the basis of its profit from operations before tax, return on equity and cost:income ratio. The return on equity expresses the relationship between profit for the period and the average equity employed in a segment. The cost:income ratio gauges a segment's costs efficiency by measuring general administrative expenses as a percentage of profit before impairment losses on loans and advances.

### Corporate and Business Banking

The *Corporate and Business Banking* segment encompasses all income and expenses arising from corporate and business banking activities conducted by BKS Bank AG, Kvarner banka d.d. and our leasing subsidiaries in Austria and abroad. The satisfying trend in prior quarters continued during the first half of 2008. This segment delivered profit for the period before tax of €11.8 million, or 44.1 per cent more than in the same period of 2007. New business with corporate and business banking customers was strong. In this setting, net interest income before impairment losses on loans and advances grew by 13.1 per cent to €25.7 million. Moreover, the impact of the first-time consolidation of BKS Leasing a.s. in Slovakia was biggest in this segment. Our corporate and business banking customer base increased by roughly 2,800 compared with 30 June 2007 to end the period under review at over 17,500. The sharp rise in earnings was rounded off by a comparatively small 1.1 per cent increase in the impairment losses on loans and advances recognized in respect of this segment, which came to €10.9 million. This gave the corporate and business banking segment a return on equity before tax of 10.9 per cent, compared with 8.4 per cent in the first half of 2007.

### Profit for the period before tax, by segment



A detailed segment breakdown is presented in the Notes to the Consolidated Financial Statements beginning on page 29.

### Retail Banking

The *Retail Banking* segment, which encompasses all income and expenses arising from retail banking activities conducted by *BKS Bank AG*, *Kvarner banka d.d.*, *BKS-Leasing GmbH* and our leasing subsidiaries abroad, was again faced with a relentlessly difficult market environment during the first six months of 2008. Its development was braked by endless bad news about the subprime crisis, the unmistakable signs of an impending slump in the capital markets and considerable inflationary pressure. Profit for the period before tax sagged by 59.2 per cent compared with the first half of 2007 to €1.5 million. Securities business was particularly hard hit as virtually every investment class outside the highly volatile commodities markets—whether equities, bonds or high-yield paper—took a dive. Although our classical on-balance-sheet banking operations—lending and deposits business—also developed very well, given the circumstances, in the retail banking segment, margins were still under pressure, especially on the deposits side of the account. In the wake of subdued growth, the segment's return on equity fell to 6.3 per cent, compared with 13.5 per cent in the same period of 2007. Its cost:income ratio rose to 90.9 per cent. We will be actively steering sales so as to support this segment and bring it back on target.

### Financial Markets

The *Financial Markets* segment encompasses *BKS Bank AG's* profits from its proprietary trading activities, equity investments, financial instruments and maturity transformation (so-called *structural income*). Profit for the period before tax was 15.4 per cent up on the first half of 2007 to €17.5 million. An advance in structural income generated mainly by bank positions and profit from entities accounted for using the equity method increased net interest income in this segment by over half to €18.9 million. The downside was a revaluation loss of €0.3 million on financial assets (see above). Looking at this segment's ratios, it nonetheless proved possible to significantly increase its first-half return on equity before tax from 18.6 per cent to 21.3 per cent. Its cost:income ratio fell marginally, by 0.6 percentage points, to 15.6 per cent.

### Risk Report

BKS Bank attaches particular importance to the identification of all potential risks and to their quantitative measurement and management and monitoring on the basis of risk limits. The core focus of BKS Bank's risk strategy is the efficient employment of its own funds while optimizing the relationship between risk and return.

Our risk policy requirements, accountabilities and management principles are embodied in BKS Bank's risk strategy. In accordance with regulatory recommendations, a Management Board member who is not involved in front-office operations has overall responsibility for risk management. The Management Board lays down risk strategy, approves risk management principles and specifies limits for all the relevant risks as well as risk monitoring procedures. The large loan risks incurred by BKS Bank and the 3 Banken Group are secured by a cover pool at *Alpenländische Garantie-Gesellschaft mbH* (see above).

BKS Bank's risk monitoring and management procedures differentiate between credit risk (inclusive of equity investment risk), market risk, liquidity risk and operational risk. During the risk bearing capacity analysis process, risks are aggregated at an overall bank level and compared with the available risk cushion.

### Credit risk

Ensuring adherence to the credit risk targets budgeted for in the corporate and business banking and retail banking segments is one of the core purposes of the credit risk management process alongside the long-term optimization of the relationship between risk and returns in BKS Bank's credit operations. Our consistent and prudent management of credit risks is mirrored by our risk:earnings ratio. In the retail banking segment, it came to 5.2 per cent in the period under review, compared with 8.6 per cent in the first half of 2007. Thanks to a robust increase in net interest income, we were able to reduce our risk:earnings ratio in the corporate and business banking segment from 47.5 to 42.5 per cent. We especially stress the strong increase in volumes in the corporate and business banking segment, where we took particular account of the needs of the internal rating process.

Impairment losses on loans and advances		
€m	30/6/2008	30/6/2007
Direct write-offs	0.5	1.1
Impairment allowances	14.3	13.2
Reversals of impairment allowances	(2.9)	(1.9)
Subsequent recoveries	(0.2)	(0.3)
Impairment losses	11.7	12.1

The structure of our loan portfolio remained stable during the first half. In the middle of 2008, roughly 76 per cent of our total loan exposure in the corporate and business banking segment was rated between AA and B1, and 75.4 per cent of our total loan exposure in the retail banking segment was rated between A1 and B1. Impairment losses on loans and advances were 3.3 per cent down on the same period of 2007 to €11.7 million.

