

Interim Report
BKS Bank

2008

Results as at and for the nine months ended 30 September

BKS Bank
3 Banken Gruppe

The BKS Bank Group at a glance

Income account, €m	Q1 – Q3 2008	Q1 – Q3 2007	Q1 – Q3 2006
Net interest income	92.1	79.9	69.7
Impairment losses on loans and advances	(17.6)	(18.4)	(17.0)
Net fee and commission income	30.9	33.0	31.4
General administrative expenses	(63.8)	(59.4)	(55.2)
Profit for the period before tax	41.6	42.6	34.3
Profit for the period after tax	38.3	37.8	29.0
Balance sheet data, €m	30/9/2008	31/12/2007	31/12/2006
Assets	6,402.8	5,752.7	5,145.4
Receivables from customers after allowance for impairment losses	4,086.3	3,561.6	3,190.1
Primary funds	3,911.6	3,781.8	3,009.1
– Of which savings deposits	1,536.6	1,443.7	1,382.5
– Of which liabilities evidenced by paper, including subordinated debt capital	461.9	451.8	425.6
Equity	445.7	450.5	416.4
Customer funds under management	9,202.3	10,057.9	9,320.4
– Of which in customers' securities accounts	5,290.7	6,276.1	6,311.3
Own funds within the meaning of BWG, €m	30/9/2008	31/12/2007	31/12/2006
Risk-weighted assets	4,095.6	4,039.2	3,598.5
Own funds	404.4	405.1	396.3
– Of which core capital (Tier 1)	235.5	235.9	241.8
Surplus own funds before operational risk	76.7	82.0	108.4
Surplus own funds after operational risk	55.5	82.0	108.4
Core capital ratio, %	5.75	5.84	6.72
Own funds ratio, %	9.87	10.03	11.01
Performance, %	Q1 – Q3 2008	2007	2006
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	50.6	52.6	54.7
Risk:earnings ratio (credit risk in per cent of net interest income)	19.1	17.7	21.2
Resources	Q1 – Q3 2008	2007	2006
Average number of staff	854	803	721
Branches and offices	53	51	50
BKS Bank's shares	Q1 – Q3 2008	2007	2006
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, €	111.00/94.00	97.01/73.62	95.90/72.00
Close: ordinary/preference share, €	111.00/94.00	113.50/100.00	96.90/73.62
Market capitalization, €m (at end of period under review)	514.4	527.1	446.5

The 3 Banken Group at a glance

Income account, €m	BKS Bank Group		Oberbank Group		BTV Group	
	Q1–Q3 08	Q1–Q3 07	Q1–Q3 08	Q1–Q3 07	Q1–Q3 08	Q1–Q3 07
Net interest income	92.1	79.9	213.9	204.6	105.1	87.1
Impairment losses on loans and advances	(17.6)	(18.4)	(46.2)	(50.8)	(18.6)	(20.3)
Net fee and commission income	30.9	33.0	72.6	76.6	31.6	36.1
General administrative expenses	(63.8)	(59.4)	(153.3)	(148.3)	(68.5)	(66.8)
Profit for the period before tax	41.6	42.6	88.2	85.8	41.0	42.2
Profit for the period after tax	38.3	37.8	81.1	77.3	35.7	35.7
Balance sheet data, €m	30/9/08	31/12/07	30/9/08	31/12/07	30/9/08	31/12/07
Assets	6,402.8	5,752.7	15,276.1	14,330.8	8,658.5	8,053.3
Receivables from customers after allowance for impairment losses	4,086.3	3,561.6	9,075.9	8,499.2	5,496.7	5,160.0
Primary funds	3,911.6	3,781.8	9,581.1	8,839.6	6,395.5	6,173.1
– Of which savings deposits	1,536.6	1,443.7	3,098.2	2,899.2	1,110.1	1,126.9
– Of which liabilities evidenced by paper, including subordinated debt capital	461.9	451.8	1,797.9	1,694.8	1,236.1	1,283.0
Equity	445.7	450.5	915.4	889.5	534.5	537.3
Customer funds under management	9,202.3	10,057.9	16,862.1	16,887.3	10,461.9	10,982.1
– Of which in customers' securities accounts	5,290.7	6,276.1	7,281.0	8,047.7	4,066.4	4,809.0
Own funds within the meaning of BWG, €m	30/9/08	31/12/07	30/9/08	31/12/07	30/9/08	31/12/07
Risk-weighted assets	4,095.6	4,039.2	10,168.8	10,079.1	5,642.0	5,586.9
Own funds	404.4	405.1	1,200.5	1,293.6	613.4	662.3
– Of which core capital (Tier 1)	235.5	235.9	750.4	720.5	384.3	394.0
Surplus own funds before operational risk	76.7	82.0	385.5	485.2	162.0	215.4
Surplus own funds after operational risk	55.5	82.0	339.5	485.2	142.7	215.4
Core capital ratio, %	5.75	5.84	7.38	7.15	6.78	7.05
Own funds ratio, %	9.87	10.03	11.81	12.83	10.86	11.85
Performance, %	Q1–Q3 08	2007	Q1–Q3 08	2007	Q1–Q3 08	2007
Return on equity before tax	12.9	13.7	13.2	13.2	10.2	11.4
Return on equity after tax	11.3	11.7	12.2	12.0	8.9	10.2
Cost:income ratio	50.6	52.6	53.3	52.8	49.7	51.1
Risk:earnings ratio	19.1	17.7	21.6	24.8	17.7	23.7
Resources	Q1–Q3 08	2007	Q1–Q3 08	2007	Q1–Q3 08	2007
Average number of staff	854	803	1,992	1,879	875	849
Branches and offices	53	51	129	126	43	42

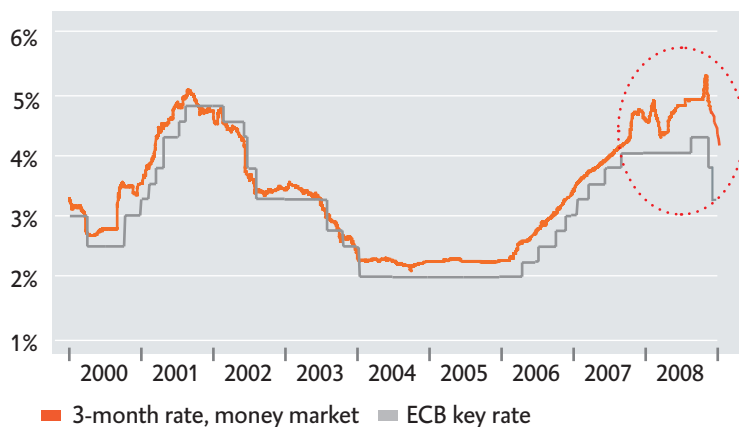


**Dear shareholder,
Dear customer,
Dear business associate of
BKS Bank,**

Welcome to our third letter to our shareholders in 2008. Let us begin by reporting that BKS Bank has stood its ground very well so far this year despite the worrying distortions happening in the international financial markets. As you can see from these financial statements as of and for the nine months ended 30 September 2008 — which were prepared in accordance with the International Financial Reporting Standards (IFRSs) — BKS Bank's core operations have prospered to date. Despite signs that the financial markets crisis will weaken the performance of the real economy, our consolidated assets grew by 11.3 per cent to roughly €6.4 billion between the beginning of 2008 and the end of the period under review.

