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LETTER TO SHAREHOLDERS 3/2010

(Interim Report to 30 September 2010)

BKS Bank
3 Banken Gruppe

Contents

The BKS Bank Group at a glance

Income account, €m	**Q1–Q3 2010**	**Q1–Q3 2009**	**Q1–Q3 2008**
Net interest income	104.1	97.6	92.1
Impairment charges on loans and advances	(36.3)	(29.1)	(17.6)
Net fee and commission income	31.5	28.9	30.9
General administrative expenses	(67.2)	(65.6)	(63.8)
Profit for the period before tax	35.8	32.0	41.6
Consolidated net profit	31.1	29.2	38.3
Balance sheet data, €m	**30/9/2010**	**31/12/2009**	**31/12/2008**
Assets	6,312.8	6,315.9	5,975.7
Receivables from customers after impairment allowances	4,534.8	4,350.2	4,186.1
Primary funds	4,136.8	3,907.9	3,945.1
– Of which savings deposit balances	1,867.2	1,804.6	1,677.5
– Of which liabilities evidenced by paper, incl. subordinated debt capital	655.2	564.7	452.0
Equity	609.2	577.5	464.7
Customer assets under management	9,875.4	9,343.5	8,739.3
– Of which in customers' securities accounts	5,738.6	5,435.6	4,794.2
Own funds within the meaning of BWG, €m	**30/9/2010**	**31/12/2009**	**31/12/2008**
Risk-weighted assets	4,433.3	4,258.4	4,087.7
Own funds	526.4	514.7	450.9
Of which Tier I	369.5	369.5	281.9
Surplus own funds before operational risk	171.7	174.0	123.9
Surplus own funds after operational risk	146.7	150.8	102.7
Tier 1 ratio, %	8.3	8.7	6.9
Own funds ratio, %	11.9	12.1	11.0
Performance, %	**Q1–Q3 2010**	**2009**	**2008**
Return on equity before tax	8.0	8.9	9.7
Return on equity after tax	6.9	7.8	9.2
Cost:income ratio	48.8	49.9	50.1
Risk:earnings ratio (credit risk in per cent of net interest income)	34.9	28.3	15.4
Resources	**Q1–Q3 2010**	**2009**	**2008**
Average number of staff	868	872	860
Branches	55	55	54
BKS Bank's shares	**Q1–Q3 2010**	**2009**	**2008**
No. of ordinary no-par shares (ISIN AT0000624705) to 4 June 2009		4,380,000	4,380,000
No. of ordinary no-par shares (ISIN AT0000624705) from 5 June 2009[1]	30,960,000	30,960,000	
No. of no-par preference shares (ISIN AT0000624739) to 4 June 2009		300,000	300,000
No. of no-par preference shares (ISIN AT0000624739) from 5 June 2009[1]	1,800,000	1,800,000	
High: ordinary/preference share, €[1]	18.0/15.1	18.2/15.3[1]	113.5/101.0
Low: ordinary/preference share, €[1]	15.9/13.7	16.5/13.6[1]	110.0/92.0
Close: ordinary/preference share, €[1]	16.5/14.2	18.1/14.7[1]	110.0/92.0
Market capitalization, €m (at end of period under review)	536.3	586.8	509.4

[1] Taking into account the six-for-one stock split on 5 June 2009 and the seven-for-one raising of share capital on 23 October 2009.

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

We welcome you warmly to our third Letter to Shareholders in 2010. Our results in the first three quarters were further clear proof of the robustness of our business model even when the economic environment as a whole is challenging. Both our most important sources of profit — net interest income before impairment charges and net fee and commission income — and general administrative expenses have been very satisfactory this year to date. Consolidated net profit in the first three quarters came to €31.1 million, which was 6.6 per cent up on the same period of the previous year. Profit in the third quarter came to €11.5 million, which was our best quarterly result since the third quarter of 2008. Risk costs continued to rise in the course of this year, although the increase slowed to just €7.3 million in the third quarter. Our cost:income ratio improved from 49.9 per cent in 2009 to an all-time low of just 48.8 per cent in the period under review. Our balance sheet assets came to more than €6.3 billion. Growth on the assets side of the Balance Sheet was due mainly to a steady increase in receivables from customers, which grew by 4.7 per cent to roughly €4.7 billion. Growth on the equity and liabilities side of the Balance Sheet was driven by a 5.9 per cent increase in primary funds to over €4.1 billion.

We are also pleased to be able to tell you about the bank's comfortable capital position. BKS Bank's own funds base was still very solid at the end of the third quarter of 2010. Our Tier 1 ratio was 8.3 per cent, which was over twice the legal requirement, and our surplus own funds came to approximately €172 million. According to our initial internal estimates, this means that we are already 'Basel III ready.'

Group Management Report for the nine months ended 30 September 2010

The economic setting in which banks are operating

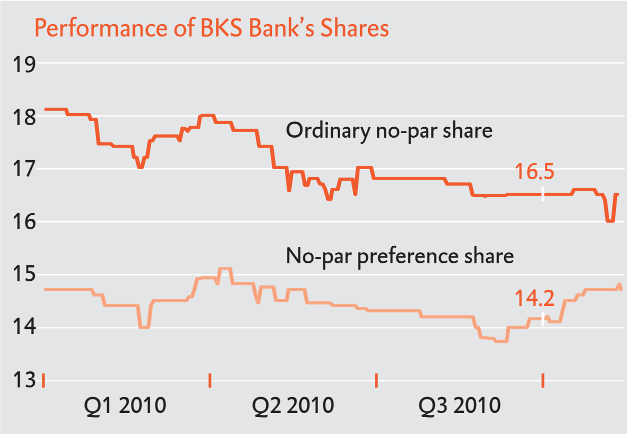
While the key threshold economies in Latin America and Asia and the African emerging markets moved out of the economic shadows early following the economic slump around the turn of 2008/2009, the industrialized countries have so far proven slow to recover. Nonetheless — and with regional variations — the global economy has got over the aftermath of the financial crisis in the course of this year and continued to stabilize in the third quarter. However, capacity utilization around the world has remained below-average. To date, inflationary pressure has stayed low. Factoring out the volatility of energy and food prices, inflation in most industrialized countries — including the eurozone and the United States — was still below 2 per cent. The ECB Council responded by maintaining its monetary policy course, leaving its minimum bid rate on its main refinancing operations in euros and its peak refinancing and deposit facility rates unchanged at their existing record lows of 1.0, 1.75 and 0.25 per cent, respectively. The Federal Reserve Open Market Committee in the United States also decided to maintain the target range for the federal funds rate unchanged, at close to zero.

Against the backdrop of growing fears of a renewed slide into recession, the longed for recovery has been significantly weaker than in comparable economic cycles in the past, especially in the United States. The US economy is currently in a phase of modest growth, but it is faced with persistently high unemployment. In a sobering economic forecast, the Federal Reserve Open Market Committee recently announced plans to reduce capital market yields by giving the economy massive support through further quantitative easing so as to permanently boost private consumption and corporate demand. The Fed having already bought US$1,750 billion worth of US Treasuries from the market since the end of 2008, the announcement that it would purchase up to another US$600 billion of Treasures caused further concern in the international currency and commodity markets. Above all, at times during the year, the US$/€ rate moved outside its comparatively narrow corridor. The euro started the year at US$1.4389, and its development was for a long time dominated by worries about the monetary union's long-term future. However, the US economy's subdued economic outlook recently came back into focus. As a result, having bottomed out at US$1.1942 in June, Europe's single currency has recovered much of the ground it had previously lost. The euro was trading at US$1.3648 at the end of September and at US$1.3481 at the time of writing.

The eurozone economy has also gained ground this year. Nonetheless, given the deep decline that preceded it, the full-year real growth of 1.6% being forecast by the ECB for 2010 as a whole (2011: 1.4 per cent) will be modest. To date, the need to reduce excessive public sector deficits, urgently needed consolidation measures, the weak investment climate, the continuing need for extensive reforms in the financial sector and, not least, severe regional imbalances — particularly in peripheral countries — have prevented a self-sustaining recovery. Countries like Spain and Italy have been unable to benefit from the cyclical upturn as much as Central and Western Europe. In addition, construction spending fell particularly sharply in some areas of the EU after the property bubble burst. On the other hand, the German economy, which mainly produces capital goods and exports, took on a leadership role within the eurozone. WIFO expects the Austrian economy to grow by 2.0 per cent in 2010 and 1.9 per cent in 2011. Up to now, its recovery has been driven mainly by goods exports to Germany and other countries in the eurozone. However, low capacity utilization levels mean that the growth in investment is likely to remain subdued. Haven fallen by 2 per cent in real terms this year, investment growth is not expected to stabilize until next year, when investment should grow by about 4 per cent in real terms. The jobless rate could drop from its present level of 4.4 per cent to about 4.3 per cent by the end of 2011.

Once the European Financial Stability Facility had been set up, the stress tests on the major European banks had been published and maturing ailing government bonds had successfully been refinanced, market participants' worries about the solvency of a number of eurozone countries subsided. Moreover, the publication of the new capital adequacy requirements and the timetable for implementing the reform of the Basel framework allayed some concerns about the outlook in the banking sector. Nonetheless, the focus on the heightened risks in a number of countries increased again towards the end of the quarter. This was, above all, reflected by a big spread between yields on 10-year German *Bunds* (2.28 per cent) and, say, Greek government bonds (10.45 per cent).