### Market risk

BKS Bank subdivides market risk into interest rate, currency and equity price risks. These risks are managed using value-at-risk (VaR) and volume limits. Each month, the results of our present value, duration and VaR analyses are discussed by Asset Liability Management (the ALM Committee). At 30 June 2008, the ratio of BKS Bank AG's interest rate risk to its eligible own funds assuming a rate shift of 200 basis points, as reported in the interest rate risk statistics prepared for OeNB, came to 11.7 per cent (31/12/2007: 10.6 per cent), keeping BKS Bank's ratio well below the 20 per cent mark. The value at risk in our equity positions increased from €5.1 million at the beginning of the year to €9.2 million at the end of the period under review, reflecting the fact that volatility in the equity markets was still very high.

### Liquidity risk

Our liquidity risks are monitored and analyzed by Risk Controlling. Throughout the period under review, we satisfied the statutory liquidity requirements contained in § 25 BWG. Our surplus liquidity averaged roughly €25 million in the first six months of the year and came to €60.1 million at 30 June 2008 following additional purchasing of fixed-interest securities.

### Operational risk

Operational risk management takes place on the basis of a framework that contains all our guidelines on the management, controlling and reporting of operational risks. Our operational risk losses as at 30 June (without operational risk losses on loans and advances) came to €197 thousand. They were spread across 84 individual loss events throughout the Group. Process failures were the biggest cause of losses, accounting for €65.7 thousand of the total.

### Key measures and focuses of our work during the period under review

Thanks to its balanced and risk-aware business model, BKS Bank has been able to defend its strong market position in the regions it serves despite ongoing market disturbances. We have continued to focus on achieving sustainable growth and high efficiency. In recent months, we have introduced a number of resource-intensive projects and focuses to enable us to respond more readily and flexibly to opportunities in the market. We would like to take a brief look at them here.

### Activities in Austria

This financial year, we have pressed ahead with a number of important construction projects to enhance and enlarge our branch network. This is part of an ambitious programme. We currently have 52 branches. Following the extensive renovation work that has already been completed to implement our successful lounge concept at our Graz Regional Head Office and now that we have opened our *Klagenfurt-Radetzkystrasse* branch, a number of other building projects are in the pipeline or close to completion. They include work in Klagenfurt (St. Veiter Ring), Viktring, Pörschach, Weiz and Vienna (Perchtoldsdorf and Meidling).

One important focus during the period under review was an offensive to optimize our sales structures. We reviewed our standards of service and improved them wherever necessary; we selectively extended our range of professional and personality training opportunities for employees; and we took steps to improve the teamwork between front-office staff and back-office support personnel. In doing so, we drew upon the expertise of both internal and external specialists.

Our staff are proud to work for BKS Bank, as was underscored by a staff survey carried out during the *A Great Place to Work* competition. The motto of BKS Bank's latest activities within the scope of its staff health programme, which has now reached "best practice" status, has been *Aufrecht durch die Bank* (totally straight). They have, namely, focused on Austria's most common ailment, namely back pain.



The facade of our *Ljubljana-Bežigrad* branch.



The *Eurotower* in central Zagreb houses BKS Bank Croatia's new branch.



*Palazzo Dolfin* will contain the branch being planned in Padova.

## Activities abroad

Abroad, the recent launch of over-the-counter payment and deposit services in Slovenia was another important step on our road to becoming a so-called *universal bank*, and we intend to initiate our securities project before the end of this year. We plan to open another Slovenian branch, which will be located in Celje.

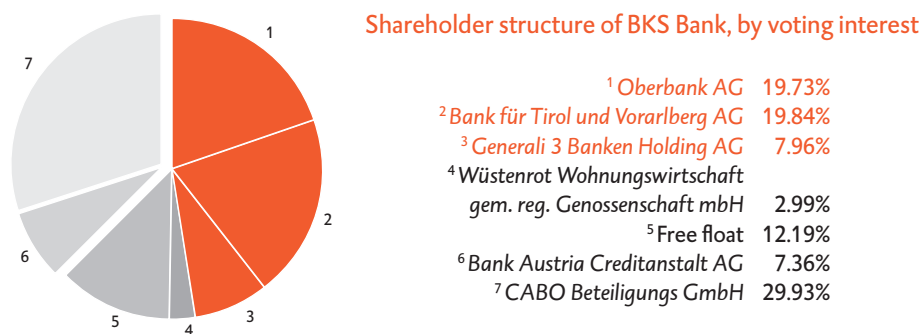
In Croatia, we will be opening a branch of *Kvarner banka d.d.*—which is about to be rebranded as *BKS Bank Croatia*—in mid-September 2008. Our new premises in the centre of Zagreb will also be used by our leasing subsidiary *BKS Leasing Croatia*. In Slovakia, we are finalizing our plans for the complete integration of *BKS Leasing a.s.* into the BKS Bank Group. Once it has opened its branch in Banská Bystrica, our leasing subsidiary in Slovakia will have five branches. Finally, our *BKS Italy* project is also underway and our licence application to *Banca d'Italia* is ready for submission. We have chosen the attractive Palazzo Dolfin building as the premises for our first branch in Padova.