BKS Bank did not add any questionably rated subprime securities to its portfolio or play a part in the inflation of the Icelandic financial markets bubble. However, although these precarious phenomena failed to affect us directly, we were not immune to one of the adverse side effects of the financial markets crisis, namely the profound lack of trust in the interbank market. Since mid-September — and at the latest since the insolvency of investment house Lehman Brothers Inc. and other banks and the massive stock market crash of 10 October — both short-term and long-term credit markets have been virtually inoperable. As the chart on the next page shows,

The Critical Rates Scenario in the Interbank Market



the spread between the ECB's key rate and the money market rate at which banks lend euros to each other for three months, now wider than ever before, has narrowed only marginally from 102.7 basis points to 87 basis points since the end of September. In this environment, even banks that were previously well positioned have suffered, so the exaggerated risk premiums being charged in the interbank market have also significantly increased BKS Bank's funding costs.

Concerted interest rate cuts by the major central banks combined with the financial sector rescue plan approved by the G7 and eurozone countries in mid-October have slightly eased the strain in the interbank market. Most of the systemically significant financial institutions in Austria have already announced their interest in the state guarantees for short-term and long-term securities (ceiling of €75 billion) that the Austrian federal government plans to introduce with the *Interbankmarktstärkungsgesetz* (interbank market support act). In addition, financial institutions can raise additional core capital within the scope of the *Finanzmarktstabilitätsgesetz* (financial markets stability act) in the form, for instance, of non-voting share capital (ceiling of €15 billion). The unveiling of the unlimited deposit guarantee for private individuals was also an important, confidence-building measure. BKS currently has adequate own funds. Nonetheless, *BKS Hybrid alpha GmbH*, a wholly owned subsidiary of BKS Bank AG, floated a hybrid capital instrument to boost our equity in preparation for future growth. It can still be subscribed for until mid-December.

The economic setting in which banks are operating

Is this a crash or just a stubborn crisis? A recession or a cyclical downturn? A sober look at the global economy's fundamentals makes the headlong slump of recent weeks look like an over-reaction. However, a parcel of serious downside factors have cast their spell over the economy during the year to date. Firstly, stress in the financial markets, highly volatile commodity prices and exchange rates and continuing corrections in housing markets have already had a knock-on effect on the real economy and stoked fears of a global economic crisis. Against the backdrop of more bad news from the financial sector and the car industry, the latest economic indicators suggest that the US and a number of eurozone countries, including above all Spain, Ireland, Hungary and the Baltic states, are already on the edge of recession. Germany, France and Italy, too, are now expecting no better than close-to-zero GDP growth in 2008 and 2009. There are also growing signs that the emerging markets' previously strong economic growth will weaken. The EU Commission expects eurozone GDP growth to slow significantly to 0.1 per cent in 2009, following growth of 1.2 per cent in 2008 and 2.7 per cent in 2007.

Similarly, having grown by 3.1 per cent in 2007, the Austrian economy will grow by just 2 per cent this year. According to the latest forecast published by WIFO (the Austrian Institute of Economic Research), the Austrian economy has continued to outperform the eurozone average so far thanks to the robust utilization of capacities in the material goods, construction and tourism sectors. Consequently, despite flagging investment and consumer demand in conjunction with weaker export indicators and growing problems in the labour market, the impact of the financial markets crisis on the real economy seems unlikely to get out of hand for the time being. WIFO expects Austria's real GDP to grow by just 0.9 per cent in 2009.

Although we can assume that this stifling international crisis will be with us for several more quarters, a number of barriers to economic development have also been lowered. US WTI (Cushing) crude oil was recently trading at just US\$54.42 a barrel, or about 63 per cent less than the high of US\$145 a barrel reached in the summer. Having peaked at close to US\$1.60/€ in July, the euro has weakened significantly and has recently been moving in a range of between US\$1.24/€ and US\$1.31/€. It was trading at US\$1.4303/€ on 30 September and US\$1.2634/€ on 19 November. The Swiss franc — a funding currency that still enjoys safe-haven status in times of crisis and whose exchange rate versus the euro is of considerable importance to our bank — has strengthened to SFr1.5228/€ from SFr1.6529/€ at the beginning of the year and a summer low of SFr1.6354/€ at the end of July. On 30 September, it was trading at SFr1.6177/€. The financial markets crisis has also had a serious impact on yen exchange rates. Because, above all, of high volumes of carry trades, the euro weakened from ¥163.83 at the beginning of January to ¥122.07 on 19 November, having been trading at ¥150.47 on 30 September.

In their fight against worsening turbulence in the equity and currency markets combined with the threat of recession, the major central banks — including, above all, America's Federal Reserve System (the Fed) — have greatly extended their crisis management efforts. The US Fed rate has been cut twice since the beginning of October, taking it down to one per cent. In addition, the US\$700 billion *Troubled Asset Relief Program*, flanked by similar European and Far Eastern remedial packages, has given the Fed a respectable financial framework within which to rehabilitate the shattered US financial system. As the inflationary pressure created by energy and commodity prices has moderated, the ECB too has reduced the minimum bid rate on its main refinancing operations, which supply the eurozone banking industry with central bank money, in two steps of 50 basis points to 3.25 per cent.

Nonetheless, regardless of temporary technical counter-reactions, growing fears of a global recession have pushed the international financial markets deeper and deeper into bear territory. It is, above all, the severity of the drop in prices that takes one aback. Nearly every risky asset class has suffered a drastic loss of value in the course of this process. As for individual industries, the loss table has been headed by financial, energy and commodity stocks, previously preferred targets for speculators. Since the beginning of the year, the Dow Jones Index has slumped by over a third from 13,043.96 to 7,997.28 points (30 September: 10,850.66 points), and so far, Europe's Euro-STOXX-50 has not performed much better. Having stood at 4,339.23 points at the beginning of the year, it fell by roughly 48 per cent to bottom out at 2,293.05 points at the end of October (30 September: 3,038.20 points). Although the Euro-STOXX-50's latest recovery, nourished by China's massive economic rescue package, recently took it briefly back to above 2,750 points, it stood at 2,295.36 points at the time of writing. Austria's ATX has also been hard-hit, falling by over three fifths to a low of 1,646.62 points from 4,339.23 points at the beginning of the year (30 September: 2,767.76 points). On the other hand, the prices of BKS Bank's ordinary and preference shares fell only marginally during the period under review, dropping to €110.0 and €93.0, respectively.

The BKS Bank Group's development between 1 January and 30 September 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 third quarter present a balanced overall picture that is relatively free from surprises.

The consolidated group for the purposes of our Group accounts consists of 11 banks and other financial service providers as outlined below. *BKS Bank AG* dominates the Group's financial statements. Besides *Alpenländische Garantie Gesellschaft mbH*, *Drei-Banken Versicherungs-Aktiengesellschaft*, *BKS Bank d.d.* and our five leasing subsidiaries in Austria and abroad, our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG (BTV)* are also

included 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 each of these banks, it can exert a significant influence as the result of a syndicate agreement. The three other consolidated entities are designated as real estate companies. They render banking-related ancillary services.

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. Vermietungs GmbH & Co. KG, Klagenfurt
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■ Consolidated ■ Accounted for using the equity method

¹ BKS leasing a.s. and BKS Finance s r.o. make up a subgroup.

