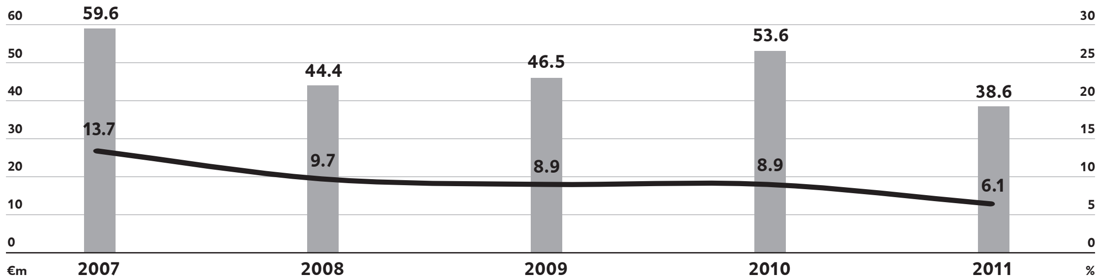
An Annual Report
About Responsible Action

Annual Report 2011

BKS Bank
3 Banken Gruppe

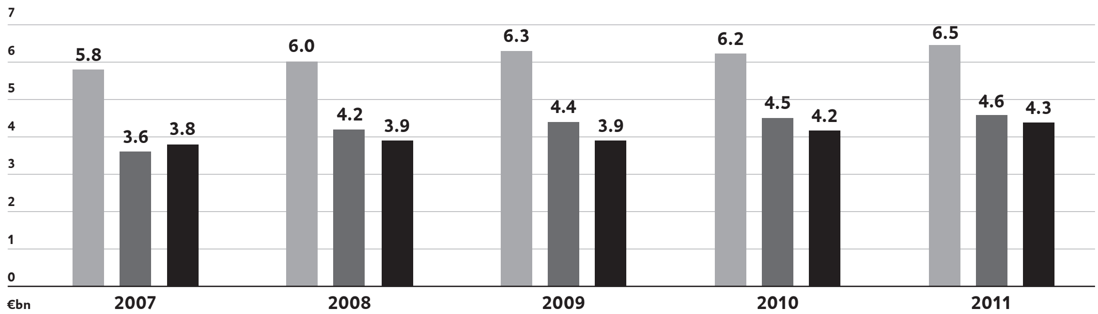
BKS Bank remains true to its commitment to acting as a responsible enterprise in this Annual Report for 2011. As last year, we have done without colours, print finishing and expensive binding. Instead, we brought more colour to the Schloss Murstätten retirement home in Lebring/St. Margarethen with a donation of €7,200. This enabled its operators, *Diakonie Steiermark*, to refurnish a recreation room and increase the level of comfort enjoyed by its 14 residents.

PROFIT



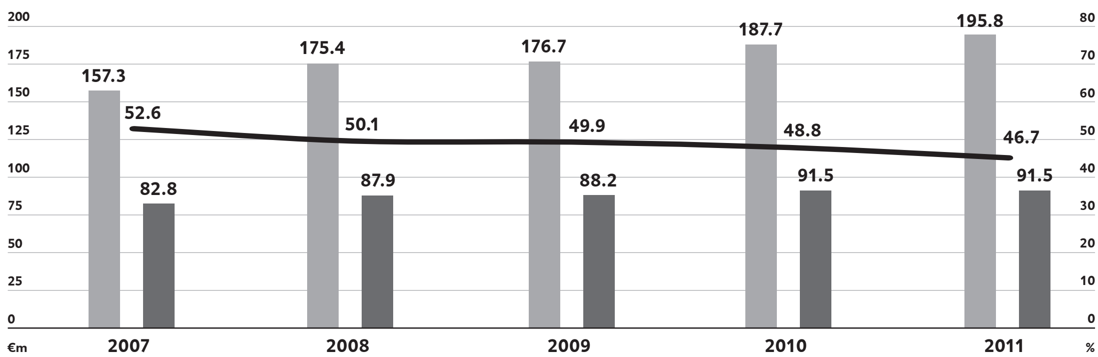
Profit for the year before tax, €m
Return on equity before tax, %

BALANCE SHEET



Assets
Receivables from customers after impairment charge
Primary deposit balances

COST:INCOME RATIO



Operating profit, €m
General administrative expenses, €m
Cost:income ratio, %

THREE-YEAR COMPARISON

	2011	2010	2009
Income account, €m			
Net interest income	150.4	143.6	132.3
Impairment charge on loans and advances	(33.2)	(47.6)	(37.4)
Net fee and commission income	42.3	42.5	39.7
General administrative expenses	(91.5)	(91.5)	(88.2)
Profit for the year before tax	38.6	53.6	46.5
Consolidated net profit for the year after tax	36.4	46.4	40.4
Balance sheet data, €m			
Assets	6,456.0	6,238.2	6,315.9
Receivables from customers after impairment charge	4,647.8	4,498.2	4,350.2
Primary deposit balances	4,251.4	4,158.5	3,907.9
Of which savings deposit balances	1,786.3	1,847.2	1,804.6
Of which liabilities evidenced by paper, including subordinated debt capital	715.7	667.6	564.7
Equity	644.9	627.8	577.5
Customer assets under management	10,025.5	10,023.5	9,343.5
Of which in customers' securities accounts	5,774.1	5,865.0	5,435.6
Own funds within the meaning of BWG, €m			
Risk-weighted assets	4,415.2	4,345.1	4,258.4
Own funds	681.9	567.4	514.7
Of which Tier 1 capital	599.5	416.6	369.5
Surplus own funds before operational risk	328.7	219.8	174.0
Surplus own funds after operational risk	301.9	194.8	150.8
Tier 1 ratio, %	12.46	9.59	8.68
Own funds ratio, %	15.44	13.06	12.09
Performance, %			
Return on equity before tax	6.1	8.9	8.9
Return on equity after tax	5.7	7.7	7.8
Cost:income ratio	46.7	48.8	49.9
Risk:earnings ratio (credit risk in % of net interest income)	22.1	33.1	28.3
Resources			
Average number of staff	901	872	872
Branches	55	55	55
BKS Bank's shares			
No. of ordinary no-par shares (ISIN AT0000624705)	30,960,000	30,960,000	30,960,000[1]
No. of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000	1,800,000[1]
High: ordinary/preference share, €	18.6/15.6	18.4/15.4	18.2/15.3[1]
Low: ordinary/preference share, €	17.6/14.8	15.9/13.7	16.5/13.6[1]
Close: ordinary/preference share, €	17.6/15.5	18.4/15.4	18.1/14.7[1]
Market capitalization, €m	572.8	595.8	586.8
Dividend per share, €	0.25[2]	0.25	0.25[1]
P/E: ordinary/preference share	15.9/14.0	12.9/10.9	14.7/12.0

[1] Taking into account the six-for-one stock split on 5 June 2009 and the seven-for-six raising of share capital (one extra share for every six already held) on 23 October 2009.
[2] Proposal to the 73rd Annual General Meeting on 15 May 2012.

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Preface by the Management Board

CEO Heimo Penker is a nature lover.

Dear Shareholder,

2011 was the third successive year of crisis in the financial services industry. Although the real economy has recovered well since the massive slumps in the autumn of 2008 and the first half of 2009, the escalating sovereign debt crises on both sides of the Atlantic in the second half of 2011 abruptly dashed hopes that banks too would enjoy a recovery of the kind that seemed to be developing in the first half. Discussion about Greece is still keeping the whole of Europe on tenterhooks, and the uncertainty is slowly spreading to the population. This means that we can expect consumption to continue to fall and unemployment figures to go on rising. Companies are calculating cautiously and investment decisions are often taking much longer than they did before the crisis.

Against this difficult backdrop, we are all the prouder that the market still sees BKS Bank as a solid and reliable provider of banking services whom one can trust. For instance, our assets grew to €6.46 billion during the 2011 financial year, and receivables from customers and primary deposit balances, likewise important line items, also went on growing. On the balance sheet date, BKS Bank had a loan portfolio of €4.80 billion and primary deposit balances came to €4.25 billion. At a time when the interbank market is still virtually non-functional as a source of funds, the latter are an important asset for our bank. Net interest income before the impairment charge on loans and advances — our bank's biggest income item — continued to grow as it had in 2010, increasing by 4.7 per cent to €150.4 million. We also have good news to report about the requisite impairment charge on loans and advances, which was down €14.4 million to €33.2 million. As a result of our restrained spending policy, general administrative expenses did not increase, giving us an outstanding cost:income ratio of 46.7 per cent. In all, BKS Bank was able to post a respectable consolidated net profit for 2011 after tax of €36.4 million.

This was down on 2010 as a consequence of impairments of Greek government bonds. Like many other banks, BKS Bank had been investing in these securities for some time. Because of the slow-moving negotiations about saving Greece and the never-ending bankruptcy rumours, we pruned our Greek government bond exposure at year-end. Furthermore, BKS Bank's investments in the securities of other crisis-ridden eurozone members like Portugal and Spain are now minimal, so the sovereign debt crisis should not cause us any further difficulties.

We are also pleased to be able to tell you about BKS Bank's capital position. Because of the 2011 financial crisis, banks' Tier 1 capital was under particular scrutiny. As a result of the crisis, systemically relevant banks must already achieve the 9 per cent Tier 1 ratio that was originally only going to be introduced with Basel III. It is thanks to the measures we took with foresight in past years like issuing new shares in 2009 that we now have an outstanding Tier 1 ratio of 12.5 per cent. We believe that many European banks will have to vie for new capital this year and are happy not to be under much pressure in this regard. Nonetheless, we can assure you that we will continue to work at keeping our ratio high and, if necessary, making it even higher.

It is also heartening that we were able to go on expanding in 2011. We opened our first bank branch in Slovakia, which is located at one of the best addresses in Bratislava. Initially, it will concentrate on corporate customer operations, but its line will be enlarged in 2012 to include products for retail customers. We opened another new branch on *Wiedner Hauptstrasse* in Vienna, giving us four branches in the Austrian capital.

However, our expansion was not just geographical. Our range of products and services also grew. We repositioned our securities operations to cater more effectively for the behaviour of investors, which has been altered by the crisis. In the course of that process, we created new organizational units at Head Office and the regional head offices for Klagenfurt, Styria, Burgenland and Vienna. These units are dedicated to private banking and serving high net worth personal banking customers. In addition, our advisors are now able to recommend individual shares out of a predefined equities universe. We have also entered new territory

Management Board member Herta Stockbauer drives a hybrid car.

with our account packages in the corporate and business banking segment. We are the first bank in Austria do have done away with its complex jungle of fees and charges. Instead, we offer our customers three easily understood and transparent account models. Prices are based on frequency of use. We have abolished the linear account management fees and minimum charges that are normal in the industry and have received a lot of praise from our customers for doing so.

Unlike other banks, we can be pleased with the development of our foreign markets. Banking operations in Slovenia and Croatia grew well. For instance, the loan portfolio in Slovenia grew to €525.2 million. In BKS Bank's internal rankings, this means that Slovenia already comes third behind our traditional Carinthian and Styrian markets. Having been launched in 2008, deposit operations in Slovenia expanded by an impressive total of nearly 400 per cent in 2011. The assets of our Croatian banking subsidiary — *BKS Bank d.d.* — grew by over €40 million to €142.6 million.

Another flood of new regulations left their mark on the financial year. We reconfigured our compliance organization, giving it broader foundations and significantly increasing its staff. This has prepared us to meet any forthcoming challenges in this field. The rigorous separation of front office operations from risk management activities that has existed in Austria for some time was also put into effect in Slovenia and Croatia during the year under review.

As always, BKS Bank was strongly committed to corporate social responsibility (CSR) in 2011. BKS Bank became a member of the UN Global Compact in December. Moreover, the first measures developed as a result of the *berufundfamilie* (JobAndFamily) audit process were put in place, BKS Bank having been awarded the basic certificate in 2010. For example, employees now have access to an information platform in our intraNET where all their questions on personal health, health care, the family and financial health topics are answered. Furthermore, new parents benefit from the baby backpack that we give them, and parents on parenthood leave appreciate the parenthood leave breakfasts that we hold at the bank. Our *Durch die Bank gesund* (banking on health) scheme focused on healthy eating under the motto *Vital durch die Bank* (vitality throughout the bank), and once again, over 200 people took part in the scheme. In addition, the judges of the TRIGOS Carinthia and TRIGOS Styria awards had many prizeworthy projects to choose from. Finally, our new video conferencing systems greatly reduced the number of business trips by staff. And those are just a few examples of our commitment to CSR and sustainability.

We are pleased to report that our efforts are also meeting with approval from outside our organization. BKS Bank won numerous awards during 2011. We took first place and received a special prize in the *Ideen schlagen Wellen* (Ideas Make Waves) competition for successful continuous improvement processes and came second in the *Familienfreundlichster Betrieb in Kärnten* (Most Family Friendly Business in Carinthia) competition. Austria's Minister of Health Alois Stöger recognized our *Durch die Bank gesund* scheme as a 'Model of Good Practice' for its contribution to the psychological health of employees. We won a 'Recommender' prize for 'Outstanding Customer Orientation', and our mail room was delighted to receive the Golden Performance Certificate from *Post AG*. In Slovenia, BKS Bank was named the bank that offers the best value for money.

As you can see, BKS Bank has everything it needs to continue on its success path for a long time to come. We will be celebrating our 90th anniversary in 2012. In our long history, we have survived Black Friday, World War II and a raft of market upsets. We are sure that we will, as usual, emerge from the present financial crisis stronger than before. We will continue to apply our proven strategy — a strategy whose cornerstones are consistent risk management, gradual expansion and concentration on the areas of business where our know-how lies. Furthermore, our membership of the *3 Banken Group* will go on helping us offer our customers an attractive cost structure.

We believe that the sovereign debt crisis will continue to dominate the year 2012 and that the euro will remain under pressure. Increasingly strict regulations will affect lending as the ongoing rise in banks' funding costs, high capital adequacy requirements and Basel III significantly increase banks' expenses. Customers

Management Board member Dieter Krassnitzer is a passionate cyclist.

too are unhappy about the capital gains tax that is being levied from April and about plans to cut building society premium subsidies. We are at all events well prepared to react effectively to pressure from outside. Our customers have confidence in us and we will continue to earn that confidence in 2012.

Let us end by thanking you, our shareholders, and inviting you to continue with us on our path. We will be recommending the payment of another dividend of €0.25 per share during *BKS Bank AG*'s 73rd AGM on 15 May 2012.

We would also like to thank the members of the Supervisory Board for our fruitful collaboration and close work together during the year under review. Above all, we extend our special thanks to our staff. We know that 2011 was a particularly challenging year for them. Their personal dedication, loyalty to our organization and commitment to our customers were key to our success.

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Guest Commentary by Matthias Horx

Matthias Horx, Futurist (www.zukunftsinstitut.de)

Matthias Horx is one of the most influential futurists in the German-speaking world. Having had a career as a journalist (at *Hamburger ZEIT*, *MERIAN* and *TEMPO*), he created the *Zukunftsinstitut* at the turn of the millennium. It now advises numerous companies and institutions. His books, which include *Anleitung zum Zukunftsoptimismus* and *Das Buch des Wandels*, are bestsellers. Since 2007, he has been teaching Prognostics and Early Recognition as a lecturer at Zeppelin University in Friedrichshafen.

Europe's Future: What The Latest Futurological Research Tells Us About Our Continent's Prospects

Victor Hugo was already talking about a 'Unites States of Europe' in 1849. The social democracy movement adopted the term in the 1920s at a time when revolutions and military nationalism were fragmenting the continent. Now, we are obsessed with the idea again.

Instead of lapsing into European self-doubt, there is something we need to understand: Europe is a *work in progress*, and crises will speed up that evolutionary work. Europe is a cultural model — an organizational model — that differs fundamentally from the American *and* Asian paths. While America is at risk of foundering on its suppressed inner divisions, on its collective hysteria, China remains an empire fraying at the edges. The 'New Europe' experiment is an alternative to both extremes. It is about looking for a new system of balances. Between the state and the market. Between the citizen and the economy. Between the centre and the periphery. Between locality and globality, technology and culture, the mundane and the creative. Between ties and liberty. Between individuality and interconnectedness.

What has changed since Europe's catastrophic start to the 20th century? At that time, the only players on the playing field were the Europeans themselves fighting over colonies. Power could only be exercised *against* the others in a win-lose game. Nowadays, Europe is merely a part of a vast and dynamic global development process. Back then, the 'internal pressure' within Europe was enormous. Today, this continent is one component in a stupendous global economic process driven by immense forces for growth and dynamics.

A retreat to the hard core of Euroland countries (the 'Eurocore') as propagated by people like Olaf Henkel would be an apparently logical reaction to the fact that sociocultural systems in Europe differ. European centrists argue that the South is incapable of building an effective techno-economic culture. However, a European withdrawal to the northern core would simply tear the continent to pieces. A hard currency would stand face to face with a soft one — and that is the best way to start an economic war.

The first thing we need to ask is who has an interest in the breakup of the currency union, failure of the euro and a return to the small-statism of old?

Parts of the speculative money market. Financial jugglers can profit enormously from a competitive trading area with freely convertible and volatile currencies. This is one of the keys to the wave of speculation against the euro and individual European countries. But there is something else we need to know. It is not true that the *whole* financial system is speculating against the euro. Only a small group of highly speculative gamblers are doing so. That group has an enormous amount of power, but its power is not limitless. The big financial institutions that invest in the real global economy are more interested in stability.

Parts of American capitalism. There is hardly an American magazine or talk show that hasn't triumphantly announced *The End Of Europe* in the past few months. Many economic pundits in the United States have been voicing their opinion with only thinly concealed cynical satisfaction. In part, this reflects America's unease as the world's foremost economic power, but it is also a manifestation of the age-old American tradition of disparaging the Old World. America came into being as a kind of Anti-Europe. A large proportion of the American elite, especially in the South, are Anti-European in their attitudes and sentiments ... and among other things, Texan money dominates most of the rating agencies.