After a period of irregular sideways movements that mirrored the economy's performance, corporate numbers, government debt figures and government and central bank action, all the international equity markets closed the third quarter strongly following gains in July and September. The Dow Jones Industrial ended September at 10,778 points, which was 10.3 per cent up on the end of the first half and 3.4 per cent up on the beginning of the year. Although the EuroStoxx 50 posted a gain of 6.8 per cent in the third quarter, taking it up to 2,748 points, it lost 7.4 per cent over the first three quarters. Oil prices also remained highly volatile. European benchmark Brent crude was trading at €60.39 a barrel at the end of September, or 8.6 per cent more than at the beginning of the year. BKS Bank's ordinary no-par shares were worth €16.5 at the end of September (€16.5 at the time of writing), and the BKS Bank no-par preference share was trading at €14.2 (€14.7 at the time of writing).



Notes on the scope of consolidation

The consolidated group on which our analyses are based currently consists of 18 banks and other financial service providers and companies that render banking-related ancillary services. These companies include our leasing subsidiaries in Austria and abroad as well as *Alpenländische Garantie Gesellschaft mbH* and insurer *Drei-Banken Versicherungs-Aktiengesellschaft*. Given the sizes of the various companies within the Group, its financial statements are dominated by *BKS Bank AG*. Our investments in our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*—which make up the *3 Banken Group* together with *BKS Bank AG*—are also accounted for in the Consolidated Financial Statements, using the equity method. This is because even though BKS Bank controls less than 20 per cent of the voting power in these entities, it can exert a significant influence as the result of long-term syndicate agreements. Consequently, consolidated profit for the nine months ended 30 September 2010 includes BKS Bank's interests in these banks' profit for the period. The other consolidated entities, most of which are designated as real estate companies, render banking-related ancillary services.

BKS Hybrid beta GmbH, Klagenfurt, was consolidated as of 30 September 2010. This company's principal object is to issue subordinated hybrid bonds. The proceeds from such issuances are used to purchase the supplementary capital bonds (*Ergänzungskapitalanleihe*) of *BKS Bank AG*.

Scope of Consolidation of BKS Bank: 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[1]	*BKS Bank d.d.*, Rijeka	
Alpenländische Garantie GmbH, Linz	*Oberbank AG*, Linz	*Bank für Tirol und Vorarlberg AG*, Innsbruck	*Drei-Banken Versicherungs-AG*, Linz

Scope of Consolidation of BKS Bank: Other Consolidated Entities

BKS Zentrale-Errichtungs- u. Vermietungs GmbH, Klagenfurt	*IEV Immobilien GmbH*, Klagenfurt	*Immobilien Errichtungs- u. Ver-mietungs GmbH & Co. KG*, Klagenfurt	*BKS Hybrid alpha GmbH*, Klagenfurt
VBG-CH Verwaltungs- und Be-teiligungs GmbH, Klagenfurt	*LVM Beteiligungs Gesellschaft m.b.H.*, Vienna	*BKS Hybrid beta GmbH*, Klagenfurt	

■ Consolidated ■ Accounted for using the equity method

[1] *BKS Leasing a.s.* and *BKS Finance s.r.o.* make up a subgroup.

Assets, liabilities and financial position

Assets

The BKS Bank Group had assets of €6.31 billion at 30 September 2010. This was roughly the same total as at the end of 2009. The fastest growing line item on the assets side of the Balance Sheet was *Receivables from customers*, which grew by €0.21 billion or 4.7 per cent to €4.67 billion. IFRSs require an impairment allowance to be deducted from receivables from customers. New allowances increased the total by another €25.1 million to €138.5 million during the period under review. On the other hand, we reduced our receivables from other banks by roughly half to €0.20 billion, while payables to other banks also fell to total €1.39 billion at the end of September.

Our Croatian banking subsidiary *BKS Bank d.d.* and our leasing subsidiaries in Austria and abroad also made essential contributions to the positive development of our lending operations alongside *BKS Bank AG* and its branches and offices in Slovenia, which accounted for about €4.27 billion of the Group's receivables from customers after the deduction of intragroup receivables. As in prior periods, most of the increase in loans and advances took place in the corporate and business loans segment. We were able to expand our market presence in the retail loans segment—above all in Slovenia—while still prioritizing adequate collateralization. The development of our operations in the foreign currency loans market was mainly a reflection of our targeted reduction of Swiss franc receivables against the backdrop of further softening of the SFr/€ exchange rate. The foreign currency portion of the BKS Bank Group's total loan portfolio came to 18.9 per cent at the end of September, as against 19.9 per cent at the end of 2009.

Our risk-aware lending policies continued to shape our leasing operations in Austria and abroad, but we were able to maintain the healthy totals recorded in 2009. This resulted in a domestic portfolio of €0.17 billion, and business transacted abroad through our leasing subsidiaries in Ljubljana, Zagreb and Bratislava gave us lease receivables with a present value of €0.16 billion. *BKS Bank d.d.* in Croatia, which is headquartered in Rijeka, made use of its business leeway once the Croatian national bank's lending restrictions had ended, substantially increasing its receivables from customers to €72 million. Thanks to an HRK60.0 million raising of share capital carried out in July, this Group member had an own funds ratio of over 20 per cent at the end of September.

Following an increase of roughly 3 per cent, the Interim Balance Sheet as at 30 September shows total securities holdings in the various categories of financial asset of €1.32 billion, compared with €1.28 billion at the end of 2009. In detail, the hedging of a fixed rate loan increased the line item *Financial assets designated as at fair value through profit or loss* by €7.9 million to €131.3 million; the portfolio of available-for-sale financial assets was held steady at roughly the same level as on the most recent annual balance sheet date at €0.31 billion; and the held-to-maturity portfolio of assets held to give us a liquidity cushion increased marginally by 1.7 per cent to €0.60 billion. Finally, BKS Bank's investments in *Oberbank AG* and *BTV AG*, which were accounted for using the equity method, increased the line item *Investments in entities accounted for using the equity method* by 7.0 per cent to €0.28 billion.

Equity and liabilities

The line items on the equity and liabilities side of the Balance Sheet reflected our extensive efforts to attract customer deposits and our prioritization of sustainable liquidity management. The balance of our so-called *primary funds*, which are made up of savings, sight and time deposit balances and liabilities evidenced by paper, was high, at €4.14 billion. This was more than the total of €3.91 billion recorded at the end of 2009, providing impressive proof of our customers' confidence in BKS Bank's future outlook. Including subordinate debt capital, our primary funds sufficed to fund roughly 90 per cent of our loans and advances to customers. In particular, there was a steady inflow of savings deposits during the period under review—although it weakened slightly in the third quarter—increasing the balance by some 3.5 per cent to €1.87 billion. We want to keep this growth going with the help of attractive fixed-term, fixed-rate savings products with terms of 12, 18 and 24 months. Other liabilities, comprising sight and time deposit balances, were also up on the previous year, to €1.61 billion. We have recently seen a marked increase in institutional time deposits, which are mainly held as a liquidity cushion.

Besides deposits from retail banking and corporate and business banking customers, which we believe to be a comparatively stable source of deposit balances that will be at the bank's disposal for a longer period, we also made use of the capital markets as a source of funds, the focus being on generating long-term liquidity. We issued and successfully placed BKS Bank notes worth €90.4 million during the first quarters. In addition, Group member *BKS Hybrid beta GmbH*, Klagenfurt, issued an attractive hybrid capital instrument that will bear a fixed interest rate of 6 per cent *per annum* for the first 10 years of its term. Because of strong investor response, sales of this instrument were terminated prematurely at the end of October.

Growth in the available-for-sale reserve and consolidated net profit increased the line item *Equity* on the Balance Sheet by 5.5 per cent to €0.61 billion between the beginning of the year and 30 September 2010. BKS Bank's equity is detailed in the Statement of Changes in Equity on page 20.

Own funds

Since the beginning of 2008, BKS Bank has been calculating its own funds ratio and basis of assessment in accordance with the EU Solvency Directive, which takes its bearings from Basel II. We have already prepared ourselves thoroughly for the stricter regulatory regime that has been announced under the heading *Basel III*.