Assets and financial position

Assets

BKS Bank achieved another increase in business volumes in its Austrian and foreign catchment areas. Between the beginning of 2008 and the end of the period under review, consolidated assets grew by roughly €0.65 billion or 11.3 per cent to €6.40 billion. As in prior periods, this growth was driven mainly by our robust customer operations. Some 80 per cent of the increase in assets was accounted for by receivables from customers, which were well above the €4 billion mark at the end of September, totalling €4.19 billion. This was already over 65 per cent of our balance sheet total. IFRSs require an impairment allowance to be deducted from receivables from customers. We were able to reduce this deduction as at the end of the third quarter to €99.5 million, compared with €96.3 million at the beginning of the year.

Above all, our parent *BKS Bank AG* managed to acquire numerous creditworthy new customers for the Group as it expanded the loan portfolio by €0.5 billion to €3.83 billion. Our cross border finance line for Croatia also proved to be sound and to have potential for further development. Our branches in Slovenia (Ljubljana and Maribor) made an important contribution to the pleasing overall picture as well, increasing their loan portfolio to approximately €0.4 billion. Lending by our leasing subsidiaries in Austria and abroad and by our Croatian banking subsidiary *BKS Bank d.d.* likewise grew strongly.

Most of the increase in receivables from customers was euro-based. At the end of September, our portfolio of foreign-currency loans—denominated above all in Swiss francs—totalled roughly €0.88 billion. The foreign-currency portion of the loan portfolio was 20 basis points down on the end of the previous year to 21.9 per cent. In view of the difficult situation in the financial and currency markets, we instructed our decision-makers in

sales to stop canvassing for new foreign-currency business at the beginning of October. Our decision was reinforced by a circular on the subject sent to Austrian banks by the Financial Market Authority on 10 October. Taking account of the general picture, we also actively recommended that customers with repayment vehicle loans consider shifting into repayment-based loans.

The financial assets presented in Notes 15 to 18 totalled €1.17 billion at the end of the third quarter, having increased by 8 per cent since the beginning of the year. Financial assets designated as at fair value through profit or loss increased by €37.7 million to €109.3 million. We hedged against the risk of market price fluctuations using the fair value option within the scope of the asset liability management process. During the period under review, our holdings of available-for-sale financial assets (AFS) fell by € 26.3 million to €371.8 million. For the most part, the revaluations made necessary by the highly volatile financial markets were recognized in equity. On the other hand, carefully targeted investments increased our holdings of held-to-maturity financial assets (HtM) to €0.46 billion.

Increasingly tough conditions in the interbank market were reflected in the line item *Receivables from other banks*, which increased by 6.6 per cent to €0.94 billion to account for 14.7 per cent or roughly one seventh of our consolidated assets. At 30 September, these receivables compared with *Payables to other banks* of €1.90 billion on the equity and liabilities side of the Balance Sheet.

Equity and liabilities

We see the strong growth in so-called *primary funds*—savings, sight and time deposits—of €0.13 billion to €3.91 billion as a clear indication of our customers' faith in BKS Bank's business model, which has to date proven crisis-resistant. Including subordinated debt capital, our primary funds suffice to fund nearly all our lending to customers.

The inflow of money into passbook and *Sparcard* savings card accounts was particularly powerful. They proved to be a safe haven against the financial markets crisis and in the light of the significant increase in deposit guarantee limits. Other payables to customers—comprising sight and time deposits—increased by 1.4 per cent to €1.91 billion during the period under review. It was above all institutional customers who entrusted their liquid funds to us as time deposits. The balance of BKS Bank's own securities, consisting of liabilities evidenced by paper and subordinated debt capital, increased by some 2.2 per cent to €0.46 billion. Although the increasingly inverted yield curve made it more and more difficult to place bonds in the market as the year progressed, new issuances totalled €61.3 million while redemptions came to just €44.9 million.

Let us look at our equity, which is detailed in the Statement of Changes in Equity on page 19. At the end of September, we had equity of €445.7 million. As already explained at the end of the first half of 2008, the requisite remeasurements of financial assets reduced the balance of gains and losses recognized in equity by €27.3 million. This was the result of mark-to-market revaluations made necessary by the weak market performance of securities. Another major exceptional factor was *UniCredit's* announcement of its intention to dispose of its minority stake in *BKS Bank AG* by year-end 2008, delaying a capital increase by *BKS Bank AG* within the scope of its authorized capital that had been planned for this year. We told you about this announcement in our semi-annual financial report.

Own funds

Since the beginning of 2008, BKS Bank has been calculating its own funds ratio and basis of assessment in line with the EU Solvency Directive, which takes its bearings from *Basel II*. Because of the new calculation method, comparisons with the figures for the previous year are of limited value. BKS Bank uses the standardized approach when calculating its capital charges for credit and operational risks. As the table below shows, eligible own funds remained at the same high level as at the end of the previous year, at €404.3 million. However, the significant growth in business volumes increased the basis of assessment for the banking book to roughly €4.1 billion during the period under review. As a result, our own funds ratio fell marginally to 9.87 per cent. Our surplus own funds came to €76.7 million, or €55.5 million taking account of capital charges for operational risk.

On 4 November, Group member *BKS Hybrid alpha GmbH* invited subscriptions as the issuer of a perpetual hybrid bond (ISIN AT0000A0BK75) worth up to €20.0 million, the aim being to effect a sustainable increase in the core capital base of our *Kreditinstitutsgruppe*. A fixed rate of 7.35 per cent p.a. has been set for the first 10 years, and quarterly interest rate payments of the 3-month Euribor plus 4 per cent p.a. will take place from 19 December 2018.

Own funds of BKS Bank Kreditinstitutsgruppe			
€m (calculation in 2008: <i>Basel II</i> ; in 2006 and 2007: <i>Basel I</i>)	30/9/2008	31/12/2007	31/12/2006
Share capital	50.0	50.0	50.0
Disclosed reserves net of treasury shares and intangible assets	185.5	185.9	191.8
Core capital (Tier 1)	235.5	235.9	241.8
Hidden reserves	5.6	5.6	5.6
Eligible supplementary capital	163.0	155.8	154.3
Balance of gains and losses recognized in equity	61.4	60.7	54.0
Eligible subordinated liabilities	16.3	14.0	7.2
Supplementary own funds (Tier 2)¹	246.3	236.1	221.1
Deductions from Tier 1 and Tier 2	66.6	66.6	66.6
Eligible own funds	404.3	405.1	396.3
Own funds ratio	9.87%	10.03%	11.01%
Basis of assessment for the banking book	4,095.6	4,039.2	3,598.5
Own funds requirement	327.6	323.1	287.9
Own funds requirement for the trading book	4.4	2.9	1.4
— Of which arising from open currency positions	2.4	0.9	—
Own funds requirement for operational risk	21.2	—	—
Surplus own funds	55.5	82.0	108.4
Surplus own funds (disregarding operational risk)	76.7	82.0	108.4

¹ Under § 23 BWG, supplementary own funds may only be recognized up to the amount of core capital.