The nationalist citizen-rebels. Nowadays it is possible to organize anti-European resentment in virtually every European country (with the possible exception of the Baltic states). Anti-Europe parties (whether hidden or open) are leading the discourse and are frequently have a share in government. Even in the model pupil Finland. Uncouth nationalism dominates in Hungary. Fifty per cent of Germans want the German mark back, and 37 per cent would consider voting for a Europe-critical party. However, one must always treat surveys with caution. When it comes to opinions about Europe, people are herd-like and opportunistic. Things always start with outrage rhetoric that is whipped up by the media. But media-driven populism soon puts its tail between its legs when things get serious. In a *real* European crisis, the Germans would be more likely to position themselves as pro-Europeans.

The rebel academics. Finally, there are the war profiteers. For them, the crisis boosts circulation, viewing figures and satisfaction. They are narcissistic Thilo Sarrazin types. Finger-pointing economists selling the euro crisis as a kind of timeless moral chastisement. The sin of indebtedness has been an issue since the Old Testament. But however effectively this group mouths off in the media, it is not, in the final analysis, really a relevant factor.

Let's now compare those *pressure groups* with the other factions and factors:

The European elite. In the age of kings and emperors, people spoke French or Russian at court and married across cultural borders. Now, a new pan-European elite has long since come into being. Its members include numerous politicians, particularly from small countries, who speak English and think Brussels. And a large proportion of the 'creative' class — the Europeans in the artistic, cultural and media communities who long ago moved into the big 'salon' that unites Oslo, London, Rome, Paris, Berlin, Madrid and Vienna. There may not be many of these genuine cultural Europeans, but one shouldn't underestimate their influence.

National business communities. Multinationals and the majority of medium-sized enterprises have for many years been geared towards the European economic area. Although business associations have been moaning about the transfer union, these business communities would see the disintegration of Europe as a threat to their existence.

The power of outsiders. Above all, though, 'foreign powers' play a totally different role nowadays. Global domination by the United States is coming to an end, whereas the Arab countries, India and South America have a strong interest in a stable Europe to counterbalance an America that may become increasingly unpredictable in the future.

It's not all that difficult to predict the outcome of this mega-game. Regardless of how turbulent the individual moves in the game are, the result will be a new and more integrated Europe. The present withdrawal of American capital will be followed by an infusion of Eastern capital. It won't be all that important whether, in the end, the weak peripheral European countries are still in the eurozone or have been designated as special economic zones, or whether the euro is more a hard core currency or a soft single currency.

The 2008 financial crisis was anything but out of the blue. Economists had been warning us about the property bubble and multilayered high-risk papers for years — not to mention the indebtedness of the European countries.

Greece and the Greeks simply acted on the basis of the incentive systems that the European treaties suggested to them. *Don't change what you do, but live better!* Since the euro meant low interest rates, sovereign debt didn't hurt. When the euro was introduced, a coffee suddenly cost twice as much even though the product itself hadn't got any better. And those little bribes also got a little more expensive, literally greasing the economic wheels. Pay tax? Why? Everybody acted in their own logical interest within the scope of a long-proven style of economy where all the participants were skillfully dodging the costs.

Crises like the euro crisis are not monocausal events that just strike like lightning. Under certain historical circumstances, even small hot spots can overlap and amplify one another.

The euro crisis is no more than the accumulated result of the coincidence of the following factors:
- weakened banks that purchased massive amounts of government bonds after the 2008 crisis — government bonds that were believed to be totally safe;
- reckless speculators who were afraid of losing their jobs and were searching for weaknesses in the international currency system;
- one or possibly more European countries that had sneaked into the currency union without previously doing their fiscal and structural homework;
- flawed feedback systems within the European treaties;
- the realization that the age of long-term economic growth in Europe has probably come to an end, changing debt valuations overnight (loans are always safe if debtors can guarantee solid growth);
- a media landscape that is *gobbling up* and gorging on the crises and continuously reinforcing and creating fear.

The latter factor in particular is often underestimated, even though it is precisely what gives events their dramatic dynamic. Fear plays a key role in an economic crisis. In the panic ping-pong, the markets are driven in a particular direction. Hysteria is the tinder that can make it impossible to get a grip on problems in the real economy.

In the medium term, the 'Eurobonds plus' scenario is most likely. It is proving possible to moderate and calm the euro crisis with the measures that are currently being put in place. Essentially, Europe will stay what it is, namely a loose confederation of states. However, a number of central European institutions will be massively strengthened and empowered.

Greece has been given a haircut. At the same time, all the European countries have agreed to include a 'debt brake' in their national constitutions and, simultaneously, to introduce eurobonds as an instrument of power against the financial markets. Strict rules will be imposed. If a country's net debt goes above a certain percentage, it will be put under the supervision of a commissioner.

This will, of course, not be the end of developments. More crises will follow, more confrontations in the new world order of the 21st century. In the end, it will be these challenges that weld the continent even closer together. It doesn't really matter whether it is then called 'United States' or 'Confederation' or 'New Europe'. The network age calls for a more intelligent form of cooperation than mere conformity. Europe is becoming and will remain a field of evolution. An incubator of ideas and suggestions as to how one can live better in open systems betwixt freedom and solidarity. But on the whole, the truth is that we will go on working things out with each other in the future.

Sustainability

A Responsible Bank

In the words of Professor Christian Friesl in his Guest Commentary for BKS Bank's 2010 Annual Report, 'It is important for CSR to be effective.' Effective is certainly how one can describe BKS Bank's CSR activities, and sustainability has been a living philosophy at BKS Bank for a very long time. We were the first company in Carinthia to set up a crèche for employees' children or to introduce an extensive health scheme for staff. These are just two examples of the innovative facilities and other benefits that BKS Bank provides for its workforce.

They are not just temporary schemes introduced for PR purposes. An enduring idea is at the forefront of every one of these fringe benefits. The crèche was set up in 1998; the *Durch die Bank gesund* (banking on health) scheme was in its seventh year in 2011; and BKS Bank's partnerships with social and cultural organizations and educational institutions like *Kärntner in Not* (the 'Carinthians in need' initiative), SOS Children's Villages, the Carinthian Summer Music Festival, *Kulturzentrum Burgenland* and Alpen-Adria University have existed for many years and will continue in the future.

In addition, we want to enter new areas as well. For instance, work is ongoing on the development of an extensive CSR strategy for our organization. As part of this process, we are also looking more closely at areas we have done less work on so far, like the sustainability characteristics of our products and services.

Leading and Shaping

The three members of BKS Bank's Management Board are committed to CSR and consistently act in accordance with the principles enshrined in the enterprise's vision and mission. They integrate sustainability considerations into enterprise strategy, work to create transparency and produce accurate information flows and deal responsibly with business, social and ecological risks.

In 2009, BKS Bank draw up a guide — a Code of Conduct — in collaboration with staff members that is designed to preserve integrity, ensure ethical behaviour and create awareness of the need for responsible action at every level of the Group. In addition to the Code of Conduct, staff can access video clips in our IntraNET that were produced to make people even more aware of a number of key issues. For instance, we shot a video about compliance in 2011. The Code of Conduct will be revised during the 2012 financial year to bring it into line with all the latest requirements.

Complaints management is also tightly regulated at BKS Bank and is a part of the quality management process. Our complaints management process was also introduced in Slovenia and Croatia during 2011. The responsible Quality Managers report directly to the Management Board twice a year.

COMPLAINTS, PRAISE AND SUGGESTIONS [1]

	2011	2010
Total number of complaints and suggestions	185	177
– of which complaints about customer care	71	28
– of which complaints about organizational problems	73	103
– of which complaints about securities	5	26
– of which praise	4	5
– of which suggestions, possible improvements, requests	32	15

[1] No comparative figures for 2010 are available from Slovenia, Croatia or Slovakia, so the entire table only covers the complaints management process in Austria.

The CIC summer kids during their visit to BKS Bank.

Staff

As always, many of BKS Bank's CSR measures focused on its workforce. The success of a service provider stands or falls on the dedication and skills of its employees. BKS Bank is fully aware of this, so one of our bank's prime goals is to create a high level of workforce satisfaction and to present an external image as an attractive employer. For this reason, we have set aside an extensive 'social' budget of about €1 million that is used to offer employees fringe benefits. The range is continually being updated to suit changing needs. In addition, BKS Bank has a variety of partnerships with charities that encourage its employees to do volunteer work.

Our goal: equal pay for equal work

During the 2011 financial year, BKS Bank developed an information platform used to examine pay patterns by gender. After adjustments to allow for part-time work and supplementary benefits, it is, for the first time, making it possible to present the actual levels of pay of men and women within our organization. It has shown that the average income differential in Austria also exists throughout BKS Bank. More detailed analyses have shown that a larger number of women do lower-level jobs — and are therefore less well paid — than men. The exact distribution is presented in the chart below. Our goal now is to narrow this earnings gap by making management personnel aware of the problem and by motivating women also to apply for management jobs. We operate a special promotion scheme for women to give them professional support when doing so. In addition, BKS Bank will be publishing its first Pay Report for 2011.

The proportion of disabled employees at BKS Bank is also below the legal quota. Eighteen disabled people were working for us in 2011, or 20 fewer than the required minimum. However, our declared goal is to bring about a significant increase in our proportion of disabled staff.

We want to raise retirement ages

We also want to raise the average retirement age of BKS Bank's employees. The know-how of long-standing employees is particularly important to us, and the old-age pensions of women in particular are boosted by their final, well-paid years of employment. At the moment, BKS Bank staff retire at the age of 56.8 if they are women and 60.3 if they are men. In other words, their retirement ages are well below Austria's legal retirement ages, which are currently 60 for women and 65 for men. During 2012, a working party will be developing ways of motivating our male and female employees to stay with us longer.

NUMBER OF MALE AND FEMALE STAFF BROKEN DOWN INTO COLLECTIVE AGREEMENT JOB CLASSES

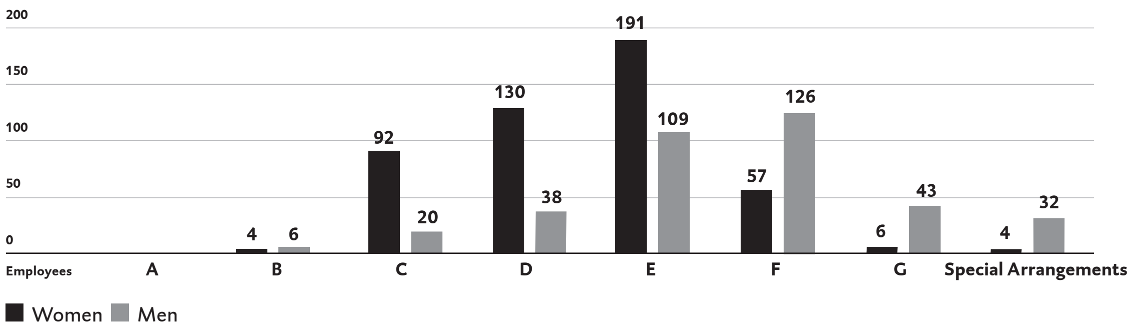


Photo: BKS Bank.

Involvement Day 2011 — BKS Bank supports its employees’ volunteer work.

Implementation of the first measures developed during the *berufundfamilie* 'JobAndFamily' Audit

BKS Bank underwent the *berufundfamilie* (JobAndFamily) audit process back in the 2010 financial year and was awarded the basic certificate in November 2010. We now have three years to implement the measures developed during the audit process. Our efforts also found favour with the jury of the *Familienfreundliche Unternehmen* (family-friendly enterprises) competition held by Carinthia's Economic Chamber, with BKS Bank coming second in the large enterprises category.

We started the resulting projects in 2011. For example, since the summer, new parents have been given a baby backpack that contains information about child benefits and parental part-time work as well as a number of gifts. In addition, we intensified our contacts with employees on parenthood leave. Firstly, we developed a communication process defining what events employees on parenthood leave should be invited to and by whom. Secondly, we held our first 'parenthood leave breakfast' in Carinthia. Everybody on parenthood leave and their offspring were invited to this event. Our company doctor Ingeborg Juvan gave them tips on how parents and their children can stay healthy in winter, and there was of course no shortage of conversation between the parents. We also want to hold parenthood leave breakfasts in our Styria and Burgenland regions this coming year.

SOME OF THE THINGS WE DID FOR OUR EMPLOYEES

The *berufundfamilie* 'JobAndFamily' Audit
Since November 2010, BKS Bank has had the basic 'JobAndFamily' certificate awarded by the Austrian federal Ministry of Economy, Family and Youth. The aim is to make it easier for employees to combine having a family and a career. New benefits were added to BKS Bank's already extensive catalogue of support and services and will be in place by the end of 2013. The new offerings will not be limited to the field of parenthood; they will also cover areas that are new for BKS Bank, like helping when health care is needed and providing anonymous psychological support to employees in crisis situations. BKS Bank's family friendliness won it second place in the large enterprise category in the *Familienfreundlichster Betrieb Kärntens* (Carinthia's most family-friendly company) competition.

The *Durch die Bank gesund* (banking on health) scheme
In the year under review, our extensive health scheme focused on healthy eating. A balanced diet combined with exercise is a good way of preventing many diseases of modern civilization. Our Regional Head Office for Burgenland and the regional government of Burgenland jointly invited staff to a symposium on burnout. An expert Austrian jury praised our heath scheme's continuing efforts to improve the psychological health of BKS Bank's employees, calling it a 'Model of Good Practice'. We carried out our first vaccination campaign in Slovenia.

Flexible hours of work
BKS Bank offers its employees a flexitime model without core hours of work. This enables them to arrange their schedule flexibly, ideally fitting it around family commitments like school parties, visits to the doctor with children or helping parents who need care. Part-time working models are tailored to the needs of each employee, so there too, a great deal of flexibility is possible.

The 'Kinki' crèche
BKS Bank set up its 'Kinki' crèche in 1998. It was the first crèche for children aged between 1 and 3 to open its doors at a company in Carinthia. It takes care of up to 15 children. It does not close during school holidays, has a carer to child ratio of one to four and is open from 7 am to 5 pm to suit working parents. As a result, the crèche is always full. Children of parents from outside the company are also cared for alongside the children of BKS Bank employees.

Many parents also appreciated the help they were given taking care of their children in the summer holidays. This was on offer for the first time. Thanks to our partnerships with the Carinthian International Club (CIC) and the *KELAG Wörtherseelöwen Klagenfurt* Volleyball Club, we can offer them low-cost childcare places with an attractive programme of activities. Among other things, the 'CIC Summer kids' got to know their parents' workplaces, made a short animated cartoon and enjoyed both sports and games. In addition, they visited BKS Bank's Head Office and BKS Bank's Regional Head Office for Klagenfurt. Many saw a bank vault there for the first time and were thrilled by the chance to try face painting.

Improving the flow of information to staff about a variety of family-related issues was one of our focal points alongside parenthood itself. In December, we were able to go online with one of the cornerstones of our 'JobAndFamily' audit related measures, making an extensive information platform about medical health, health care, parenthood and financial health available to staff in our intraNET. It gives employees answers to a raft of questions about family life. For instance, who can one turn to when a relative suddenly needs nursing care? What subsidies are available for families? How can I become healthier? The platform was co-developed by two interns from the *Fachhochschule Kärnten* (Carinthian university of applied sciences) and is being continuously extended.

Durch die Bank vital (vitality throughout the bank)

Staff continued to make extensive use of our *Durch die Bank gesund* (banking on health) scheme. In 2011, its focus in Austria was on healthy eating. As health statistics show, the most frequent causes of death include cancer, type 2 diabetes and a number of other ailments. A sensible and balanced diet and a healthy amount of physical activity contribute to the prevention of so-called 'lifestyle' diseases and can help remedy or alleviate existing symptoms. People who eat the right things are physically and mentally fitter and more able to cope with personal and professional challenges. During our 2011 *Durch die Bank vital* (vitality throughout the bank) campaign, more than 200 participants began by obtaining theoretical knowledge during lectures by regional statutory health insurance authority nutrition consultants. In the autumn, they were able to put what they had learnt into practice during workshops held by so-called 'seminar farmers'. The participants and the farmers prepared healthy snacks together and discussed food labelling and quality marks. For the first time, parts of BKS Bank's health scheme for its Austrian employees were also transferred abroad. Many of our staff in Slovenia took part in our vaccination campaign.

A model of good practice

Once again, our health scheme earned praise from outside the bank. An expert panel of Austrian judges named BKS Bank and six other companies in Carinthia 'Models of Good Practice' in the 'Physical Health' category for their activities to promote health within the scope of the 'Move Europe – Work. In tune with life' campaign. Our Human Resources Manager Werner Laure was presented with the Move Europe certificate by Federal Minister Alois Stöger.

Our efforts also bore fruit inside the organization. In recent years, many of our management staff and other employees have become more aware of how important mental and physical health are for one's wellbeing and productivity. The growing numbers of burnout victims and people suffering from chronic exhaustion and depression show how crucial early prevention is. BKS Bank has organized numerous lectures for management staff, published reports in the staff magazine and done a raft of other things to help staff recognize the warning signs of burnout before it is too late. In the year under review, our Regional Head Office for Burgenland went a step further when it signed a special agreement with staff representatives at the *Amt der Burgenländischen Landesregierung* (office of the provincial government of Burgenland). As a result, the staff of BKS Bank and the provincial government's employees were invited to a lecture on health at work held at the *Eisenstadt-Umgebung* district authority offices on 20 September 2011, to listen to Dr. Brigitte Bolech, advisor to and president of *BEAM HRV Wirkungsforschungsinstitut*, talking about burnout prevention.

BKS Bank: creating opportunities for young people

As part of its CSR activities, BKS Bank actively supports the training of young people. For instance, it employed 16 apprentices in 2011. Thirty-nine had already passed their apprenticeships as qualified bank employees in previous years, and many of them have continued to work for us in a wide range of jobs. Large numbers of university and vocational college graduates apply for the eight to 10 traineeships we offer each year. A trainee programme lasts one year and takes the 'high potentials' through every department in the bank. BKS Bank employed 14 trainees in 2011. In a number of stages, they are familiarized both with various Head Office departments and with selling activities in the retail and corporate and business banking segments. In the summer, BKS Bank is very popular with students looking for holiday jobs. Seventy-five young people did periods of practical training with us during 2011, and we also employed six student internees.

More detailed information about the workforce and staff statistics are provided from page 80 (Group Management Report, *Employees*). Information about the measures we took for the advancement of women are provided on page 57 in the Corporate Governance Report.