## Outlook for 2008

As you may have gathered from the newspapers, *UniCredit* has announced that it plans to dispose of its stakes in *BKS Bank AG* and the two other banks in the *3 Banken Group* before the year is out. It is therefore currently examining ways of selling these minority stakes in *BKS Bank AG*, *Oberbank AG* and *Bank für Tirol und Vorarlberg AG (BTV)*.

Before making the final decision to begin the selling process, *UniCredit* plans to evaluate the marketability of these stakes to strategic financial investors in Austria and abroad. *UniCredit* currently controls 37.29 per cent of the voting stock of *BKS Bank AG* indirectly via *Bank Austria Creditanstalt AG* and *CABO Beteiligungsgesellschaft m.b.H.* The ordinary and preference shares of *BKS Bank* held indirectly by the *UniCredit Group* presently account for market capitalization of roughly €188 million.

As the Management Board of *BKS Bank*, we were not surprised by this announcement. We are generally in favour of such a change of equity holder and are involved in the selling process. We can at this point assure you that the independence of *BKS Bank* and the *3 Banken Group* will be preserved.



As the chart shows, the syndicate agreement signed by our sister banks *Oberbank* and *BTV* and *Generali 3 Banken Holding* as core shareholders guarantees *BKS Bank AG*'s independence, the goal being to continue to develop *BKS Bank* as a profit-orientated enterprise. In addition, other equity holders such as *Wüstenrot* have unequivocally stated their commitment to holding their *BKS Bank* shares on a permanent basis. In other words, *BKS Bank* will be able to remain true to its tried-and-tested business model—as an independent regional bank—despite any change in shareholder structure.

We will continue to apply all our energy to achieving our business goals during the second half of 2008. Despite the tough economic conditions and the possibility of a change in our shareholder structure, we are very confident about the future. To date, BKS Bank's crisis resistant business model has enabled it to steer clear of the abyss of the global financial crisis and position itself strongly in its core markets in Austria and abroad. We will focus above all on achieving growth in our customer operations on both sides of the balance sheet and taking full advantage of our market opportunities in Slovenia, Croatia and Slovakia. However, given the still dismal state of the stock market, we have mixed feelings about the medium-term securities outlook. Nonetheless, overall, BKS Bank should continue on its successful path in the second half.

### **The 3 Banken Group**

Finally, we draw your attention to the *3 Banken Group's* numbers, presented on page 3. During the period under review, the three listed sister banks in this group—*Oberbank, Bank für Tirol und Vorarlberg* and BKS Bank—already employed an average of over 3,700 people. The *3 Banken Group's* sales network currently consists of 221 branches in Austria and abroad. These three regional banks' aggregate assets are already approaching the €30 billion mark, having totalled €29.7 billion at the end of the first half.

We remain yours faithfully,



Heimo Penker



Herta Stockbauer

# Consolidated Financial Statements for the First Half of 2008

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## Income Statement of the BKS Bank Group for the First Half of 2008

### FULL PERIOD

€k	Note	H1 2008	H1 2007	+(-) Change, %
Interest income		160,641	130,748	22.9
Interest expenses		(107,943)	(84,894)	27.2
Profit from entities accounted for using the equity method		7,292	6,080	19.9
<b>Net interest income</b>	(1)	<b>59,990</b>	<b>51,934</b>	<b>15.5</b>
Impairment losses on loans and advances	(2)	(11,700)	(12,120)	(3.5)
<b>Net interest income after impairment losses on loans and advances</b>		<b>48,290</b>	<b>39,814</b>	<b>21.3</b>
Fee and commission income		23,759	24,817	(8.4)
Fee and commission expenses		(2,815)	(2,509)	(29.1)
Net fee and commission income	(3)	20,944	22,308	(6.1)
Net trading income	(4)	1,390	1,295	7.3
General administrative expenses	(5)	(41,847)	(39,030)	7.2
Other operating income net of other operating expenses	(6)	1,568	1,160	35.2
Profit from financial assets (FV)	(7)	1,240	2,898	(57.2)
Profit from financial assets (AfS)	(8)	(1,510)	224	(<100)
<b>Profit for the period before tax</b>		<b>30,075</b>	<b>28,669</b>	<b>4.9</b>
Tax expense	(9)	(3,254)	(3,248)	0.2
<b>Profit for the period</b>		<b>26,821</b>	<b>25,421</b>	<b>5.5</b>
Minority interests in profit for the period		0	(11)	(100.0)
<b>Profit for the period after minorities</b>		<b>26,821</b>	<b>25,410</b>	<b>5.6</b>