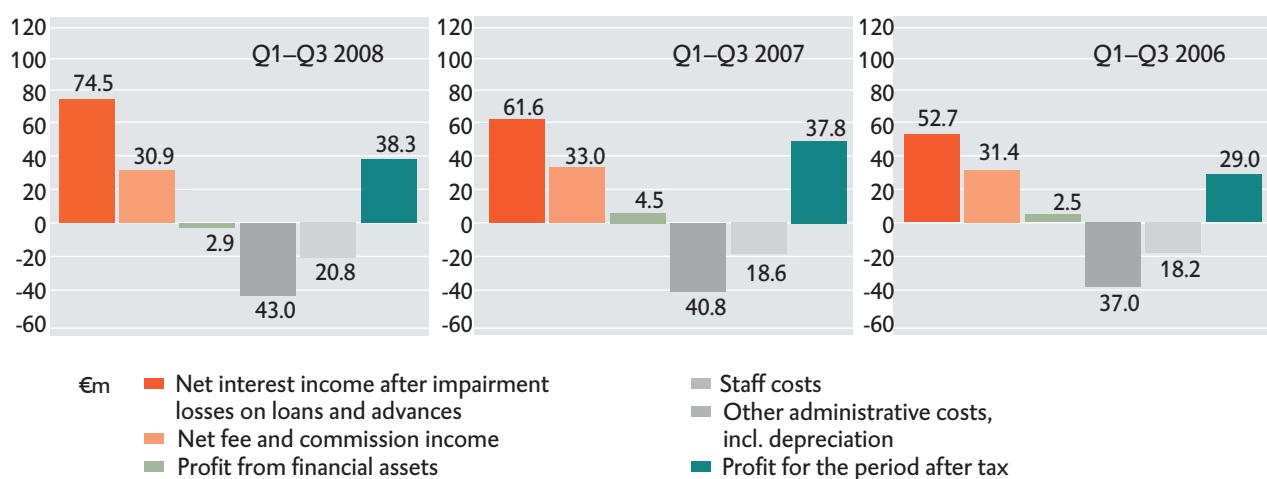
Performance

The various elements of the Income Statement at the end of the third quarter, during which consolidated profit came to €38.3 million (see above), paint a mixed picture. On the one hand, net interest income grew by 15.2 per cent on the same period of the previous year to €92.1 million, thanks mainly to strong growth in the loan portfolio and our consistent, restrictive margins policy. On the other hand, our Income Statement suffered from severe pressure on earnings from business transacted on a commission basis and the need for extraordinary revaluations of financial assets as a result of market turbulence. The marked drop in capital market rates in the nine months to the end of the period under review led to a loss on derivatives and to precautionary write-downs on available-for-sale assets recognized in the Income Statement in the amount of €2.4 million. Nonetheless, in the first three quarters, we recognized impairment losses on loans and advances of just €17.6 million, as against €18.4 million in the three quarters ended 30 September 2007. As a result, net interest income after impairment losses on loans and advances was more than one fifth up on the first nine months of 2007 to €74.5 million. This was, once again, the Group's most important profit pillar, strengthened by every subsidiary in Austria and abroad.

Net fee and commission income was roughly 6.4 per cent down on the nine months ended 30 September 2007 to €30.9 million. Although we saw a significant rise in credit commission of roughly a quarter to €6.7 million and a small rise in commission earnings from payments of €0.3 million to €10.9 million, there was a disproportionately big drop in our commission earnings from securities operations of €4.2 million to €9.6 million. The massive global slump was also mirrored by a sharp decrease in balances in customers' securities accounts, which were roughly one sixth down on the end of 2007 to €5.3 billion.

Staff costs increased to €43.0 million. Although this was 5.5 per cent more than in the first nine months of 2007, the increase was smaller than we had expected given the 3.3 per cent hike in salaries carried out under our collective agreement as of 1 February 2008, the consolidation of *BKS Leasing a.s.* in Slovakia and the 63-employee increase in our average workforce to 854. However, our ambitious plans for growth and changed priorities in our investment action plan increased other administrative costs and depreciation by 11.7 per cent to a total of €20.8 million.

Components of the Income Statement



Ratios

Per cent	Q1–Q3 2008	2007	2006
Cost:income ratio	50.6	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	19.1	17.7	21.2

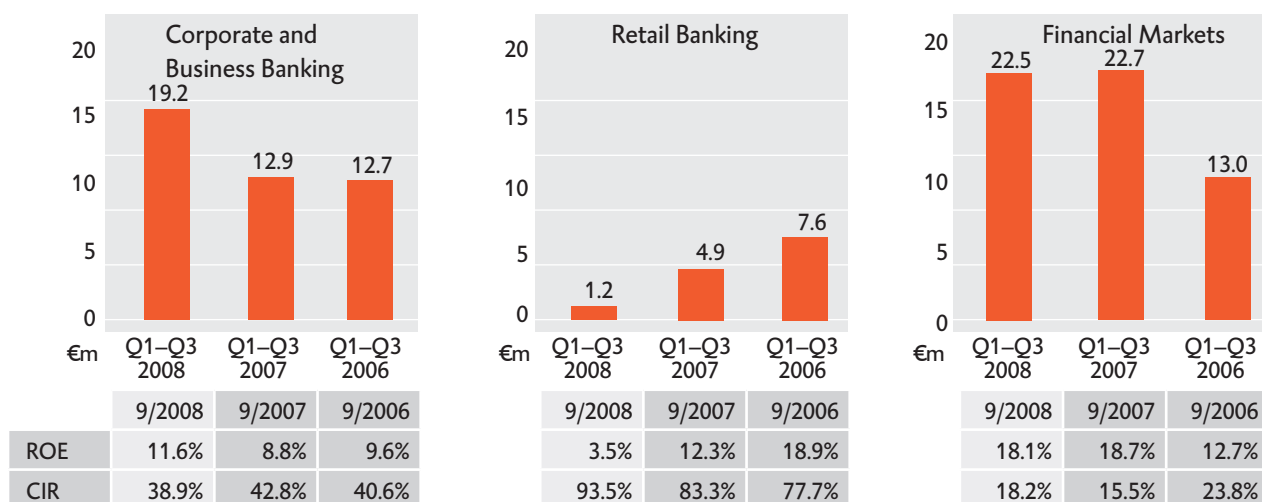
Our cost:income ratio after the first three quarters remained well balanced at 50.6 per cent. Our return on equity before tax of 12.9 per cent was 0.9 percentage points better than the Group benchmark being targeted on a balanced score card basis. We were able to keep our ROA after tax—the measure of the return on our total average assets—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. Even after the first nine months of the year, it was still below the BKS Bank Group's long-term steering benchmark of 20 per cent at 19.1 per cent.

Segment Report

This Segment Report presents the results recorded in the BKS Bank Group's various operational business segments. It is based on the internal information provided to management, which is prepared monthly in accordance with IFRS requirements. In the Segment Report, we elucidate the business performance of our three historically evolved segments, these being *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. We measure the performance of each segment on the basis of its profit from operations before tax, return on equity and CIR (cost:income ratio). The same segmental subdivisions are also used for the purposes of internal Group control. The return on equity expresses the relationship between profit for the period and the average equity employed in a segment. Average equity employed is calculated according to the *Basel II* system based on average risk-weighted assets and charges for market risk positions (so-called *risk-asset equivalents*). The cost:income ratio gauges a segment's costs efficiency by measuring general administrative expenses as a percentage of profit before impairment losses.

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.

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 subsidiaries in Austria and abroad. The pleasing trend in prior periods continued during the first nine months of 2008. This segment's good performance and increase in profit for the period from €12.9 million to €19.2 million was primarily attributable to a robust rise in net interest income, which—thanks to the high volume of new business conducted with our corporate and business banking customers—was 15.1 per cent up on the same period of 2007 to €40.3 million. The loan portfolio grew by 16.8 per cent to roughly €3.33 billion. At the same time, the corporate and business banking customer base grew to about 17,600. The focus on creditworthiness in our lending operations also paid off. Charges for impairment losses on loans and advances deducted from our significantly increased profits in the corporate and business banking segment came to €16.4 million, which was less than the charge of €16.6 million recognized after the first three quarters of 2007. As a result, this segment's return on equity before tax increased substantially from 8.8 to 11.6 per cent. In addition, the corporate and business banking segment broke through the 40 per cent barrier to deliver a cost:income ratio of 38.9 per cent.