Society

Continuity and dependability are also at the centre of the CSR work we do for the good of society. For instance, our partnership with *Kärntner in Not* (the 'Carinthians in need' initiative) that has been in place from the very outset continued during the year under review. For some years, BKS Bank has been paying the administrative costs of the *Kärntner in Not* association to ensure that all donations are really used for a charitable purpose. In addition, we make various donations in kind such as remittance slips, donor cheques and donation boxes. We also have a long-standing partnership with the Moosburg SOS Children's Village. As a result, for four years, BKS Bank has been paying the lease payments on a VW bus used by the SOS Children's Village mothers and their charges for shopping and outings. The manager of the SOS Children's Village, Marie-Therese Unterlercher, was particularly delighted with the €10,000 that BKS Bank saved by cutting the costs of producing its 2010 Annual Report. This money was used to connect the village to the Moosburg district heating system.

More colour in an old people's home rather than in our Annual Report

As in the 2010 report, we have done without high-gloss colour printing in this 2011 report in order — once again — to generously support a new project. Since 2007, *Diakonie Steiermark* has been the tenant of a former old people's home in Lebring that it has converted into 14 assisted living units. They are currently occupied by 14 people aged between 45 and 89. Many of them live on minimum pensions and are mentally ill. To date, there has not been enough money to decorate the common room properly. This will now be possible with BKS Bank's help.

PROJECTS SUPPORTED BY BKS BANK IN AUSTRIA

	2011	2010
Total number of sponsorships	305	317
– of which cultural sponsorships	66	49
– of which social sponsorships	91	114
– of which educational sponsorships	63	69
– Other	85	85

Unfortunately, plans for the *Sonnenmond* children's hospice have yet to be realized because the province of Carinthia has not to date agreed to subsidize it. This hospice, which will give important help to terminally ill children, their parents and their siblings, is a matter of particular concern to BKS Bank. It has already received a generous sponsorship promise for the construction process. Until it is built, we are putting our premises at the disposal of the charity for its annual palliative medicine day, which this year too will be attended by experts from across Austria.

BKS Bank is also a fixed partner of the *Geholfen* skiing charity event organized regularly by Armin Assinger and of *Caritas* Carinthia and *Caritas* Styria—and those are just some of the other charities that we support. In addition, we help smaller local projects in other countries, paying for this out of our regional budgets.

An important partner to education and culture

Besides social sponsoring, BKS Bank also sponsors culture and education. As a rule, we do not sponsor sporting projects. In 2011, BKS Bank again sponsored the Carinthian Summer Music Festival and the Brahms Competition, both of which bring quality offerings to Carinthia's cultural landscape. Similarly, BKS Bank is a long-standing sponsor of *Kulturzentrum Burgenland*. Moreover, we continued to support *Panorama Damtschach* and a variety of exhibitions, theatre productions and concerts. For the first time, we were a partner of the *Komödienspiele Porcia* Comedy Festival, and many BKS Bank customers laughed tears during the performances. One especially unusual kind of sponsorship activity will give future generations pleasure for

NETWORKING WITH SOCIETY

The UN Global Compact
BKS Bank signed the UN Global Compact in December 2011. The UN Global Compact has over 6,000 participating companies, making it the world's largest corporate citizenship initiative. Ten principles are central to the UN Global Compact. Companies and organizations undertake to adhere to them upon becoming signatories.
See www.unglobalcompact.org for more information.

respACT
respACT – austrian business council for sustainable development is Austria's leading Corporate Social Responsibility (CSR) and sustainable development platform for corporates. It helps its members economically and independently achieve their ecological and social goals.
See www.respact.at for more information.

Verantwortung zeigen!
This association of companies is an affiliation of for-profit and non-profit enterprises in Southern Austria set up by *Strasser & Strasser*. Its goal is to promote the CSR concept through exchanges of information between companies.
See www.verantwortung-zeigen.at for more information.

The berufundfamilie 'JobAndFamily' Audit
This is a federal government initiative that helps companies develop and evaluate family-friendly measures and profit from the results. Companies and organizations that undergo the *berufundfamilie* audit receive a quality mark from the Federal Ministry of Economy, Family and Youth.
See www.familieundberuf.at for more information.

Workplace Health Promotion Quality Mark
The Network for Workplace Health Promotion was set up in 2000 to give greater support to workplace health promotion at the regional level. The network awards the Workplace Health Promotion Quality Mark in partnership with the Healthy Austria Fund.
See www.netzwerk-bgf.at for more information.

a long time to come, namely a glass window designed by Lisa Huber for the evangelical church in Fresach and donated by our bank. As in prior years, we also made a variety of purchases to support the visual arts. In the educational sponsorship field, we continued, among others, our partnerships with the Alpen-Adria University in Klagenfurt, *Talentecamp* and the AHS foreign language competition.

A particularly dedicated workforce

BKS Bank is not alone in its efforts to help disadvantaged people. Its staff also sustained their high level of commitment during 2011. Many of our employees are members of various service clubs like Rotary, Lions and Kiwanis and therefore help as volunteers. Similarly, our employees were also front row volunteers when we wanted to create teams for the *Verantwortung zeigen!* Involvement Day. As in 2010, 39 of our staff worked free of charge for charity organizations for one day. They worked in four teams, doing manual work. A garden path was prepared for asphalting at *Diakonie Kärnten*'s *de la Tour* occupational workshop, the gardens at the Moosburg SOS Children's Village were knocked into shape, the garden at *Hilfswerk* was renovated and parts of the cobblestone area and the bark mulch under the playground equipment at the Herrnhilf children's home were renewed. Our teams were especially pleased that they were sometimes also able to work side-by-side with the children in the afternoons, for instance at the SOS Children's Village and Herrnhilf. The unaccustomed physical work was a lot of fun as well. The participants' enthusiastic reports will undoubtedly contribute to another key BKS Bank sustainability goal: to act as an amplifier and motivate others to commit to CSR as well.

SOME OF THE THINGS WE CONTRIBUTED TO SOCIETY

Fresach church
The Carinthian provincial exhibition entitled 'Keeping the Faith/Maintaining Credibility, 500 Years of the Protestant Adventure' was held in Fresach in 2011. The exhibition charted the history of the Protestant faith in Carinthia. It had nearly 69,000 visitors. For its part, the Evangelical parish renovated the church and decorated it with glass windows designed by Lisa Huber. BKS Bank paid for one of the windows at a cost of €10,000.

Kulturzentrum Burgenland
Every year, the *Kulturzentrum* provides a quality programme for cultural enthusiasts in Eastern Austria. For a number of years, BKS Bank has been donating money to ensure that its work can continue.

BKS Bank shows responsibility
BKS Bank is one of the most active network partners of *Verantwortung zeigen!* (the 'show responsibility' initiative) created by *Strasser & Strasser*. For instance, the bank's experts have often shared their knowledge at *Verantwortung zeigen!* events. During the second *Verantwortung zeigen!* Involvement Day, BKS Bank again fielded four teams who helped charities free of charge with manual work. For the first time, we contributed to an 'advent calendar' where a company does a good deed in cooperation with a non-profit organization on each day in December. Furthermore, BKS Bank employees took part in a fashion show for *ContraPunkt* and donated clothes. In addition, staff members visited a fitness centre with young people from the Moosburg SOS Children's Village and treated them to a healthy snack afterwards.

Kärntner in Not
From the very outset, we have supported *Kärntner in Not* (the 'Carinthians in need' initiative) set up by the *Kleine Zeitung* newspaper. *Kärntner in Not* is now one of the charities allowed to display Austria's donation quality mark. It distributed donations totalling about €680 thousand to needy Carinthians in the course of 2011. To ensure that absolutely every donated euro went to the people who really needed it, BKS Bank paid the charity's administrative costs.

TRIGOS Carinthia and TRIGOS Styria
The TRIGOS awards are given to companies who make a sustained contribution to society that goes beyond the legal requirements. BKS Bank has taken the concept of the Austrian TRIGOS awards into the provinces of Carinthia and Styria and has already given these sought-after prizes away five times in Carinthia and four times in Styria.

FMVÖ paid tribute to BKS Bank's high customer orientation.

TRIGOS Carinthia and TRIGOS Styria: CSR multipliers in those regions

As the numerous entries for the TRIGOS Carinthia and TRIGOS Styria prizes again demonstrated, many of the companies in BKS Bank's market territories have an outstanding, sustained commitment to CSR. The TRIGOS awards are given to companies whose corporate social responsibility goes well beyond the legal requirements. In the year under review, more weight was given for the first time to companies' overall level of commitment than to individual projects. The TRIGOS Carinthia and TRIGOS Styria award categories are 'The Workplace', 'The Market', 'Society' and 'Ecology'. These awards are not cash prizes. The winners are presented with a trophy designed by David Pompa-Alarcon. This is to signal that responsibility must be borne. We are pleased to report that a number of companies enter the competition again and again, underlining the fact that CSR only really makes sense if it is continuous and maintained over a longer period.

BKS Bank Management Board member Herta Stockbauer is the Vice-President of *respACT – austrian business council for sustainable development*. This is Austria's leading corporate social responsibility (CSR) and sustainable development platform for corporates. One of *respACT*'s goals is to more effectively propagate the spirit of sustainability in Austria's provinces. In this spirit, the Carinthian *Initiativkreis* (circle of initiative) — made up of *Wirtschaftskammer Kärnten* (the Carinthian economic chamber), *Industriellenvereinigung Kärnten* (the Carinthian section of the Federation of Austrian Industries), *Strasser & Strasser* and BKS Bank — invited interested companies to two events during 2011. The motto of *respACT*'s first public event in Carinthia was 'Success with Responsibility – Learn from the Best'. The winner of TRIGOS Carinthia in the 'Society' category — the *Kohlbach Group* — opened the doors of its new factory under the resounding title of 'Factory of the Future' for this event. After a guided tour of the production facilities of this successful Carinthian manufacturer of biomass systems, the event's visitors assembled for lectures by Herta Stockbauer and by Walter Kohlbach, owner and CEO of the *Kohlbach Group*. Both talked about what they were doing in the social and ecological CSR domains within the scope of the five areas of CSR mentioned in their CSR mission statements. In addition, REWE board member Werner Wutscher talked to a selected group of participants about CSR during a business lunch held in Seefels Castle.

Customers, Products and Services

BKS Bank services corporate and business banking and retail banking customers alike. It strives to be a reliable partner to its customers in both good times and bad. For instance, if a loan customer gets into financial difficulties, we work together with that customer to find the best solution to a precarious situation. We deliberately do without pushy advertising and without aggressively addressing sensitive target groups like children, young people and the elderly. Although BKS Bank has products for young people, students and pensioners (pocket money accounts, young people's accounts, junior *Sparbuch* passbooks, the *Sparcard* savings card, student accounts and pensioners' accounts) we do not use additional inducements to attract them as customers. Our savings products do not allow young people to withdraw more than their credit balance, and young people's accounts can only be overdrawn with the written consent of their parents. This is to prevent young people who are still inexperienced in financial matters from already getting into debt. In addition, BKS Bank's pocket money accounts specifically help parents teach their children how to make cash-free payments.

Customers who are not members of these special groups are also given detailed information about the opportunities and risks associated with each product or service during sales talks. This helps them accurately judge whether their saving or investment goals can really be attained or whether they can afford their loan payments in the longer term.

Award for high customer orientation

People really do see us as customer orientated. This was evidenced by our 2011 Recommender Award from the independent *Finanz-Marketing Verband Österreich* (FMVÖ: Austrian financial marketing association). BKS Bank won the prize for outstanding customer orientation in the 'Regional and Specialist Banks' category. The Recommender Awards are part of an extensive financial sector survey commissioned by FMVÖ. It measures the readiness of the customers of a bank, insurance company or building society to recommend that bank, insurance company or building society to their friends and acquaintances. For the first time, the 2011 survey was based on 6,000 telephone interviews, so the results were well-founded and particularly valid.

The 3 Banken sustainability fund [1] is highly valued in the marketplace

BKS Bank has a fund product in its range that convincingly addresses the issue of sustainability in investments in the form of the *3 Banken Nachhaltigkeitsfonds* sustainability fund [1]. It is sold through the investment company owned jointly by the *3 Banken Group* and *Generali Holding*. The fund management process overweights securities according to ecological criteria combined with clearly defined exclusion criteria. Fund manager *Sarasin* assesses each company in this special segment using the 'Sarasin Sustainability Matrix'. This ensures that the fund only invests in companies that contribute to ecologically and socially sound, permanently sustainable economic development. It overweights contributions in areas that will be important in the future like water, renewable energy and health. At 31 December 2011, €85.6 million had been invested in this fund. BKS Bank will be focusing even more closely on sustainable product issues this financial year so as to be able to offer its customers appropriate products in the future.

HIGHLIGHTS IN THE CUSTOMER, PRODUCT AND SERVICE FIELDS

The Recommender Award
The independent *Finanz-Marketing Verband Österreich* (FMVÖ: Austrian financial marketing association) gives away the Recommender Awards once a year. In 2011, BKS Bank won the prize for outstanding customer orientation in the 'Regional and Specialist Banks' category. The results were based on 6,000 telephone interviews.

The 3 Banken Sustainability Fund [1]
3 Banken-Generali Investment-GmbH — the jointly owned investment company of the *3 Banken Group* and *Generali Holding* — has had the 3 Banken *Nachhaltigkeitsfonds* sustainability fund [1] in its portfolio since 2001. €85.6 million had been invested in it at 31 December 2011.

[1] This document is a marketing communication prepared for informational purposes only. *BKS Bank AG* will not accept any liability for the completeness or accuracy of the information reproduced herein. In particular, *BKS Bank AG* expressly disclaims liability for errors in numerical data. This does not constitute an offer or invitation to buy or sell the investments mentioned herein and/or (bank) products; nor does it constitute a recommendation to buy or sell. Fund shares are offered for sale on the basis of the published prospectus and the customer information document/simplified sales brochure published by *3 Banken-Generali Investment-Gesellschaft m.b.H.* These are available in German free of charge at www.3bg.at and from branches of *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt, Austria, and from the fund's Austrian paying agents during normal business hours.

The Environment

As a service provider, BKS Bank cannot protect the environment in as many ways as a manufacturer. We explored many of the possibilities — for instance environmentally friendly cleaning materials, low-radiation and low-emission equipment, a waste prevention concept and duplex printing as standard — years ago. For some time, our building projects have also taken the environment into consideration. We particularly prioritize the installation of appropriate thermal insulation when we do redevelopment work. When we replace heating systems, we instal heat pumps or, if possible, connect to local district heating systems.

An information evening to promote corporate energy management

Rebuilding the third storey of our Head Office building was one of our biggest projects in the year under review. By today's standards, the flat roof was virtually uninsulated, causing high heating costs in winter and very hot offices in summer. The roof has now been insulated and a new type of climate friendly and energy efficient ventilation and sun shade system has been installed, optimizing both our energy usage and room temperatures and lighting. BKS Bank described its energy saving philosophy to people outside the organization during an information evening entitled 'Corporate Energy Management' where experts told members of the Carinthian business community about these cutting-edge technologies. Gerhard Moritz of *energie:bewusst Kärnten* talked about a number of attractive corporate energy saving plans and the subsidized *Ökofit* energy efficiency advice service. TRIGOS prizewinner Eckhard Sauper of *Sauper Umweltdatentechnik GmbH* presented ways of using energy monitoring to save sizeable amounts of energy. Richard Oswald of *Atrio Betriebs GmbH* gave the audience a fascinating report on his practical experience during the construction of an energy efficient shopping centre that won multiple prizes.

Because of BKS Bank's steady international expansion, our employees have to travel more and more. The video conferencing system we installed in 2010 has proved to be an effective way of reducing the number of business trips in practice. In addition, when we buy a new car, we make sure it has good ecological credentials. We bought a second Toyota Prius Hybrid during the 2011 financial year that is being used by Management Board member Herta Stockbauer.

SOME OF THE THINGS WE DID TO PROTECT THE ENVIRONMENT

Warmth for an SOS Children's Village
In the year under review, BKS Bank contributed to the cost of connecting the Moosburg SOS Children's Village to a biomass district heating system. The Children's Village used to be heated by a 51-year-old oil-fired heating system with a closed circular pipeline and 18 separate burners. Connecting the village to the district heating system has significantly reduce emissions.

Video conferencing instead of business trips
A new video conferencing system has reduced business trips by making it possible to hold meetings online. Fifty-one video conferences took place last year.

BUSINESS TRIPS AT BKS BANK AUSTRIA

	2011	2010
Vehicles		
Total	55	54
– of which emission class 0	—	—
– of which emission class 1	—	—
– of which emission class 2	—	—
– of which emission class 3	4	18
– of which emission class 4	27	20
– of which emission class 5	24	16
Total business trips		
Thousands of kilometres driven in company cars	1,783	1,661
Thousands of kilometres travelled by rail	61	54
Number of flights	42	75
Average number of business trips per employee [1]		
Number of kilometres driven in company cars	1,997	1,881
Number of kilometres travelled by rail	68	61
Fuel consumption		
Total fuel consumption, litres	119,600	114,086
Average consumption per 100 km, litres [2]	6.71	6.87

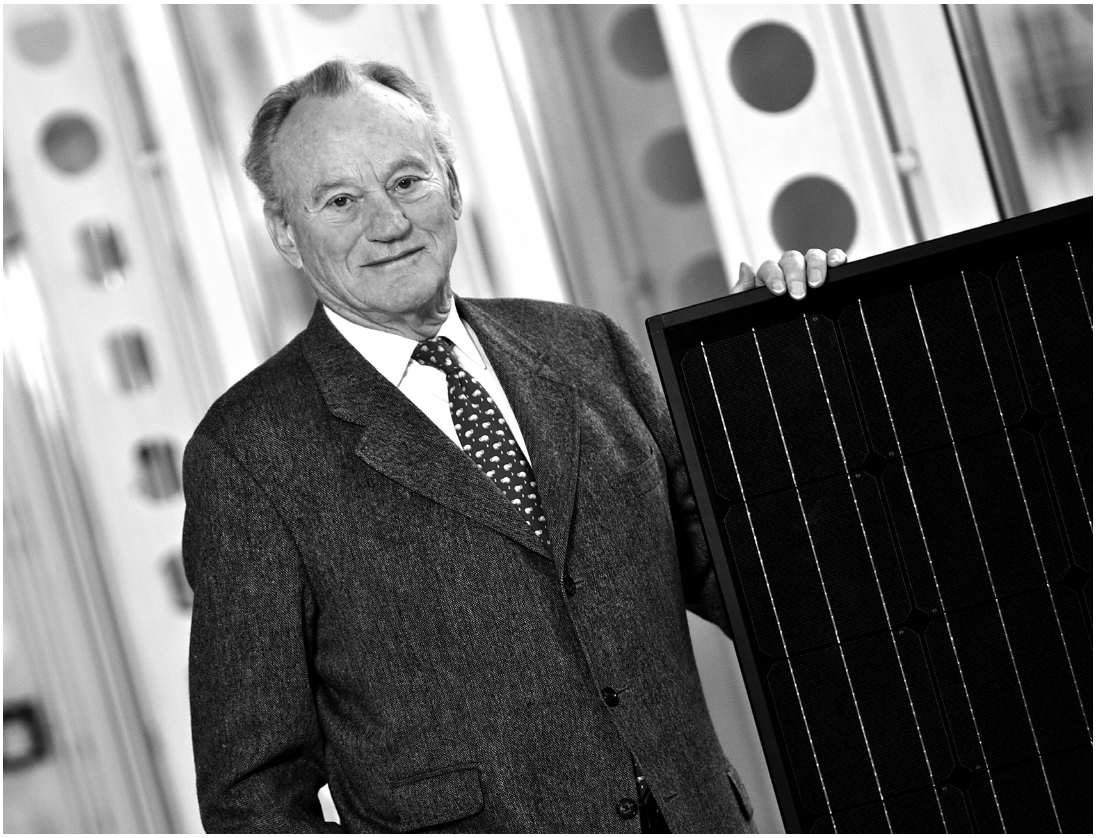
[1] Based on the absolute number of BKS Bank employees in Austria.
[2] Average consumption was calculated on the basis of the average price of diesel fuel in 2011. Price source: www.oeamtc.at.