### QUARTERLY REVIEW

€k	2008 H1	2008 Q1	2007 Q4	2007 Q3	2007 Q2
Interest income	81,815	78,826	77,531	73,995	68,772
Interest expenses	(54,268)	(53,675)	(52,749)	(49,517)	(44,364)
Profit from entities accounted for using the equity method	3,332	3,960	3,890	3,524	3,271
<b>Net interest income</b>	<b>30,879</b>	<b>29,111</b>	<b>28,672</b>	<b>28,002</b>	<b>27,679</b>
Impairment losses on loans and advances	(7,336)	(4,364)	(839)	(6,261)	(5,321)
<b>Net interest income after impairment losses on loans and advances</b>	<b>23,543</b>	<b>24,747</b>	<b>27,833</b>	<b>21,741</b>	<b>22,358</b>
Net fee and commission income	9,651	11,293	11,832	10,720	10,614
Net trading income	836	554	406	82	1,229
General administrative expenses	(20,942)	(20,905)	(23,447)	(20,329)	(19,485)
Other operating income net of other operating expenses	802	766	645	287	539
Profit from financial assets (FV)	2,639	(1,399)	(199)	85	1,552
Profit from financial assets (AfS)	(710)	(800)	(76)	1,318	(12)
Profit from financial assets (HtM)	0	0	(17)	0	0
<b>Profit for the period before tax</b>	<b>15,819</b>	<b>14,256</b>	<b>16,977</b>	<b>13,904</b>	<b>16,795</b>
Tax expense	(1,700)	(1,554)	(4,016)	(1,520)	(1,706)
<b>Profit for the period</b>	<b>14,119</b>	<b>12,702</b>	<b>12,961</b>	<b>12,384</b>	<b>15,089</b>
Minority interests in profit for the period	0	0	2	5	(5)
<b>Profit for the period after minorities</b>	<b>14,119</b>	<b>12,702</b>	<b>12,963</b>	<b>12,389</b>	<b>15,084</b>

## Balance Sheet of the BKS Bank Group as at 30 June 2008

### ASSETS

€k	Note	30/6/2008	31/12/2007	+(-) Change, %
Cash and balances with the central bank	(10)	95,663	80,822	18.4
Receivables from other banks	(11)	936,561	880,399	6.4
Receivables from customers	(12)	3,995,932	3,657,909	9.2
– Impairment allowance balance	(13)	(95,003)	(96,281)	(1.3)
Trading assets	(14)	7,133	11,206	(36.3)
Financial assets designated as at fair value through profit or loss	(15)	104,932	71,634	46.5
Available-for-sale financial assets	(16)	396,242	398,116	(0.5)
Held-to-maturity financial assets	(17)	465,038	385,185	20.7
Investments in entities accounted for using the equity method	(18)	228,683	227,065	0.7
Intangible assets	(19)	14,044	13,887	1.1
Property and equipment	(20)	68,082	67,943	0.2
Investment property	(21)	16,713	16,943	(1.4)
Deferred tax assets	(22)	14,753	9,584	53.9
Other assets	(23)	23,960	28,277	(15.3)
<b>Total assets</b>		<b>6,272,733</b>	<b>5,752,689</b>	<b>9.0</b>

### EQUITY AND LIABILITIES

€k	Note	30/6/2008	31/12/2007	+(-) Change, %
Payables to other banks	(24)	1,906,652	1,396,733	36.5
Payables to customers	(25)	3,324,269	3,330,020	(0.2)
Liabilities evidenced by paper	(26)	237,536	251,543	(5.6)
Trading liabilities	(27)	1,654	1,948	(15.1)
Provisions	(28)	78,993	80,512	(1.9)
Deferred tax liabilities	(29)	7,470	6,779	10.2
Other liabilities	(30)	52,789	34,399	53.5
Subordinated debt capital	(31)	216,165	200,219	8.0
Equity		447,205	450,536	(0.7)
Equity after minorities		447,179	450,509	(0.7)
Minority interests in equity		26	27	(3.7)
<b>Total equity and liabilities</b>		<b>6,272,733</b>	<b>5,752,689</b>	<b>9.0</b>

### EARNINGS PER SHARE

	H1 2008	H1 2007
Average number of shares in issue	4,556,242	4,629,844
Earnings per share, € (diluted and undiluted)	11.77	10.98

*Earnings per share* compares consolidated profit for the period with the average number of no-par shares in issue based on a full year projection. 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

### EQUITY AFTER MINORITIES

€k	Subscribed Capital	Capital Reserves	Retained Earnings	Balance of Gains and Losses Recog. in Equity	Profit for the Year	Equity
At 1 January 2008	50,000	40,736	289,796	19,215	50,762	450,509
Distribution					(6,835)	(6,835)
Transferred to retained earnings			43,927		(43,927)	0
Profit for the year					26,821	26,821
Exchange differences			812			812
Capital increase						0
Gains and losses recognized in equity				(17,911)		(17,911)
Other changes			(6,217)			(6,217)
– Arising from use of the equity method			(5,735)			0
– Arising from changes in our own shares			(321)			0
<b>At 30 June 2008</b>	<b>50,000</b>	<b>40,736</b>	<b>328,318</b>	<b>1,304</b>	<b>26,821</b>	<b>447,179</b>

### EQUITY AFTER MINORITIES

€k	Subscribed Capital	Capital Reserves	Retained Earnings	Balance of Gains and Losses Recog. in Equity	Profit for the Year	Equity
At 1 January 2007	50,000	40,736	267,235	19,382	39,012	416,365
Distribution					(6,957)	(6,957)
Transferred to retained earnings			32,055		(32,055)	0
Profit for the year					25,410	25,410
Exchange differences			321			321
Capital increase						0
Gains and losses recognized in equity				7,640		7,640
Other changes			2,500			2,500
– Arising from use of the equity method			1,107			0
– Arising from changes in our own shares			1,122			0
<b>At 30 June 2007</b>	<b>50,000</b>	<b>40,736</b>	<b>302,111</b>	<b>27,022</b>	<b>25,410</b>	<b>445,279</b>

## Cash Flow Statement

### CASH FLOWS

	€k	H1 2008	H1 2007
<b>Cash and cash equivalents at end of previous period</b>		<b>80,822</b>	<b>74,640</b>
Net cash from operating activities		124,554	89,531
Net cash from (used in) investing activities		(118,824)	(104,585)
Net cash from financing activities		9,111	7,692
<b>Cash and cash equivalents at end of period</b>		<b>95,663</b>	<b>67,278</b>

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

# Notes to the Consolidated Financial Statements of BKS Bank

## Principal accounting policies

### I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the six months ended 30 June 2008 were prepared in accordance with the provisions of the IFRSs published by the IASB (International Accounting Standards Board) applicable as at the reporting date in accordance with IAS 34 as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC/SIC).