Retail Banking

In contrast, the *Retail Banking* segment developed poorly and failed to live up to our expectations. This 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. The pendulum swung the wrong way both for the segment's return on equity, which came to just 3.5 per cent, and its cost:income ratio, which came to 93.5 per cent. Whereas net interest income continued the trend during the first nine months of 2007 to total €23.3 million, net fee and commission income in this segment came to just €13.0 million in the nine months ended 30 September 2008, and business transacted on a commission basis has remained under pressure in recent weeks. Although fees and commission income from classical on-balance-sheet banking operations—lending and deposits business—developed satisfactorily, this was overshadowed by severe setbacks to securities business done on a commission basis as the undertow of the global slump affected virtually every asset class, from equities and bonds to high-yield paper. We believe that the retail banking segment's relatively modest profit for the period of €1.2 million will already mark the low point of the cycle and that our intensive efforts to optimize our sales activities will help bring this segment back on target.

Financial Markets

The *Financial Markets* segment encompasses our profits from *BKS Bank AG*'s proprietary trading activities and our earnings from equity investments, financial instruments and maturity transformation (so-called *structural income*). Despite difficult conditions in the financial markets, this segment's profit for the period before tax came to €22.5 million, which was close to the excellent result posted for the first nine months of 2007. Although net interest income grew strongly to €28.8 million, from €19.5 million in the comparable 2007 period, some segment profit was absorbed by the development of segment earnings from financial assets, which fell from a profit of €4.5 million to negative €2.9 million. Nonetheless, looking at the segment's ratios on a comparable period basis, its return on equity before tax stabilized at a high level of 18.1 per cent and its cost: income ratio worsened just marginally from 15.5 to 18.2 per cent.

Risk Report

The financial markets crisis has again made clear how immensely important it is for us to deal with banking risks in a planned and purposeful way and to limit and manage them professionally if we are to ensure our Bank's business success. In accordance with regulatory recommendations, a Management Board member who is not involved in front-office operations has central responsibility for risk management at BKS Bank. This Management Board member lays down risk policy, approves risk management rules and specifies limits for all the relevant risks as well as procedures for monitoring banking risks. One of the core focuses of our risk strategy is to employ our

own funds efficiently, optimizing the relationship between risk and return. 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.

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

Credit risk is the risk of partial or total non-payment of contractually agreed payments on loans. This risk may be the result of a counterparty's poor creditworthiness or arise indirectly from country risk as a consequence of a counterparty's domicile. Our consistent and prudent management of credit risks is mirrored by our risk:earnings ratio. In the retail banking segment, it came to just 5.2 per cent in the period under review, compared with 7.6 per

Impairment losses on loans and advances		
€m	30/9/2008	30/9/2007
Direct write-downs	0.7	1.3
Allocated	20.4	20.7
Released	(3.2)	(2.9)
Subsequent recoveries	(0.3)	(0.7)
Impairment losses	17.6	18.4

cent in the first nine months of 2007. Thanks to a strong increase in net interest income, we were able to reduce our risk:earnings ratio in the corporate and business banking segment from 47.4 to 40.8 per cent. We attach particular importance to ensuring rigorous adherence to the credit risk targets budgeted for in the corporate and business banking and retail banking segments alongside the long-term optimization of the relationship between risk and returns in BKS Bank's credit operations.

The structure of our loan portfolio remained stable during the first three quarters. We are pleased to report that roughly 94 per cent of our corporate and business banking customers are rated in the "non-default" zone between A1 and C1. Impairment losses on loans and advances were 4.3 per cent down on the same period of the previous year to €17.6 million.

Market risk

Market risk comprises the risk of losses caused by fluctuations in market prices (interest rates, spreads, foreign exchange rates and equity prices) and price-related parameters (correlations, volatilities). 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. VaR expresses the potential loss that, with a specific probability and within a specific time horizon, will not be exceeded within, for instance, a securities portfolio.

Each month, the results of our present value, duration and VaR analyses are examined by Asset Liability Management (the ALM Committee). At the end of the third quarter of 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 10.5 per cent (31/12/2007: 10.6 per cent), keeping BKS Bank's ratio well below the 20 per cent mark. The extreme distortions in the financial markets also affected our figures for equity price risk. Having still been just €5.1 million at year-end, our VaR at the end of the period under review was already €21.0 million.

Liquidity risk

Throughout the period under review, BKS Bank satisfied the minimum liquidity standards laid down in § 25 BWG. Our surplus liquidity averaged roughly €29 million during the first nine months of the year and came to €40 million at 30 September. As before, it was mainly accounted for by fixed-interest securities. In view of the persistent liquidity crisis, we want to continue to reduce our dependence on the money market. The ratio of

so-called *primary funds* to receivables from customers is an important benchmark. At 30 September, it was a very good 93.5 per cent.

Operational risk

BKS groups together the risks of losses resulting from inadequate or failed internal processes, people and systems or from external events under the heading *operational risk*. The management of operational risk is the responsibility of the relevant operational departments (designated internally as our *risk-taking units*). As at 30 September, they reported operational risk losses (without operational risk losses arising from loans and advances) of approximately €330 thousand distributed across 113 individual losses within the Group. The most noticeable risk category was processing errors, which accounted for €130 thousand of the total.

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

Against the background of a weakening economy, BKS Bank continued to direct its business policies at attaining sustainable growth and high efficiency. We profit from our focus on our home markets in that the Austrian economy and the market outlooks in, above all, Slovenia, Croatia, Slovakia and Upper Italy have to date proved to be crisis-resistant. We would like to present a number of important projects and focuses of our work that will enable us to respond more readily and flexibly to future opportunities in the market.

Activities in Austria

Our top priority remained the qualitative optimization of sales structures with a particular focus on the retail banking segment. We reviewed our standards of service, looking critically at back-office support, and matched them to market needs; we adapted the product line; and we selectively extended the range of professional and personality training opportunities available to staff.

We have already completed a number of ambitious construction projects undertaken to modernize our branch network as described in our Semi-Annual Report. The *Ring* branch located in our Head Office building has a modern look. Its generously dimensioned lounge and extended counter areas have been open for customer use since October. We are also making speedy progress with the redevelopment of our Pörschach branch. Our new branch in Weiz, Styria, was integrated into the branch network at the end of August. Customer interest in the opening of this branch, which serves corporate and business banking and retail banking customers on an area of about 2,900 square feet, was high.

Did you know that BKS Bank has already been operating in Styria for 25 years? *Bank für Kärnten* was renamed as *Bank für Kärnten und Steiermark Aktiengesellschaft* when our first Styrian branch, at *Kaiserfeldgasse 15* in Graz, opened in 1983. Since then, BKS Bank has thrived. At the time, its assets still totalled the equivalent of €1.11 billion and its 624 employees generated net profit of roughly €1.46 million.

Activities abroad

In line with our strategy, our activities abroad concentrate on the population centres of Slovenia, Croatia, Western Hungary, Slovakia and Veneto. Please join us for a quick look at our most recent activities.

Counter operations and preparations for the launch of securities operations at our *Ljubljana-Bežigrad* branch in Slovenia began as planned. In Celje, we signed the lease for the building chosen to house our next branch in Slovenia. This branch will open in 2009.