BKS BANK'S ENVIRONMENTAL IMPACT IN AUSTRIA

	2011	2010
Paper		
Paper consumption, metric tons	39	39
Paper consumption per member of staff, kg [1]	43.7	44.2
Consumption of key resources [2]		
Mineral oil, kWh	362,332	454,074
Natural gas, kWh	402,005	387,533
District heating, kWh	2,402,693	2,253,536
Electricity, kWh	3,145,585	2,984,144
Water, cubic metres [3]	3,671	3,432
Heating systems on BKS Bank's premises [4]		
Oil heating	9	12
Gas heating	10	10
Electric heating	4	4
Air source heat pumps, ground source heat pumps	3	1
District heating	26	24

[1] Based on the absolute number of BKS Bank employees in Austria.
[2] These figures are based exclusively on consumption by BKS Bank. In other words, consumption by tenants is not included.
[3] Water consumption at Head Office only as figures for other buildings are not available.
[4] At some locations, various heating systems are in use in one building. As a result, the total is not the same as the total number of BKS Bank premises.

Report by the Chairman of the Supervisory Board



Hermann Bell, Chairman of the Supervisory Board, is an advocate of renewable energy.

Dear Sir or Madam,

Throughout the 2011 financial year, the Supervisory Board monitored the financial situation of BKS Bank and its subsidiaries and performed the advisory and controlling duties that are incumbent upon it by virtue of the law, the Memorandum and Articles of Association (*Satzung*) and Austria's Code of Corporate Governance. The main focuses of attention were the development of BKS Bank's financial, profit and liquidity positions and investment and personnel planning. The Management Board gave the members of the Supervisory Board extensive written and verbal reports and reported to its regular meetings on the business situation and risk situation of and important transactions at *BKS Bank AG* and the other Group members. These reports were always close to real time. The Supervisory Board was thus, to the necessary extent, involved in all decisions of material importance to the enterprise's profitability and liquidity. The members of the Supervisory Board carefully examined, critically questioned the soundness and appropriateness of and approved Management actions that required approval by virtue of the law, the Memorandum and Articles of Association or standing orders. This was done by way of draft resolutions proposed to plenary meetings of the Supervisory Board. In particular, this also applied to measures relating to impairment charges and compliance. As the Chairman of the Supervisory Board, I, moreover, was in regular contact with the members of the Management Board to discuss with them aspects of enterprise strategy, the enterprise's current business performance and the validity and efficiency of the risk monitoring system.

The Supervisory Board held four ordinary meetings during the financial year. In addition, in order to comply with the legal requirements and to make the Board's work as a plenum more efficient, the Supervisory Board set up five expert committees. In the year under review, they were the Audit, Working, Credit, Nominations and Remuneration committees. These committees prepared motions for the Supervisory Board as a whole and did preparatory work on topics to be dealt with during plenary meetings. Resolutions were passed and approvals were granted during plenary meetings, and some decisions were made by circular resolution. In each case, however, business transactions approved by circular resolution were promptly reported on to the plenary meetings of the Supervisory Board. The core topics dealt with during all ordinary meetings were the enterprise's financial position, including its risk position and risk management activities, its strategic development and other important events and occurrences. These were always discussed in detail with the Management Board.

During the first meeting in the financial year under review, which took place on 30 March 2011, the Supervisory Board dealt, among other things, with the Annual Financial Statements for 2010, the Profit Appropriation Proposal, the Management Report, the IFRS-compliant Consolidated Financial Statements, the Corporate Governance Report, the Risk Report and the Compliance Report. In addition, the items on the agenda also included in-depth reports by the Remuneration Committee and by the Audit Committee, which met immediately before the meeting of the Supervisory Board, as well as credit matters, transactions by board members, preparation of the points on the agenda of the 72nd Ordinary General Meeting (AGM) and a report on the current financial year. Since it has always proven possible to increase our share capital flexibly in the past on the basis of authorized capital, the Management Board was authorized to increase the company's share capital by up to €13,104,000 within five years of the time of registration of the pertinent change to the Memorandum and Articles of Association in the companies register and with the Supervisory Board's approval through the issuance of up 6,552,000 ordinary no-par bearer shares. At the same time, the earlier decision made at the 70th Ordinary General Meeting on 29 May 2009 to increase the company's share capital by up to €10 million through the issuance of up to 5 million ordinary no-par shares by no later than 21 June 2012, insofar as unused to date, was revoked.

Among other things, the second meeting of the Supervisory Board, held immediately after the 72nd Ordinary General Meeting on 18 May, dealt with the routine election of the Chairman's committee, the appointment of the Supervisory Board's five committees and the report on the credit applications already processed and approved by the Credit Committee, and the agenda also included reports on the first quarter and on the current financial year and Internal Audit reports.

Besides the Management Board's report on the current financial year, the main focuses of the Supervisory Board's meeting on 28 September were again Audit Committee reports on the financial reporting process, the Internal Control System, the internal auditing system and the risk management system. The Management Board's elucidations on credit matters and other transactions requiring Supervisory Board approval and a digression into the new BASEL III rules, which are to be incorporated into European law in the form of capital adequacy requirements (the Capital Requirements Regulation — CRR I and the Capital Requirements Directive — CRD IV), were taken note of and approved. During the fourth and final meeting in the year under review, on 23 November, the Management Board elucidated the BKS Bank Group's development on the basis of the segmental, risk and audit reports and presented the budget for 2012 to the plenary meeting of the Supervisory Board. The strategy for the coming three years was also discussed alongside credit matters. In addition, the Management Board presented the investment budget and stated the amount of BKS Bank's own securities that are to be issued in 2012.

The Supervisory Board's committees performed the tasks assigned to them by the Supervisory Board as a whole with efficiency and conscientiousness. The Supervisory Board's Audit Committee met in the run-up to plenary meetings of the Supervisory Board on 30 March and 28 September. In its spring meeting, it applied itself in detail to the examination and preparation of the adoption of the Annual Financial Statements of *BKS Bank AG* for 2010 as well as the Consolidated Financial Statements for 2010 and the Management Board's reports on BKS Bank's risk position and on adherence to the Code of Corporate Governance and compliance and anti-money laundering regulations. At my request, the certified public accountants at *KPMG Austria GmbH* who had been consulted regarding the respective item on the agenda presented the focuses and results of their audit of the Consolidated Financial Statements and the Risk Report. Among other things, the Audit Committee voted to recommend that the plenary meeting of the Supervisory Board approve the Annual Financial Statements and Consolidated Financial Statements. In addition, the Corporate Governance Report, Risk Report and Compliance Report were discussed, as were the Auditor's report and notes. Furthermore, the Audit Committee agreed a proposal for the election of the Auditor and, in that connection, also discussed the cost estimate and declaration of independence. Two of the focuses of its autumn meeting were on preparing the year-end audit for 2011 and on the financial reporting process. During both meetings, it critically examined the effectiveness of the internal audit process, the quality of BKS Bank's risk management activities, enterprise reporting processes, the BKS Bank Internal Control System (ICS) and the Auditor's independence; and it discussed and evaluated the preparation of the year-end audit for 2011 and, finally, gave its approval.

The 10 representatives of the equity holders on the Supervisory Board did not change during the year under review. Among the staff representatives, Sandra Schoffenegger replaced the long-standing Supervisory Board member Gerhard Brandstätter on 17 June 2011. When she left BKS Bank, the vacancy on the Supervisory Board was filled by the elected replacement member Manfred Suntinger, who was first nominated to the Supervisory Board as of 1 November 2011. Since no memberships of representatives of the equity holders expired through effluxion of time, Peter Gaugg and Karl Samstag left the Supervisory Board by drawing lots in accordance with the Memorandum and Articles of Association. The General Meeting renewed the memberships of both men for the maximum duration allowed by the Memorandum and Articles of Association.

The attendance rate of the representatives of the equity holders and the staff representatives was approximately 83 per cent. Reinhard Iro, Dietrich Karner, Josef Korak and Karl Samstag were unable to attend two plenary meetings. Franz Gasselsberger and Helmuth Binder each apologized for their absence from one meeting. No member of the Supervisory Board missed more than half of its plenary meetings.

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

During its meeting on 28 March 2012, the Audit Committee examined the Consolidated Financial Statements and reported thereon to the Supervisory Board. In particular, it presented the separate financial statements of *BKS Bank AG* for 2011 prepared in accordance with *UGB* (Austrian enterprises code) together with the Notes, Management Report and Profit Appropriation Proposal and the IFRS-compliant Consolidated Financial Statements for 2011 together with the Notes and Management Report. Furthermore, it presented the development of the assets, liabilities, financial position and profit or loss of the Group and its segments, a Corporate Governance Report, a Risk Report and the Auditor's report and notes. The Supervisory Board endorsed the results of the audit, approved the Annual Financial Statements and Management Report presented by the Management Board and adopted the company's Annual Financial Statements for 2011, which are thus final for the purposes of *§ 96 Absatz 4 Aktiengesetz*. The Supervisory Board concurred with the Management Board's proposal that an unchanged dividend of €0.25 per share should be distributed out of net profit for the year 2011, resulting, as in the previous year,in a distribution of €8,190,000, and that the remaining profit should be carried forward to a new account.

The Consolidated Financial Statements as at and for the period ended 31 December 2011, which were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Group Management Report, which was prepared in accordance with Austrian commercial law, were audited by *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt*. This audit too did not give rise to any objections and the legal requirements were satisfied, so the requirements for exemption from the obligation to prepare Consolidated Financial Statements in accordance with Austrian law have been met. It is the opinion of the Bank Auditor that the Consolidated Financial Statements present fairly, in all material respects, the assets, liabilities and financial position of the BKS Bank Group at 31 December 2011 and of its profit or loss and cash flows during the financial year from 1 January to 31 December 2011 in accordance with the IFRSs as adopted by the EU. The Supervisory Board endorses the results of the audit and expresses its approval of the Consolidated Financial Statements and Group Management Report submitted to it by the Management Board.

On behalf of the Supervisory Board, I thank the Management Board, the staff's elected representatives and all the employees of BKS Bank for their work and high level of commitment during the 2011 financial year.

Klagenfurt am Wörthersee
March 2012

Hermann Bell
Chairman

Corporate Governance Report

Corporate Governance at BKS Bank

Responsible and transparent management and control

Over the past decade, we have seen an increase in public awareness and, in particular, awareness on the part of regulatory authorities of responsible corporate governance as a synonym for a regulatory framework for the management and supervision of companies. This has, not least, happened against the backdrop of a number of spectacular insolvencies of large US companies (Enron Corporation, WorldCom). Echoing international bodies of rules and regulations like the Sarbanes-Oxley Act, appropriate national codes have also been implemented to boost domestic and foreign investors' trust in companies' management. In Austria, the principles of responsible corporate management and supervision were published in the form of an Austrian Code of Corporate Governance (*Österreichischer Corporate Governance Kodex* or ÖCGK) in 2002. The Supervisory Board and Management Board of BKS Bank, which is a listed enterprise, have also affirmed their unqualified commitment to adhere to the Code. This commitment is founded on trust-based relations with BKS Bank's shareholders, customers, employees and business associates. Close cooperation between the Management Board and the Supervisory Board, a reasonable system of compensation that is consistent with the bank's financial standing, the avoidance of conflicts of interest and transparent and detailed business reporting are also core elements of this ethos. Recently, during its meeting on 30 March 2010, BKS Bank's Supervisory Board voted unanimously to apply the Austrian Code of Corporate Governance in accordance with the 2010 version with effect from 1 January 2010 and affirmed its commitment to adhere to the rules it contains.

BKS Bank's business policy has always targeted sustainable long-term objectives that are consistent with the principles of good corporate governance. Our enterprise's overriding goals are to preserve our bank's independence and autonomy on the basis of the syndicate agreement between *Oberbank*, *BTV* and *Generali 3 Banken Holding AG*, to safeguard our competitiveness and to achieve long-term growth in enterprise value. These goals are underpinned by our sustained earning power and conservative risk policy. At the same time, BKS Bank has in the past proven to be a secure employer within an environment of mutual trust and respect. Apart from the commitment of our Management and staff to BKS Bank and its independence, long-standing alliances with dependable partners like *Wüstenrot* and *Generali* also contribute to our stability. No single shareholder is in a position to directly or indirectly control BKS Bank on its own.

BKS Bank's enterprise-wide frame of action for sustainable good corporate governance takes its bearings from the regulations contained in Austrian stock corporation, stock market and capital markets law, from European Commission recommendations, from the corresponding OECD guidelines and from our Memorandum and Articles of Association and the standing orders of the Management Board and Supervisory Board. The ÖCGK is available from the website of the *Österreichischer Arbeitskreis für Corporate Governance* (Austrian Working Group for Corporate Governance) at www.corporate-governance.at. BKS Bank's corresponding declaration of commitment is available from our website at http://www.bks.at » Investor Relations » Corporate Governance.

The standards for responsible corporate governance are subject to regular revision by the *Österreichischer Arbeitskreis für Corporate Governance*. They are divided into three categories: the L Rules (*Legal Requirements*) , which comprise mandatory legal standards; the C Rules (*Comply or Explain*), where non-compliance is allowed but must be explained; and finally, the R Rules (*Recommendations*), which are mere proposals and do not require any explanations or disclosures.

The ÖCGK requires explanation if a C Rule is not adhered to. By stating and explaining cases of non-compliance made necessary by the specific circumstances of *BKS Bank AG*, the *3 Banken Group* or the legislative provisions governing banks, BKS Bank adhered to the Code during the year under review.

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

Rule	Explanation
Rule 2 C	Besides ordinary shares, BKS Bank has also issued non-voting preference shares. The preferred interest in profits offers BKS Bank's preference shareholders an attractive investment variant.
Rule 16 C	The Management Board — a body with collective responsibility — has three equal members. Management Board decisions regarding the taking on of business obligations and risks by BKS Bank must be unanimous. In general, the Management Board's Spokesperson chairs meetings and represents the company externally.
Rules 30 C and 31 C	The remuneration of the members of the Management Board is reported in the Annual Report of BKS Bank as an aggregated line item in accordance with the legal requirements. For data protection reasons and out of respect for their right to privacy, remunerations of individual members of the Management Board are not reported.
Rule 45 C	Because of the way our shareholder structure has evolved, representatives of the largest single equity holders have been elected to the Supervisory Board. Since the principal shareholders are likewise banks, their representatives also hold positions on the boards of other banks that compete with BKS Bank. However, this group of people are committed absolutely to the independence rules so as to avoid conflicts of interest as well as to fulfilling their obligations to the other shareholders.

The Management Board and Supervisory Board

The Management Board

The Management Board of *BKS Bank AG* has three members. The members of BKS Bank's Management Board manage the enterprise on their own responsibility. They concern themselves primarily with the bank's strategic orientation and with defining its corporate goals, and they are also responsible for managing and monitoring the operational business segments, these being *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. Furthermore, the Management Board takes suitable precautions to ensure that all the relevant legislation is adhered to.

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

The members of the Management Board

Heimo Penker
Born in 1947
First appointed to the Management Board on 1 June 1984
Appointed until 31 March 2014

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

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

Posts at entities accounted for in the Consolidated Financial Statements:
– vice-chairman of the supervisory board of *Oberbank AG*
– vice-chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG*

Posts at other stock corporations in Austria and abroad not accounted for in the Consolidated Financial Statements:
– member of the supervisory board of *Oesterreichische Kontrollbank AG*
– member of the supervisory board of *Generali Holding Vienna AG*

Other posts:
– vice-president of the *Verband der österreichischen Banken und Bankiers* (Austrian Bankers' Association)
– chairman of the banking and insurance sector at *Wirtschaftskammer Österreich* (Austrian Economic Chamber)
– chairman of the banking and insurance division of *Wirtschaftskammer Kärnten* (Carinthian economic chamber)
– member of the management board of *Bankwissenschaftliche Gesellschaft Österreichs* (the Austrian Society for Bank Research)
– Honorary Consul of the Republic of Italy in the Province of Carinthia

Herta Stockbauer
Born in 1960
First appointed to the Management Board on 1 July 2004
Appointed until 1 July 2014

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

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

Posts at entities accounted for in the Consolidated Financial Statements:
– chairwoman of the supervisory board of *BKS Bank d.d.*
– chairwoman of the supervisory board of *BKS-Leasing a.s.*
– chairwoman of the supervisory board of *BKS-leasing Croatia d.o.o.*
– vice-chairwoman of the supervisory board of *Drei-Banken Versicherungs-AG*

Other posts:
– member of the management board of *Industriellenvereinigung Kärnten*
– vice-president of *respACT – austrian business council for sustainable development*
– chairwoman of the *Universitätsrat* (university council) of Alpen-Adria University in Klagenfurt
– Honorary Consul of the Kingdom of Sweden in the province of Carinthia

Dieter Krassnitzer
Born in 1959
First appointed to the Management Board on 1 September 2010
Appointed until 31 August 2015

Born in Waiern in 1959; at BKS Bank since 1987; a member of the Management Board since 1 September 2010. After graduating in business studies, Dieter Krassnitzer worked as a journalist at the stock market magazine *Börsenkurier* and gained a variety of work experience with firms of accountants and tax consultants. He joined BKS Bank in 1987. He has been Head of Internal Audit at BKS Bank since 1992. In 2006, he completed training as a Certified Internal Auditor (CIA©) at the Institute of Internal Auditors in the United States. He was appointed to the Management Board in 2010. His current term of office lasts until 31 August 2015.