We use the standardized approach to calculate our bank's own funds requirement. As the table below shows, our eligible own funds were €11.7 million up on the end of 2009 to €526.4 million. Our basis of assessment for the banking book increased to €4.43 billion because, above all, of the increase in loans and advances to customers. Our own

Own Funds of BKS Bank Kreditinstitutsgruppe

€m (method of calculation in 2008 and 2009: Basel II)	30/9/2010	31/12/2009	31/12/2008
Share capital	65.5	65.5	50.0
Hybrid capital	20.0	20.0	20.0
Disclosed reserves net of treasury shares and intangible assets	284.0	284.0	211.9
Tier 1 capital	**369.5**	**369.5**	**281.9**
Tier 1 ratio	8.3%	8.7%	6.9%
Hidden reserves	10.3	10.3	5.6
Eligible supplementary capital	164.5	149.8	154.9
Balance of gains and losses taken to equity	66.5	63.9	61.3
Eligible subordinated liabilities	8.9	14.5	13.8
Supplementary own funds (Tier 2)[1]	**250.2**	**238.5**	**235.6**
Deductions from Tier 1 and Tier 2	93.3	93.3	66.6
Eligible own funds	**526.4**	**514.7**	**450.9**
Own funds ratio	11.9%	12.1%	11.0%
Basis of assessment for the banking book	4,433.3	4,258.4	4,087.7
Own funds requirement	**354.7**	**340.7**	**327.0**
Own funds requirement for the trading book	2.7	2.8	3.3
— Of which arising from open currency positions	2.1	1.9	2.3
Own funds requirement for operational risk	25.0	23.2	21.2
Surplus own funds (disregarding operational risk)	**171.7**	**174.0**	**123.9**
Surplus own funds (taking account of operational risk)	**146.7**	**150.8**	**102.7**

[1] Pursuant to § 23 *BWG*, supplementary own funds can only be recognized up to the amount of Tier 1 capital.

funds ratio and Tier 1 ratio were slightly down on the end of 2009 to 11.9 and 8.3 per cent, respectively. However, these ratios were still well above the statutory minima of 8.0 per cent (own funds) and 4.0 per cent (Tier 1). Surplus own funds were high at €171.7 million. Even after taking account of the capital charge of €25.0 million required for operational risk, the surplus provided an adequate basis for future lending growth for which capital charges will be required.

We will be continuously assessing the affects of proposals for Basel III and other regulatory proposals on certain transactions and on our bank's business model. As things stand at the moment, we believe that BKS Bank is at any event 'Basel III ready.'

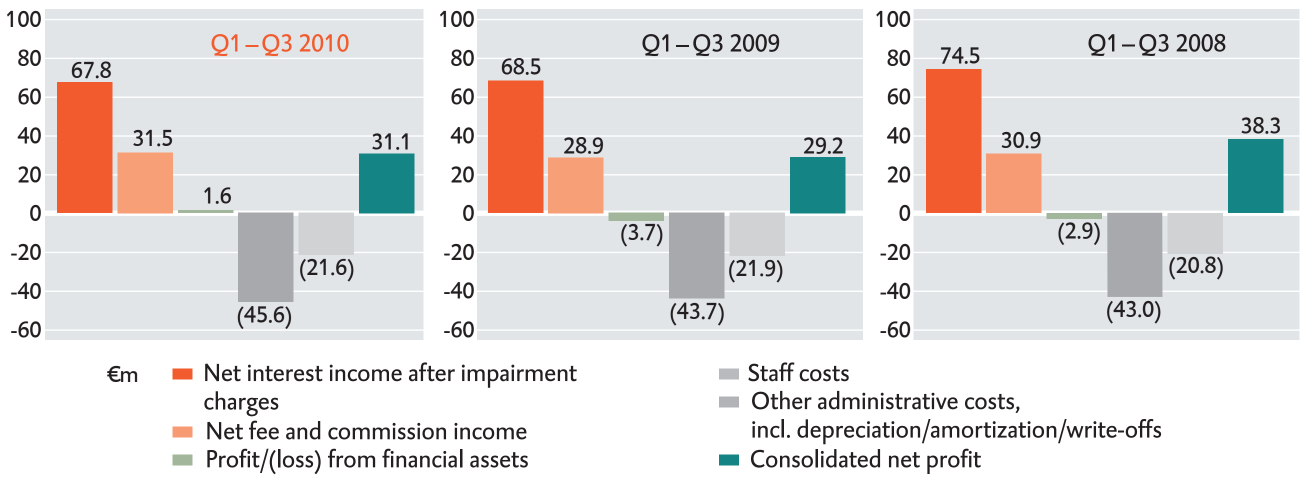
Performance

Consolidated net profit continued to grow steadily in the third quarter. Having already increased by 6.3 per cent in the first half, it was 6.6 per cent up on the first three quarters of 2009 in the period under review. Once again, net interest income before impairment charges on loans and advances was the principal motor of this growth as well as our key pillar of profit, increasing by 6.7 per cent to €104.1 million. This was mainly attributable to strong growth of the loan portfolio and our consistent and restrictive margins policy. Net interest income after impairment charges came to €67.8 million, which was just 1.1 per cent down on the same period of 2009. Because economic conditions had improved slightly, the charge for impairment losses was just €7.3 million up on the same period of 2009 to €36.3 million. The business administration of our leasing companies in Austria and abroad and of the other Group members was likewise based on consistent, risk-aware interest rate policies.

Net fee and commission income in the first nine months of 2010 came to €31.5 million, which was 9.2 per cent up on the same period of 2009. This increase was mainly driven by the robust growth of our earnings from foreign operations, payment services and securities and lending operations. Although the upturn in the international stock markets that we have been seeing this year boosted the value of our customers' securities accounts by roughly €0.3 billion to €5.74 billion, they were still visibly cautious. As a result, our fee and commission income from securities operations still fell short of the good results recorded in earlier 'normal' years. We will tell you about our planned countermeasures in the chapter on our activities and the focuses of our work during the period under review.

Following a loss of €3.7 million in the same period of 2009, our earnings from financial assets were transformed, resulting in a profit of €1.6 million. An improved balance of gains and losses due to the fair value option generated a turnaround in our earnings from financial assets designated as at fair value through profit or loss compared with the second quarter of this financial year, and thanks to realized gains of €4.2 million, the available-for-sale portfolio also made a positive contribution to our profit from financial assets. As in the first half of 2010, impairments came to €2.2 million.

Key Components of the Income Statement



General administrative expenses increased by just 2.4 per cent to €67.2 million and therefore by much less than net interest income and net fee and commission income. This illustrated the ongoing progress of our rationalizations and efficiency enhancements. Our staff costs increased by 4.4 per cent to €45.6 million. However, we only replaced staff leaving us if it was really necessary to do so, and our ambitious Group-wide efficiency programmes and growth initiatives also had the desired results. Reducing unused vacation time, cutting back on flexitime credits and restricting overtime throughout the Group remained a special priority. Our employees worked 868 staff years (full-time equivalent) during the nine months up to the end of September, compared with 873 up to the end of September 2009. The increase in salaries under collective agreements came to 0.75 per cent in 2010.

We were able to keep both other administrative costs and depreciation/amortization/write-offs static at the comparatively low levels recorded in the same period of the previous year, namely €17.0 million and €4.5 million, respectively. This was achieved with the help of tight, Group-wide cost discipline, by cutting routine office and operating costs and by keeping our marketing outlay well below budget. The small drop in non-personnel costs was remarkable given that we opened another new branch in Slovenia this year, relocated one branch and adapted a number of branches inside Austria.

Ratios

Per cent	Q1 – Q3 2010	2009	2008
Tier 1 ratio	8.3	8.7	6.9
Own funds ratio	11.9	12.1	11.0
ROE (before tax)	8.0	8.9	9.7
ROA (before tax)	0.8	0.8	0.8
Cost:income ratio	48.8	49.9	50.1
Risk:earnings ratio	34.9	28.3	15.4

Join us for a look at a number of key operational performance ratios. They mirror the persistently difficult operating environment and a climate in the corporate sector that, though generally stable, had poor patches. As we have already reported in the section on our own funds, our bank has a very solid own funds base and delivered correspondingly good ratios. On the other hand, our return on equity before tax (ROE) was not as quite good as in prior periods, at 8.0 per cent. Our cost:income ratio (the ratio of general administrative expenses to total earnings without deducting the charge for impairment losses on loans and advances) remained at an all-time low after the first three quarters of 2010, at just 48.8 per cent, and was, therefore, also well below our internal 55 per cent benchmark. Ours was again among the best cost:income ratios in the Austrian banking industry. Our risk:earnings ratio (RER) rose from 28.3 per cent in 2009 to 34.9 per cent in the period under review, reflecting the fact that risks in the corporate sector were still high. As this ratio shows, roughly one third our net interest income was already being swallowed up by our consistent charges for credit risk, including first and foremost charges for risks in the corporate and business banking segment. Although the economic outlook has got a little brighter, letting us gradually reduce this ratio in the course of the year, we cannot yet say when our internal RER target of 20 per cent will be achievable again.

Segmental Report

As we told you in our last Letter to Shareholders, we have reconfigured our customer segments. The focus is on expanding our retail sales activities. There were a number of obvious reasons for doing so, like our plans to boost our earning power in the retail segment, increase our cross-selling rate, raise customer care standards and reduce burdens on account managers in the corporate and business banking segment. A total of 4,902 self-employed customers and small businesses previously included in the corporate and business banking segment—and accounting for loans totalling about €100 million and deposit balances of about €230 million—were transferred to our new retail banking segment in the course of the third quarter. The fresh subdivision of our operating activities within the scope of our three business segments—*Corporate and Business Banking*, *Retail Banking* and *Financial Markets*—will enable us to provide our customers and business associates with the best possible support. From now on, our segment reports will be based on this new organizational structure and on the Group's internal management reporting systems, which have been adapted accordingly. We measure the performance of each segment on the basis of its profit before tax, return on equity and cost:income ratio. To allow comparability, we have restated prior-year figures. All three segments were profitable in the first three quarters of 2010, and the corporate and business banking and financial markets segments actually recorded high rates of profit growth.