A decade has already passed since BKS Bank entered the Croatian market. We opened a representative office in Zagreb in 1998 and set up *BKS – leasing Croatia d.o.o.* soon after. Having acquired *Kvarner banka d.d.* — renamed

as *BKS Bank d.d.* at the beginning of September 2008—and having opened a branch in Zagreb in October, we also plan to provide a comprehensive range of banking services outside the Primorje-Gorski Kotar and Istria regions in the medium term. Our new premises in the *Eurotower* in downtown Zagreb is likewise home to our leasing subsidiary *BKS - leasing Croatia d.d.*

In Slovakia, our leasing subsidiary *BKS Leasing a.s.* will soon be opening a branch in Banská Bystrica, which will be its fifth.

Finally, our project to set up a banking subsidiary in Italy is going ahead. It will be based in the attractive *Palazzo Dolfín* in Padova. We will soon be fine-tuning the application for our banking licence with *Banca d'Italia*.

Outlook for 2008

Both domestic and international economic conditions have continued to deteriorate since the end of the period under review. As the bad news that we are hearing on an almost daily basis suggests, lack of confidence among market participants has turned what was originally a credit risk crisis into a tenacious and no less dangerous liquidity crisis that is already having a knock-on effect on the real economy. Many banks around the world need government help because, first and foremost, the interbank market has dried up. Government guarantees and liquidity support are also dominating the headlines in BKS Bank's professional and competitive environment. In recent weeks, the increased difficulty of raising funds in the interbank market has also reduced new lending by BKS. On the one hand, the state of the economy has dented demand in general. On the other, conditions in the market have made it necessary to apply lending criteria more restrictively. At the moment, we have yet to see any signs of lasting relief in the money market. As a consequence, raising funds remains very costly.

The undiminished volatility of the markets makes it much harder to predict profits. As things stand at the moment, we believe that BKS Bank will post another satisfactory full-year result for 2008 that will lie roughly between that of 2007 and that of 2006. These were both record years.

The 3 Banken Group

Finally, we draw your attention to the *3 Banken Group's* numbers. As the overview on page 3 shows, the accumulated assets of the three listed sister banks in this group—*Oberbank*, *Bank für Tirol und Vorarlberg* and *BKS Bank*—had already passed the €30 billion mark at the end of the first nine months of 2008 to total €30.3 billion. Together, these three regional banks boast the capacities of a major bank. They employed an average of 3,721 people during the period under review. The *3 Banken Group's* sales network currently consists of 225 branches in Austria and abroad.

We remain yours faithfully,



Heimo Penker



Herta Stockbauer

Consolidated Financial Statements

as at and for the Nine Months Ended 30 September 2008

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Income Statement of the BKS Bank Group for the First Three Quarters of 2008

FULL PERIOD

€k	Note	Q1 – Q3 2008	Q1 – Q3 2007	+(-) Change, %
Interest income		249,183	204,743	21.7
Interest expenses		(167,764)	(134,411)	24.8
Profit from entities accounted for using the equity method		10,702	9,604	11.4
Net interest income	(1)	92,121	79,936	15.2
Impairment losses on loans and advances	(2)	(17,636)	(18,381)	(4.1)
Net interest income after impairment losses on loans and advances		74,485	61,555	21.0
Fee and commission income		35,252	36,613	(3.7)
Fee and commission expenses		(4,322)	(3,585)	20.6
Net fee and commission income	(3)	30,930	33,028	(6.4)
Net trading income	(4)	1,030	1,377	(25.2)
General administrative expenses	(5)	(63,751)	(59,359)	7.4
Other operating income net of other operating expenses	(6)	1,818	1,447	25.6
Profit from financial assets (FV)	(7)	(184)	2,983	(106.2)
Profit from financial assets (AfS)	(8)	(2,739)	1,542	(277.6)
Profit for the period before tax		41,589	42,573	(2.3)
Tax expense	(9)	(3,246)	(4,768)	(31.9)
Profit for the period		38,343	37,805	1.4
Minority interests in profit for the period		0	(6)	>100
Profit for the period after minorities		38,343	37,799	1.4

QUARTERLY REVIEW

€k	2008 Q3	2008 Q2	2008 Q1	2007 Q4	2007 Q3
Interest income	88,542	81,815	78,826	77,531	73,995
Interest expenses	(59,821)	(54,268)	(53,675)	(52,749)	(49,517)
Profit from entities accounted for using the equity method	3,410	3,332	3,960	3,890	3,524
Net interest income	32,131	30,879	29,111	28,672	28,002
Impairment losses on loans and advances	(5,936)	(7,336)	(4,364)	(839)	(6,261)
Net interest income after impairment losses on loans and advances	26,195	23,543	24,747	27,833	21,741
Net fee and commission income	9,986	9,651	11,293	11,832	10,720
Net trading income	(360)	836	554	406	82
General administrative expenses	(21,904)	(20,942)	(20,905)	(23,447)	(20,329)
Other operating income net of other operating expenses	250	802	766	645	287
Profit from financial assets (FV)	(1,424)	2,639	(1,399)	(199)	85
Profit from financial assets (AfS)	(1,229)	(710)	(800)	(76)	1,318
Profit from financial assets (HtM)	0	0	0	(17)	0
Profit for the period before tax	11,514	15,819	14,256	16,977	13,904
Tax expense	8	(1,700)	(1,554)	(4,016)	(1,520)
Profit for the period	11,522	14,119	12,702	12,961	12,384
Minority interests in profit for the period	0	0	0	2	5
Profit for the period after minorities	11,522	14,119	12,702	12,963	12,389

Balance Sheet of the BKS Bank Group as at 30 September 2008

ASSETS

€k	Note	30/9/2008	31/12/2007	+(-) Change, %
Cash and balances with the central bank	(10)	58,485	80,822	(27.6)
Receivables from other banks	(11)	938,245	880,399	6.6
Receivables from customers	(12)	4,185,830	3,657,909	14.4
– Impairment allowance balance	(13)	(99,497)	(96,281)	3.3
Trading assets	(14)	7,405	11,206	(33.9)
Financial assets designated as at fair value through profit or loss	(15)	109,268	71,634	52.5
Available-for-sale financial assets	(16)	371,833	398,116	(6.6)
Held-to-maturity financial assets	(17)	457,943	385,185	18.9
Investments in entities accounted for using the equity method	(18)	229,263	227,065	1.0
Intangible assets	(19)	14,296	13,887	2.9
Property and equipment	(20)	65,755	67,943	(3.2)
Investment property	(21)	16,339	16,943	(3.6)
Deferred tax assets	(22)	16,105	9,584	68.0
Other assets	(23)	31,539	28,277	11.5
Total assets		6,402,809	5,752,689	11.3

EQUITY AND LIABILITIES

€k	Note	30/9/2008	31/12/2007	+(-) Change, %
Payables to other banks	(24)	1,895,827	1,396,733	35.7
Payables to customers	(25)	3,449,655	3,330,020	3.6
Liabilities evidenced by paper	(26)	231,466	251,543	(8.0)
Trading liabilities	(27)	1,770	1,948	(9.1)
Provisions	(28)	78,881	80,512	(2.0)
Deferred tax liabilities	(29)	6,817	6,779	0.6
Other liabilities	(30)	62,243	34,399	80.9
Subordinated debt capital	(31)	230,386	200,219	15.1
Equity		445,764	450,536	(1.1)
Equity after minorities		445,754	450,509	(1.1)
Minority interests in equity		10	27	(63.0)
Total equity and liabilities		6,402,809	5,752,689	11.3