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

Posts at entities accounted for in the Consolidated Financial Statements:
– vice-chairman of the supervisory board of *BKS Bank d.d.*
– vice-chairman of the supervisory board of *BKS-Leasing a.s.*
– vice-chairman of the supervisory board of *BKS-leasing Croatia d.o.o.*

MANAGEMENT BOARD REMITS

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

The Supervisory Board

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

The Supervisory Board as a whole had four scheduled meetings during the 2011 financial year. The Management Board informed the Supervisory Board in good time of every matter that required its approval. Moreover, the Management Board also informed the Supervisory Board — in particular the Chairman of the Supervisory Board — about exceptional business transactions of particular relevance to assessing BKS Bank's position and development in the periods between meetings.

The Chairman of the Supervisory Board plays an important role in the Supervisory Board. He is responsible for organizing the Supervisory Board, preparing meetings, coordinating the work of the committees and ensuring successful cooperation with the Management Board. In addition, he chairs the scheduled meetings of the Supervisory Board and the Annual General Meeting. The report of the Chairman of the Supervisory Board, Hermann Bell, from page 39 of this Annual Report contains details about the work of the Supervisory Board and the responsible committees during the year under review.

The members of the Supervisory Board were as follows:

REPRESENTATIVES OF THE EQUITY HOLDERS **Name** **Posts in Supervisory Boards and Comparable Posts at Listed Companies in Austria and Abroad**	**Year of Birth**	**Date of Initial Appointment**	**End of Current Term of Office**
Hermann Bell Chairman – chairman of the supervisory board of *Oberbank AG*	1932	24 April 1972	AGM in 2013
Franz Gasselsberger Vice-Chairman – chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG* – member of the supervisory board of *voestalpine AG*	1959	19 April 2002	AGM in 2015
Peter Gaugg Vice-Chairman – vice-chairman of the supervisory board of *Oberbank AG*	1960	29 April 1998	AGM in 2016
Reinhard Iro	1949	26 April 2000	AGM in 2013
Waldemar Jud – chairman of the supervisory board of DO & CO *Restaurants & Catering Aktiengesellschaft* – vice-chairman of the supervisory board of *Ottakringer Getränke AG* – member of the supervisory board of *Oberbank AG* – member of the supervisory board of *Bank für Tirol und Vorarlberg AG* – member of the supervisory board of *CA Immobilien Anlagen AG*	1943	19 May 2010	AGM in 2015

REPRESENTATIVES OF THE EQUITY HOLDERS

Name Posts in Supervisory Boards and Comparable Posts at Listed Companies in Austria and Abroad	Year of Birth	Date of Initial Appointment	End of Current Term of Office
Dietrich Karner – member of the supervisory board of *Bank für Tirol und Vorarlberg AG*	1939	22 May 1997	AGM in 2015
Michael Kastner	1947	19 April 2002	AGM in 2012
Wolf Klammerth	1946	30 April 1999	AGM in 2013
Josef Korak	1948	26 April 2005	AGM in 2014
Karl Samstag – member of the supervisory board of *Oberbank AG* – member of the supervisory board of *Bank für Tirol und Vorarlberg AG* – member of the supervisory board of *Allgemeine Baugesell-schaft-A.Porr AG* – member of the supervisory board of *Schoeller-Bleckmann Oil-field Equipment AG* – vice-chairman of the supervisory board of *Flughafen Wien AG* (to 29 April 2011)	1944	19 April 2002	AGM in 2016

DELEGATED BY THE STAFF COUNCIL

Name	Year of Birth	Date of Initial Appointment	End of Current Term of Office
Helmuth Binder	1950	1 January 2005	
Gerhard Brandstätter	1959	1 August 1995	17 June 2011
Josef Hebein	1952	26 July 1999	
Herta Pobaschnig	1960	1 June 2007	
Sandra Schoffenegger	1971	17 June 2011	1 November 2011
Manfred Suntinger	1966	1 November 2011	
Hanspeter Traar	1956	1 January 2003	

REPRESENTATIVES OF THE REGULATORY AUTHORITY

Name	Year of Birth	Date of Appointment
Alois Schneebauer	1954	1 August 1999
Johann Wittmann	1959	1 August 2003

Committees set up by the Supervisory Board

As a rule, the Supervisory Board as a whole performs its tasks during its plenary meetings. However, because of the bank's specific circumstances, it delegates certain matters to expert committees to make its work more efficient when dealing with complex issues. These committees meet the requirements of the *Aktiengesetz*, the *Bankwesengesetz* and the *Corporate Governance Kodex*. The following committees had been set up in the year under review and/or exist now:

COMMITTEES SET UP BY THE SUPERVISORY BOARD

Committee	Members
Audit Committee	
The responsibilities of the Audit Committee include: – monitoring the financial reporting process – monitoring the effectiveness of the company's Internal Control System (ICS), internal auditing system and risk management system – monitoring the audit of the Annual Financial Statements and the audit of the Consolidated Financial Statements – checking and monitoring the independence of the auditor of the Annual Financial Statements, in particular with regard to the services rendered for the audited entity – examining the Annual Financial Statements and preparing their adoption, examining the Profit Appropriation Proposal, Management Report and Corporate Governance Report and reporting the results of the audit to the Supervisory Board – examining the Consolidated Financial Statements and the Group Management Report and reporting the results of the audit to the supervisory board of the parent – preparing the recommendation to the Supervisory Board regarding the choice of Auditor – handling the Auditor's Management Letter – monitoring management Because BKS Bank is a credit institution, the additional assessment of the effectiveness of the company's risk management activities as prescribed by C Rule 83 was not carried out separately. Pursuant to *§ 63 Abs. 4 BWG*, the Bank Auditor's audit of the Annual Financial Statements also included, in particular, an audit of the comprehensive measures taken to limit operational and other banking risks as required by *BWG* and procedures to assess the adequacy of own funds. The results of this risk assessment were presented both in the Audit Report and in the Notes to the Audit Report in accordance with *§ 63 Abs. 5 BWG*, discussed by the Audit Committee and dealt with by the Chairman of the Audit Committee in his reports to the Supervisory Board as a whole. Consequently, this C Rule was adhered to. The Audit Committee held two scheduled meetings in the year under review. During the first meeting, it dealt primarily with the Annual Financial Statements and Consolidated Financial Statements and the Auditor's Report and, besides addressing the topics required by law, also dealt with the audit plan for 2011. The focus during the second meeting was naturally on preparing for the audit of the Annual Financial Statements for 2011.	**Hermann Bell, Chairman** Franz Gasselsberger Peter Gaugg Waldemar Jud Michael Kastner Josef Hebein Herta Pobaschnig Hanspeter Traar

COMMITTEES SET UP BY THE SUPERVISORY BOARD

Committee	Members
Working Committee	
This committee is convened as required. It is in close contact with the Management Board, giving it a suitable basis for supervising the company's management. In addition to preparatory powers, it also has decision-making powers. Cases referred to it must subsequently be brought to the attention of the Supervisory Board as a whole. This committee can make decisions in urgent cases. During the year under review, this committee made three decisions by circular resolution.	**Hermann Bell, Chairman** Franz Gasselsberger, Peter Gaugg Michael Kastner Josef Hebein Hanspeter Traar
Credit Committee	
As a rule, the Credit Committee makes decisions on new loans and on extending loans, leases and guarantees from a certain amount by way of circular resolution. The Supervisory Board as a whole is subsequently informed about the decisions made by the members of the Credit Committee at its next plenary meeting. During the year under review, the Credit Committee decided on 83 credit applications by way of circular resolution.	**Hermann Bell, Chairman** Franz Gasselsberger Peter Gaugg Josef Hebein Hanspeter Traar
Nominations Committee	
This committee makes recommendations regarding the filling of vacant posts on the Management Board and Supervisory Board and deals with succession planning issues. Like all the other committees, the Nominations Committee reports in detail to the plenary meeting that follows any decision. It did not make any decisions during the year under review.	**Hermann Bell, Chairman** Peter Gaugg
Remuneration Committee	
The Remuneration Committee regulates the remuneration of members of the Management Board and performs the tasks relating to the bank's remuneration policy that have been assigned to it by the *Bankwesengesetz* (Austrian banking act). In the year under review, all three members again applied their in-depth expertise in the field of remuneration policy and reported to the Supervisory Board as a whole accordingly. In accordance with the law, the Remuneration Committee audits adherence to the legal requirements contained in *§ 39 Abs. 2* in conjunction with *§ 39b BWG* together with the Annex on an annual basis. In addition, it monitors the practical implementation of the remuneration policy it has approved and reports thereon to the Supervisory Board as a whole. During its meeting, it adopted the remuneration guideline in accordance with *§ 39 Abs. 2 iVm § 39b BWG* and thereafter audited its implementation in the year under review.	**Hermann Bell, Chairman** Peter Gaugg Dietrich Karner

Independence of the members of the Supervisory Board
C Rule 53 of the Code of Corporate Governance requires the majority of the representatives appointed to the Supervisory Board to be independent. This means that they should not maintain any business or personal relationship with the company or its Management Board that could give rise to a material conflict of interest and would therefore be likely to influence their conduct. To carry out its functions, the Supervisory Board strives to have a balanced composition and to ensure that its members have the requisite knowledge and abilities. All of the representatives of the equity holders on BKS Bank's Supervisory Board are banking and/ or business experts with relevant experience in the banking and financial fields and extensive knowledge and powers of self-assertion. All of them have, in a personal statement, declared their independence in line with the criteria listed below. These declarations can also be accessed on BKS Bank's website. Click on Investor Relations » Corporate Governance.

Even outside the scope of its ordinary banking activities, BKS Bank does not have any business dealings with related parties or persons that could affect their independence.

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

Remuneration Report

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

Remuneration of members of the Management Board

In principle, the remuneration of each active member of the Management Board of BKS Bank depends on that member's areas of activity and responsibility, his or her contribution to the enterprise's business performance and reasonable standards in the industry for enterprises of a similar size.

Remuneration consists of fixed and performance-based elements that stand in an appropriate relation to one another. As a guide, the performance-based elements should make up 25 per cent of the total remuneration and should not make up more than 40 per cent of the total remuneration. They are linked to the sustained, long-term fulfilment of business and risk strategy and BKS Bank's sustained business performance. If a lasting shortfall in these areas is ascertained, it must find expression when the current performance-based elements of annual remuneration are calculated. The variables used to calculate the performance-based elements in a financial year are BKS Bank's overall operational business performance and its operational business performance in the corporate and business banking and retail banking segments. Moreover, risk-dependent variables are also taken into account.

Besides regular payments, members of the Management Board are also entitled to the following benefits: old-age pensions, occupational disability benefits and pensions for surviving dependants after the death of the entitled Management Board member. When a member's duties end, his or her termination benefit entitlement will depend essentially on legislative provisions (*Angestelltengesetz* [Austrian salaried employees act] and the *Banken-Kollektivvertrag* [collective agreement for banks]). The amount of company pension promised to each member of the Management Board by contract will depend on the duration of his or her service and will be based on his or her fixed remuneration component. The total remuneration paid to the members of the Management Board during the financial year is disclosed in note (47) to the Annual Financial Statements on page 140. Pensions paid to former members of the Management Board came to €739 thousand. Under the standing orders of the Management Board, additional functions of members of the Management Board must be approved by the Supervisory Board. No remuneration is paid for the exercise of offices within subsidiaries of BKS Bank.

In the year under review, remuneration paid to the members of the Management Board totalled €1,166 thousand. Roughly 81 per cent of the total consisted of fixed payments and about 19 per cent comprised performance-based payments. As described above, the amount of performance-based payments is limited. They take account of both the joint and the personal performance of the members of the Management Board and the results of BKS Bank's business and risk strategy, great importance being attached to safeguarding BKS Bank's sustainable risk-bearing capacity. Non-financial criteria are also taken into account during such assessments.

A directors and officers (D&O) insurance policy was is in place during the year under review and was paid for in its entirety by BKS Bank. As a result, the Management Board and Supervisory Board had and have insurance cover for compensation claims brought against them in relation to financial losses.

TOTAL REMUNERATION PAID TO THE MEMBERS OF THE MANAGEMENT BOARD DURING THE FINANCIAL YEAR
€k

Emoluments of the Management Board	1,166
Retirement pensions paid to former members of the Management Board and their surviving dependants	739
Expenditure on termination and post-employment benefits for members of the Management Board	604

Remuneration of the members of the Supervisory Board

The annual remuneration of the members of the Supervisory Board is regulated in the Memorandum and Articles of Association. If necessary, it is adjusted by the Annual General Meeting. In the 2011 financial year, the Chairman of the Supervisory Board was awarded remuneration of €17,000 on the basis of a decision of the Annual General Meeting on 18 May 2011; his deputies were awarded remuneration of €13,000 each; and the other representatives of the equity holders were awarded remuneration of €11,000 each. The attendance fee paid to each member of the Supervisory Board was €120 per meeting attended by that member. As before, members performing their functions on an honorary basis did not receive remuneration. Staff representatives performed their duties within the scope of their employment.

BKS Bank concluded two consultancy agreements with Supervisory Board member Waldemar Jud, namely with *Univ. Prof. DDr. Waldemar Jud Unternehmensforschungs GmbH* and *Univ. Prof. DDr. Waldemar Jud Corporate Governance Forschung CGF GmbH*. Firstly, *Univ. Prof. DDr. Waldemar Jud Unternehmensforschungs GmbH* gave an expert legal opinion in connection with a loan exposure. Secondly, this Corporate Governance Report was prepared with the support of *Univ. Prof. DDr. Waldemar Jud Corporate Governance Forschung CGF GmbH*. During the period under review, *Univ. Prof. DDr. Waldemar Jud Unternehmensforschungs GmbH* was paid €16,000 for its services. A fixed annual fee of €15,000 was agreed for the services of *Univ. Prof. DDr. Waldemar Jud Corporate Governance Forschung CGF GmbH*. Both contracts were approved by the Supervisory Board during the year under review. The remuneration of the Supervisory Board, including attendance fees, totalled €123.7 thousand in the year under review (2010: €107.3 thousand).

REMUNERATION OF THE SUPERVISORY BOARD

Name	Fixed Remuneration, €	Attendance Fees, €	Total, €
Hermann Bell	17,000	480	17,480
Franz Gasselsberger	13,000	360	13,360
Peter Gaugg	13,000	480	13,480
Reinhard Iro	11,000	240	11,240
Waldemar Jud	11,000	480	11,480
Dietrich Karner	11,000	240	11,240
Michael Kastner	11,000	480	11,480
Wolf Klammerth	11,000	480	11,480
Josef Korak	11,000	240	11,240
Karl Samstag	11,000	240	11,240

BKS Bank has not set up a stock option scheme for members of the Management Board or members of the Supervisory Board or management staff and does not intend to do so. During the year under review, BKS Bank granted loans to members of the Supervisory Board and their close relatives totalling €218 thousand. It did not grant loans to members of the Management Board or persons or entities related to them, and no contracts to that end were concluded with them. Moreover, outside the scope of its banking activities, BKS Bank does not have any business dealings with related parties or persons that could affect its independence.

Fees paid to the Bank Auditor

During the 71st Annual General Meeting, *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigstelle Klagenfurt*, was tasked with auditing *BKS Bank AG*'s annual financial statements and those of its group for the year 2011. The fees charged during 2011 for performing the statutory audit and audits performed in accordance with regulatory requirements and for rendering audit related services totalled €578 thousand.

FEES PAID TO THE BANK AUDITOR

€k	BKS Bank (2011)	BKS Bank (2010)
Fees for statutory audits	360	350
Other fees	218	196
Total fees	**578**	**546**

Directors' Dealings

§ 48*d Abs. 4 BörseG* requires the notification and publication of transactions by members of the management of listed enterprises and persons in a close relationship to them. As a result, purchases and sales of BKS Bank shares and share-like securities in the amount of €5,000 or more in a year must immediately be reported to the FMA (Austrian Financial Market Authority). In accordance with FMA recommendations, the bank applies this reporting requirement to the members of the Management Board and Supervisory Board. In 2011, no member of the Management Board or Supervisory Board of BKS Bank reported dealings in BKS Bank shares or derivatives of them ('directors' dealings') to the Compliance Office. On the reporting date, BKS Bank shares owned by the members of the Management Board and Supervisory Board and held in custody at BKS Bank comprised 2,208 ordinary no-par shares and 7,888 no-par preference shares. This was well below one per cent of the shares in issue by the company.