### II. Recognition and measurement

#### Scope of consolidation

Consolidated:

- BKS Bank AG, Klagenfurt
- Kvarner banka 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 (constitutes a subgroup together with BKS Finance s.r.o.)
- IEV Immobilien GmbH, Klagenfurt
- Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG, Klagenfurt
- BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt

Accounted for using the equity method:

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

#### Consolidation policies

All material subsidiaries directly or indirectly under the control of BKS Bank were accounted for in the Interim Financial Statements. During capital 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 being the assets, earnings and size of workforce of the entity concerned. Consequently, these Interim Financial Statements are based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies. 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 their carrying amounts.

#### Foreign currency translation

These Interim Financial Statements were prepared in euros. Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the reporting date. Annual financial statements of subsidiaries that were not prepared in euros were translated using the *modified closing rate method*, assets and liabilities being translated at the closing rates ruling at the reporting date and expenses and income being translated applying average rates of exchange. Exchange differences were recognized as a separate component of equity.

#### Impairment allowance balance

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing item-by-item charges for impairment losses 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 39.64.

### **Trading assets and liabilities**

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*. Unrealized gains and losses on such instruments were recognized in the Income Statement in the line item *Net trading income*. Interest expenses incurred in the funding of trading assets were recognized 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 allowances.

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

Property, equipment, intangible assets (non-current) and investment property were recognized at cost of acquisition or conversion less ordinary depreciation or amortization. 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.

Impairments were allowed for by recognizing extraordinary depreciation or amortization. If an impairment no longer exists, a write-back is made up to an asset's amortized cost.

### **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 *at fair value through profit or loss (FV)*. They were thus measured at fair value through profit or loss and the result was recognized in the Income Statement in the corresponding line item *Profit 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 the charge no longer exists, a write-back is made. In the case of equity capital instruments, it is made to equity through the AfS reserve. In the case of debt instruments, it is 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 encompasses 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 in the Income Statement.

**Investment property**

This line item encompasses property intended for letting to third parties. It was measured at amortized cost (*cost method*). The fair value of our investment property is disclosed in the Notes. It is essentially based on external estimates.

**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 expected to be applied in the tax period in which a temporary difference was to reverse. Deferred taxes were computed on the basis of differences between the measured values of assets and liabilities and the relevant tax base. These were expected to cause tax burdens or reduce tax burdens in the future.

**Equity**

Equity consists of paid-in and earned capital (retained earnings, gains and losses recognized in equity in accordance with IAS 39 and profit for the year). *Gains and losses recognized in equity* records gains and losses in the AfS portfolio.

**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.

“Social capital” provisions (*Sozialkapitalrückstellungen*) were calculated in accordance with IAS 19.

An interest rate of 4.75 per cent was applied when calculating provisions for post-employment, termination and jubilee benefits (31 December 2007: 4.75 per cent). Other parameters were applied as follows:

- salary trend: 2.75 per cent (31 December 2007: 2.75 per cent);
- career trend: 0.25 per cent.

The “corridor” method was not applied.

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

**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 entities accounted for using the equity method was recognized net of the associated funding costs in the line item *Net interest income*.

**Impairment losses on loans and advances**

This line item captures the net allowance for impairment losses and transfers to and releases from impairment provisions. Recoveries on receivables previously written off were also accounted for in this line item.

**Net fee and commission income**

This line item contains income from services rendered to third parties net of expenses attributed to those services.

**Net trading income**

This line item contains income from items in the trading book and expenses arising from our proprietary trading activities inclusive of gains and losses resulting from mark-to-market valuations.

**Other notes**

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

Because of new disclosure requirements (IFRS 7) and adjustments in connection with IAS 40, certain line items on the Balance Sheet and in the Income Statement and the tables from the previous year were restated as required.

**(1) NET INTEREST INCOME**

	€k	H1 2008	H1 2007
<b>Interest income from:</b>			
Credit operations		132,160	108,603
Fixed-interest securities		13,644	11,866
Lease receivables		8,525	5,269
Shares		3,094	2,222
Investment property		415	325
Investments in subsidiaries		2,803	2,463
<b>Total interest income</b>		<b>160,641</b>	<b>130,748</b>
<b>Interest expenses on:</b>			
Deposits from other banks and customers <sup>1</sup>		97,168	74,780
Liabilities evidenced by paper		10,595	9,964
Investment property		180	150
<b>Total interest expenses</b>		<b>107,943</b>	<b>84,894</b>
<b>Profit from entities accounted for using the equity method</b>			
Income from entities accounted for using the equity method		11,200	9,434
Financing costs arising from entities accounted for using the equity method <sup>2</sup>		(3,908)	(3,354)
<b>Profit from entities accounted for using the equity method</b>		<b>7,292</b>	<b>6,080</b>
<b>Net interest income</b>		<b>59,990</b>	<b>51,934</b>

<sup>1</sup> Net of financing costs arising from entities accounted for using the equity method. <sup>2</sup> Based on the average 3-month Euribor.

