

Sound banking and products
you can rely on.

Like a BKS savings account.

**LETTER TO SHAREHOLDERS
2/2010
(Semi-Annual Financial Report)**

BKS Bank
3 Banken Gruppe

Contents

	Page
The BKS Bank Group at a glance	3
Preface by the Management Board	4
Group Management Report for the First Half of 2010	
The economic setting in which banks are operating	5
Notes on the scope of consolidation	6
Assets, liabilities, financial position	7
Own funds	8
Performance	9
Ratios	10
Segmental Report	11
Risk Report	12
Activities and focuses of our work during the period under review	14
Outlook for the year as a whole	14
The 3 Banken Group	15
Consolidated Financial Statements as at and for the Six Months ended 30 June 2010	
Consolidated Income Statement of the BKS Bank Group for 1 January to 30 June 2010	18
Balance Sheet of the BKS Bank Group as at 30 June 2010	19
Statement of Changes in Equity	20
Cash Flow Statement	20
Notes to the Consolidated Financial Statements of BKS Bank	21
Statement by BKS Bank's Management	33

The BKS Bank Group at a glance

Income account, €m	H1 2010	H1 2009	H1 2008
Net interest income	67.9	63.8	60.0
Impairment charges on loans and advances	(25.8)	(18.8)	(11.7)
Net fee and commission income	22.1	19.2	20.9
General administrative expenses	(44.5)	(43.3)	(41.8)
Profit for the period before tax	22.0	19.7	30.1
Consolidated net profit	19.6	18.4	26.8
Balance sheet data, €m	30/6/2010	31/12/2009	31/12/2008
Assets	6,378.8	6,315.9	5,975.7
Receivables from customers after impairment allowances	4,544.4	4,350.2	4,186.1
Primary funds	3,929.3	3,907.9	3,945.1
– Of which savings deposit balances	1,890.3	1,804.6	1,677.5
– Of which liabilities evidenced by paper, incl. subordinated debt capital	628.5	564.7	452.0
Equity	596.8	577.5	464.7
Customer assets under management	9,478.3	9,343.5	8,739.3
– Of which in customers' securities accounts	5,549.0	5,435.6	4,794.2
Own funds within the meaning of BWG, €m	30/6/2010	31/12/2009	31/12/2008
Risk-weighted assets	4,457.2	4,258.4	4,087.7
Own funds	530.6	514.7	450.9
Of which Tier I	369.5	369.5	281.9
Surplus own funds before operational risk	174.0	174.0	123.9
Surplus own funds after operational risk	149.3	150.8	102.7
Tier 1 ratio, per cent	8.29	8.68	6.90
Own funds ratio, per cent	11.90	12.09	11.03
Performance, per cent	H1 2010	H1 2009	H1 2008
Return on equity before tax	7.5	8.9	9.7
Return on equity after tax	6.5	7.8	9.2
Cost:income ratio	48.5	49.9	50.1
Risk:earnings ratio (credit risk in per cent of net interest income)	38.0	28.3	15.4
Resources	H1 2010	2009	2008
Average number of staff	869	872	860
Branches	56	55	54
BKS Bank's shares	H1 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 ¹	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	1,800,000	
High: ordinary/preference share, € ¹	18.1/15.1	18.2/15.3 ¹	113.5/101.0
Low: ordinary/preference share, € ¹	15.9/14.0	16.5/13.6 ¹	110.0/92.0
Close: ordinary/preference share, € ¹	17.0/14.3	18.1/14.7 ¹	110.0/92.0
Market capitalization, €m (at end of period under review)	552.1	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 second Letter to Shareholders in 2010. As you can see from these financial statements as at and for the six months ended 30 June, BKS Bank recorded another respectable result in an environment that was still challenging. Our most important sources of profit—net interest income and net fee and commission income—and general administrative expenses were both satisfactory. Profit before tax in the first half of 2010 was nearly 12 per cent up on the same period of the previous year to €22.0 million. There was some growth in our balance sheet assets during the period under review, increasing them by 1.0 per cent to roughly €6.4 billion. Growth on the assets side of the Balance Sheet was due mainly to a stable increase in receivables from customers, which grew by 4.8 per cent to €4.7 billion. Growth on the equity and liabilities side of the Balance Sheet was driven by a small increase in primary funds to over €3.9 billion. BKS Bank still had a solid capital base at the middle of 2010. Among other things, its Tier 1 ratio was 8.3 per cent, which was over twice the legal requirement.

It will be weeks or months before we know whether the rise in profit in the second quarter—when it was 22.9 per cent up on the prior quarter from January through March 2010, to €10.8 million—was already a sign of a sustained trend reversal. However, a number of indicators are reflecting a modest improvement in the business outlook. For instance, our impairment charges on loans and advances in the second quarter of 2010—which came to €9.9 million—were already substantially down on the first three months of the year, when they came to €16.0 million.

Group Management Report for the First Half of 2010

The economic setting in which banks are operating

World trade has been recovering quickly this year as inventories have rapidly been accumulated. However, the road back to economic stability has sometimes proven to be long and difficult, with the huge rise in government debt in virtually every industrialized nation—a long-term effect of the global financial crisis—massively hampering economic growth. Southeast Asia and other emerging markets have remained the key motors of growth. The business climate in the United States has improved perceptibly. However, as government economic programmes gradually come to an end, the labour market has not yet to recover. Similarly, the property market—whose collapse was a key factor in the global financial crisis—has not yet seen a sustainable recovery. Because of the unexpectedly strong economic headwind, the Federal Reserve in the United States has reduced its growth forecast for the US economy for this year by some 20 basis points. Consequently, it is now forecasting annualized GDP growth of just 3.0 to 3.5 per cent in the fourth quarter of 2010.

In the eurozone, precarious financial forecasts and a worrying increase in unemployment in Southern Europe have overshadowed the positive economic signals, most of which have been coming from the German economy. The disparities that were already getting out of control in the years before the outbreak of the financial and economic crisis as a result of regional current account and competitive imbalances are a threat to future economic recovery and cohesion within the monetary union. Following the downgrading of Greek government bonds, the eurozone felt compelled to offer Greece a financial anchor of €110 billion initially and then to agree a much bigger €750 billion package of guarantees and loans to stabilize money and capital markets in cooperation with the international Monetary Fund. Despite these concerted efforts to deal with the crisis in Portugal, Ireland, Italy, Greece and Spain (the so-called PIIGS), the euro weakened from US\$1.44 at the beginning of the year to about US\$1.20 at the end of the period under review. At the same time, the Swiss franc's status as a safe haven was reaffirmed, taking the euro from SFr1.49 at the beginning of the year to roughly SFr1.33 at the end of June. Following a 4.0 per cent drop in GDP in 2009, WIFO expects the eurozone's GDP to grow by just 0.9 per cent in 2010, and it believes that growth will remain weak in years to come because, above all, of subdued domestic demand.

According to the latest quarterly data, economic growth in the Central and Eastern European countries (CEECs) has been slightly stronger. Above all, Poland, the Czech Republic, Slovakia and Hungary are heading for annual average GDP growth rates of up to 4.9 per cent again for the first time since the middle of 2008. On the other hand, the Baltic countries and Southeastern Europe are still in the economic shadows as a result of weak consumer demand and high foreign trade risks.

WIFO expects the Austrian economy to grow by 1.3 per cent in 2010 and 1.6 per cent in 2011. Recovery will be driven mainly by goods exports to Germany and other countries in the eurozone. Capacity utilization is still low, so for the time being, investment is only expected to grow slowly. According to the latest surveys on the development of incoming orders from Austria and abroad, the slight improvement in the economy should continue in the next few quarters. Supported by a drop in the saving rate, real private consumption is likely to increase by about 0.9 per cent this year. The Austrian labour market has been recovering since the beginning of the year as the output of material goods has risen. However, to date, economic growth has remained too sluggish to cause a lasting drop in the jobless rate, which is currently 4.8 per cent.