Corporate and Business Banking

The *Corporate and Business Banking* segment encompasses the income and expenses that arise from the corporate and business banking activities of *BKS Bank AG*, *BKS Bank d.d.* in Croatia and our leasing companies in Austria and abroad.

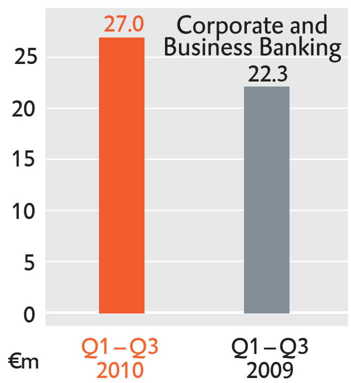
The corporate and business banking segment remained the predominant operating unit within the BKS Bank Group after the restructuring process. During the period under review, the corporate and business loan portfolio grew by 4.2 per cent to roughly €3.65 billion, and the corporate and business banking customer base grew to about 13,000. Profit for the period before tax in this segment was over one fifth up on the same period of 2009 to €27.0 million. As a result, it has remained the biggest contributor to consolidated net profit this year. This profit growth was driven by a robust increase in net interest income, which grew by €12.2 million to €70.0 million. However, the requisite increase in the charge for impairment losses on loans and advances in this segment of €7.9 million to €35.2 million caused a perceptible rise in its risk:earnings ratio, which increased from 47.3 per cent in the nine months ended 30 September 2009 to 50.2 per cent in the period under review. Thanks to strict cost discipline, general administrative expenses charged to this segment were only marginally up on the first three quarters of 2009 to €25.4 million. Consequently, both its cost:income ratio and its return on equity were outstanding by Austrian standards. The former came to 29.0 per cent, and the latter increased by 170 basis points to 14.3 per cent. In the next few quarters, we will be continuing to focus our attention on improving margins and reducing the risks associated with our lending operations.

Retail Banking

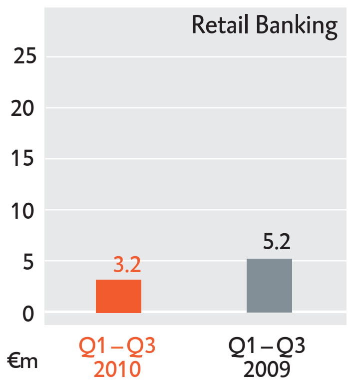
Following the successful migration of customers within the scope of our *Retail* project, the *Retail Banking* segment encompasses the income and expenses that arise from the retail banking activities of *BKS Bank AG*, *BKS Bank d.d.*, *BKS-Leasing GmbH* and our leasing subsidiaries abroad as well as business conducted with self-employed customers and small businesses.

Although competition was still tough, the retail banking segment delivered a profit in the first nine months. However, with market conditions depressing net interest income, profit for the period before tax fell to €3.2 million, compared with €5.2 million in the same period of 2009. The sharp drop of about €5.0 million in net interest income reduced it to €23.7 million, reflecting the erosion of margins on deposits. A number of our rivals in the banking industry

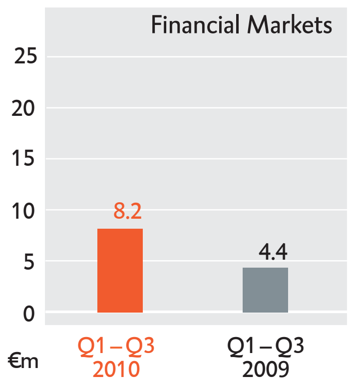
Profit for the period before tax, by segment



ROE	14.3%	12.6%
CIR	29.0%	33.3%



ROE	9.6%	16.1%
CIR	88.9%	83.5%



ROE	3.8%	3.0%
CIR	37.1%	37.5%

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

are already offering extremely generous terms in the struggle to attract customer assets. Moreover, other sources of income failed to make up for the slump in margins. On the other hand, we were also able to carry out another significant reduction in the charge for impairment losses in this segment. This brought it down to €1.2 million, as against €1.8 million in the first three quarters of 2009. Thanks to the improvement in our risk position, the segment's risk:earnings ratio thus dropped to an all-time low of 5 per cent. BKS Bank was soon back on a growth path following the rapid completion of the restructuring process in the retail segment, as was illustrated by its profit from services in this segment and the comparatively small increase in costs. Net fee and commission income in this segment was 13.8 per cent up on the same period of 2009 to €15.2 million, but general administrative expenses were static on the previous year at €35.3 million. The segment's cost:income ratio and return on equity came to 88.9 and 9.6 per cent, respectively, which was not yet as good as in 2009 (CIR: 83.5 per cent; ROE: 16.1 per cent). However, we can look forward to a permanent improvement in these ratios now that our *Retail* project has been put into effect. We had some 123,000 retail customers at the time of writing.

Financial Markets

The *Financial Markets* segment encompasses profits from *BKS Bank AG*'s proprietary trading activities and the Group's earnings from financial assets and maturity transformation (so-called *structural income*).

Having performed fairly modestly in 2009, mirroring the way the markets developed, this segment's performance in the first three quarters improved strongly — although earnings were still substantially lower than before the crisis — with profit for the period growing by roughly 88 per cent to €8.2 million. While profit from financial assets recovered, net interest income failed to develop well and was static on the same period of the previous year at €10.3 million. It therefore made an unsatisfactory contribution to our structural income in the wake of low market interest rates and the flat yield curve. This segment's return on equity before tax improved by 80 basis points to 3.8 per cent. Its cost:income ratio stabilized at 37.1 per cent. Profit from equity investments is also allocated to this segment as a part of structural income. Consequently, earnings in this segment were dented by impairment of the goodwill of a subsidiary in the amount of €1.5 million. This is recorded in Note (32) in the line item *Other operating income net of other operating expenses*.

Risk Report

Our risk management activities focus on ensuring 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 BKS Bank's 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 capital with the help of a framework of principles and guidelines in combination with organizational structures and risk measurement and monitoring processes that are well thought-out and finely tuned to our business model. These are closely geared to our activities in the Group's various business segments. When we accept a risk, we evaluate it to assess whether it is viable in the light of our risk bearing capacity and worthwhile from a risk/return point of view.

The models used by BKS Bank to measure risk are state-of-the-art and based on common practice in the banking industry. Central responsibility for risk management is assigned on the basis of regulatory recommendations. At BKS Bank, a Management Board member who is not involved in front-office operations has this central responsibility.

The large loan risks incurred by BKS Bank and the *3 Banken Group* are secured by *Alpenländische Garantie-Gesellschaft mbH*, which is a consolidated member of the BKS Bank Group.

Credit risk

Credit risk (also called *default risk*) is one of the most important risks in banking. It affects not only classical banking products (e.g. credit products und guarantees) but also certain trades (e.g. forwards, futures, swaps and options). It comprises the risk of partial or total non-payment of contractually agreed payments. Non-payment may be the result of a counterparty's poor credit standing or arise indirectly from country risk as a consequence of a counterparty's domicile. The amount of bad debts and the requisite impairment allowances might adversely affect the business situation, financial position and profits of a lending bank.

The threat of another plunge into recession appears to have been averted. However, a look at the strength and robustness of the latest recovery reveals uncertainties and imponderabilities that still affect risk in the economy as a whole. Although the need for impairment allowances has diminished in the course of this year, we booked €39.7 million of impairment allowances within BKS Bank during the first three quarters of 2010. €17.2 million of this total was booked during the first quarter, €11.3 million during the second and €11.2 million during the third. The collective assessment of impairment of the portfolio required by IAS 39—which is captured in the line item *Impairment allowances* in this table—came to €2.6 million. Direct write-offs in the period under review stayed very low at €0.8 million. Foreign subsidiaries of BKS Bank accounted for roughly €4.0 million of the impairment allowances booked during the period under review. The migration to weaker rating classes in the corporate and business banking segment died down. So far, there has been nothing unusual to report in the retail banking segment. This is because most of the personal loan portfolio consists of well-secured residential construction loans.

Impairment Losses on Loans and Advances

€m	30/9/2010	30/9/2009
Direct write-off	0.8	3.6
Impairment allowances	39.7	29.1
Impairment reversals	(3.9)	(3.2)
Subsequent recoveries	(0.3)	(0.4)
Charge for impairment losses	**36.3**	**29.1**

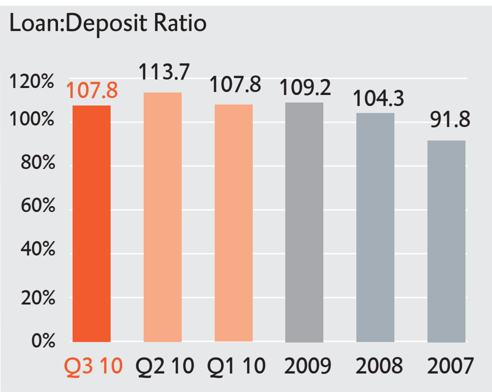
Market risk

In this risk category, we differentiate between interest rate risk, currency risk and equity price risk. Within the bank, we manage these risks using value-at-risk (VaR), duration and volume limits. The VaR method measures the maximum possible loss based on a predefined confidence interval. Asset Liability Management (the ALM Committee) analyzes the various present value, duration and VaR analysis reports on a monthly basis.