**(2) IMPAIRMENT LOSSES ON LOANS AND ADVANCES**

	€k	H1 2008	H1 2007
Transferred to impairment provisions		14,351	13,151
Released from impairment provisions		(2,916)	(1,841)
Direct write-offs		487	1,122
Recoveries of written-off receivables		(222)	(312)
<b>Impairment losses on loans and advances</b>		<b>11,700</b>	<b>12,120</b>

**(3) NET FEE AND COMMISSION INCOME**

	€k	H1 2008	H1 2007
<b>Fee and commission income from:</b>			
Payment services		7,860	7,760
Securities business		7,427	10,058
Credit operations		4,746	4,085
International business		3,029	2,328
Other services		697	586
<b>Total fee and commission income</b>		<b>23,759</b>	<b>24,817</b>
<b>Fee and commission expenses arising from:</b>			
Payment services		525	655
Securities business		595	591
Credit operations		477	478
International business		1,045	598
Other services		173	187
<b>Total fee and commission expenses</b>		<b>2,815</b>	<b>2,509</b>
<b>Net fee and commission income</b>		<b>20,944</b>	<b>22,308</b>

**(4) NET TRADING INCOME**

	€k	H1 2008	H1 2007
Price-based contracts		649	483
Interest rate and currency contracts		741	812
<b>Net trading income</b>		<b>1,390</b>	<b>1,295</b>

**(5) GENERAL ADMINISTRATIVE EXPENSES**

	€k	H1 2008	H1 2007
Staff costs		28,274	26,270
– Wages and salaries		19,974	19,405
– Social security costs		5,243	5,082
– Costs of retirement benefits		3,057	2,253
Other administrative costs		10,905	9,788
Depreciation		2,668	2,502
<b>General administrative expenses</b>		<b>41,847</b>	<b>39,030</b>

**(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES**

	€k	H1 2008	H1 2007
Other operating income		2,333	1,905
Other operating expenses		(765)	(745)
<b>Other operating income net of other operating expenses</b>		<b>1,568</b>	<b>1,160</b>

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

	€k	H1 2008	H1 2007
Revaluation gains and losses on derivatives		1,173	2,558
Profit from application of the fair value option		67	340
<b>Profit from financial assets designated as at fair value through profit or loss</b>		<b>1,240</b>	<b>2,898</b>

**(8) PROFIT FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	€k	H1 2008	H1 2007
Unrealized and realized gains and losses		(1,510)	224
<b>Profit from available-for-sale financial assets</b>		<b>(1,510)</b>	<b>224</b>

**(9) TAX EXPENSE**

	€k	H1 2008	H1 2007
Current tax		(3,421)	(3,332)
Deferred tax		167	84
<b>Tax expense</b>		<b>(3,254)</b>	<b>(3,248)</b>

**(10) CASH AND BALANCES WITH THE CENTRAL BANK**

	€k	30/6/2008	31/12/2007
Cash in hand		24,470	30,665
Credit balances with central banks of issue		71,193	50,157
<b>Cash and balances with the central bank</b>		<b>95,663</b>	<b>80,822</b>

**(11) RECEIVABLES FROM OTHER BANKS**

	€k	30/6/2008	31/12/2007
Austrian banks		181,659	245,792
Foreign banks		754,902	634,607
<b>Receivables from other banks</b>		<b>936,561</b>	<b>880,399</b>

**(12) RECEIVABLES FROM CUSTOMERS**

	€k	30/6/2008	31/12/2007
Corporate and business banking customers		3,162,757	2,853,148
Retail banking customers		833,175	804,761
<b>Receivables from customers</b>		<b>3,995,932</b>	<b>3,657,909</b>

**(13) IMPAIRMENT ALLOWANCE BALANCE**

	H1 2008	2007
At beginning of period under review	96,281	93,666
+ First-time consolidation	—	4,241
+ Added	12,479	19,410
– Released	2,916	4,595
– Used	10,841	16,441
<b>At end of period under review</b>	<b>95,003</b>	<b>96,281</b>

**(14) TRADING ASSETS**

	€k	30/6/2008	31/12/2007
Bonds and other fixed-interest securities		5	5
Shares and other variable-yield securities		12	3,749
Positive fair values of derivative financial instruments			
– Currency contracts		151	70
– Interest rate contracts		1,428	1,845
Other contracts		5,537	5,537
<b>Trading assets</b>		<b>7,133</b>	<b>11,206</b>

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

	€k	30/6/2008	31/12/2007
Bonds and other fixed-interest securities		74,795	50,187
Loans		30,137	21,447
<b>Financial assets designated as at fair value through profit or loss</b>		<b>104,932</b>	<b>71,634</b>

**(16) AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	€k	30/6/2008	31/12/2007
Bonds and other fixed-interest securities		210,003	217,360
Shares and other variable-yield securities		136,924	129,378
Investments in subsidiaries		34,626	36,646
Other equity investments		14,689	14,732
<b>Available-for-sale financial assets</b>		<b>396,242</b>	<b>398,116</b>

**(17) HELD-TO-MATURITY FINANCIAL ASSETS**

	€k	30/6/2008	31/12/2007
Bonds and other fixed-interest securities		465,038	385,185
<b>Held-to-maturity financial assets</b>		<b>465,038</b>	<b>385,185</b>