Even if economies are recovering around the world, capacity utilization will be weak for the time being and unemployment will stay high. Inflationary pressure is still subsiding. After factoring out the volatility of energy and food prices, inflation in most industrialized nations was only running at about 1 per cent at mid-year. Consequently, few central banks have hiked their key interest rates, and to date, neither the United States Federal Reserve nor the ECB have signalled a turnaround in interest rates in the medium term. Recently, on 10 August, the Federal Reserve Open Market Committee decided to keep the target range for the federal funds rate at zero to ¼ per cent. Similarly, during its meeting on 5 August 2010, the ECB Council decided to leave its minimum bid rate on its main refinancing operations in euros and its peak refinancing and deposit facility rates unchanged at their previous low levels of 1.00,

1.75 and 0.25 per cent, respectively. As a result, the structural low interest rate environment is likely to stay in place for the time being. At the end of June, the 3-month Euribor rate was 0.78 per cent, compared with 0.70 per cent at the end of 2009, and the benchmark yield on German 10-year *Bunds* was 2.58 per cent.

The uptrend in the international equity markets has continued and has been reinforced by reassuring company numbers. However, the generally positive mood in the market has repeatedly been upset. Besides the high public indebtedness of a number of European countries, discussion about prolonging the US economic programmes has, in the end, made many investors sceptical. At the end of June, prices in the eurozone and the United States (measured in terms of the Euro Stoxx 50 and the Dow Jones Industrial) were roughly 13.2 per cent and 6.3 per cent, respectively, down on the end of 2009 at 2,573.32 and 9,774.42 points. However, these indices had recovered significantly by the time of writing to stand at 2,695.90 and 10,405.85 points. During the first half, the US dollar MSCI World Equity Index, which stands at 1,118.9 points at the time of writing, fell by 10.9 per cent to 1,041.3 points. Oil prices too stayed volatile, with European benchmark Brent crude trading at US\$75.01 a barrel at the end of June—or 4.4 per cent less than at the beginning of the year. However, a number of things show that market players are anticipating higher prices in the medium term. They include contracts for delivery in December 2012, which are currently trading at about US\$83.35 a barrel.

Notes on the scope of consolidation

Given the sizes of the companies in the Group, the consolidated group on which our analyses are based is dominated by the results of *BKS Bank AG*. The Group now consists of 17 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*. Moreover, 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 six months ended 30 June 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.

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		

■ 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 €6.38 billion at 30 June 2010, or 1.0 per cent more than 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 4.8 per cent to €4.68 billion. IFRSs require an impairment allowance to be deducted from receivables from customers. We increased this charge for impairment by another €18.7 million to €132.1 million during the period under review. Receivables from other banks decreased by roughly a quarter to total €0.29 billion at the end of June. This compared with payables to other banks of €1.69 billion.

Our Croatian banking subsidiary *BKS Bank d.d.* and our leasing subsidiaries in Austria and abroad also contributed to the positive development of our lending operations alongside *BKS Bank AG* itself and our branches and offices in Slovenia. Corporate and business loans accounted for the bulk of the portfolio's growth. Roughly a third of the net growth in the retail loan portfolio took place in Slovenia, with *BKS Bank* successfully taking part in the government's guarantee programme for home loans. In the foreign currency loan market, the massive appreciation of the Swiss franc was mirrored by a corresponding increase in receivables on customer loans. However, our customers responded with an increase in conversions into euro loans. As in prior periods, we adhered to the restrictive requirements of the FMA (Austrian Financial Market Authority) and did not grant any foreign currency loans to retail banking customers during the first six months of 2010. At the end of June, foreign currency loans accounted for 19.6 per cent of *BKS Bank AG*'s total portfolio.

The lending policy underlying our leasing operations in Austria and abroad was cautious during the period under review to allow for the fact that the economic indicators were still weak. Nonetheless, we built on our good results in 2009, resulting in a domestic portfolio of €0.18 billion, and business transacted abroad by our other leasing subsidiaries in Ljubljana, Zagreb and Bratislava gave us lease receivables with a present value of €0.17 billion. *BKS Bank d.d.* in Croatia, which is headquartered in Rijeka, contributed €64 million of receivables from customers to the semi-annual balance sheet. An HRK60.0 million raising of share capital decided in June and carried out before the end of July should give wings to this company's sustained growth.

Our financial assets — which comprise financial assets designated as at fair value through profit or loss, available-for-sale (AFS) financial assets, held-to-maturity (HtM) items and investments in other entities accounted for using the equity method — came to €1.32 billion at the end of the first half, compared with €1.28 billion at the end of 2009. We held the line item *Financial assets designated as at fair value through profit or loss* and the portfolio of available-for-sale financial assets steady at roughly the same level as on the most recent balance sheet date of 31 December 2009, at €0.12 billion and €0.32 billion, respectively. However, targeted investments in fixed-interest securities increased the held-to-maturity portfolio by 2.3 per cent to €0.61 million. Our investments in entities accounted for using the equity method grew by 5.0 per cent to €0.27 million. Most of this increase was attributable to the Group's interests in *Oberbank AG* and *BTV AG*, which were accounted for using the equity method.

Equity and liabilities

The fall in balances on the equity and liabilities side of the Balance Sheet was relatively small, and this was particularly true of deposits from customers and other banks and trading liabilities. On the other hand, liabilities evidenced by paper increased. The balance of our so-called *primary funds*, which are made up of savings, sight and time deposit balances and liabilities evidenced by paper, came to a satisfactorily high €3.93 billion. We see this as a clear sign of the trust that our customers place in our crisis-resistant business model. Including subordinate debt capital, our primary funds sufficed to fund over four fifths of our lending to customers. Savings deposit balances were already approaching the €2.0 billion mark in the first six months of the year, growing by 4.7 per cent to €1.89 billion. Other liabilities were 8.3 per cent down on 31 December 2009 to €1.41 billion. This was mainly due to maturities of time deposits from corporate and business banking customers 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 available to the bank in the longer term, we are also making growing use of the capital markets as a source of funds. Our own securities in issue, comprising liabilities evidenced by paper and subordinated debt capital, developed satisfactorily during the period under review, increasing by €63.7 million to €0.63 billion. Despite the market climate, we successfully placed three notes during the first half, namely the *BKS Bank Ergänzungskapital Stufenzins-Obligation 2010-2020* “supplementary capital” note, the 3 per cent *BKS Bank-Obligation 2010-2014* and a structured bond product called *BKS Bank Memo Garant 2010–2014*.

BKS Bank's equity is detailed in the Statement of Changes in Equity on page 20. The line item *Equity* on the Balance Sheet as at 30 June 2010 came to €0.60 billion. This was up on the total of €0.58 billion recorded at the end of 2009.

Own funds

Since the beginning of 2008, BKS Bank has been calculating its own funds ratio and basis of assessment in accordance with the EU Solvency Directive, which takes its bearings from *Basel II*. We use the standardized approach to calculate our own funds requirement. As the table below shows, following the successful issuance of the *BKS Bank Ergänzungskapital Stufenzins-Obligation 2010-2020* note mentioned above, our eligible own funds were €15.9 million up on the end of 2009 to €530.6 million. At the same time, our basis of assessment for the banking book increased to roughly €4.46 billion. As a result, we had an own funds ratio of 11.9 per cent at the end of the first half of 2009, compared with 12.1 per cent in December. Our Tier 1 ratio fell by 39 basis points to 8.3 per cent.