Our interest rate risks again changed little during the third quarter. At the end of the third quarter of 2010, the ratio of our interest rate risks to our eligible own funds assuming a rate shift of 200 basis points, as reported in the interest rate risk statistics prepared for *OeNB*, came to 4.02 per cent, compared with 4.54 per cent at the end of 2009. In other words, our ratio has stayed well below the critical 20 per cent mark this year. Our equity VaR having still been €5.6 million at the end of 2009, disinvestment from equities reduced it to €5.3 million during the period under review. Our currency risk increased by €6.7 million to €26.7 million as a result of fund positions whose foreign currency components required recognition as open currency positions. On the other hand, our currency VAR stayed very low, at €265 thousand, having been just €92 thousand at the end of 2009.

Liquidity risk

BKS Bank defines liquidity risk as comprising both the risk that it may not be possible to meet current or future financial obligations in full or in time and the risk that it may not be possible to raise sufficient quantities of urgently needed funds or may only be possible to raise such funds at significantly above normal market rates.



Throughout the period under review, BKS Bank met the minimum liquidity requirements laid down in *§ 25 BWG*. We held our surplus liquidity steady at an average of about €155 million. The relationship between receivables from customers and primary deposit balances (the loan:deposit ratio) has become an important gauge of the success of liquidity management activities. The benchmark we have in mind is 100 per cent. We therefore see the ratio of 107.8 per cent recorded at the end of September as an important step forward in our efforts to attract primary deposits, following a ratio of 113.7 at the middle of the year. Since the beginning of August, we have been producing remodelled and improved liquidity reports on a daily basis as part of stepping up our liquidity management activities.

Operational risk

In line with the solvency directives, we associate the term *operational risk* with the risk of losses that might arise primarily within the scope of BKS Bank's operating activities as a result of inadequate or failed internal processes, people and systems or as a consequence of external events. At BKS Bank, the management of operational risk is the responsibility of the relevant operating departments and responsible individuals (so-called *risk-taking units*). The operational risk losses reported across the Group during the period under review cost just €379 thousand. The most common risk events were processing errors in our business dealings with our customers and workflows within the bank. An extensive risk assessment is currently being carried out to identify possible operational weak spots.

Activities and focuses of our work during the period under review

We presented several of the crucial projects being carried out to secure our Group's future that were finalized in the course of this year—e.g. the *New Credit Risk Analysis and Credit Management*, *New Branch Organization* and *Retail* projects—in our reports as of 31 March and 30 June. Let us take another look at the most important of the resource-hungry projects and focuses that have been occupying us in recent weeks and months and/or will continue to do so in the medium term.

Now that we know more about the forthcoming changes in regulatory liquidity and capital adequacy requirements, we have been addressing specific problems and looking for solutions to ensure the best possible implementation of the new standards under the heading of *Preparing for Basel III*.

Another focus is on the development and repositioning of our securities operations. We want to expand these operations with the help of customer orientated product offerings as well as by improving our event and relationship management activities and providing higher service standards.

During the third quarter, we launched a project to enhance our compliance organization under the overall control of our new Management Board member Dieter Krassnitzer. The aim is to develop a compliance management system that will give us an additional, third pillar of enterprise surveillance alongside risk management and our internal control system (ICS). Complementing the surveillance domains that we have already implemented—securities compliance and anti-money laundering (AML)—it will cover all other Group-wide compliance risks and encompass and implement appropriate management mechanisms. The principal focuses will be on legal risks, prevention and awareness.

We use the working title *Open Space* to describe what we are doing to encourage communication between our employees and to motivate them to work together as a team, make the best possible use of our spatial resources and fill the space we use with life and team spirit. The third floor of BKS Bank's Head Office is being adapted in line with our new office concept as part of a pilot project that is pointing the way ahead.

Let us now look at the conversion work that is being done to our existing branches and at our building work on new branches in Austria and abroad. A new branch on *Wiedner Hauptstrasse* will be added to the branches in our Vienna region by mid-2011. We are planning the adaptation of existing branches—or adaptations are already underway—in Wolfsberg, Marz and Villach, helping increase customer and staff satisfaction. Following the relocation of our Maribor branch in Slovenia to new premises, we have now turned our attention to opening branches in Kranj and Nova Gorica in the medium term. In Croatia, *BKS Bank d.d.*, Rijeka, is concentrating on opening a sales outlet in Varaždin, stepping up the development of its risk management activities and launching securities operations. Our entry into the Slovakian market—i.e. opening a branch in that country and registering it as of 1 November—is precisely on schedule.

Outlook for the year as a whole

The present state of the economy and, above all, the short-term economic outlook are still subject to major uncertainties. As before, the biggest threats to growth are coming out of the United States, which is still suffering from a stubborn unemployment problem. The eurozone economy too is not immune from sliding back into the economic shadows, especially in the light of the unsolved structural problems of a number of peripheral countries and the massive need for public sector consolidation. On the other hand, the danger of another plunge into recession does seem to have been averted. The major central banks have delayed ending their low interest rate policies, and both the US Federal Reserve and the Bank of Japan have actually stepped up monetary expansion again. Consequently, the ECB and the Fed are very unlikely to hike their key interest rates next year and the present structurally low interest rates environment is likely to be maintained for the time being. The exchange rate of the euro versus the US dollar should initially benefit from the quantitative easing of US monetary policy, but in the medium term, the European Monetary Union's structural problems are likely to put renewed strain on the volatile US$/€ exchange rate as well as temporarily weakening the euro versus the Swiss franc.

As for the outlook for the financial markets, regulatory reforms are beginning to take shape a good two years after the collapse of investment bank *Lehman Brothers* and the near-collapse of the global financial system. The major financial centres adopted the Basel III Accord during the G-20 summit in Seoul. Financial institutions around the world will have to raise billions to strengthen their risk bearing capacities in years to come. However, it is still not clear whether additional capital adequacy requirements will be imposed on the heavyweights in the financial markets.

BKS Bank has prepared itself well to face these new challenges and to seize new opportunities. We are consistently applying our customer-orientated strategy — a strategy that is based on risk discipline, capital efficiency and earnings diversification. We believe that the environment in which banks are operating will remain difficult in the final quarter of 2010. In view of our pleasing profit growth in the first three quarters of this year and given a stable market environment, we believe that our profit for the year 2010 will enable us to continue to augment our reserves and distribute a dividend to match our results. However, we have mixed feelings about the multiple burden 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 harming this country's economy.

The 3 Banken Group

Finally, we draw your attention to the *3 Banken Group*'s core numbers. The key consolidated data of *Oberbank*, *Bank für Tirol und Vorarlberg AG* and BKS Bank are presented on the next page. These banks employ a total of roughly 3,650 people and together have the strength of a major bank. All three reported an increase in profit for the period in the first three quarters of 2010. At the time of writing, the members of the *3 Banken Group* had 230 branches as well as a number of leasing subsidiaries and representative offices in the countries that neighbour Austria. Any customer of any one of the *3 Banks* has access to the entire *3 Banken* network in Austria, Bavaria, the Czech Republic, Hungary, Slovakia, Slovenia, Croatia and Italy when using banking services in those countries and regions.

We remain,

Yours faithfully,

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

The 3 Banken Group at a glance

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	**Q1–Q3 10**	**Q1–Q3 09**	**Q1–Q3 10**	**Q1–Q3 09**	**Q1–Q3 10**	**Q1–Q3 09**
Net interest income	104.1	97.6	238.9	197.4	110.6	98.3
Impairment charges on loans and advances	(36.3)	(29.1)	(84.4)	(73.9)	(27.8)	(29.8)
Net fee and commission income	31.5	28.9	75.3	66.1	32.1	30.0
General administrative expenses	(67.2)	(65.6)	(160.1)	(154.7)	(66.9)	(70.9)
Profit for the period before tax	35.8	32.0	91.9	68.7	47.4	42.2
Consolidated net profit	31.1	29.2	75.9	57.4	40.3	37.4
Balance sheet data, €m	**30/9/10**	**31/12/09**	**30/9/10**	**31/12/09**	**30/9/10**	**31/12/09**
Assets	6,312.8	6,315.9	16,772.4	16,031.4	8,829.0	8,465.4
Receivables from customers after impairment allowances	4,534.8	4,350.2	10,058.6	9,594.0	5,605.0	5,384.9
Primary funds	4,136.8	3,907.9	10,997.1	10,916.4	5,913.7	6,259.6
– Of which savings deposit balances	1,867.2	1,804.6	3,303.8	3,399.2	1,305.4	1,412.1
– Of which liabilities evidenced by paper, including subordinated debt capital	655.2	564.7	2,172.5	2,040.2	1,248.0	1,275.4
Equity	609.2	577.5	1,121.0	1,035.6	668.3	612.4
Customer assets under management	9,875.4	9,343.5	19,267.0	18,686.8	10,245.8	10,309.0
– Of which in customers' securities accounts	5,738.6	5,435.6	8,269.9	7,770.4	4,332.1	4,049.4
Own funds within the meaning of BWG, €m	**30/9/10**	**31/12/09**	**30/9/10**	**31/12/09**	**30/9/10**	**31/12/09**
Risk-weighted assets	4,433.3	4,258.4	10,071.9	9,970.5	5,729.6	5,476.1
Own funds	526.4	514.7	1,545.4	1,534.3	821.5	800.2
– Of which Tier 1	369.5	369.5	952.8	955.4	544.7	514.6
Surplus own funds before operational risk	171.7	174.0	736.2	734.5	361.2	360.8
Surplus own funds after operational risk	146.7	150.8	681.3	679.5	339.9	339.5
Tier 1 ratio, %	8.3	8.7	9.5	9.6	9.5	9.4
Own funds ratio, %	11.9	12.1	15.3	15.4	14.3	14.6
Performance, %	**Q1–Q3 10**	**2009**	**Q1–Q3 10**	**2009**	**Q1–Q3 10**	**2009**
Return on equity before tax	8.0	8.9	11.5	9.9	9.9	8.8
Return on equity after tax	6.9	7.8	9.5	8.3	8.4	8.2
Cost:income ratio	48.8	49.9	47.6	53.3	46.3	53.7
Risk:earnings ratio	34.9	28.3	35.3	34.6	25.1	33.8
Resources	**Q1–Q3 10**	**2009**	**Q1–Q3 10**	**2009**	**Q1–Q3 10**	**2009**
Average number of staff	868	872	1,987	1,990	797	862
Branches	55	55	134	133	41	41