EARNINGS PER SHARE

	Q1–Q3 2008	Q1–Q3 2007
Average number of shares in issue	4,558,706	4,628,039
Earnings per share, € (diluted and undiluted)	11.21	10.89

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					38,343	38,343
Exchange differences			996			996
Capital increase						0
Gains and losses recognized in equity				(27,261)		(27,261)
Other changes			(9,998)			(9,998)
– Arising from use of the equity method			(9,746)			
– Arising from changes in our own shares			(81)			
At 30 September 2008	50,000	40,736	324,721	(8,046)	38,343	445,754

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					37,799	37,799
Exchange differences			344			344
Capital increase						0
Gains and losses recognized in equity				6,109		6,109
Other changes			(581)			(581)
– Arising from use of the equity method			(2,515)			
– Arising from changes in our own shares			162			
At 30 September 2007	50,000	40,736	299,053	25,491	37,799	453,079

The 68th Annual General Meeting held on 15 May 2007 voted to authorize a capital increase of €10.0 million (nominal). This corresponds to 936,000 shares.

Cash Flow Statement

CASH FLOWS

	€k	Q1–Q3 2008	Q1–Q3 2007
Cash and cash equivalents at end of previous period		80,822	74,640
Net cash from operating activities		74,810	159,629
Net cash from (used in) investing activities		(120,479)	(154,596)
Net cash from financing activities		23,332	735
Cash and cash equivalents at end of period		58,485	80,408

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

Principal accounting policies

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the nine months ended 30 September 2008 were prepared in accordance with the provisions of the IFRS standards (IFRSs) 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 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 (makes up 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. 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 credit 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 class-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 and intangible assets (non-current)

Property, equipment and intangible assets (non-current) 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 financing costs in the line item *Net interest income*.

Impairment losses on loans and advances

This line item captures allowances for impairment losses on loans and advances 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	Q1–Q3 2008	Q1–Q3 2007
Interest income from:			
Credit operations		204,496	169,590
Fixed-interest securities		21,655	18,238
Lease receivables		13,525	9,218
Shares		5,109	3,529
Investment property		565	488
Investments in subsidiaries		3,833	3,680
Total interest income		249,183	204,743
Interest expenses on:			
Deposits from other banks and customers ¹		151,379	119,104
Liabilities evidenced by paper		16,175	15,082
Investment property		210	225
Total interest expenses		167,764	134,411
Profit from entities accounted for using the equity method			
Income from entities accounted for using the equity method		16,699	14,635
Financing costs arising in connection with entities accounted for using the equity method ²		(5,997)	(5,031)
Profit from entities accounted for using the equity method		10,702	9,604
Net interest income		92,121	79,936

¹ Net of financing costs arising in connection with entities accounted for using the equity method. ² Based on the average 3-month Euribor.

(2) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	€k	Q1–Q3 2008	Q1–Q3 2007
Transferred to impairment provisions		20,354	20,700
Released from impairment provisions		(3,148)	(2,904)
Direct write-offs		730	1,295
Recoveries on receivables previously written off		(300)	(710)
Impairment losses on loans and advances		17,636	18,381

(3) NET FEE AND COMMISSION INCOME

	€k	Q1–Q3 2008	Q1–Q3 2007
Fee and commission income from:			
Payment services		11,794	11,491
Securities business		10,449	14,676
Credit operations		7,352	6,201
International business		4,816	3,437
Other services		841	808
Total fee and commission income		35,252	36,613
Fee and commission expenses arising from:			
Payment services		850	923
Securities business		853	886
Credit operations		700	845
International business		1,664	669
Other services		255	262
Total fee and commission expenses		2,629	3,585
Net fee and commission income		30,930	33,028

(4) NET TRADING INCOME

	€k	Q1–Q3 2008	Q1–Q3 2007
Price-based contracts		(49)	107
Interest rate and currency contracts		1,079	1,270
Net trading income		1,030	1,377

(5) GENERAL ADMINISTRATIVE EXPENSES

	€k	Q1–Q3 2008	Q1–Q3 2007
Staff costs		42,991	40,766
– Wages and salaries		30,785	29,343
– Social security costs		7,882	7,523
– Costs of retirement benefits		4,324	3,900
Other administrative costs		16,643	14,692
Depreciation		4,117	3,901
General administrative expenses		63,751	59,359

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

	€k	Q1–Q3 2008	Q1–Q3 2007
Other operating income		2,940	2,779
Other operating expenses		(1,122)	(1,332)
Other operating income net of other operating expenses		1,818	1,447

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

	€k	Q1–Q3 2008	Q1–Q3 2007
Revaluation gains and losses on derivatives		(313)	2,441
Profit from application of the fair value option		129	542
Profit from financial assets designated as at fair value through profit or loss		(184)	2,983

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

	€k	Q1–Q3 2008	Q1–Q3 2007
Unrealized and realized gains and losses		(2,739)	1,542
Profit from available-for-sale financial assets		(2,739)	1,542

(9) TAX EXPENSE

	€k	Q1–Q3 2008	Q1–Q3 2007
Current tax		(4,351)	(5,136)
Deferred tax		1,105	368
Tax expense		(3,246)	(4,768)

(10) CASH AND BALANCES WITH THE CENTRAL BANK

	€k	30/9/2008	31/12/2007
Cash in hand		25,260	30,665
Credit balances with central banks of issue		33,225	50,157
Cash and balances with the central bank		58,485	80,822

(11) RECEIVABLES FROM OTHER BANKS

	€k	30/9/2008	31/12/2007
Austrian banks		140,754	245,792
Foreign banks		797,491	634,607
Receivables from other banks		938,246	880,399

(12) RECEIVABLES FROM CUSTOMERS

	€k	30/9/2008	31/12/2007
Corporate and business banking customers		3,331,235	2,853,148
Retail banking customers		854,595	804,761
Receivables from customers		4,185,830	3,657,909

(13) IMPAIRMENT ALLOWANCE BALANCE

	€k	30/9/2008	31/12/2007
At beginning of period under review		96,281	93,666
+ First-time consolidation			4,241
+ Added		17,440	19,410
– Released		3,148	4,595
– Used		11,076	16,441
At end of period under review		99,497	96,281

(14) TRADING ASSETS

	€k	30/9/2008	31/12/2007
Bonds and other fixed-interest securities		177	5
Shares and other variable-yield securities		0	3,749
Positive fair values of derivative financial instruments			
– Currency contracts		13	70
– Interest rate contracts		1,678	1,845
Other contracts		5,537	5,537
Trading assets		7,405	11,206

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

	€k	30/9/2008	31/12/2007
Bonds and other fixed-interest securities		78,700	50,187
Loans		30,568	21,447
Financial assets designated as at fair value through profit or loss		109,268	71,634

(16) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	€k	30/9/2008	31/12/2007
Bonds and other fixed-interest securities		211,367	217,360
Shares and other variable-yield securities		115,436	129,378
Investments in subsidiaries		30,337	36,646
Other equity investments		14,693	14,732
Available-for-sale financial assets		371,833	398,116

(17) HELD-TO-MATURITY FINANCIAL ASSETS

	€k	30/9/2008	31/12/2007
Bonds and other fixed-interest securities		457,943	385,185
Held-to-maturity financial assets		457,943	385,185

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

	€k	30/9/2008	31/12/2007
Oberbank AG		152,517	150,937
Bank für Tirol und Vorarlberg AG		72,498	71,986
Drei-Banken Versicherungs-AG		3,605	3,499
Alpenländische Garantie GmbH		643	643
Investments in entities accounted for using the equity method		229,263	227,065

(19) INTANGIBLE ASSETS

	€k	30/9/2008	31/12/2007
Goodwill		12,180	12,169
Other intangible assets		2,116	1,718
Intangible assets		14,296	13,887

(20) PROPERTY AND EQUIPMENT

	€k	30/9/2008	31/12/2007
Land		2,670	2,667
Buildings		43,496	45,093
Other		19,589	20,183
Property and equipment		65,755	67,943

(21) INVESTMENT PROPERTY

	€k	30/9/2008	31/12/2007
Land		8,164	8,164
Buildings		8,175	8,779
Investment property		16,339	16,943

At 30 September 2008, our investment property had a fair value of approximately €24.7 million.