Own Funds of the BKS Bank Kreditinstitutsgruppe:			
€m (method of calculation in 2008 and 2009: <i>Basel II</i>)	30/6/2010	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	8.29%	8.68%	6.90%
Hidden reserves	10.3	10.3	5.6
Eligible supplementary capital	163.7	149.8	154.9
Balance of gains and losses taken to equity	66.9	63.9	61.3
Eligible subordinated liabilities	13.5	14.5	13.8
Supplementary own funds (Tier 2)¹	254.4	238.5	235.6
Deductions from Tier 1 and Tier 2	93.3	93.3	66.6
Eligible own funds	530.6	514.7	450.9
Own funds ratio	11.9%	12.1%	11.0%
Basis of assessment for the banking book	4,457.2	4,258.4	4,087.7
Own funds requirement	356.6	340.7	327.0
Own funds requirement for the trading book	3.1	2.8	3.3
— Of which arising from open currency positions	2.4	1.9	2.3
Own funds requirement for operational risk	24.7	23.2	21.2
Surplus own funds (disregarding operational risk)	174.0	174.0	123.9
Surplus own funds (taking account of operational risk)	149.3	150.8	102.7

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

This means that our ratios were significantly better than the statutory minima of 8.0 per cent (own funds) and 4.0 per cent (Tier 1). Surplus own funds were at the same high level of €174.0 million as at the end of 2009. The surplus after taking account of the capital charge required for operational risk was a substantial €149.3 million.

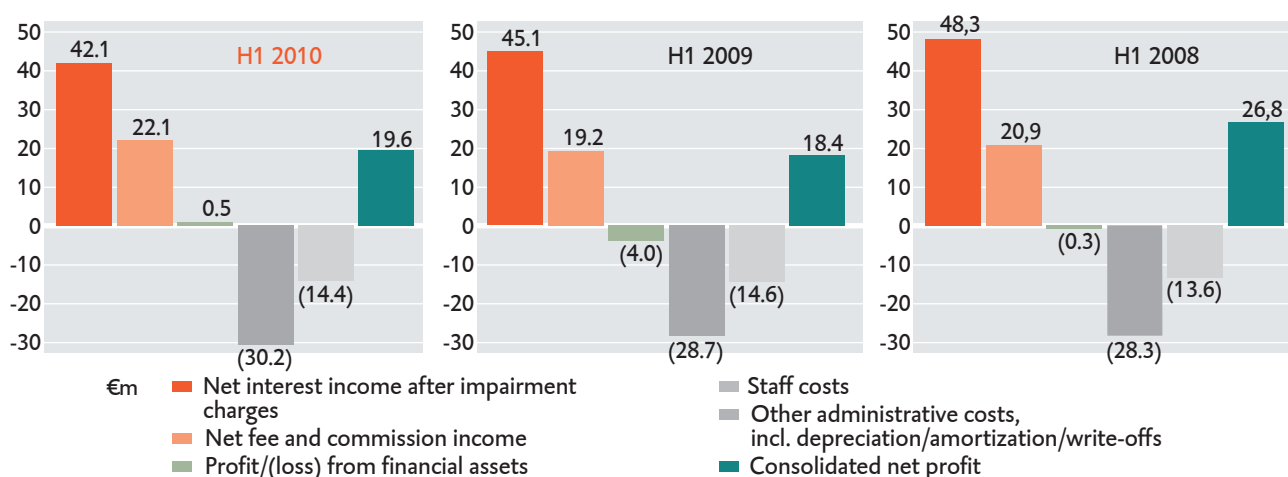
Because of the controversial nature of the issue, the debate about regulatory capital adequacy—which we already reported on in our last Letter to Shareholders—remained a focus of reports in the media under the heading *Basel III*. Future capital standards will be redefined by the Basel Committee for Banking Supervision in a consultation paper. One of the main emphases will be on strengthening the resilience of the banking sector. In particular, Tier 1 capital requirements are to be revised. In future, only share capital and reserves will be eligible for inclusion in so-called “hard” Tier 1, and all the required deductions will have to be subtracted from this Tier 1 capital. BKS Bank took part in a Quantitative Impact Study (QIS) during which it supplied the regulators with relevant information. However, we have yet to received any information about the results of this study.

Performance

Although the market environment was still unstable, BKS Bank recorded another very solid profit in the first six months of 2010. Consolidated net profit was 6.5 per cent up on the first half of 2009 to €19.6 million. Net interest income remained the stable cornerstone of our earning power and our key pillar of profit, growing by 6.5 per cent versus the same period of 2009 to €67.9 million. Net interest income after impairment charges was just €2.9 million down on the first half of 2009 to €42.1 million, which was still a good result given that the economic situation in our markets remained difficult. Every subsidiary in Austria and abroad helped strengthen this line item. However, the first half was still challenging, especially from a risk point of view. Because the economies of Austria and Southeastern Europe were slack, we had to increase the charge for impairment losses on loans and advances to €25.8 million, which was over a third more than in the first half of 2009. The proportion of the Group's total impairment charge accounted for by its subsidiaries in Austria and abroad increased from 10 per cent to roughly a quarter during the period under review.

On the other hand, we can be pleased with the development of our fee and commission operations. Net fee and commission income was 15.0 per cent up on the same period of 2009 to €22.1 million. This was mainly attributable to our earnings from payment services and securities and lending operations. The upturn in the international stock markets that has been apparent since March 2009 has also boosted the value of our customers' securities accounts, which came to €5.55 billion. This was 10.5 per cent up on 30 June 2009 and roughly €113 million up on the end of 2009.

Key Components of the Income Statement



Our profit from financial assets came to €0.5 million. Within the category of financial assets designated as at fair value through profit or loss, persistently low capital market rates resulted in a balance of €1.8 million of revaluation losses on interest rate swaps. This compared a balance of €0.8 million of valuation gains caused by use of the fair value option. We recorded a profit of €1.6 million on available-for-sale financial assets, an impairment of €2.2 million having been cushioned by market gains totalling €3.8 million.

As shown by our general administrative expenses, which increased by just 2.9 per cent to €44.5 million and, therefore, by much less than our earnings, our efficiency continued to increase. Thanks to the moderate 0.75 per cent increase in salaries that took place under collective agreements in March 2010, the rise in our staff costs was well within the expected range, at 5.1 per cent, taking them up to €30.2 million. Reducing unused vacation time, cutting back on flexitime credits and restricting overtime throughout the Group remained a special priority.

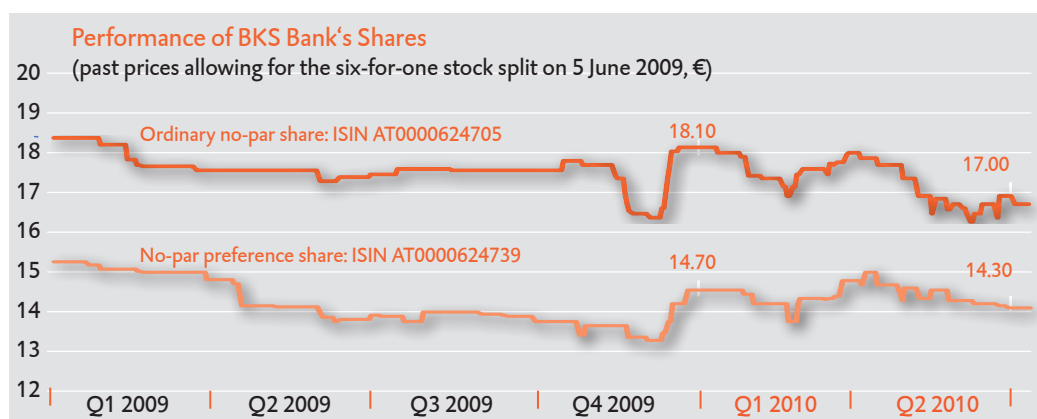
We were able to keep both other administrative costs and depreciation/amortization/write-offs static at the low levels recorded in the same period of the previous year at €11.4 million and €3.0 million, respectively. This was mainly achieved with the help of active, Group-wide cost discipline, by saving office and operating costs and by keeping our investment programme modest. Tax expense in the period under review came to €2.4 million.