Measures for the Advancement of Women

The proportion of women in BKS Bank's workforce has growing considerably in recent years, rising to 57 per cent, as has the number of women in management positions. The proportion in the Management Board is already one third. Although our organization also offers men and women equal opportunities when filling management positions, regardless of their sex, age or cultural background, the proportion of women in management positions was still well behind that of men, at about 21 per cent, at the end of 2011. BKS Bank strives to be a pioneer when it comes to appointing women to management posts, and it has taken numerous measures to promote a healthy work-life balance and to make it possible for employees to combine having a family and a career. Back in 2010, BKS Bank decided to undergo the *berufundfamilie* (JobAndFamily) audit process, and it has had the basic certificate since then. At the same time, it undertook to implement an extensive catalogue of related measures. Many of them — including setting up an extensive information platform in its intraNET, getting parents more involved in the enterprise while they are on parenthood leave and introducing a baby backpack for new parents — were already put into effect during the 2011 financial year (more details are provided from page 28). Other personnel policy measures that go well beyond the legal requirements and have been in place for some time — flexible part-time working models, flexible hours without core hours of work, extensive basic and advanced training during working hours and a crèche to take care of small children — also make it easier to combine having a family and a career. BKS Bank was awarded the Workplace Health Promotion Quality Mark for its *Durch die Bank gesund* (banking on health) scheme. This scheme helps employees pro-actively address health issues. It is devoted to a different topical issue each year. In 2011, its theme was *Durch die Bank vital* (vitality throughout the bank), which dealt with healthy eating. BKS Bank's efforts have also earned it external recognition. We won second place in Carinthia province's 2011 *Familie und Beruf* (family and job) competition for our contribution to helping people combine having a family and a career, and Austria's Minister of Health Alois Stöger recognized our *Durch die Bank gesund* (banking on health) scheme as a 'Model of Good Practice'.

Klagenfurt am Wörthersee
14 March 2012

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

Investor Relations

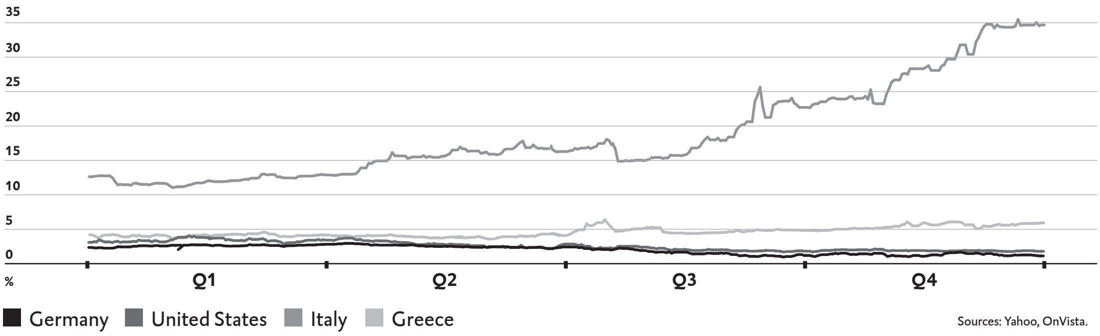
BKS Bank's Shares

Financial markets dominated by the European sovereign debt crisis

In the year under review, the stability of the world's financial markets and, above all, the European financial system, was seriously threatened by the worsening sovereign debt crisis in the eurozone. Growing doubts about the creditworthiness of Greece, Portugal and other heavily indebted European peripheral countries and the European Union's crippling political indecisiveness were major factors. This led to a reassessment of risks and a rise in government bond yields. As long ago as the beginning of April, Portugal sought the protection of the European Financial Stability Facility and was offered a €78 billion bailout package. Under enormous pressure from the financial markets, an EU special summit at the end of July agreed to give Greece a second extensive bailout worth €109 billion. This was followed by further meetings of eurozone heads of government and heads of state and massive increases in the volume of the EFSF bailout fund. However, political measures to restore stability usually only briefly helped reassure the nervous markets. Since the beginning of August, the ECB — whose first priority is price stability — and the other central banks in the eurozone have been buying increased amounts of the government bonds of the EU member states at risk of insolvency to prevent the crisis from worsening and, in particular, to stop it having a knock-on effect on the real economy. Of all the countries that have to date received financial aid from the European Community, Ireland was the only one to achieve at least a modest recovery in the year under review.

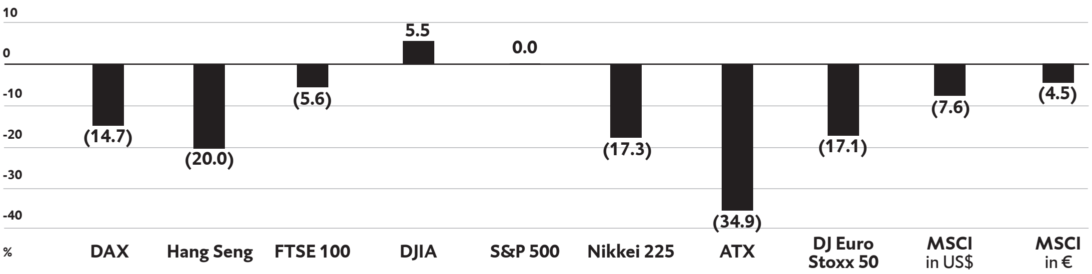
In the bond markets, the yields on long-term government bonds in both the eurozone and the United States were mainly a reflection of increased pessimism about the strength of the global economy's recovery and economic tensions in the eurozone. This increased risk aversion and led to the reallocation of assets into supposedly safer investments. Inside the eurozone, we saw a sometimes uncontrollable widening of the yield spreads of some countries' government bonds, including, above all, those of Italy and Greece.

LONG-TERM GOVERNMENT BOND YIELDS



Sources: Yahoo, OnVista.

PERFORMANCE OF THE KEY STOCK INDICES



Close of Year	Frankfurt	Hong Kong	London	New York		Tokyo	Vienna	Zurich	Worldwide	
2011	5,898.35	18,434.39	5,572.30	12,217.56	1,257.60	8,455.35	1,891.68	2,316.55	1,182.60	93.02
2010	6,914.19	23,035.45	5,899.90	11,577.51	1,257.64	10,228.92	2,904.47	2,792.82	1,280.07	97.43

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

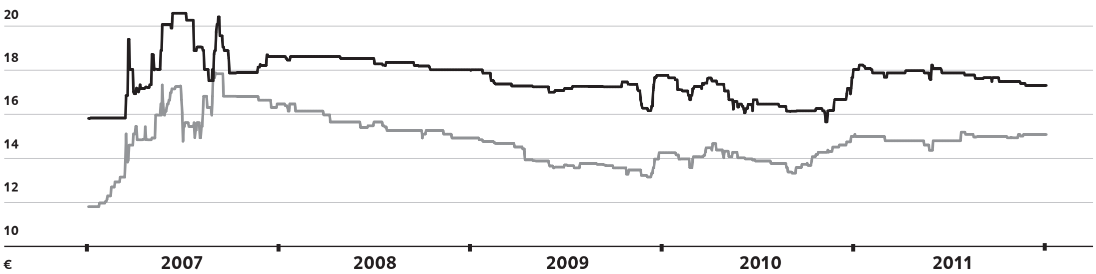
Sources: Yahoo, OnVista.

There were rapid changes of direction in the international securities markets during 2011, especially in the first seven months of the year. The tensions that built up because of the unusually large number of trouble spots that developed once the year had begun triggered a sharp slump at the beginning of August. It mainly affected European and US financial stocks, cyclical corporates and other cyclical stocks. In the third quarter alone, the DAX lost one quarter of its value, ending December at 5,898.35 points. This compared with 6,914.19 points at the beginning of the year. The Dow Jones Industrial Average dropped to 10,719.94 points from an interim high of 12,724.41 points in July and closed the year at 12,217.56 points. The broader MSCI World Equity Index in euros retreated by 4.5 per cent to 93.02 points. The principal reasons were the sovereign debt crisis in the EU and growing concern that the big industrialized countries could fall into recession following the downgrading of US debt. One of the main focuses of attention on Europe's stock exchanges was the likelihood of default by Greece, Portugal and Italy. The corresponding credit default swap rates for banks—the gauge of the cost of hedging against credit default—reacted by increasing sharply. The high proportion of banking stocks, the introduction of capital gains tax on gains from the sale of securities on 1 January 2011 and investors' flight from smaller markets only partly explain why the ATX—Vienna's key index—was particularly hard hit, retreating by 34.9 per cent to 1,891 points during the year under review.

Performance of BKS Bank's shares

BKS Bank's strategy has always been to strive for sustainable, long-term growth in enterprise value, in turn creating value added for its shareholders. This is a path that has been followed since the enterprise's IPO in 1986. It has manifested itself in a significant increase in market capitalization from the equivalent of about €92.7 million at that time to roughly €573 million at the end of 2011. BKS Bank's ordinary no-par share is traded in the *Standard Market Auction* segment on the Vienna Stock Exchange. It closed the 2011 trading year at €17.60, compared with €18.35 in 2010. The BKS Bank no-par preference share was trading at €15.50, compared with

PERFORMANCE OF BKS BANK'S SHARES



BKS Bank ordinary no-par share, €
BKS Bank no-par preference share, €

Historical data have been adjusted to allow for the six-for-one stock split on 5 June 2009.

BASIC INFORMATION ABOUT BKS BANK'S SHARES

	2011	2010	2009
Ordinary no-par shares in issue (ISIN AT0000624705)	30,960,000	30,960,000	30,960,000[1]
No-par preference shares in issue (ISIN AT0000624739)	1,800,000	1,800,000	1,800,000[1]
High: ordinary/preference share, €	18.6/15.6	18.4/15.4	18.2/15.3[1]
Low: ordinary/preference share, €	17.6/14.8	15.9/13.7	16.5/13.6[1]
Closing price: ordinary/preference share, €	17.6/15.5	18.4/15.4	18.1/14.7[1]
Market capitalization, €m	572.8	595.8	586.8
IFRS earnings per share in issue, €	1.13	1.44	1.25
Dividend per share, €	0.25[2]	0.25	0.25
P/E: ordinary/preference share (Basis: *BKS Bank AG*)	15.9/14.0	12.9/10.9	14.7/12.0
Dividend yield: ordinary no-par share, %	1.42	1.36	1.38
Dividend yield: no-par preference share, %	1.61	1.62	1.70

[1] Taking into account the six-for-one stock split on 5 June 2009 and the seven-for-six raising of share capital (one extra share for every six already held) on 23 October 2009.
[2] Proposal to the 73rd AGM on 15 May 2012.

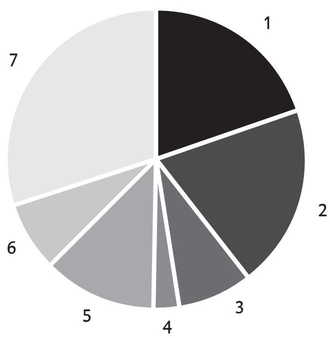
€15.40 at the end of 2010. The prices of BKS Bank's ordinary no-par share and its no-par preference share fell slightly during the year under review against the backdrop of the slump that began in July 2011. IFRS earnings per share fell from €1.44 in 2010 to €1.13 in 2011. Based on year-end prices, the ordinary no-par share had a P/E of 15.9, and the no-par preference share's P/E was 14.0.

Shareholder Structure

BKS Bank AG has subscribed share capital of €65.52 million. This share capital is represented by 30,960,000 ordinary no-par bearer shares and 1,800,000 non-voting no-par bearer preference shares. Instead of each share having a par value, it is the number of shares in issue that is fixed at any one time. In other words, one no-par share represents a €2 interest in the company's capital (i.e. share capital divided by the number of shares in issue). Further details are contained in BKS Bank's Memorandum and Articles of Association, which are published on our website at http://www.bks.at » Investor Relations » Corporate Governance.

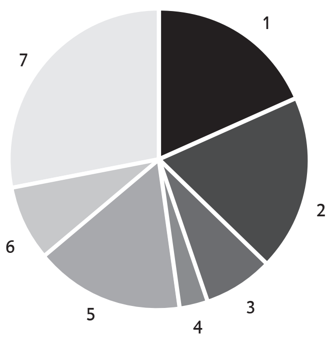
BKS Bank AG's ordinary no-par shares have been listed on the Vienna Stock Exchange since 1986, the no-par preference shares since 1991. Both share classes are traded in the *Standard Market Auction* segment. As stated in BKS Bank's explanation of its non-compliance with C Rule 2 of the Code of Corporate Governance, preference shareholders are an exception to the one-share-one-vote rule. However, when it comes to dividend distributions—which have, in the past, been the same for all share classes—the Memorandum and Articles of Association give them preferred treatment. The minimum dividend payable to preference shareholders, which is payable immediately or, if that is not possible, in a later period, is 6 per cent of their respective interest in the company's share capital. If the minimum dividend for a financial year is not paid or is not paid in full, the arrears must be paid out of net profit in later financial years. With the exception of voting rights, such preference shares give every shareholder all their rights under shares. BKS Bank's stable shareholder structure allows it to actively steer the enterprise's positive long-term development without outside interference. The *Oberbank* holds 19.54 per cent of the voting rights and *BTV* holds 19.65 per cent. Together, these two big regional banks and BKS make up the *3 Banken Group*. *Generali 3 Banken Holding AG* holds 7.88 per cent of the ordinary no-par shares. The three core shareholders—*Oberbank*, *BTV* and *Generali 3 Banken Holding AG*—have concluded a syndicate agreement; together, they own 47.07 per cent of the voting

SHAREHOLDER STRUCTURE OF BKS BANK



By voting interest

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



By equity interest

1	*Oberbank AG*	**18.52%**
2	*Bank für Tirol und Vorarlberg AG*	**18.90%**
3	*Generali 3 Banken Holding AG*	**7.44%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**2.98%**
5	Free float	**16.13%**
6	*UniCredit Bank Austria AG*	**8.02%**
7	*CABO Beteiligungs GmbH*	**28.01%**

rights. Syndication of the shares strengthens BKS Bank's independence, and the syndicate partners' interests are united within the scope of cooperation partnerships and sales alliances. The syndicate agreement consists essentially of arrangements regarding the joint exercise of voting rights at general meetings and the syndicate partners' mutual rights of first refusal. *BKS Bank AG*'s biggest single equity holder is *CABO Beteiligungsgesellschaft m.b.H.*, which is a wholly-owned subsidiary of *UniCredit Bank Austria AG* headquartered in Vienna. Including the shares held directly by *UniCredit Bank Austria AG*, the *UniCredit Group* thus holds roughly 37.10 per cent of the voting rights. *Wüstenrot Wohnungswirtschaft reg. Gen. mbH* owns another 3.11 per cent. Within the free float, employees hold a voting interest of about 0.32 per cent and an equity interest of about 0.64 per cent via *BKS Belegschaftsbeteiligungsprivatstiftung*, a trust that exists solely to distribute directly and in full investment income from stakes in BKS Bank or its Group subsidiaries. In addition, active employees and former employees have a voting interest of 0.3 per cent in BKS Bank and an equity interest of 1.25 per cent.

As also shown above, in terms of equity interests, the *UniCredit Group* has a total stake of 36.03 per cent in *BKS Bank AG* (adding together the shares of *CABO Beteiligungsgesellschaft m.b.H.* and the shares held directly by *UniCredit Bank Austria AG*). The *Oberbank* holds a stake of 18.52 per cent, *BTV* of 18.90 per cent and *Generali 3 Banken Holding AG* of 7.44 per cent. *Wüstenrot Wohnungswirtschaft reg. Gen. mbH* holds a stake of 2.98 per cent. Free float accounts for about 16.13 per cent of the shares.

Otherwise, *BKS Bank AG* is not aware of any groupings that could result in control of the enterprise by one or more shareholders. Consequently, it is the opinion of the Management Board of *BKS Bank AG* that measures to prevent abuse of control are not required. All shareholder rights can be exercised in accordance with Austrian company law, including, in particular, the *Aktiengesetz* (Austrian stock corporation act). At year-end, the held-for-trading portfolio of treasury shares consisted of 321,734 ordinary no-par shares and 298.602 no-par preference shares.

Resolutions Passed at the 72nd Annual General Meeting

Shareholders with voting rights exercise their rights at the General Meeting, where they vote and are involved in major company decisions by virtue of the law or the Memorandum and Articles of Association. In general, resolutions are decided by a simple majority of the votes cast or, if the approval of a proposal requires a majority of the share capital represented, by a simple majority of the share capital represented.

About 90.6 per cent of the voting stock was represented at the 72nd Annual General Meeting of *BKS Bank AG* on 18 May 2011, as was roughly 26.4 per cent of the free float.

Among other things, during this meeting, the shareholders adopted the recommendation to distribute a dividend of €0.25 per share from the net profit reported as at 31 December 2010. Given the total of 32,760,000 ordinary no-par shares and no-par preference shares in issue, this resulted in a total distribution of €8.19 million. The remaining profit was carried forward to a new account subject to *§ 65 Abs. 5 Aktiengesetz*. The dividend payment date was 26 May 2011. The discharge from liability of the members of the Management Board and the members of the Supervisory Board in office during the 2010 financial year was unanimous. In addition, the AGM voted to renew the appointments of Peter Gaugg and Karl Samstag to the Supervisory Board for the maximum permitted period. As recommended to the AGM by the Management Board and the Supervisory Board, the remuneration of the members of the Supervisory Board for the 2011 financial year and years thereafter was amended as already presented in the Remuneration Report from page 54. *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft* was tasked with auditing the conduct of business by the BKS Bank Group and *BKS Bank AG* for the 2012 financial year. In accordance with Rule 80 of the ÖCGK and *§ 270 Abs. 1 UGB*, that company declared its independence.

Finally, having withdrawn the existing authority to increase the share capital insofar as it had not been used, the AGM authorized the Management Board within five years and in consultation with the Supervisory Board to raise *BKS Bank AG*'s share capital by up to €13,104,000 by issuing up to 6,552,000 ordinary no-par shares. This authority to increase the share capital took effect on 6 August 2011 when it was registered in the companies register. BKS Bank has published the agenda and the results of ballots at the 72nd Annual General Meeting on 18 May 2011 in German on BKS Bank's website. Click on Investor Relations » Hauptversammlung.

Profit Appropriation Proposal

When appropriating net profit, BKS Bank strives to achieve a balance between strengthening its equity base and offering shareholders an attractive return. During the past 10 years, BKS Bank's payout ratio has ranged between 26.3 and 47.1 per cent of *BKS Bank AG*'s net profit for the year. The Management Board will be asking the 73rd Annual General Meeting on 15 May 2012 to approve the payment of another dividend of €0.25 per share for the 2011 financial year. This would result in a distribution of roughly €8.19 million. This corresponds to a return of 1.42 per cent on the ordinary no-par shares and 1.61 per cent on the no-par preference shares based on their prices at the end of 2011. The resulting payout ratio would be 34.68 per cent of profit for the year before tax.