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

	€k	30/6/2008	31/12/2007
Oberbank AG		151,184	150,937
Bank für Tirol und Vorarlberg AG		73,287	71,986
Drei-Banken Versicherungs-AG		3,569	3,499
Alpenländische Garantie GmbH		643	643
<b>Investments in entities accounted for using the equity method</b>		<b>228,683</b>	<b>227,065</b>

**(19) INTANGIBLE ASSETS**

	€k	30/6/2008	31/12/2007
Goodwill		12,169	12,169
Other intangible assets		1,875	1,718
<b>Intangible assets</b>		<b>14,044</b>	<b>13,887</b>

**(20) PROPERTY AND EQUIPMENT**

	€k	30/6/2008	31/12/2007
Land		2,674	2,667
Buildings		43,939	45,093
Other		21,469	20,183
<b>Property and equipment</b>		<b>68,082</b>	<b>67,943</b>

**(21) INVESTMENT PROPERTY**

	€k	30/6/2008	31/12/2007
Land		8,176	8,164
Buildings		8,537	8,779
<b>Investment property</b>		<b>16,713</b>	<b>16,943</b>

At 30 June 2008, our investment property had a fair value of approximately €24.9 million.

**(22) DEFERRED TAX ASSETS**

	€k	30/6/2008	31/12/2007
<b>Deferred tax assets</b>		<b>14,753</b>	<b>9,584</b>

**(23) OTHER ASSETS**

	€k	30/6/2008	31/12/2007
Positive fair values of derivative financial instruments		9,554	21,088
Other items		12,468	5,403
Deferred items		1,938	1,786
<b>Other assets</b>		<b>23,960</b>	<b>28,277</b>

**(24) PAYABLES TO OTHER BANKS**

	€k	30/6/2008	31/12/2007
Austrian banks		1,244,996	696,139
Foreign banks		661,656	700,594
<b>Payables to other banks</b>		<b>1,906,652</b>	<b>1,396,733</b>

**(25) PAYABLES TO CUSTOMERS**

	€k	30/6/2008	31/12/2007
<b>Savings deposits</b>		<b>1,530,638</b>	<b>1,443,697</b>
Corporate and business banking customers		228,632	195,206
Retail banking customers		1,302,006	1,248,491
<b>Other payables</b>		<b>1,793,631</b>	<b>1,886,323</b>
Corporate and business banking customers		1,320,970	1,442,315
Retail banking customers		472,661	444,008
<b>Payables to customers</b>		<b>3,324,269</b>	<b>3,330,020</b>

**(26) LIABILITIES EVIDENCED BY PAPER**

	€k	30/6/2008	31/12/2007
Issued bonds		154,415	166,316
Other liabilities evidenced by paper		83,121	85,227
<b>Liabilities evidenced by paper</b>		<b>237,536</b>	<b>251,543</b>

**(27) TRADING LIABILITIES**

	€k	30/6/2008	31/12/2007
Interest rate contracts		1,506	1,879
Currency contracts		148	69
<b>Trading liabilities</b>		<b>1,654</b>	<b>1,948</b>

**(28) PROVISIONS**

	€k	30/6/2008	31/12/2007
Provisions for post-employment benefits and similar obligations		69,206	68,356
Provisions for taxes (current tax)		1,374	1,565
Other provisions		8,413	10,591
<b>Provisions</b>		<b>78,993</b>	<b>80,512</b>

**(29) DEFERRED TAX LIABILITIES**

	€k	30/6/2008	31/12/2007
<b>Deferred tax liabilities</b>		<b>7,470</b>	<b>6,779</b>

**(30) OTHER LIABILITIES**

	€k	30/6/2008	31/12/2007
Negative fair values of derivative financial instruments		25,020	18,817
Other items		26,674	14,275
Deferred items		1,095	1,307
<b>Other liabilities</b>		<b>52,789</b>	<b>34,399</b>

**(31) SUBORDINATED DEBT CAPITAL**

	€k	30/6/2008	31/12/2007
Supplementary capital		216,165	200,219
<b>Subordinated debt capital</b>		<b>216,165</b>	<b>200,219</b>

**(32) SEGMENT REPORTING**

On the grounds of immateriality, secondary segment reporting (by country) was dispensed with.

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 equity employed 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 measured in terms of the profit before tax recorded in that segment. Alongside the cost:income ratio, return on equity was one of the principal benchmarks for managing business segments.

## SEGMENT BREAKDOWN

€k	Retail Banking		Corporate and Business Banking	
	H1 2008	H1 2007	H1 2008	H1 2007
<b>Net interest income</b>	<b>15,471</b>	<b>15,566</b>	<b>25,664</b>	<b>22,696</b>
Impairment losses on loans and advances	(801)	(1,338)	(10,900)	(10,782)
Net fee and commission income	9,003	11,059	11,337	10,552
Net trading income	—	—	—	—
General administrative expenses	(22,833)	(22,040)	(15,066)	(14,650)
Other operating income net of other operating expenses	632	361	799	395
Profit from financial assets	—	—	—	—
<b>Profit for the period before tax</b>	<b>1,472</b>	<b>3,608</b>	<b>11,834</b>	<b>8,211</b>
Average risk-weighted assets	587,539	668,530	2,706,703	2,440,967
Average equity employed	47,003	53,482	216,536	195,277
<b>ROE based on profit for the period</b>	<b>6.3%</b>	<b>13.5%</b>	<b>10.9%</b>	<b>8.4%</b>
<b>Cost:income ratio</b>	<b>90.9%</b>	<b>81.7%</b>	<b>39.9%</b>	<b>43.5%</b>