Ratios

Per cent	H1 2010	2009	2008
Tier 1 ratio	8.3	8.7	6.9
Own funds ratio	11.9	12.1	11.0
ROE (before tax)	7.5	8.9	9.7
ROA (before tax)	0.7	0.8	0.8
Cost:income ratio	48.5	49.9	50.1
Risk:earnings ratio	38.0	28.3	15.4

As a glance at our key operational performance ratios at the end of the first half of 2010 shows, there were some poorer patches but the general picture was stable. Nonetheless, both our return on equity (ROE) before tax and our return on assets (ROA) before tax based on the Group's profit up to the end of the period under review failed to match the high numbers achieved in prior periods, coming to 7.5 and 0.7 per cent, respectively. On the other hand,

our cost:income ratio stayed well below our internal 55 per cent benchmark in the first half of 2010, at just 48.5 per cent. This was among the best cost:income ratios in the Austrian banking industry—and we intend to do everything we can to make sure it stays that way. In contrast, our risk:earnings ratio rose from 28.3 to 38.0 per cent between the beginning of the year and the end of the period under review, so we too are not immune to the adverse risk situation that is still plaguing the corporate sector. As this ratio shows, two fifths of our net interest income was already being swallowed up by our consistent charges for credit risk. Among other things, the still difficult economic environment is being reflected by our customers' annual numbers, which have been dented by the financial crisis. It is dampening our hopes of achieving in the foreseeable future the internal benchmark of 20 per cent for which we are aiming.



Segmental Report

To provide our customers and business associates with the best possible support and to help us manage our investments as effectively as possible, BKS Bank's operations have been subdivided into three Group-wide business segments. These are *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. Our segment reports are therefore based on this organizational structure and on the Group's internal management reporting systems. We measure the performance of each segment on the basis of its profit before tax, return on equity and cost:income ratio. All three segments were profitable in the first half of 2010.

Corporate and Business Banking

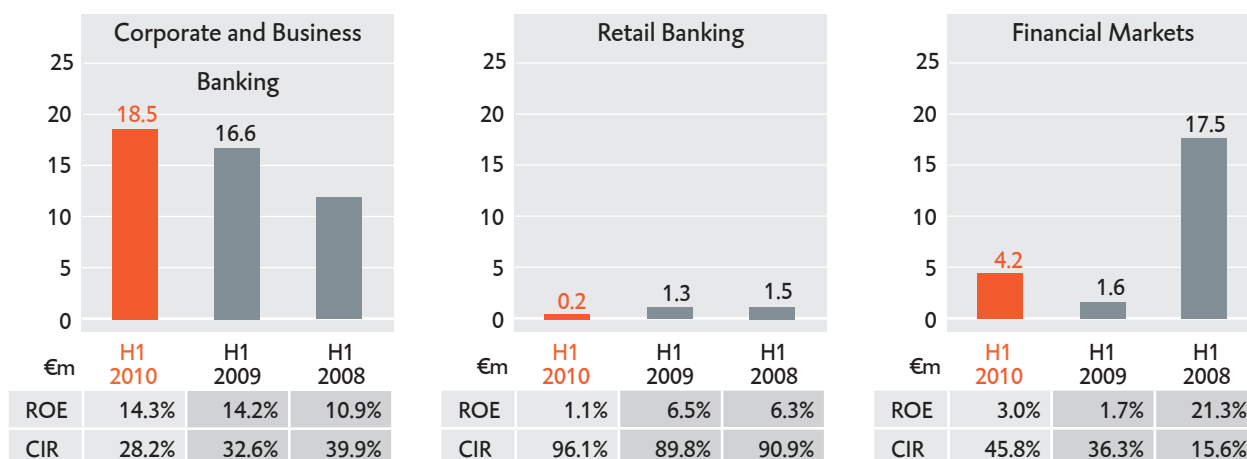
The *Corporate and Business Banking* segment encompasses the income and expenses that arise from the corporate and business banking activities of BKS Bank AG, BKS Bank d.d. in Croatia and our leasing companies in Austria and abroad.

Despite the €7.7 million increase in the charge for impairment losses on loans and advances associated with the overcast business climate in the corporate sector — which took it up to €25.1 million — the robust upward trend in earlier periods continued in the half year under review. During this period, the corporate and business loan portfolio grew by 4.5 per cent to €3.76 billion, and the corporate and business banking customer base grew to roughly 17,750. This segment contributed €18.5 million to consolidated net profit, compared with €16.6 million in the same period of the previous year, and thus remained the biggest contributor. Its very satisfactory performance was driven mainly by a strong advance in net interest income, which grew by nearly a quarter to €47.4 million. However, the increase in the charge for impairment losses on loans and advances in this segment was disproportionately large. This significantly worsened its risk:earnings ratio, which rose to 52.9 per cent, having been 45.0 per cent in the six months ended 30 June 2009. General administrative expenses charged to this segment increased marginally to €17.1 million. This improved both its cost:income ratio, which fell by 4.4 percentage points to 28.2 per cent, and its return on equity, which — based on allocated equity that had increased by €23.1 million to €257.4 million — grew by 10 basis points to 14.3 per cent. During the rest of the year, we will be focusing particularly closely on margins and risks in our credit portfolio.

Retail Banking

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.

Profit for the period before tax, by segment



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

Despite the backdrop of eroding margins—with a number of our rivals in the banking industry already offering extremely generous terms in the struggle to attract customer assets—our retail banking segment was also able to return a profit in the first half of 2010. However, it was unsatisfactory, at just €0.23 million. This segment had a customer base of about 117,500 on the reporting date. In challenging market conditions, net interest income flattened off by approximately €3.5 million to €14.1 million in the six months up to the end of June. However, it also proved possible to significantly reduce the charge for impairment losses in this segment, cutting it from €1.4 million in the first half of 2009 to €0.7 million in the period under review. The improvement in the risk situation reduced this segment's risk:earnings ratio to a pleasing low of 5.2 per cent. Net fee and commission income grew by roughly €1.5 million to €9.7 million. We are determined to bring about a sustainable increase in this segment's profitability—both its ROE and its cost:income ratio having been significantly poorer than expected, at 1.1 per cent and 96.1 per cent, respectively, compared with 6.5 per cent and 89.8 per cent in the same period of the previous year—and we are confident that the systematic continuation of our *Retail* project will bring it back on track again before the end of the second half.

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 rather modestly in 2009, reflecting the way the markets developed, this segment did well again in the first half of 2010 notwithstanding a number of downside factors, recording a profit for the period of €4.2 million. Its return on equity before tax was significantly better than in the same period of the previous year, improving from 1.7 to 3.0 per cent. However, market interest rates were still low and the yield curve was flat, keeping structural income weak. As a result, first-half net interest income in this segment fell by €1.1 million to €6.3 million. Its cost:income ratio increased by 9.5 percentage points to 45.8 per cent. Profit from equity investments is also allocated to this segment as a part of structural income. Consequently, earnings in this segment were likewise affected by impairment of the goodwill of a subsidiary in the amount of €1.0 million.

Risk Report

The goals of BKS Bank's risk management activities are to ensure that we remain liquid, that we can return the customer assets entrusted to us and that the capital invested in us by our shareholders remains unimpaired. Given the breadth of our business model, it is therefore essential for us to effectively identify, measure, aggregate and manage risks and to allocate an appropriate amount of equity to each business activity. We manage our risks and our 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. They are closely geared to our activities in our various business segments. Every time we accept a risk, we check carefully 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 best practice within the banking industry. Central responsibility for risk management is based on 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, bill-broking und guarantees) but also certain trades (e.g. forwards, futures, swaps,

Impairment Losses on Loans and Advances		
€m	30/6/2010	30/6/2009
Direct write-offs	0.3	3.4
Impairment allowances	28.5	17.5
Impairment reversals	(2.8)	(1.8)
Subsequent recoveries	(0.2)	(0.3)
Charge for impairment losses	25.8	18.8

options, repos and securities lending). 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 performance, financial position and profits of a lending bank.