(22) DEFERRED TAX ASSETS

	€k	30/9/2008	31/12/2007
Deferred tax assets		16,105	9,584

(23) OTHER ASSETS

	€k	30/9/2008	31/12/2007
Positive fair values of derivative financial instruments		6,949	21,088
Other items		22,636	5,403
Deferred items		1,954	1,786
Other assets		31,539	28,277

(24) PAYABLES TO OTHER BANKS

	€k	30/9/2008	31/12/2007
Austrian banks		1,236,760	696,139
Foreign banks		659,067	700,594
Payables to other banks		1,895,827	1,396,733

(25) PAYABLES TO CUSTOMERS

	€k	30/9/2008	31/12/2007
Savings deposits		1,536,585	1,443,697
Corporate and business banking customers		244,659	195,206
Retail banking customers		1,291,926	1,248,491
Other payables		1,913,070	1,886,323
Corporate and business banking customers		1,413,324	1,442,315
Retail banking customers		499,746	444,008
Payables to customers		3,449,655	3,330,020

(26) LIABILITIES EVIDENCED BY PAPER

	€k	30/9/2008	31/12/2007
Issued bonds		147,178	166,316
Other liabilities evidenced by paper		84,288	85,227
Liabilities evidenced by paper		231,466	251,543

(27) TRADING LIABILITIES

	€k	30/9/2008	31/12/2007
Interest rate contracts		1,757	1,879
Currency contracts		13	69
Trading liabilities		1,770	1,948

(28) PROVISIONS

	€k	30/9/2008	31/12/2007
Provisions for post-employment benefits and similar obligations		69,625	68,356
Provisions for taxes (current tax)		468	1,565
Other provisions		8,788	10,591
Provisions		78,881	80,512

(29) DEFERRED TAX LIABILITIES

	€k	30/9/2008	31/12/2007
Deferred tax liabilities		6,817	6,779

(30) OTHER LIABILITIES

	€k	30/9/2008	31/12/2007
Negative fair values of derivative financial instruments		23,269	18,817
Other items		37,925	14,275
Deferred items		1,049	1,307
Other liabilities		62,243	34,399

(31) SUBORDINATED DEBT CAPITAL

	€k	30/9/2008	31/12/2007
Supplementary capital		230,386	200,219
Subordinated debt capital		230,386	200,219

(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 earned in that segment. Alongside cost:income ratio, return on equity is one of our principal benchmarks for managing business segments.

SEGMENT BREAKDOWN

	€k	Retail Banking		Corporate and Business Banking	
		Q1–Q3 2008	Q1–Q3 2007	Q1–Q3 2008	Q1–Q3 2007
Net interest income		23,305	23,501	40,265	34,973
Impairment losses on loans and advances		(1,202)	(1,789)	(16,434)	(16,592)
Net fee and commission income		13,018	16,055	17,081	15,885
Net trading income		0	0	0	0
General administrative expenses		(34,675)	(33,549)	(22,692)	(22,107)
Other operating income net of other operating expenses		763	727	940	752
Profit from financial assets		0	0	0	0
Profit for the period before tax		1,209	4,945	19,160	12,911
Average risk-weighted assets		583,806	671,393	2,747,308	2,451,602
Average equity employed		46,705	53,711	219,785	196,128
ROE based on profit for the period		3.5%	12.3%	11.6%	8.8%
Cost:income ratio		93.5%	83.3%	38.9%	42.8%

(33) CONTINGENT LIABILITIES AND COMMITMENTS

	30/9/2008	31/12/2007
Guarantees	330,641	329,488
Letters of credit	418	1,202
Contingent liabilities	331,059	330,690
Non-genuine repos	5,537	5,537
Other commitments	759,148	800,058
Commitments	764,685	805,595

34) EVENTS AFTER THE INTERIM REPORTING DATE

In order to strengthen the core capital of our *Kreditinstitutgruppe* on a sustainable basis, on 4 November, *BKS Hybrid alpha GmbH* invited subscriptions as the issuer of a perpetual hybrid bond (ISIN AT0000A0BK75) worth up to €20.0 million. The slump has spread dramatically since October. For this reason, we are continually monitoring our own investments.

(35) BALANCE OF DERIVATIVES OUTSTANDING

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

30/9/2008	€k	Nominal, by term to maturity			Total	Fair values	
		To 1 year	1–5 years	> 5 years		Positive	Negative
Currency contracts	891,820	992,571	0	1,884,391	3,094	8,031	
– Of which in trading book	3,000	0	0	3,000	13	13	
Interest rate contracts	469,904	584,106	379,660	1,433,670	5,227	15,386	
– Of which in trading book	354,916	121,920	2,160	478,996	553	614	
Securities contracts	0	0	0	0	0	0	
– Of which in trading book	0	0	0	0	0	0	
Total	1,361,724	1,576,677	379,660	3,318,061	8,321	23,417	
– Of which traded on an exchange	0	0	0	0	0	0	

Financial Markets		Other		Total	
Q1–Q3 2008	Q1–Q3 2007	Q1–Q3 2008	Q1–Q3 2007	Q1–Q3 2008	Q1–Q3 2007
28,788	19,450	(237)	2,012	92,121	79,936
0	0	0	0	(16,636)	(18,381)
1,361	997	(530)	91	30,930	33,028
1,030	1,377	0	0	1,030	1,377
(5,683)	(3,383)	(701)	(320)	(63,751)	(59,359)
(36)	7	151	(39)	1,818	1,447
(2,923)	4,525	0	0	(2,923)	4,525
22,537	22,973	(1,317)	1,744	41,589	42,573
593,397	447,117	142,898	175,405	4,067,409	3,745,517
165,646	163,852	15,996	21,031	448,132	434,722
18.1%	18.7%	—	—	12.9%	12.3%
18.2%	15.5%	—	—	50.6%	51.3%

> 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
Currency contracts		1,352,739	841,341	—	2,194,080	14,008	9,119
– Of which in trading book		9,428	—	—	9,428	70	69
Interest rate contracts		698,507	350,756	420,172	1,469,435	6,510	9,305
– Of which in trading book		520,452	120,000	—	640,452	718	741
Securities contracts		7,400	—	—	7,400	1,174	1,174
– Of which in trading book		—	—	—	—	—	—
Total		2,058,646	1,192,097	420,172	3,670,915	21,692	19,598
– Of which traded on an exchange		—	—	—	—	—	—

This Interim Report does not require auditing and, therefore, was not fully audited or examined by an auditor.

Klagenfurt
19 November 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 19 November 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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