## (33) CONTINGENT LIABILITIES AND COMMITMENTS

	30/6/2008	31/12/2007
Guarantees	330,895	329,488
Letters of credit	368	1,202
<b>Contingent liabilities</b>	<b>331,263</b>	<b>330,690</b>
Non-genuine repos	5,537	5,537
Other commitments	706,679	800,058
<b>Commitments</b>	<b>712,216</b>	<b>805,595</b>

## 34) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place at BKS Bank after the interim reporting date (30 June 2008) affecting the assets, financial position or results of operations presented in this report. This includes the news published in the media on 26 June that *UniCredit* intends to dispose of its investments in the Austrian regional banks *BKS Bank AG*, *Oberbank AG* and *BTV AG* (the *3 Banken Group*) and is seeking to procure purchasers for these investments.

## (35) BALANCE OF DERIVATIVES OUTSTANDING

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

30/6/2008	€k	Nominal, by term to maturity			Total	Fair values	
		To 1 year	1 – 5 years	> 5 years		Positive	Negative
<b>Currency contracts</b>	<b>2,183,492</b>	<b>996</b>	<b>—</b>	<b>—</b>	<b>2,184,488</b>	<b>3,536</b>	<b>8,833</b>
– Of which in trading book	23,984	—	—	—	23,984	151	148
<b>Interest rate contracts</b>	<b>468,488</b>	<b>558,052</b>	<b>360,968</b>	<b>—</b>	<b>1,387,508</b>	<b>8,462</b>	<b>17,516</b>
– Of which in trading book	353,500	122,040	2,280	—	477,820	926	995
<b>Securities contracts</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
– Of which in trading book	—	—	—	—	—	—	—
<b>Total</b>	<b>2,651,980</b>	<b>559,048</b>	<b>360,968</b>	<b>—</b>	<b>3,571,996</b>	<b>11,998</b>	<b>26,349</b>
– Of which traded on an exchange	—	—	—	—	—	—	—

Financial Markets		Other		Total	
H1 2008	H1 2007	H1 2008	H1 2007	H1 2008	H1 2007
<b>18,892</b>	<b>12,270</b>	<b>(38)</b>	<b>1,402</b>	<b>59,990</b>	<b>51,934</b>
—	—	—	—	(11,700)	(12,120)
764	595	(160)	102	20,944	22,308
1,390	1,295	—	—	1,390	1,295
(3,282)	(2,123)	(666)	(217)	(41,847)	(39,030)
(6)	—	144	404	1,568	1,160
(270)	3,122	—	—	(270)	3,122
<b>17,488</b>	<b>15,159</b>	<b>(720)</b>	<b>1,691</b>	<b>30,075</b>	<b>28,669</b>
552,034	453,618	138,519	171,821	3,984,795	3,734,936
164,166	161,584	21,139	20,478	448,844	430,821
<b>21.3%</b>	<b>18.6%</b>	—	—	<b>12.9%</b>	<b>12.1%</b>
<b>15.6%</b>	<b>15.0%</b>	—	—	<b>49.9%</b>	<b>50.9%</b>

## &gt; Balance of derivatives outstanding (continued)

31/12/2007	€k	Nominal, by term to maturity			Total	Fair values	
		To 1 year	1 – 5 years	> 5 years		Positive	Negative
<b>Currency contracts</b>	<b>1,352,739</b>	<b>841,341</b>	—	—	<b>2,194,080</b>	<b>14,008</b>	<b>9,119</b>
– Of which in trading book	9,428	—	—	—	9,428	70	69
<b>Interest rate contracts</b>	<b>698,507</b>	<b>350,756</b>	<b>420,172</b>	—	<b>1,469,435</b>	<b>6,510</b>	<b>9,305</b>
– Of which in trading book	520,452	120,000	—	—	640,452	718	741
<b>Securities contracts</b>	<b>7,400</b>	—	—	—	<b>7,400</b>	<b>1,174</b>	<b>1,174</b>
– Of which in trading book	—	—	—	—	—	—	—
<b>Total</b>	<b>2,058,646</b>	<b>1,192,097</b>	<b>420,172</b>	—	<b>3,670,915</b>	<b>21,692</b>	<b>19,598</b>
– Of which traded on an exchange	—	—	—	—	—	—	—

**Statement by the Management of BKS Bank on the Interim Report**

“We confirm that, to the best of our knowledge, the Condensed Consolidated Interim Financial Statements of BKS Bank prepared in accordance with the applicable financial reporting standards give a true and fair a view of the Group’s assets, liabilities, financial position and profit or loss and that the Semi-Annual Group Management Report gives a true and fair view of the Group’s assets, liabilities, financial position and profit or loss with respect to material events occurring during the first six months of the financial year and their impact on the Condensed Consolidated Interim Financial Statements, with respect to the principal risks and uncertainties for the remaining six months of the financial year and with respect to the material transactions with related entities and persons that require disclosure.”

Klagenfurt  
20 August 2008



Heimo Penker



Herta Stockbauer

**Forward-looking statements**

This Interim 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 of 20 August 2008. If the assumptions upon which such forecasts are based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

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Photo of the Management Board: Gernot Gleiss.

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