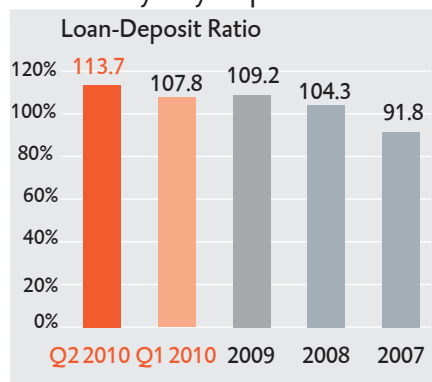
BKS Bank's management of risks as they develop in the loan portfolio has always been both strict and consistent. In the first half of 2010, we made allowance for the economy's hesitant recovery by booking €28.5 million of impairment allowances within the Group. However, €17.2 million of this total was booked during the first quarter, and the need for impairment allowances has diminished considerably since then. The collective assessment of impairment of the portfolio required by IAS 39—which is captured in the line item *Impairment allowances* on the table on the previous page—came to €1.9 million. Foreign subsidiaries of BKS Bank accounted for roughly €3.0 million of the impairment allowances booked during the period under review. Because of the economic slump, the migration to weaker rating classes in the corporate and business banking segment has continued, but so far there is 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.

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. At the end of the first half of 2010, the ratio of our interest rate risk 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 4.30 per cent, compared with 4.54 per cent at the end of 2009. Our ratio therefore stayed well below the critical 20 per cent mark. Our equity VaR at the end of 2009 having been €5.6 million, higher market related volatilities and investments in equity funds increased it to €7.6 million during the period under review. Currency risk increased by €6.5 million to €26.5 million. This was 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 €263 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. During the first half, we held our surplus liquidity steady at an average of about €157 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. In other words, the ratio recorded at 30 June of 113.7 per cent did not fully live up to our expectations, but it is a clear incentive to sustain our efforts to attract so-called primary deposits.

Operational risk

In line with the solvency directives, we associate the term *operational risk* with the risk of loss that could arise primarily within the scope of a 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 €244 thousand. The predominant risk events were once again processing errors in our business dealings with our customers and workflows within the bank.

Activities and focuses of our work during the period under review

There are again a number of important new developments to report in the first half of 2010. The most important was the appointment of a third member to the Management Board of *BKS Bank AG*, namely Dieter Krassnitzer. This change reflects the many new tasks being created by the steady growth in our business volumes, the enlargement of our markets and challenging and extensive regulatory requirements. We wish Dieter Krassnitzer all the success and strength he will need in his new role. As of 1 September 2010, he will be responsible for Risk Management, IT and Compliance.

We can report concrete progress in the implementation of our growth strategy. We completed the *New Credit Risk Analysis and Credit Management* project launched in January 2009, the purpose of which was to concentrate the management of corporate and business loans and risk assessment within a central analysis and risk assessment unit. This unit is also responsible for processing credit applications and evaluating the associated collateral. The process of transferring these functions from units outside Head Office has now been completed. In addition, we were able to press ahead with two parallel projects—*New Branch Organization* and *Retail*—and complete them as planned by the middle of the year. As a result of resegmentation, some 5,000 corporate and business banking customers have now been moved to our newly defined *Retail Customers* reporting segment. Finally, the new Consumer Credit Directive has necessitated a great deal of preparatory legal and IT work and will lead to the creation of numerous new processes for sales staff.

We were again able to impressively demonstrate our commitment to corporate social responsibility through the TRIGOS awards, which were presented during perfectly organized ceremonies in Velden and Graz.

There are also a number of new developments to report in our foreign markets.

We officially opened our fourth branch in Slovenia, namely in Ljubljana/Trnovo, at the beginning of April, having launched securities operations in Slovenia just a few weeks earlier. Our Maribor branch will move to new premises at the beginning of October.

In Croatia, we prioritized the development of retail operations and already granted the first mortgage loans in March. Preparations for a new branch in Varaždin are well advanced. Furthermore, we intend to turn our attention to gradually extending the risk management activities of our banking subsidiary in Croatia.

In Slovakia, our plans to open a banking branch in Bratislava have been going according to plan. We have successfully completed our search for a property and have made the first personnel decisions. The new premises will also house our Slovakian leasing subsidiary. The Austrian Financial Market Authority (FMA) has officially ruled on our declaration that we wish to open a branch in Slovakia to the effect that it sees no reason to raise any objection against our opening this branch for the purposes of § 10 Abs. 3 BWG (Austrian banking act).

It is important to us for BKS Bank's employees to stay healthy as they cope with the pace of their day-to-day work, and helping them achieve this is a matter of special concern to us and an expression of our corporate social responsibility to our staff. We are doing so within the scope of our *Banking on Health* project. The first module—a *Bank with Heart*—has already been completed. 370 members of staff took advantage of this module, which focused, among other things, on the early detection of cardiovascular disease. A further module planned for this autumn will include an enterprise-wide first aid course in conjunction with defibrillator training.

Outlook for the year as a whole

The economic outlook is still highly uncertain. Although the global economy has begun to recover, the economic situation is still delicate, especially in the industrialized nations. Our reasons for thinking so include the comparatively slow drop in unemployment and the still shaky state of the European and US property markets. In addition, the end of the still highly expansionary monetary and interest rate policies and the multitude of economic support programmes looms ever nearer. At the same time, there is a growing need for budgetary consolidation in many countries if high deficit levels are to be reduced and, not least, substantial current account imbalances within the eurozone are a source of uncertainty. Furthermore, as a supra-regional financial service provider, BKS Bank also suffers from not yet knowing how and when the diverse regulatory and fiscal measures that are under preparation in Austria and its immediate neighbours will, in the end, actually be implemented.

As a result, we are only cautiously optimistic about next few quarters, even if we do not see grounds for pessimism. We will continue to pursue our responsible growth strategy. We are sticking to our declared goal for 2010, which is to present to our shareholders another balance sheet free from unwelcome surprises and a dividend recommendation to match our results. Our good results in the first half of 2010 confirm us in our belief that we will be able to do so.

The 3 Banken Group

Finally, we draw your attention to the *3 Banken Group's* core numbers, which are presented on the next page. The three independent and autonomous regional banks in this group—BKS Bank, *Oberbank* and *Bank für Tirol und Vorarlberg*—continued to buck the crisis in the first half of the 2010 financial year. The assets of all three banks, which together have the strength of a major bank, grew, increasing their unconsolidated balance sheet total by 3.6 per cent to approximately €32 billion during the first six months of this year.

The *3 Banks* are also there for their customers in turbulent times, as was demonstrated by the fact that their aggregate loan portfolio grew by 4.2 per cent to over €20.1 billion during the period under review. Primary deposit balances stayed well above the €20 billion mark at roughly €20.5 billion. Thanks to their solid business approach, the *3 Banks* have yet to suffer any liquidity bottlenecks, and their capital adequacy is excellent. Although conditions were still difficult, these three banks again posted returns on equity before tax of between 7.5 and 11.0 per cent in the first two quarters of 2010. They also kept their costs well under control, giving them cost:income ratios of under 50 per cent in the first six months of the year. Together, the *3 Banks* have 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* benefits from the entire *3 Banken* network in Austria, Bavaria, the Czech Republic, Hungary, Slovakia, Slovenia, Croatia and Italy when doing business in those countries.