Investor Relations Communication

In the interests of fair disclosure, BKS Bank gives its shareholders, employees, customers, the media and interested members of the general public detailed, close-to-real-time information about the enterprise's situation. The preferred Internet platform for all company information of relevance for corporate governance purposes is the website at http://www.bks.at » Investor Relations. In addition, regular publications that are reportable under the *ad hoc* criteria set out in the EU Transparency Directives are also available from *OeKB*'s Issuer Information Upload platform and via the APA-OTS *euro adhoc* service. This applies, in particular, to publications of annual and semi-annual financial reports and the interim reports on our results as at 31 March and 30 September and to announcements of new bond issuances, planned changes to material equity investment thresholds and other capital related measures that require disclosure. Information required by *§ 75a Börsegesetz* and the Disclosure Directive is provided in German on our website at www.bks.at » Investor Relations » Berichte & Veröffentlichungen. Other information and material about the enterprise such as press releases are published in German on BKS Bank's website. Click on Newsroom » BKS News.

2012 FINANCIAL CALENDAR

Date	Content
2 April 2012	Press Conference to present the Annual Financial Statements for 2011
4 April 2012	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2011 in the Internet and in the official *Wiener Zeitung* gazette
15 May 2012	73rd Annual General Meeting
18 May 2012	Ex-dividend date
23 May 2012	Dividend payment date
25 May 2012	Interim Report as at and for the 3 months ended 31 March 2012
24 August 2012	Semi-Annual Report
30 November 2012	Interim Report as at and for the 9 months ended 30 September 2012
Investor Relations Contact	Herbert Titze, Head of Investor Relations Phone: +43 463 5858 120 email: herbert.titze@bks.at

Group Management Report

Management and Shareholder Structure

The Members of the Supervisory Board and its Committees

HONORARY PRESIDENT

Heinrich Treichl

REPRESENTATIVES OF THE EQUITY HOLDERS

Hermann Bell
Chairman
Franz Gasselsberger
Vice-Chairman
Peter Gaugg
Vice-Chairman
Reinhard Iro
Waldemar Jud
Dietrich Karner
Michael Kastner
Wolf Klammerth
Josef Korak
Karl Samstag

STAFF REPRESENTATIVES

Helmuth Binder
Josef Hebein
Herta Pobaschnig
Manfred Suntinger
Hanspeter Traar

REPRESENTATIVES OF THE REGULATORY AUTHORITY

Alois Schneebauer
Ministerialrat
Johann Wittmann
Amtsdirektor

SUPERVISORY BOARD COMMITTEES

Audit Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Waldemar Jud
Michael Kastner
Josef Hebein
Herta Pobaschnig
Hanspeter Traar

Working Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Michael Kastner
Josef Hebein
Hanspeter Traar

Credit Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Josef Hebein
Hanspeter Traar

Nominations Committee
Hermann Bell, Chairman
Peter Gaugg

Remuneration Committee
Hermann Bell, Chairman
Peter Gaugg
Dietrich Karner

As in March 2012.
All board members currently in office can be contacted at *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee, Austria. Further details about each individual and their functions are provided in the section on *Corporate Governance* from page 50.

Management Structure

MANAGEMENT BOARD

Heimo Penker
Herta Stockbauer
Dieter Krassnitzer

CENTRAL ADMINISTRATIVE DEPARTMENTS

Office of the Management Board
Herbert Titze
Jörg Fellner (Compliance)

Controlling and Accounts
Hubert Cuder

Personnel Management
Werner Laure

Internal Audit
Robert Raunig

HEAD OFFICE

Corporate and Business Banking
Viktor König

Retail Banking
Karl Mertel

International and Treasury Division
Josef Morak

Credit Management
Michael Oberwalder

Loan Back Office
Georg Köferle

Operations
Johannes Zebedin

REGIONAL HEAD OFFICES

Klagenfurt
Wolfgang Mandl
Diethmar Wölle

Villach
Georg Ahammer
Sabine Lax

Spittal/Drau
Gottfried Kindler

Styria
Werner Boruta
Nikolaus Juhász

Vienna
Gunnar Haberl

Burgenland
Wolfgang Bauer
Joachim Reitmeier

ABROAD

Branches
4 in Slovenia
1 in Slovakia

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

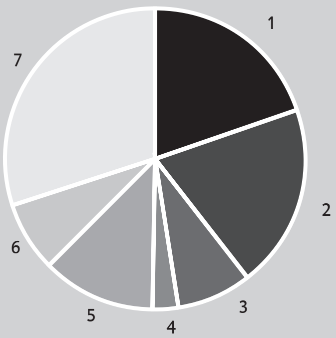
Representative Offices
Slovenia (Ljubljana)
Croatia (Zagreb)
Italy (Padova)
Hungary (Sopron)

As in March 2012.

Shareholder structure

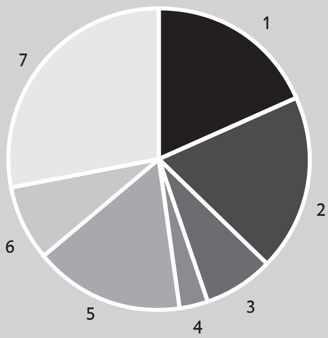
BKS Bank has share capital of €65,520,000 represented by 30,960,000 ordinary no-par bearer shares and by 1,800,000 non-voting no-par bearer preference shares carrying a dividend payable immediately or, if that is not possible, in a later period, of 6 per cent of the interest in the share capital that they represent. *BKS Bank AG*'s ordinary no-par shares have been listed on the Vienna Stock Exchange since 1986, the no-par preference shares since 1991. Both share classes are traded in the Vienna Stock Exchange's *Standard Market Auction* segment.

SHAREHOLDER STRUCTURE OF BKS BANK



By voting interest

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



By equity interest

1	*Oberbank AG*	**18.52%**
2	*Bank für Tirol und Vorarlberg AG*	**18.90%**
3	*Generali 3 Banken Holding AG*	**7.44%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**2.98%**
5	Free float	**16.13%**
6	*UniCredit Bank Austria AG*	**8.02%**
7	*CABO Beteiligungs GmbH*	**28.01%**

The Economic Environment

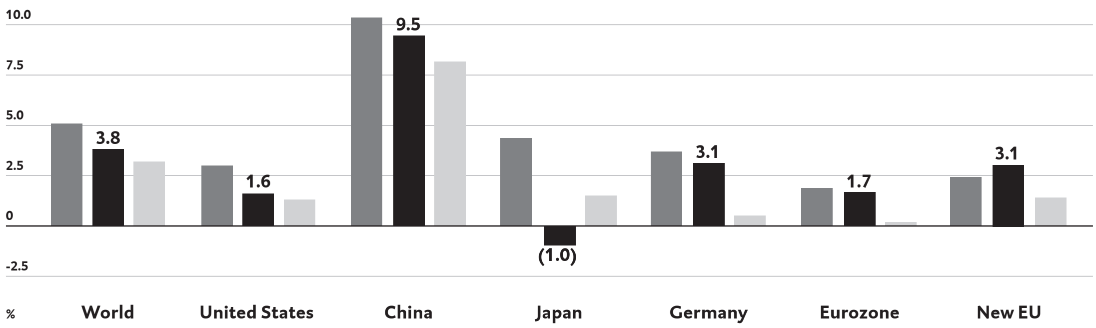
The economy cools off perceptibly

The recovery of the world economy that began in the middle of 2010 continued into the first half of 2011 on the back of robust growth in world trade and industrial output. The main stimulus for growth continued to come from the emerging markets. Their dynamic catching-up process has accelerated the reallocation of resources from the industrialized countries to the emerging growth markets of Asia, Latin America and Eastern Central Europe. High capital inflows and rising raw material prices have reflected this shift of weight.

The economic downturn that began in mid-2011 reduced the upward pressure on prices in the raw material markets. As a result, the price of Brent crude dropped from an April peak of US$126.18 a barrel back to roughly US$101 a barrel at the beginning of October. However, growing geopolitical risks in the Middle East had pushed the price of soon-to-mature Brent contracts up to US$108.95 by year-end. Having already topped US$1,800 per fine ounce as a result of the obstinate debt crises in the eurozone and the United States, the gold price stood at US$1,553.2 per fine ounce at year-end.

Alongside the deepening of the European sovereign debt crisis, the long-drawn-out and controversial debate about raising the US debt limit and *Standard & Poor's* decision to downgrade the US credit rating from AAA to AA+ made key contributions to the fall in the global economic barometer. Growth also slowed in the newly industrialized countries. Above all, China's economic growth lost momentum, although it was still very strong at 9.5 per cent. The Japanese economy recovered astonishingly quickly after the disastrous

THE INTERNATIONAL ECONOMY



Real GDP growth versus previous year, %
2010 2011 2012 (forecast)

Source: WIFO.

CRUDE OIL PRICES

Brent Crude Oil, US$

Source: Bloomberg.

GOLD PRICES

Gold, US$

Source: Bloomberg.

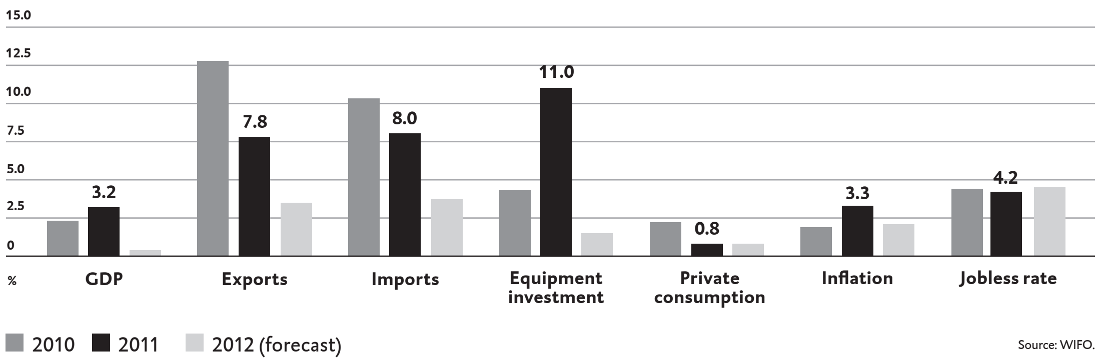
earthquake and nuclear catastrophe in March 2011 as robust domestic demand and higher-than-average energy imports (oil and liquid gas) coincided with export losses caused by the strong yen and disruptions of supply chains in the vehicle construction, semiconductor and electronic components sectors, some of which were substantial. As a result, Japan's real GDP fell by just 1 per cent over 2011 as a whole, having grown by 4.4 per cent in 2010.

Notwithstanding the fears of recession that had now begun to develop, real GDP in the United States grew by 1.6 per cent. Above all, economic momentum was temporarily accelerated by faster growth in consumer spending, an upturn in equipment and software investment and a big increase in exports. Moreover, manufacturing activity grew in every key region of the United States. On the other hand, the residential property market stayed weak, and the US labour market was still highly unstable, with an annualized jobless rate of over 9 per cent. The Federal Reserve's government bond buying programme (Quantitative Easing 2) ended as planned at the end of June. Since there were still dark clouds on the United States' economic horizon and the jobless rate was high (most recently 8.5 per cent), the Federal Reserve Open Market Committee decided to leave the Fed funds target rate unchanged in a corridor of between zero and 0.25 per cent until at least the end of 2014. Moreover, the Federal Reserve will be buying up to US$400 billion of suitable bonds by the end of June 2012 and selling the same amount of short-term bonds so as to keep long-term interest rates at their present exceptionally low level.

The eurozone economies continued to expand at different speeds. While some grew strongly, a number of countries were in crisis and stagnating. Above all, Germany and the regions of the EU that have close ties with the German economy continued to profit into the third quarter from the global economic recovery and the high international competitiveness of, primarily, medium-sized enterprises. Key leading indicators like, in particular, incoming orders and output forecasts weakened towards year-end. In the wake of the unsolved European sovereign debt crisis, consumer confidence and sentiment in the corporate sector deteriorated perceptibly, mainly because of the weaker export outlook. While Germany, Austria's most important trading partner, achieved a respectable real economic growth rate of 3.1 per cent in 2011 as a whole, real economic growth in the eurozone overall slowed to 1.7 per cent, compared with 1.9 per cent in 2010. Most notably, the economies of the European peripheral countries were increasingly hard hit by the effects of government belt-tightening and by high price and cost disadvantages that manifested themselves in big current account deficits. Greece and Portugal soon got into economic difficulties, and Spain and Italy — Italy having recently been in the headlines — were caught in the economic undertow. Against the backdrop of the economic slump that began to evolve in the EU and the eurozone towards year-end, the jobless rate according to the *Eurostat* eurozone unemployment figures was about 10 per cent.

Following strong growth in the first half of 2011, Austria's economic recovery also faltered as global economic growth slowed and domestic demand weakened towards mid-year. Economic growth was significantly affected by an increase in uncertainty and the disillusionment of the economic players in the light of massive debt problems in a number of eurozone countries that were going to prove hard to solve. However, the

ECONOMIC INDICATORS IN AUSTRIA



Source: WIFO.

export slump that had been feared in the fourth quarter of quarter 2011 did not happen. Compared with the previous year's relatively low numbers, the export statistics for 2011 as a whole showed respectable growth of 7.8 per cent. In addition, a substantial increase in the output of material goods proved possible. Postponed equipment investment now took place, resulting in a real growth rate of 11.0 per cent. On the other hand, the construction industry's recovery was brief. Private consumption made another solid contribution to growth in 2011, increasing by 0.8 per cent in real terms. The saving rate of private households, which has been falling for some time, dropped by 80 basis points to 7.5 per cent. The jobless rate stabilized at 6.8 per cent of the working population applying Austrian statistical methods or 4.2 per cent of the working population using the *Eurostat* definition. While Austria's real GDP still grew by 3.2 per cent over 2011 as a whole, the latest WIFO forecasts are predicting that real growth will slow to just 0.4 per cent this 2012 financial year.

Exchange rates remained highly volatile during the 2011 reporting year. As key interest rates rose and the European stabilization mechanism for the highly indebted peripheral countries in the eurozone was retained, the euro held its own well on balance against the key reference currencies until the beginning of May. The US$/€ exchange rate began the year at US$1.3348/€, but for a long time, its movements mirrored concern about the monetary union's long-term future. However, the US economy's gloomy outlook and the Federal Reserve's retention of its expansionary monetary policy became the focus of market players' attention again at the end of the second quarter and in the third. The euro was still worth US$1.4453 at the end of June. However, the change in estimates of the viability of the public finances of a number of eurozone countries had weakened it to US$1.2939 by the end of the year under review. Having initially gained some ground, the euro lost nearly 8 per cent versus the yen to end the year at €100.20/¥100. After starting the year at SFr1.2465, the euro already hit parity with the franc at the beginning of August. However, it rose back to SFr1.2156 by year-end once the SNB had set a minimum target rate of SFr1.2/€ and the target range for the three-month Libor had been reduced to zero to 0.25 per cent.

A challenging year for the banking sector

The persistent sovereign debt crisis caused more than distortions in the financial markets and a renewed loss of confidence among banks. It also greatly increased many banks' impairment allowances on their portfolios of government bonds. Although their exposures to the debts of the highly-indebted European countries were relatively small, Austrian banks too were unable to escape this phenomenon and its direct effects on profits. However, while a number of big Austrian banks had to recognize persistently high impairment charges and reported weak profits, the business performance of Austria's regional banks was solid and their credit risk costs fell significantly. *OeNB* analyses show that the stubborn financial markets crisis has not yet had a knock-on effect on the ability of Austrian companies and households to borrow money. According to the latest *OeNB* statistics, Austrian banks' lending to Austrian and foreign non-banks grew by about 3.4 per cent to €446.5 billion in the 12 months up to the end of December 2011, although nonetheless, the rate of growth was still far lower than before the outbreak of the financial crisis. Given the sector's high self-financing

KEY EXCHANGE RATES

Source: OeNB.

potential, investment demand in the corporate sector was rather weak. The main focus was on material goods and construction. As in prior periods, most new lending to private individuals was to finance homes. The proportion of foreign currency loans in relation to the total personal loan portfolio was still high, which proved to be a serious risk. Although we have been reducing the foreign currency loan portfolio on a currency-adjusted basis for more than two years, the adverse development of exchange rates in recent years means that the proportion of these loans in relation to the total loan portfolio has fallen little and was still over one sixth of direct lending to domestic non-banks at the end of 2011. On the equity and liabilities side of the Balance Sheet, the balance of all deposits from Austrian and foreign non-banks (provisional figure) had increased by 4.7 per cent to approximately €348 billion by the end of December. The outstanding balance of BKS Bank's own securities in issue in Austria came to €153.0 billion.

At the end of September 2011, Austria's banks had a consolidated Tier 1 ratio of 10.1 per cent. Nonetheless, both *OeNB* and the European Banking Authority (EBA) believe that they need higher capital, particularly as international comparisons too still suggest that Austrian banks are undercapitalized. Stricter capital adequacy and liquidity requirements are in the pipeline to prevent excessive credit growth but without triggering a credit squeeze when the economy is in trouble.

Corporate Strategy

The cornerstones of BKS Bank's strategy can be summed up in five points:
- Growth takes place gradually and without outside help.
- We only transact business where we ourselves have sufficient in-house expertise.
- Consistent risk management is carried out across every segment.
- BKS Bank is a solid and predictable partner to its customers in the market place in every financial situation.
- We put our trust in highly trained employees who work in the region that they come from.

This strategy has proved its worth since the bank was founded and we will, therefore, continue to follow it with consistency.

Once a year, Management meets for its so-called 'planning conclave' to set BKS Bank's course for the future. During the conclave, it discusses current events in the market, future opportunities and risks and BKS Bank's possible development scenarios. At the same time, Management defines the key goals for the years to come, for instance when developing new markets, addressing new target groups or deciding which new products and services to introduce. In each case, the focus is on medium-term and long-term developments. This is because BKS Bank does not target short-term profit maximization. Instead, it acts in such a way as to be able to expect the greatest success in the long term. Consequently, BKS Bank does not engage in or offer highly speculative transactions or investments. So as not to give management personnel any incentive to stray from this path, the performance-based remuneration paid to members of the Management Board and management personnel is, within reason, tied to our success in attaining long-term goals.