Consolidated Financial Statements as at and for the Nine Months Ended 30 September 2010

Income Statement of the BKS Bank Group for 1 January to 30 September 2010 *(Statement of Comprehensive Income)*

€k	Note	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Interest income		152,324	181,351	(16.0)
Interest expenses		(61,224)	(95,594)	(36.0)
Profit from investments in entities accounted for using the equity method		13,018	11,850	9.9
Net interest income	(1)	**104,118**	**97,607**	**6.7**
Impairment charge on loans and advances	(2)	(36,339)	(29,076)	25.0
Net interest income after impairment charge		**67,779**	**68,531**	**(1.1)**
Fee and commission income		37,566	31,526	19.2
Fee and commission expenses		(6,036)	(2,654)	>100
Net fee and commission income	(3)	31,530	28,872	9.2
Net trading income	(4)	1,230	1,405	(12.5)
General administrative expenses	(5)	(67,184)	(65,632)	2.4
Other operating income net of other operating expenses	(6)	929	2,493	(62.7)
Profit/(loss) from financial assets (FV)	(7)	(522)	(2,573)	(79.7)
Profit/(loss) from financial assets (AFS)	(8)	2,084	(1,143)	>100
Profit for the period before tax		**35,846**	**31,953**	**12.2**
Income tax	(9)	(4,729)	(2,768)	70.8
Profit for the period		**31,117**	**29,185**	**6.6**
Minority interests in profit for the period		(3)	0	—
Consolidated net profit for the period		**31,114**	**29,185**	**6.6**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit	**31,114**	**29,185**	**6.6**
Income and expenses taken directly to equity			
– Exchange differences	(9)	(551)	(98.4)
– Available-for-sale reserve	3,952	13,710	(71.2)
– Arising from investments in entities accounted for using the equity method	4,682	(2,528)	>100
– Deferred taxes on items taken directly to equity	(1,020)	(3,635)	(71.9)
Comprehensive income	**38,719**	**36,181**	**7.0**

QUARTERLY REVIEW

€k	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Interest income	51,416	51,205	49,703	50,966	53,856
Interest expenses	(20,728)	(20,969)	(19,527)	(20,425)	(24,333)
Profit from investments in entities accounted for using the equity method	5,506	4,504	3,008	4,163	4,278
Net interest income	**36,194**	**34,740**	**33,184**	**34,704**	**33,801**
Impairment charge on loans and advances	(10,522)	(9,853)	(15,964)	(8,358)	(10,325)
Net interest income after impairment charge	**25,672**	**24,887**	**17,220**	**26,346**	**23,476**
Net fee and commission income	9,438	10,861	11,231	10,831	9,669
Net trading income	93	779	358	28	555
General administrative expenses	(22,649)	(22,395)	(22,140)	(22,585)	(22,344)
Other operating income net of other operating expenses	268	(226)	887	766	637
Profit/(loss) from financial assets (FV)	515	(1,027)	(10)	439	653
Profit/(loss) from financial assets (AFS)	502	(1,589)	3,171	(1,234)	(357)
Profit for the period before tax	**13,839**	**11,290**	**10,717**	**14,591**	**12,289**
Income tax	(2,339)	(472)	(1,918)	(3,335)	(1,522)
Profit for the period	**11,500**	**10,818**	**8,799**	**11,256**	**10,767**
Minority interests in profit for the period	(1)	(1)	(1)	(3)	0
Consolidated net profit for the period	**11,499**	**10,817**	**8,798**	**11,253**	**10,767**

Balance Sheet of the BKS Bank Group as at 30 September 2010
(Statement of Financial Position)

ASSETS

€k	Note	30/9/2010	31/12/2009	+/(-) Change, %
Cash and balances with the central bank	(10)	116,230	131,642	(11.7)
Receivables from other banks	(11)	193,241	396,350	(51.2)
Receivables from customers	(12)	4,673,268	4,463,574	4.7
– Impairment allowance balance	(13)	(138,494)	(113,401)	22.1
Trading assets	(14)	747	2,246	(66.7)
Financial assets designated as at fair value through profit or loss	(15)	131,291	123,377	6.4
Available-for-sale financial assets	(16)	312,785	311,233	0.5
Held-to-maturity financial assets	(17)	602,272	592,047	1.7
Investments in entities accounted for using the equity method	(18)	276,459	258,325	7.0
Intangible assets	(19)	13,477	14,885	(9.5)
Property and equipment	(20)	71,078	77,154	(7.9)
Investment property	(21)	16,621	16,792	(1.0)
Deferred tax assets	(22)	15,529	13,976	11.1
Other assets	(23)	28,248	27,698	2.0
Total assets		**6,312,752**	**6,315,898**	**0.0**

EQUITY AND LIABILITIES

€k	Note	30/9/2010	31/12/2009	+/(-) Change, %
Payables to other banks	(24)	1,393,269	1,690,095	(17.6)
Payables to customers	(25)	3,481,570	3,343,211	4.1
Liabilities evidenced by paper	(26)	403,257	321,545	25.4
Trading liabilities	(27)	699	2,119	(67.0)
Provisions	(28)	77,386	78,610	(1.6)
Deferred tax liabilities	(29)	11,212	9,825	14.1
Other liabilities	(30)	84,178	49,791	69.1
Subordinated debt capital	(31)	251,949	243,190	3.6
Equity		609,232	577,512	5.5
Total minority interests and equity		609,234	577,519	5.5
Minority interests in equity		(2)	(7)	(71.4)
Total equity and liabilities		**6,312,752**	**6,315,898**	**0.0**

EARNINGS PER SHARE

	30/9/2010	30/9/2009
Average number of shares in issue	32,242,699	27,944,005
Earnings per share, € (diluted and undiluted)	1.29	1.39

Earnings per share compares consolidated net profit for the period with the average number of no-par shares (*Stückaktien*) 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. The increase in the average number of shares in issue was due to the raising of share capital in the fourth quarter of 2009.

Statement of Changes in Equity for the Period

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Retained Earnings	Profit for the Year	Equity
At 1 January 2010	65,520	97,929	373,629	40,441	577,519
Distribution				(8,057)	(8,057)
Taken to retained earnings			32,384	(32,384)	0
Profit for the period				31,117	31,117
Gains and losses taken directly to equity			7,605		7,605
Increase in share capital					
Other changes			1,050		1,050
– Arising from use of the equity method			(555)		
– Arising from changes in treasury shares			1,923		
At 30 September 2010	**65,520**	**97,929**	**414,668**	**31,117**	**609,234**
Available-for-sale reserve					18,050
Deferred tax reserve					(2,898)

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 period				29,185	29,185
Gains and losses taken directly to equity			6,996		6,996
Increase in share capital	6,160	(6,160)			0
Other changes			(4,946)		(4,946)
– Arising from use of the equity method			(4,553)		
– Arising from changes in treasury shares			(655)		
At 30 September 2009	**56,160**	**34,576**	**368,990**	**29,185**	**488,911**
Available-for-sale reserve					3,715
Deferred tax reserve					(1,089)

Cash Flow Statement *(Statement of Cash Flows)*

CASH FLOWS

€k	1/1 – 30/9/2010	1/1 – 30/9/2009
Cash and cash equivalents at end of previous period	**131,642**	**69,235**
Net cash from/(used in) operating activities	(3,884)	54,570
Net cash from/(used in) investing activities	(13,003)	(29,379)
Net cash from/(used in) financing activities	1,475	(7,140)
Cash and cash equivalents at end of period	**116,230**	**87,286**

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

Notes to the Consolidated Financial Statements of BKS Bank
Material accounting policies

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the nine months ended 30 September 2010 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) applicable as at the reporting date and as adopted by the EU pursuant to IAS 34. 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
- *BKS Bank d.d.*, Rijeka
- *BKS-Leasing Gesellschaft m.b.H.*, Klagenfurt
- *BKS-Immobilienleasing Gesellschaft m.b.H.*, 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 m.b.H. & Co. KG*, Klagenfurt
- *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H.*, Klagenfurt
- *BKS Hybrid alpha GmbH*, Klagenfurt
- *VBG-CH Verwaltungs- und Beteiligungs GmbH*, Klagenfurt
- *LVM Beteiligungs Gesellschaft m.b.H.*, Vienna
- *BKS Hybrid beta GmbH*, Klagenfurt (first included as of 30 September 2010)

Entities accounted for using the equity method:
- *Oberbank AG*, Linz
- *Bank für Tirol und Vorarlberg AG*, Innsbruck
- *Alpenländische Garantie-Gesellschaft m.b.H.*, Linz
- *Drei-Banken Versicherungs-Aktiengesellschaft*, Linz

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

Consolidation policies

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

Foreign currency translation

These Interim Financial Statements were prepared in euros. Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that had not been prepared in euros were translated using the *modified closing rate method*. Assets and liabilities were translated at the closing rate on the reporting date. 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 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, 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 period under review.