We remain,

Yours faithfully,



Heimo Penker



Herta Stockbauer

The 3 Banken Group at a glance

Income account, €m	BKS Bank Group		Oberbank Group		BTV Group	
	H1 2010	H1 2009	H1 2010	H1 2009	H1 2010	H1 2009
Net interest income	67.9	63.8	154.7	134.0	74.9	66.6
Impairment charges on loans and advances	(25.8)	(18.8)	(51.6)	(49.6)	(16.2)	(15.0)
Net fee and commission income	22.1	19.2	50.4	43.5	22.0	20.4
General administrative expenses	(44.5)	(43.3)	(104.3)	(102.6)	(44.2)	(47.6)
Profit for the period before tax	22.0	19.7	57.9	43.7	31.8	30.3
Consolidated net profit	19.6	18.4	47.7	38.3	27.5	26.1
Balance sheet data, €m	30/6/10	31/12/09	30/6/10	31/12/09	30/6/10	31/12/09
Assets	6,378.8	6,315.9	16,547.9	16,031.4	8,992.1	8,465.4
Receivables from customers after impairment allowances	4,544.4	4,350.2	9,935.5	9,594.0	5,659.6	5,384.9
Primary funds	3,929.3	3,907.9	10,861.0	10,916.4	5,742.3	6,259.6
– Of which savings deposit balances	1,890.3	1,804.6	3,352.8	3,399.2	1,326.8	1,412.1
– Of which liabilities evidenced by paper, including subordinated debt capital	628.5	564.7	2,168.3	2,040.2	1,266.7	1,275.4
Equity	596.8	577.5	1,085.7	1,035.6	646.1	612.4
Customer assets under management	9,478.3	9,343.5	18,907.4	18,686.8	9,954.9	10,309.0
– Of which in customers' securities accounts	5,549.0	5,435.6	8,046.4	7,770.4	4,212.6	4,049.4
Own funds within the meaning of BWG, €m	30/6/10	31/12/09	30/6/10	31/12/09	30/6/10	31/12/09
Risk-weighted assets	4,457.2	4,258.4	10,244.6	9,970.5	5,672.5	5,476.1
Own funds	530.6	514.7	1,513.0	1,534.3	788.3	800.2
– Of which Tier 1	369.5	369.5	953.7	955.4	513.9	514.6
Surplus own funds before operational risk	174.0	174.0	690.5	734.5	333.6	360.8
Surplus own funds after operational risk	149.3	150.8	635.6	679.5	312.3	339.5
Tier 1 ratio, %	8.29	8.68	9.31	9.58	9.06	9.40
Own funds ratio, %	11.90	12.09	14.77	15.39	13.90	14.61
Performance, %	H1 2010	2009	H1 2010	2009	H1 2010	2009
Return on equity before tax	7.5	8.9	11.0	9.9	10.2	8.8
Return on equity after tax	6.5	7.8	9.1	8.3	8.8	8.2
Cost:income ratio	48.5	49.9	48.8	53.3	44.9	53.7
Risk:earnings ratio	38.0	28.3	33.4	34.6	21.6	33.8
Resources	H1 2010	H1 2009	H1 2010	H1 2009	H1 2010	H1 2009
Average number of staff	869	872	1,977	1,990	802	862
Branches	56	55	134	133	41	41

Consolidated Financial Statements as at and for the Six Months Ended 30 June 2010

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

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

€k	Note	1/1 – 30/6/2010	1/1 – 30/6/2009	+ / (-) Change, %
Interest income		100,908	127,495	(20.9)
Interest expenses		(40,496)	(71,261)	(43.2)
Profit from investments in entities accounted for using the equity method		7,512	7,572	(0.8)
Net interest income	(1)	67,924	63,806	6.5
Impairment charge on loans and advances	(2)	(25,817)	(18,751)	37.7
Net interest income after impairment charge		42,107	45,055	(6.5)
Fee and commission income		27,352	21,502	27.2
Fee and commission expenses		(5,260)	(2,299)	>100
Net fee and commission income	(3)	22,092	19,203	15.0
Net trading income	(4)	1,137	850	33.8
General administrative expenses	(5)	(44,535)	(43,288)	2.9
Other operating income net of other operating expenses	(6)	661	1,856	(64.4)
Profit/(loss) from financial assets (FV)	(7)	(1,037)	(3,226)	(67.9)
Profit/(loss) from financial assets (AfS)	(8)	1,582	(786)	>100
Profit for the period before tax		22,007	19,664	11.9
Income tax	(9)	(2,390)	(1,246)	91.8
Profit for the period		19,617	18,418	6.5
Minority interests in profit for the period		(2)	0	—
Consolidated net profit for the period		19,615	18,418	6.5

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit		19,615	18,418	6.5
Income and expenses taken directly to equity				
– Exchange differences		161	(574)	>100
– Available-for-sale reserve		2,884	3,327	(13.3)
– Arising from investments in entities accounted for using the equity method		3,517	(5,074)	>100
– Deferred taxes on items taken directly to equity		(857)	(1,177)	(27.2)
Comprehensive income		25,320	14,920	69.7

QUARTERLY REVIEW

€k	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Interest income	51,205	49,703	50,966	53,856	58,800
Interest expenses	(20,969)	(19,527)	(20,425)	(24,333)	(29,926)
Profit from investments in entities accounted for using the equity method	4,504	3,008	4,163	4,278	3,192
Net interest income	34,740	33,184	34,704	33,801	32,066
Impairment charge on loans and advances	(9,853)	(15,964)	(8,358)	(10,325)	(9,463)
Net interest income after impairment charge	24,887	17,220	26,346	23,476	22,603
Net fee and commission income	10,861	11,231	10,831	9,669	9,554
Net trading income	779	358	28	555	488
General administrative expenses	(22,395)	(22,140)	(22,585)	(22,344)	(22,084)
Other operating income net of other operating expenses	(226)	887	766	637	1,020
Profit/(loss) from financial assets (FV)	(1,027)	(10)	439	653	245
Profit/(loss) from financial assets (AfS)	(1,589)	3,171	(1,234)	(357)	(250)
Profit for the period before tax	11,290	10,717	14,591	12,289	11,576
Income tax	(472)	(1,918)	(3,335)	(1,522)	(1,523)
Profit for the period	10,818	8,799	11,256	10,767	10,053
Minority interests in profit for the period	(1)	(1)	(3)	0	0
Consolidated net profit for the period	10,817	8,798	11,253	10,767	10,053

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

ASSETS

€k	Note	30/6/2010	31/12/2009	+ /(-) Change, %
Cash and balances with the central bank	(10)	80,283	131,642	(39.0)
Receivables from other banks	(11)	290,282	396,350	(26.8)
Receivables from customers	(12)	4,676,516	4,463,574	4.8
– Impairment allowance balance	(13)	(132,116)	(113,401)	16.5
Trading assets	(14)	796	2,246	(64.6)
Financial assets designated as at fair value through profit or loss	(15)	122,769	123,377	(0.5)
Available-for-sale financial assets	(16)	316,503	311,233	1.7
Held-to-maturity financial assets	(17)	605,530	592,047	2.3
Investments in entities accounted for using the equity method	(18)	271,352	258,325	5.0
Intangible assets	(19)	13,932	14,885	(6.4)
Property and equipment	(20)	71,237	77,154	(7.7)
Investment property	(21)	16,548	16,792	(1.5)
Deferred tax assets	(22)	15,098	13,976	8.0
Other assets	(23)	30,020	27,698	8.4
Total assets		6,378,750	6,315,898	1.0

EQUITY AND LIABILITIES

€k	Note	30/6/2010	31/12/2009	+ /(-) Change, %
Payables to other banks	(24)	1,685,239	1,690,095	(0.3)
Payables to customers	(25)	3,300,767	3,343,211	(1.3)
Liabilities evidenced by paper	(26)	377,314	321,545	17.3
Trading liabilities	(27)	757	2,119	(64.3)
Provisions	(28)	77,164	78,610	(1.8)
Deferred tax liabilities	(29)	11,006	9,825	12.0
Other liabilities	(30)	78,532	49,791	57.7
Subordinated debt capital	(31)	251,186	243,190	3.3
Equity		596,785	577,512	3.3
Total minority interests and equity		596,788	577,519	3.3
Minority interests in equity		(3)	(7)	(57.1)
Total equity and liabilities		6,378,750	6,315,898	1.0

EARNINGS PER SHARE

	30/6/2010	30/6/2009
Average number of shares in issue	32,197,416	27,948,671
Earnings per share, € (diluted and undiluted)	1.22	1.32

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				19,617	19,617
Gains and losses taken directly to equity			5,705		5,705
Increase in share capital					
Other changes			2,004		2,004
– Arising from use of the equity method			1,347		
– Arising from changes in treasury shares			704		
At 30 June 2010	65,520	97,929	413,722	19,617	596,788
Available-for-sale reserve					16,192
Deferred tax reserve					(2,736)

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				18,418	18,418
Gains and losses taken directly to equity			(3,498)		(3,498)
Increase in share capital	6,160	(6,160)			0
Other changes			990		990
– Arising from use of the equity method			1,237		
– Arising from changes in treasury shares			(511)		
At 30 June 2009	56,160	34,576	364,432	18,418	473,586
Available-for-sale reserve					(9,747)
Deferred tax reserve					1,369

Cash Flow Statement (Statement of Cash Flows)

CASH FLOWS

	€k	1/1 – 30/6/2010	1/1 – 30/6/2009
Cash and cash equivalents at end of previous period		131,642	69,235
Net cash from/(used in) operating activities		(33,340)	53,870
Net cash from/(used in) investing activities		(18,211)	(68,694)
Net cash from/(used in) financing activities		192	(4,801)
Cash and cash equivalents at end of period		80,283	49,610

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 six months ended 30 June 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., Bratislava¹
- 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 (first included as of 1 January 2009)²
- LVM Beteiligungs Gesellschaft m.b.H., Vienna (first included as of 1 January 2009)²

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.

² BKS Bank AG holds 100 per cent of the shares in VBG-CH Verwaltungs- und Beteiligungs GmbH, which, in turn, holds 100 per cent of the shares in LVM Beteiligungs Gesellschaft m.b.H. Their object is to grant funds to foreign subsidiaries in the Group. Both VBG-CH Verwaltungs- und Beteiligungs GmbH and LVM Beteiligungs Gesellschaft m.b.H. were included in the Consolidated Financial Statements for the first time as of 1 January 2009.

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 reporting 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 values of the investment properties are disclosed in the Notes. They are, 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 annually. When goodwill is tested for impairment, its carrying amount is compared with the present value of the company's interest in all future cash flows.

Present value is measured on the basis of a discounted cash flow model. A two-phase mathematical model is 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 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 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Interest income from:				
Credit operations		74,051	99,471	(25.6)
Fixed-interest securities		15,521	15,498	0.1
Lease receivables		6,255	8,269	(24.4)
Shares and investments in other entities		4,544	3,752	21.1
Investment property		537	505	6.3
Total interest income		100,908	127,495	(20.9)
Interest expenses on:				
Deposits from customers and other banks ¹		29,351	60,301	(51.3)
Liabilities evidenced by paper		10,974	10,773	1.9
Investment property		171	187	(8.6)
Total interest expenses		40,496	71,261	(43.2)
Profit from investments in entities accounted for using the equity method				
Income from investments in entities accounted for using the equity method		8,163	9,017	(9.5)
Financing costs of investments in entities accounted for using the equity method ²		(651)	(1,445)	(54.9)
Profit from investments in entities accounted for using the equity method		7,512	7,572	(0.8)
Net interest income		67,924	63,806	6.5

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 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Impairment allowances		28,466	17,480	62.8
Impairment reversals		(2,776)	(1,819)	52.6
Direct write-offs		329	3,361	(90.2)
Recoveries on receivables previously written off		(202)	(271)	(25.5)
Impairment charge on loans and advances		25,817	18,751	37.7

(3) NET FEE AND COMMISSION INCOME

	€k	1/1 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Fee and commission income from:				
Payment services		8,945	8,095	10.5
Securities operations		6,232	5,184	20.2
Credit operations		5,464	4,926	10.9
International business		5,957	2,573	>100
Other services		754	724	4.1
Total fee and commission income		27,352	21,502	27.2
Fee and commission expenses arising from:				
Payment services		599	553	8.3
Securities operations		403	336	19.9
Credit operations		253	320	(20.9)
International business		3,876	905	>100
Other services		129	185	(30.3)
Total fee and commission expenses		5,260	2,299	>100
Net fee and commission income		22,092	19,203	15.0

(4) NET TRADING INCOME

	€k	1/1 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Price-based contracts		14	(54)	>100
Interest rate and currency contracts		1,123	904	24.2
Net trading income		1,137	850	33.8

(5) GENERAL ADMINISTRATIVE EXPENSES

	€k	1/1 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Staff costs		30,174	28,709	5.1
– Wages and salaries		21,815	20,569	6.1
– Social security costs		5,445	5,489	(0.8)
– Costs of retirement benefits		2,914	2,651	9.9
Other administrative costs		11,387	11,620	(2.0)
Depreciation		2,974	2,959	0.5
General administrative expenses		44,535	43,288	2.9

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

	€k	1/1 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Other operating income		2,497	2,574	(3.0)
Other operating expenses		(1,836)	(718)	>100
Other operating income net of other operating expenses		661	1,856	(64.4)

The line item *Other operating expenses* includes the threatened impairment of the goodwill of a subsidiary in the amount of €1.0 million.

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

	€k	1/1 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Revaluation gains and losses on derivatives		(1,804)	(918)	96.5
Gain/(loss) as a result of using the fair value option		767	(2,308)	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss		(1,037)	(3,226)	(67.9)

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

	€k	1/1 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Unrealized and realized gains and losses		1,582	(786)	>100
Profit/(loss) from available-for-sale financial assets		1,582	(786)	>100

(9) INCOME TAX

	€k	1/1 – 30/6/2010	1/1 – 30/6/2009	+ /(-) Change, %
Current tax		(3,167)	(3,090)	2.5
Deferred tax		777	1,844	(57.9)
Income tax		(2,390)	(1,246)	91.8

(10) CASH AND BALANCES WITH THE CENTRAL BANK

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Cash in hand		27,411	34,100	(19.6)
Credit balances with central banks of issue		52,872	97,542	(45.8)
Cash and balances with the central bank		80,283	131,642	(39.0)

(11) RECEIVABLES FROM OTHER BANKS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Receivables from Austrian banks		119,023	202,233	(41.1)
Receivables from foreign banks		171,259	194,117	(11.8)
Receivables from other banks		290,282	396,350	(26.8)

(12) RECEIVABLES FROM CUSTOMERS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Corporate and business banking customers		3,760,178	3,599,021	4.5
Retail banking customers		916,338	864,553	6.0
Receivables from customers		4,676,516	4,463,574	4.8

(13) IMPAIRMENT ALLOWANCE BALANCE

	€k	30/6/2010	31/12/2009
At beginning of period under review		113,401	96,178
+ Added		25,620	33,557
– Reversed		2,768	(4,403)
– Used		4,190	(11,948)
+ Exchange differences		53	17
At end of period under review		132,116	113,401

(14) TRADING ASSETS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Bonds and other fixed-interest securities		185	177	4.5
Shares and other variable-yield securities		0	0	—
Positive fair values of derivative financial instruments				
– Currency contracts		0	117	(100.0)
– Interest rate contracts		611	1,952	(68.7)
Trading assets		796	2,246	(64.6)

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

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Bonds and other fixed-interest securities		82,693	83,582	(1.1)
Loans		40,076	39,795	0.7
Financial assets designated as at fair value through profit or loss		122,769	123,377	(0.5)

(16) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Bonds and other fixed-interest securities		181,713	180,758	0.5
Shares and other variable-yield securities		88,322	83,591	5.7
Investments in subsidiaries		31,304	31,848	(1.7)
Other equity investments		15,164	15,036	0.9
Available-for-sale financial assets		316,503	311,233	1.7

(17) HELD-TO-MATURITY FINANCIAL ASSETS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Bonds and other fixed-interest securities		605,530	592,047	2.3
Held-to-maturity financial assets		605,530	592,047	2.3

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

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Oberbank AG		180,445	172,403	4.7
Bank für Tirol und Vorarlberg AG		86,035	81,050	6.2
Alpenländische Garantie-GmbH		960	960	—
Drei-Banken Versicherungs-AG		3,912	3,912	—
Investments in entities accounted for using the equity method		271,352	258,325	5.0

(19) INTANGIBLE ASSETS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Goodwill		11,196	12,196	(8.2)
Other intangible assets		2,736	2,689	1.7
Intangible assets		13,932	14,885	(6.4)

(20) PROPERTY AND EQUIPMENT

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Land		2,715	2,720	(0.2)
Buildings		48,126	47,977	0.3
Other		20,396	26,457	(22.9)
Property and equipment		71,237	77,154	(7.7)