Leasing
The leased assets within the Group required recognition as assets leased under finance leases (the risks and rewards incident to ownership of an asset 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 was recognized in the Income Statement. If the reason for such a charge no longer existed, a write-back was made. 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 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 the investment properties is disclosed in the Notes. It is, for the most part, based on estimates (external expertises).

Other assets

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

Payables

Payables were recognized at the amounts payable.

Deferred tax

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

Equity

Equity consists of paid-in capital and earned capital (retained earnings, amounts 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.
So-called "social capital" provisions were created 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 2009: 4.75 per cent). Other parameters were applied as follows:

– salary trend: 2.50 per cent (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 periodically. 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 in use.

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 the cash flow in the most recent plan year.

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

Net interest income

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

Impairment charge on loans and advances

This line item captures impairment allowances and impairment reversals 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 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.

(1) NET INTEREST INCOME

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Interest income from:			
Credit operations	111,631	139,735	(20.1)
Fixed-interest securities	23,958	23,265	3.0
Lease receivables	9,448	11,716	(19.4)
Shares and investments in other entities	6,500	5,877	10.6
Investment property	787	758	3.8
Total interest income	152,324	181,351	(16.0)
Interest expenses on:			
Deposits from customers and other banks[1]	44,127	79,294	(44.4)
Liabilities evidenced by paper	16,873	16,032	5.2
Investment property	224	268	(16.4)
Total interest expenses	61,224	95,594	(36.0)
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	14,007	13,681	2.4
Refinancing costs of investments in entities accounted for using the equity method[2]	(989)	(1,831)	(46.0)
Profit from investments in entities accounted for using the equity method	**13,018**	**11,850**	**9.9**
Net interest income	**104,118**	**97,607**	**6.7**

[1] Net of financing costs of investments in entities accounted for using the equity method. [2] Based on the average 3-month Euribor.

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Impairment allowances	39,701	29,116	36.4
Impairment reversals	(3,898)	(3,226)	20.8
Direct write-offs	801	3,595	(77.7)
Recoveries on receivables previously written off	(265)	(409)	(35.2)
Impairment charge on loans and advances	**36,339**	**29,076**	**25.0**

(3) NET FEE AND COMMISSION INCOME

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Fee and commission income from:			
Payment services	13,362	12,198	9.5
Securities operations	8,906	8,219	8.4
Credit operations	8,008	7,462	7.3
International business	6,389	2,762	>100
Other services	901	885	1.8
Total fee and commission income	37,566	31,526	19.2
Fee and commission expenses arising from:			
Payment services	958	852	12.4
Securities operations	605	503	20.3
Credit operations	345	381	(9.4)
International business	3,955	616	>100
Other services	173	302	(42.7)
Total fee and commission expenses	6,036	2,654	>100
Net fee and commission income	**31,530**	**28,872**	**9.2**

(4) NET TRADING INCOME

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Price-based contracts	90	51	76.5
Interest rate and currency contracts	1,140	1,354	(15.8)
Net trading income	**1,230**	**1,405**	**(12.5)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Staff costs	45,622	43,713	4.4
– Wages and salaries	32,969	31,945	3.2
– Social security costs	7,977	7,965	0.2
– Costs of retirement benefits	4,676	3,803	23.0
Other administrative costs	17,018	17,404	(2.2)
Depreciation	4,544	4,515	0.6
General administrative expenses	**67,184**	**65,632**	**2.4**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Other operating income	3,714	3,711	0.1
Other operating expenses	(2,785)	(1,218)	>100
Other operating income net of other operating expenses	**929**	**2,493**	**(62.7)**

The line item *Other operating expenses* includes the threatened impairment of the goodwill of a subsidiary in the amount of €1.5 million.

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

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Revaluation gains and losses on derivatives	(1,909)	(1,378)	38.5
Gain/(loss) as a result of using the fair value option	1,387	(1,195)	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	**(522)**	**(2,573)**	**(79.7)**

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

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Unrealized and realized gains and losses	2,084	(1,143)	>100
Profit/(loss) from available-for-sale financial assets	**2,084**	**(1,143)**	**>100**

(9) INCOME TAX

€k	1/1 – 30/9/2010	1/1 – 30/9/2009	+/(-) Change, %
Current tax	(5,869)	(5,330)	10.1
Deferred tax	1,140	2,562	(55.5)
Income tax	**(4,729)**	**(2,768)**	**70.8**

(10) CASH AND BALANCES WITH THE CENTRAL BANK

€k	30/9/2010	31/12/2009	+/(-) Change, %
Cash in hand	28,364	34,100	(16.8)
Credit balances with central banks of issue	87,866	97,542	(9.9)
Cash and balances with the central bank	**116,230**	**131,642**	**(11.7)**

(11) RECEIVABLES FROM OTHER BANKS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Receivables from Austrian banks	93,031	202,233	(54.0)
Receivables from foreign banks	100,210	194,117	(48.4)
Receivables from other banks	**193,241**	**396,350**	**(51.2)**

(12) RECEIVABLES FROM CUSTOMERS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Corporate and business banking customers	3,654,219	3,505,555	4.2
Retail banking customers	1,019,049	958,019	6.4
Receivables from customers	**4,673,268**	**4,463,574**	**4.7**

(13) IMPAIRMENT ALLOWANCE BALANCE

€k	30/9/2010	31/12/2009
At beginning of period under review	113,401	96,178
+ Added	35,379	33,557
– Reversed	(3,890)	(4,403)
– Used	(6,393)	(11,948)
+ Exchange differences	(3)	17
At end of period under review	**138,494**	**113,401**

(14) TRADING ASSETS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities	76	177	(57.1)
Positive fair values of derivative financial instruments			
– Currency contracts	0	117	(100.0)
– Interest rate contracts	671	1,952	(65.6)
Trading assets	**747**	**2,246**	**(66.7)**

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

€k	30/9/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities	82,106	83,582	(1.8)
Loans	49,185	39,795	23.6
Financial assets designated as at fair value through profit or loss	**131,291**	**123,377**	**6.4**

(16) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities	181,322	180,758	0.3
Shares and other variable-yield securities	84,388	83,591	1.0
Investments in subsidiaries	31,913	31,848	0.2
Other equity investments	15,162	15,036	0.8
Available-for-sale financial assets	**312,785**	**311,233**	**0.5**

(17) HELD-TO-MATURITY FINANCIAL ASSETS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Bonds and other fixed-interest securities	602,272	592,047	1.7
Held-to-maturity financial assets	**602,272**	**592,047**	**1.7**

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

€k	30/9/2010	31/12/2009	+/(-) Change, %
Oberbank AG	183,789	172,403	6.6
Bank für Tirol und Vorarlberg AG	87,798	81,050	8.3
Alpenländische Garantie-GmbH	960	960	0.0
Drei-Banken Versicherungs-AG	3,912	3,912	0.0
Investments in entities accounted for using the equity method	**276,459**	**258,325**	**7.0**

(19) INTANGIBLE ASSETS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Goodwill	10,696	12,196	(12.3)
Other intangible assets	2,781	2,689	3.4
Intangible assets	**13,477**	**14,885**	**(9.5)**

(20) PROPERTY AND EQUIPMENT

€k	30/9/2010	31/12/2009	+/(-) Change, %
Land	2,678	2,720	(1.5)
Buildings	46,594	47,977	(2.9)
Other	21,806	26,457	(17.6)
Property and equipment	**71,078**	**77,154**	**(7.9)**

(21) INVESTMENT PROPERTY

€k	30/9/20100	31/12/2009	+/(-) Change, %
Land	8,249	8,247	0.0
Buildings	8,372	8,545	(2.0)
Investment property	**16,621**	**16,792**	**(1.0)**

(22) DEFERRED TAX ASSETS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Deferred tax assets	**15,529**	**13,976**	**11.1**

(23) OTHER ASSETS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Positive fair values of derivative financial instruments	15,811	10,864	45.5
Other items	10,292	14,729	(30.1)
Deferred items	2,145	2,105	1.9
Other assets	**28,248**	**27,698**	**2.0**

(24) PAYABLES TO OTHER BANKS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Payables to Austrian banks	1,054,532	1,264,074	(16.6)
Payables to foreign banks	338,737	426,021	(20.5)
Payables to other banks	**1,393,269**	**1,690,095**	**(17.6)**

(25) PAYABLES TO CUSTOMERS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Savings deposit balances	**1,867,211**	**1,804,628**	**3.5**
Corporate and business banking customers	341,273	294,982	15.7
Retail banking customers	1,525,938	1,509,646	1.1
Other payables	**1,614,359**	**1,538,583**	**4.9**
Corporate and business banking customers	1,151,653	1,040,840	10.6
Retail banking customers	462,706	497,743	(7.0)
Payables to customers	**3,481,570**	**3,343,211**	**4.1**

(26) LIABILITIES EVIDENCED BY PAPER

€k	30/9/2010	31/12/2009	+/(-) Change, %
Issued bonds	273,732	235,440	16.3
Other liabilities evidenced by paper	129,525	86,105	50.4
Liabilities evidenced by paper	**403,257**	**321,545**	**25.4**

The line item *Other liabilities evidenced by paper* includes €88.5 million of liabilities (31/12/1009: €85.8 million) measured at fair value (fair value option).