(21) INVESTMENT PROPERTY

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Land		8,247	8,247	—
Buildings		8,301	8,545	(2.9)
Investment property		16,548	16,792	(1.5)

(22) DEFERRED TAX ASSETS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Deferred tax assets		15,098	13,976	8.0

(23) OTHER ASSETS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Positive fair values of derivative financial instruments		11,365	10,864	4.6
Other items		16,503	14,729	12.0
Deferred items		2,152	2,105	2.2
Other assets		30,020	27,698	8.4

(24) PAYABLES TO OTHER BANKS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Payables to Austrian banks		1,280,701	1,264,074	1.3
Payables to foreign banks		404,538	426,021	(5.0)
Payables to other banks		1,685,239	1,690,095	(0.3)

(25) PAYABLES TO CUSTOMERS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Savings deposit balances		1,890,287	1,804,628	4.7
Corporate and business banking customers		403,732	370,293	9.0
Retail banking customers		1,486,555	1,434,335	3.6
Other payables		1,410,480	1,538,583	(8.3)
Corporate and business banking customers		993,613	1,096,852	(9.4)
Retail banking customers		416,867	441,731	(5.6)
Payables to customers		3,300,767	3,343,211	(1.3)

(26) LIABILITIES EVIDENCED BY PAPER

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Issued bonds		247,945	235,440	5.3
Other liabilities evidenced by paper		129,369	86,105	50.2
Liabilities evidenced by paper		377,314	321,545	17.3

(27) TRADING LIABILITIES

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Interest rate contracts		757	2,119	(64.3)
Trading liabilities		757	2,119	(64.3)

(28) PROVISIONS

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Provisions for post-employment benefits and similar obligations		69,984	69,372	0.9
Provisions for taxes (current tax)		339	741	(54.3)
Other provisions		6,841	8,497	(19.5)
Provisions		77,164	78,610	(1.8)

(29) DEFERRED TAX LIABILITIES

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Deferred tax liabilities		11,006	9,825	12.0

(30) OTHER LIABILITIES

	€k	30/6/2010	31/12/2009	+ /(-) Change, %
Negative fair values of derivative financial instruments		53,986	29,752	81.5
Other items		23,154	18,582	24.6
Deferred items		1,392	1,457	(4.5)
Other liabilities		78,532	49,791	57.7

(31) SUBORDINATED DEBT CAPITAL

	€k	30/6/2010	31/12/2009	+ / (-) Change, %
Supplementary capital		231,186	223,190	3.6
Hybrid capital		20,000	20,000	—
Subordinated debt capital		251,186	243,190	3.3

(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 is based on internal management processes.

CORPORATE AND BUSINESS BANKING AND RETAIL BANKING SEGMENTS

	€k	Corporate and Business Banking		Retail Banking	
		H1 2010	H1 2009	H1 2010	H1 2009
Net interest income		47,448	38,546	14,142	17,603
Impairment charge on loans and advances		(25,082)	(17,350)	(735)	(1,401)
Net fee and commission income		11,922	10,650	9,663	8,156
Net trading income		—	—	—	—
General administrative expenses		(17,071)	(16,450)	(23,490)	(23,325)
Other operating income net of other operating expenses		1,236	1,224	644	216
Profit from financial assets		—	—	—	—
Profit for the period before tax		18,453	16,620	224	1,249
Average risk-weighted assets		3,217,129	2,928,342	488,458	480,192
Average allocated equity		257,370	234,268	39,077	38,415
ROE based on profit for the year		14.3%	14.2%	1.1%	6.5%
Cost:income ratio		28.2%	32.6%	96.1%	89.8%

FINANCIAL MARKETS AND OTHER SEGMENTS

	€k	Financial Markets		Other	
		H1 2010	H1 2009	H1 2010	H1 2009
Net interest income		6,324	7,400	10	257
Impairment charge on loans and advances		—	—	—	—
Net fee and commission income		339	305	168	92
Net trading income		1,137	850	—	—
General administrative expenses		(3,114)	(3,220)	(860)	(293)
Other operating income net of other operating expenses		(995)	325	(224)	91
Profit/(loss) from financial assets		545	(4,012)	—	—
Profit for the period before tax		4,236	1,648	(906)	147
Average risk-weighted assets		600,985	701,230	52,430	50,247
Average allocated equity		283,645	190,775	7,062	5,665
ROE based on profit for the year		3.0%	1.7%	—	—
Cost:income ratio		45.8%	36.3%	—	—

ALL SEGMENTS

	€k	Total	
		30/6/2010	30/6/2009
Net interest income		67,924	63,806
Impairment charge on loans and advances		(25,817)	(18,751)
Net fee and commission income		22,092	19,203
Net trading income		1,137	850
General administrative expenses		(44,535)	(43,288)
Other operating income net of other operating expenses		661	1,856
Profit/(loss) from financial assets		545	(4,012)
Profit for the period before tax		22,007	19,664
Average risk-weighted assets		4,359,002	4,160,011
Average allocated equity		587,154	469,123
ROE based on profit for the period		7.5%	7.6%
Cost:income ratio		48.5%	50.5%

(33) CONTINGENT LIABILITIES AND COMMITMENTS

	30/6/2010	31/12/2009	+ /(-) Change, %
Guarantees	376,736	366,019	2.8
Letters of credit	2,853	2,058	38.6
Contingent liabilities	379,589	368,077	3.1
Other commitments	655,045	760,723	(13.9)
Commitments	655,045	760,723	(13.9)

(34) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place at BKS Bank after the interim reporting date (30 June 2010) affecting the assets, liabilities, financial position or profit or loss 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:

30/6/2010	€k	Nominal, by term to maturity			Total	Fair values	
		< 1 Year	1–5 Years	> 5 Years		Positive	Negative
Currency contracts		912,733	1,217,278	—	2,130,011	1,940	24,360
– Of which in trading book		—	—	—	—	—	—
Interest rate contracts		65,590	621,096	269,312	955,998	7,431	25,300
– Of which in trading book		360	52,206	12,374	64,940	400	427
Securities contracts		1,749	—	—	1,749	—	7
– Of which in trading book		—	—	—	—	—	—
Total		980,072	1,838,374	269,312	3,087,758	9,371	49,660
– Of which in trading book		360	52,206	12,374	64,940	400	427

31/12/2009	€k	Nominal, by term to maturity			Total	Fair values	
		< 1 Year	1–5 Years	> 5 Years		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 six months of this financial year with related parties or persons that materially affected the enterprise's financial position or results in that period. Moreover, there were no changes affecting transactions with related parties or persons presented in the most recent annual financial report that might have materially affected the enterprise's financial position or results in the first six months of this financial year.

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

Statement by BKS Bank's Management

"We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the six months ended 30 June 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 on the first half 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 six 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 six months of the financial year."

Klagenfurt am Wörthersee
18 August 2010



Heimo Penker

Member of the Management Board responsible for Corporate and Business Banking Customers, Retail Banking Customers, Human Resources and Proprietary Trading. Regional responsibility for the conduct of business in BKS Bank AG's market territories in Austria, namely in Carinthia, Styria and Vienna, and in Italy.



Herta Stockbauer

Member of the Management Board responsible for Controlling and Accounts, Credit Management, Credit Back Office, Organization and IT and International Business and for the bank's subsidiaries in Austria and abroad. Within Austria, she is responsible for BKS Bank AG's Burgenland region; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Financial calendar

We plan to report our results in the nine months ended 30 September 2010 on 19 November 2010.

Forward-looking statements

This Interim Report as at and for the six months ended 30 June 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 of 18 August 2010. Should the assumptions upon which such forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

Disclaimer

This is an unaudited translation of the original Interim Report published in German in August 2010.

Publication details:

Published by *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt, Austria. ☎ +43-453-5858-0.

Internet: www.bks.at. e-mail: bks@bks.at, investor.relations@bks.at.

Edited by the Office of the Management Board of *BKS Bank AG*. Copy deadline date: 18 August 2010.

Translated by Adrian Weisweiller MA (Oxon), London.