(27) TRADING LIABILITIES

€k	30/9/2010	31/12/2009	+/(-) Change, %
Interest rate contracts	699	2,119	(67.0)
Trading liabilities	**699**	**2,119**	**(67.0)**

(28) PROVISIONS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	70,284	69,372	1.3
Provisions for taxes (current tax)	136	741	(81.6)
Other provisions	6,966	8,497	(18.0)
Provisions	**77,386**	**78,610**	**(1.6)**

(29) DEFERRED TAX LIABILITIES

€k	30/9/2010	31/12/2009	+/(-) Change, %
Deferred tax liabilities	**11,212**	**9,825**	**14.1**

(30) OTHER LIABILITIES

€k	30/9/2010	31/12/2009	+/(-) Change, %
Negative fair values of derivative financial instruments	55,802	29,752	87.6
Other items	27,096	18,582	45.8
Deferred items	1,280	1,457	(12.1)
Other liabilities	**84,178**	**49,791**	**69.1**

(31) SUBORDINATED DEBT CAPITAL

€k	30/9/2010	31/12/2009	+/(-) Change, %
Supplementary capital	231,949	223,190	3.9
Hybrid capital	20,000	20,000	0.0
Subordinated debt capital	**251,949**	**243,190**	**3.6**

(32) SEGMENTAL REPORTING

Method: Net interest income was allocated using the *market interest rate method*. Incurred costs were allocated to individual business segments following the costs-by-cause principle. So-called *structural income* was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was measured applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income*. The performance of each business segment was gauged in terms of the profit before tax recorded by that segment. Alongside the cost:income ratio, return on equity was also one of the principal benchmarks for managing business segments. Segmental reporting takes its bearings from internal management processes.

CORPORATE AND BUSINESS BANKING AND RETAIL BANKING SEGMENTS

	Corporate and Business Banking		Retail Banking	
€k	Q1 – Q3 2010	Q1 – Q3 2009	Q1 – Q3 2010	Q1 – Q3 2009
Net interest income	69,966	57,734	23,694	28,651
Impairment charge on loans and advances	(35,156)	(27,313)	(1,183)	(1,763)
Net fee and commission income	15,760	14,954	15,194	13,355
Net trading income	—	—	—	—
General administrative expenses	(25,386)	(24,791)	(35,342)	(35,381)
Other operating income net of other operating expenses	1,815	1,669	874	377
Profit from financial assets	—	—	—	—
Profit for the period before tax	**26,999**	**22,253**	**3,237**	**5,239**
Average risk-weighted assets	3,138,635	2,952,223	563,299	542,384
Average allocated equity	251,090	236,178	45,064	43,391
ROE based on profit for the year	**14.3%**	**12.6%**	**9.6%**	**16.1%**
Cost:income ratio	**29.0**	**33.3%**	**88.9%**	**83.5%**

FINANCIAL MARKETS AND OTHER SEGMENTS

	Financial Markets		Other	
€k	Q1 – Q3 2010	Q1 – Q3 2009	Q1 – Q3 2010	Q1 – Q3 2009
Net interest income	10,350	10,902	108	320
Impairment charge on loans and advances	0	0	0	0
Net fee and commission income	471	425	105	138
Net trading income	1,230	1,405	—	—
General administrative expenses	(3,916)	(4,836)	(2,540)	(624)
Other operating income net of other operating expenses	(1,494)	187	(266)	260
Profit/(loss) from financial assets	1,562	(3,716)	—	—
Profit for the period before tax	**8,203**	**4,367**	**(2,593)**	**94**
Average risk-weighted assets	593,735	632,094	51,328	49,075
Average allocated equity	290,218	191,614	7,006	5,603
ROE based on profit for the year	**3.8%**	**3.0%**	**—**	**—**
Cost:income ratio	**37.1%**	**37.4%**	**—**	**—**

ALL SEGMENTS

	Total	
€k	30/9/2010	30/9/2009
Net interest income	104,118	97,607
Impairment charge on loans and advances	(36,339)	(29,076)
Net fee and commission income	31,530	28,872
Net trading income	1,230	1,405
General administrative expenses	(67,184)	(65,632)
Other operating income net of other operating expenses	929	2,493
Profit/(loss) from financial assets	1,562	(3,716)
Profit for the period before tax	**35,846**	**31,953**
Average risk-weighted assets	4,346,995	4,175,776
Average allocated equity	593,377	476,786
ROE based on profit for the period	**8.0%**	**7.6%**
Cost:income ratio	**48.8%**	**50.3%**

We restructured our business segments as of 30 Segment 2010. They are *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. The retail banking segment was enlarged to include business conducted with self-employed customers and small businesses. Comparative figures for the previous year were restated accordingly.

(33) CONTINGENT LIABILITIES AND COMMITMENTS

€k	30/9/2010	31/12/2009	+/(-) Change, %
Guarantees	397,798	366,019	8.7
Letters of credit	6,391	2,058	>100
Contingent liabilities	**404,189**	**368,077**	**9.8**
Other commitments	611,408	760,723	(19.6)
Commitments	**611,408**	**760,723**	**(19.6)**

(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 September 2010) affecting the assets, liabilities, financial position or profit or loss as presented in this report.

(35) BALANCE OF DERIVATIVES OUTSTANDING

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

30/9/2010 €k	Nominal, by term to maturity				Fair values	
	< 1 Year	1 – 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**883,511**	**1,208,112**		**2,091,623**	**8,111**	**28,287**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**69,840**	**800,510**	**160,654**	**1,031,004**	**7,704**	**24,781**
– Of which in trading book	360	111,634	12,154	124,148	411	341
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**953,351**	**2,008,622**	**160,654**	**3,122,627**	**15,815**	**53,068**
– Of which in trading book	360	111,634	12,154	124,148	411	341

31/12/2009 €k	Nominal, by term to maturity				Fair values	
	< 1 Year	1 – 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**896,036**	**879,402**	**—**	**1,775,438**	**3,703**	**5,116**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**253,310**	**584,426**	**277,186**	**1,114,922**	**6,151**	**21,907**
– Of which in trading book	120,480	36,408	4,560	161,448	1,026	999
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,149,346**	**1,463,828**	**277,186**	**2,890,360**	**9,854**	**27,023**
– Of which traded on an exchange	—	—	—	—	—	—

(36) MATERIAL TRANSACTIONS WITH RELATED PARTIES AND PERSONS

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

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

Statements by BKS Bank's Management

"We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the nine months ended 30 September 2010 prepared in accordance with the applicable financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Group Management Report for the period 1 January to 30 September 2010 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to important events occurring during the first nine months of the financial year and their impact on the Consolidated Interim Financial Statements and with respect to the material risks and uncertainties for the remaining three months of the financial year."

Klagenfurt am Wörthersee
17 November 2010

Heimo Penker (CEO)

Member of the Management Board responsible for the Corporate and Business Banking Segment, the Retail Banking 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 in Italy.

Herta Stockbauer
(Member of the Management Board)

Member of the Management Board responsible for International Business, Accounts and Sales Controlling, Treasury/Proprietary Trading, Capital Markets Law, Construction, Subsidies and Equity Investments. Within Austria, she is responsible for the Group's Burgenland and Vienna regions; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Dieter Krassnitzer
(Member of the Management Board)

Member of the Management Board responsible for Risk Controlling, Risk Management and Compliance, the Credit Back Office, Business Organization and IT and 3BEG.

2011 Financial Calendar

Press Conference to present the Annual Financial Statements for 2010	31 March 2011
Publication of the Annual Financial Statements and Consolidated Financial Statements for 2010 in the Internet and in the official *Wiener Zeitung* gazette	1 April 2011
71st Annual General Meeting (AGM)	18 May 2011
Ex-dividend date	23 May 2011
Dividend payment date	26 May 2011
Interim Report as at and for the 3 months ended 31 March 2011	20 May 2011
Interim Report as at and for the 6 months ended 30 June 2011	19 August 2011
Interim Report as at and for the 9 months ended 30 September 2011	18 November 2011

Forward-looking statements

This Interim Report as at and for the nine months ended 30 September 2010 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. These forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date of 17 November 2010. Should the assumptions upon which such forecasts were based prove wrong or if risk events occur, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

Disclaimer

The German version of this report is the authentic version for all legal purposes. Interim reports in English are translations.

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