The targets that have been set are regularly reviewed to check that they are attainable and still valid and that they make sense. If necessary, they are amended to suit new market conditions. Because of the persistent financial and economic crisis, we therefore slightly slowed down our geographical expansion and turned our attention more to consolidation during 2011. We amalgamated a number of branches that were very close to one another. In addition, we strengthened our equity base with the future in mind. As a result, BKS Bank now has a Tier 1 ratio of 12.5 per cent, bringing us into line with the new standards. At the same time, the product line underwent a monitoring process. Thanks to this process, our account models for corporate and business banking customers were made much more transparent and attractive, our rating system had a facelift, and we completely revamped our securities operations and added new products and services to the range. As a consequence, BKS Bank can now offer its clients covered bonds. In addition, we set up *3 Banken Wohnbaubank* with our sister banks. The last few changes are helping us attain another important strategic goal, namely further reducing our dependence on the interbank market as a source of funds.

One of our key long-term objectives is to have as low a cost:income ratio (CIR) as possible. We reached our initial target of less than 50 per cent some year ago. One contributing factor was our membership of the *3 Banken Group* together with the *Oberbank* and the *Bank für Tirol und Vorarlberg* (*BTV*). Shared subsidiaries like *3-Banken-EDV Gesellschaft* and *3 Banken-Generali Investment-GmbH* keep structures inexpensive and enable us to offer our customers a full range of products and services. However, the most important feature of this partnership is the mutual safeguarding of the partners' independence, which is ensured by a shareholder structure that has been proving its worth for decades. It rules out hostile takeovers of our bank or one of our sister banks so that all three can continue to be managed from within their regional markets, in turn securing highly qualified jobs in the local area.

We have a compliance organization that is tailored to the scale, structure and complexity of our business activities. It ensures that we adhere to all the applicable directives, laws and internal guidelines. We restructured our compliance organization and assigned more staff to it in 2011 to make sure it is ready to meet growing demands.

Markets

BKS Bank's original territory, Carinthia, is still its most important market in terms of business volumes and profit. However, for nearly three decades, we have also been expanding into other provinces and into other countries that neighbour Austria. This expansion too has made an important contribution to BKS Bank's lasting success.

BKS BANK'S CORE MARKETS

Vienna

• Regional head offices, headquarters of leasing companies, representative offices

Our expansion began gradually in 1983 when we opened a branch in Graz. Our first branch in Vienna followed in 1990. Then, in 1998, we began our expansion into other countries neighbouring Austria when we set up a representative office in Zagreb (Croatia). Soon after, we acquired the company now called *BKS-leasing d.o.o.* in Ljubljana (Slovenia). We entered the Slovakian market much later, in 2007, when we acquired the company now called *BKS-Leasing a.s.* Our expansion within Austria continued in parallel.

Our markets now include the southeast axis linking Carinthia, Styria, Lower Austria, Burgenland and Vienna in Austria, and abroad, they extend through Slovakia, Hungary and Slovenia to Croatia and Italy. In Slovenia, Croatia and Slovakia, BKS Bank offers its customers both banking and leasing products and services. In Italy and Hungary, we serve our customers through representatives offices. Since Italians and Hungarians have access to certain BKS Bank products and services across the border, they too are among our customers. However, given the state of those countries' economies, we currently have no plans to extend our operations into those two markets by setting up bank branches or leasing companies of our own there.

In every one of our regions, the branch is still the main interface to our customers. During the year under review, we opened new branches in Bratislava and in Vienna (*Wiedner Hauptstrasse*) and rebuilt and modernized a number of branches inside Austria. We are continuing to invest during 2012. For instance, we are building a new centre of excellence on the eastern edge of Klagenfurt that will be a new home for our *Fischlstrasse* and *Völkermarkter Strasse* branches. Another branch in Slovenia, in Domžale, will open in 2012. The current addresses and contact details for all our branches are available at www.bks.at.

BKS BANK'S ACTIVITIES ABROAD

Country	Banking	Leasing	Representative Offices
Slovenia	Branches in Ljubljana (2), Maribor, Celje	*BKS-leasing d.o.o.*, Ljubljana	Ljubljana
Croatia	*BKS Bank d.d.*, Rijeka, Zagreb Branch	*BKS-leasing Croatia d.o.o.*, Zagreb	Zagreb
Slovakia	Branch in Bratislava	*BKS-Leasing a.s.*, Bratislava	
Italy	Cross-border activities		Padova
Hungary	Cross-border activities		Sopron

Progress in our Regions

Carinthia

BKS Bank was set up in Carinthia in 1922. For a long time, this province was our bank's only market. We did not enter the Styrian market until 1983. Our long history is also mirrored by BKS Bank's profit numbers. Although other markets like Styria and Slovenia make big contributions to our profits and balance sheet, the largest proportion still comes from Carinthia, and BKS Bank is also deeply rooted among its customers in this region. Our staff sometimes service whole families in the retail banking segment, and our work together often goes back several generations of a company in the corporate and business banking segment.

Averaged over the year, BKS Bank employed 558 people in Carinthia (full time equivalents). Twenty-four branches were serving our customers at year-end. Two branches that were just a few paces apart in Villach—*Villach-Mitte* and *Villach-Hauptplatz*—were amalgamated to create a centre of excellence on *Hauptplatz*. At the same time, the 'International' profit centre, which mainly services foreign customers, was hived off as a separate unit. The branch in Völkermarkt was closed after we failed—despite looking for several years—to find new and attractive premises in that district capital and the layout of the old premises no longer met the needs of modern banking.

Economically, Carinthia, which is Austria's southernmost province, had a mixed year in 2011. The jobless rate was up on the previous year to 8.9 per cent of the working population. Averaged over the year, Carinthia was therefore significantly worse off than Austria as a whole, for which the *Arbeitsmarktservice* (Austria's Public Employment Service) has calculated a jobless figure of 6.8 per cent. However, a lot of companies had a very good year. Orders in many industries were back to pre-crisis levels, and because their cost structures were now leaner, their profits were better than before. Near Villach in particular, leading companies like *Infineon* undertook major investments, and the ongoing construction of the new *Erlebnistherme* spa had a positive impact on the local area. Nonetheless, the construction industry and ancillary building trades were still particularly hard hit by the effects of the crisis. Generally, companies were very cautious in their calculations. All their balance sheets showed an increase in cash holdings.

Our customers' choices of products and services also mirrored greater caution. Yields became less important, tangible assets more. Property and gold were much in demand in Carinthia during the year under review.

The demand for home and consumer loans among retail banking customers remained strong, and there was also brisk demand for BKS Bank's own securities and endowment insurance products. The downward pressure on prices increased substantially throughout the retail product and services line. On the one hand, customers were watching the market much more carefully. On the other, our competitors sometimes used highly aggressive methods in their efforts to win or at least retain market shares. Despite the increase in pressure, we will still be striving to strengthen our market position and acquire new corporate and business banking and retail banking customers in the Carinthian market during 2012.

Styria

BKS Bank's first branch in Styria was opened in Graz in 1983, and we have been successfully extending our markets there since. Eighty-two people are now employed by us in Styria — the 'Green March' — and BKS Bank has 12 branches in the province. Six of them are in Graz.

The Styrian economy and, above all, Styrian industry benefited from the region's generally good economic development and the German 'locomotive' during 2011. The German automotive industry was a strong driving force in combination with the Styrian 'Auto Cluster' with *Magna* at its centre. We had already felt an increase in the propensity to invest back in 2010, and BKS Bank was able to make good use of it in its lending operations. Because of our expertise in investment and export subsidies, we were involved in a host of attractive investment projects and acquired a large number of new corporate and business banking customers. As a result, there was also a bigger-than-average increase in the loan portfolio and the volume of payments traffic handled by us. Our Regional Head Office for Styria held a number of specialized seminars to underpin this growth. Investing in our branches paid off in the retail banking segment. Our newest branches in Weiz and Deutschlandsberg got a good foothold in the market. Overall, BKS Bank's results in Styria in 2011 were the best in that regional head office's history.

Vienna, Burgenland and Lower Austria

Although the banking market in eastern Austria is particularly hotly contested, BKS Bank has been able to successfully develop the southeast axis linking Carinthia and Vienna in recent years. We entered the Viennese market in 1990 when we opened a branch on *Am Lugeck*, and we have been expanding strongly since then. We now have a total of 83 employees and 12 branches in our Vienna region (which includes the branch in Perchtoldsdorf) and our Burgenland region (which is also responsible for our branch in Wiener Neustadt), namely 31 employees in our Vienna region and 52 in our Burgenland region. We opened a new branch on *Wiedner Hauptstrasse* in the capital during the year under review, as a result of which BKS Bank already has four branches in Vienna.

We were able to acquire new corporate and business banking customers in Vienna. However, the effects of the financial crisis made themselves felt in the corporate and business banking segment, where risks increased and the demand for credit waned. We also achieved a significant increase in the customer base in the retail banking segment. This was, not least, thanks to the additional branch on *Wiedner Hauptstrasse* mentioned above. Our Vienna region delivered substantial rates of growth, especially in so-called *primary deposits*, making a valuable contribution to securing our liquidity. Moreover, the number of home loan disbursements was likewise very satisfactory.

Our Regional Head Office for Burgenland also reported an increase in numbers of both corporate and business banking and retail banking customers. At the moment, we would describe sentiment in the Burgenland economy as rather negative, even if the figures published by the Burgenland Economic Chamber in June 2011 suggest otherwise. The province achieved two all-time highs in 2011, namely 15,011 companies (compared with 7,969 in 1995) and 92,341 jobholders (compared with 66,341 in 1989), and its exports came to a record €1.7 billion. However, the economy in Burgenland was hampered by a shortage of skilled workers, rising raw material prices and a drain of purchasing power, not to mention conditions in general. That notwithstanding, Burgenland has achieved the biggest structural transformation of any Austrian province. Because of the prevailing conditions, companies remained cautious and reserved when it came to investing. In contrast, borrowing by public institutions grew. Retail banking customers were increasingly interested in salary accounts. Building society contracts were particular popular, which suggests that security consciousness had also increased in the retail segment. At the same time, people continued to invest in home construction and consumer goods.

Slovenia

Austria's neighbour Slovenia was BKS Bank's first foreign market. We opened a representative office in Ljubljana in 1998 as well as purchasing a leasing company now called *BKS-leasing d.o.o.* We have been expanding steadily since then. BKS Bank now has four banking outlets, a leasing company and a representative office in Slovenia. The Republic of Slovenia felt the economic crisis more in 2011 than in prior years. Its economy grew by 1.1 per cent, which was below the Austrian growth rate of 3.2 per cent and the eurozone average of 1.7 per cent.

Nonetheless, BKS Bank's profit in Slovenia in the year under review was good and we were very well received in the marketplace. *Finance Magazine* crowned us the bank with the best value for money in Slovenia. Credit demand was very brisk, especially in the home construction segment. Our four branches had a loan portfolio of €525.2 million at the end of 2011, as against €428.7 million at the end of the previous year. Slovenia still occupies third place in BKS Bank's internal market rankings behind Carinthia and Styria.

Following good growth in the year under review, we intend to continue to step up retail lending in 2012 and increase the diversity of our exposures in the corporate and business banking segment. Deposits developed particularly satisfactorily, increasing deposit balances by 293.9 per cent. We are aiming for further strong growth in this area during 2012 so as to remedy the over-predominance of lending in our business structures. BKS Bank has only been operating as a fully fledged bank in Slovenia since 2010. The newest addition to the product line was securities. However, like Austrian customers, our Slovenian customers were still very cautious while investing, so the contribution to fee and commission earnings made by securities operations was limited. Even so, the customer response to our direct connection to the Ljubljana Stock Exchange — BKS Bank is one of only two Austrian banks with this facility — was very positive.

BKS Bank reorganized several aspects of its Slovenian operations last year. For instance, the 'firewalling' off of front office activities from risk management functions was completed in accordance with Group guidelines during 2011, and the management of credit risks arising from leasing operations was made an integral part of our banking organization.

Because of the economic crisis, the *BKS-leasing d.o.o.* leasing company had to struggle with a drop in new business volumes. As a result, its lease portfolio shrank from €66.7 million at the end of 2010 to €64.3 million at the end of the period under review. Earnings were satisfactory. Its profit from ordinary activities came to €0.7 million.

Averaged over the year, we employed 70 people in Slovenia, compared with 56 in 2010. Nine were working for our leasing subsidiary (2010: 8). To allow for the growing number of employees, we rented another building in addition to our main premises in Ljubljana-Bežigrad. We plan to continue to grow in 2012, increasing investment volumes and deposit balances as well as the loan portfolio. We intend to open a new branch in Domžale.

Croatia

The Croatian economy grew slowly again for the first time in 2011. However, the outlook for 2012 is still poor, although EU accession could open interesting prospects. The majority of the population voted in favour of it at the beginning of 2012, and it will take place in July 2013.

BKS Bank has been active in Croatia since setting up a representative office there in 1998. At that time, we engaged exclusively in cross-border activities, offering our customers know-how about the Croatian market. *BKS-leasing Croatia d.o.o.* was set up in 2002. Our entry into the banking market followed in 2007 when we acquired *Kvarner Banka d.d.*, now renamed as *BKS Bank d.d.* Sixty-six people were working for BKS Bank in Croatia during the year under review (2010: 62), 11 of whom were working for our leasing company (2010: 10). At the moment, *BKS Bank d.d.* has one branch in Rijeka, where it is also headquartered, and one in Zagreb.

The poor economic environment adversely affected BKS Bank's activities in Croatia, especially in the leasing segment. We had a lease portfolio of €46.6 million at the end of 2011, which was less than the total of €50.5 million recorded at the end of 2010. Banking operations continued to grow steadily. The loan portfolio grew by 38.5 per cent to €99.7 million, and at the same time, the impairment charge on loans and advances was satisfyingly small, thanks above all to our local management's good knowledge of the market. Deposit balances also grew, increasing to €73.8 million. As of the 2011 balance sheet date, our assets in Croatia came to €142.6 million, or €40.4 million more than at the end of the previous year.

Lending is still *BKS Bank d.d.*'s most important business segment. Among other things, this is because *BKS Bank d.d.* has only been able to offer customers in Croatia a full range of banking products and services (without securities services) since 2010. The main emphasis used to be on financing small and medium-sized enterprises, whereas the focus in 2012 is on retail customer operations. We want to continue to increase both the number of salary accounts with us and deposit balances. Next year, we will also be looking at the possibility of launching securities operations.

Slovakia

2011 was a special year for BKS Bank in Slovakia. The opening of our first 'EU branch' in Bratislava successfully took us into the Slovakian banking market. Although we had already been working the Slovakian market since 2007 through our leasing company *BKS-Leasing a.s.* (formerly *KOFIS Leasing*), we had not yet been offering customers any banking products or services. In line with a strategy that has proven its worth in our other foreign markets, the range of products and services available at our bank branch is gradually being enlarged.

Corporate and business banking operations were launched on 1 March 2011. In addition to loans and deposits, account and payment services are on offer online. Products and services for retail banking customers are under development and are likely to be on offer from the third quarter of 2012.

Both the bank branch and *BKS-Leasing a.s.* are located in the Eurovea Centre, which is a newly built state-of-the-art business complex in the heart of Slovakia's capital. Our premises on the 5th level, which have a usable area of about 16,700 square feet and a wonderful view of the Danube and the castle, have been designed to ensure that we have enough space for the first phase of our growth. BKS Bank currently employs 11 people at its bank branch in Slovakia and another 21 at *BKS-Leasing a.s.* (2010: 25).

BKS-Leasing a.s. had assets of €43.1 million at the end of 2011 (year-end 2010: €45.8 million). The reduction was a reflection of the economic crisis, which kept the flow of new business very weak. In addition to its head office in Bratislava, this Group leasing subsidiary also has branches in Žilina, Košice and Banská Bystrica.

Italy and Hungary

BKS Bank was only servicing Italian and Hungarian customers on a cross-border basis in 2011. In view of the economic uncertainty, BKS Bank is not granting Hungarian customers any new loans at the moment. A representative office in Padova and one in Sopron offered support to customers entering those two markets. We do not plan to set up bank branches or leasing companies in either country.

Customers, Products and Services

Since the 1960s, BKS Bank has been servicing both corporate and business banking and retail banking customers as a so-called *universal bank*, having been set up as a pure corporate and business bank in 1922. Given its history, BKS Bank has always been an important partner to Carinthia's industrial enterprises. Now, the know-how it has gained in this way is also benefiting customers in other sectors, and businesses in our newer markets also appreciate our offerings.

BKS Bank was servicing approximately 12,700 corporate and business banking customers and 125,000 retail banking customers during the 2011 financial year. They were offered a full range of banking products and services from accounts to savings and investment products to loans. BKS Bank's core areas of expertise in the corporate and business banking segment include investment finance, export finance and subsidy advice. In the retail banking segment, they are investment and home finance. Insurance and building society products and services are provided by BKS Bank's strategic allies, namely building society *Wüstenrot AG* and insurer *Generali Versicherung AG*. Customers can purchase leasing products and services from the Group's own leasing companies.

Retail banking is an important source of funds

Since the 2010 financial year, small businesses and self-employed customers have also been included in BKS Bank's retail banking segment alongside jobholders. Our competitors too have given high priority to these target groups, the new situation in the interbank market having made so-called 'primary' deposit balances more and more important as a source of funds for banks. As BKS Bank's business policy has always been solid, we have a good reputation in the market and, as a result, enjoys investors' trust. Investors are undoubtedly asking themselves whether higher interest rates or the security of their investments are more important. This means that BKS Bank has had to make concessions to compete in the deposits market, where terms based competition still predominates, but it has proved possible to keep our offerings within a prudent framework. Our retail customer operations currently account for roughly 85 per cent of savings deposit balances and over a quarter of sight and time deposit balances. Demand for BKS Bank's own securities was also strong in 2011.

Because of investors' shattered confidence in the capital markets, securities operations are still very sluggish. Our goal is to revive them. We therefore began repositioning our securities operations back in 2010, and this process was completed in the financial year under review. New private banking units were set up at our Klagenfurt, Vienna, Styria and Burgenland regional head offices and at Head Office in Klagenfurt to service high net worth private clients. In addition, the product line was expanded. Previously, BKS Bank did not recommend any specific securities, but now, specially trained advisors can recommend shares from a limited range. BKS Bank's recommendations are based on documents prepared by our exclusive primary research partners. In addition, personal financial advisory services have been added to the product line.

The demand for home construction loans also remained brisk. At the moment, we are only granting euro loans. BKS Bank's *WohnCoach* (home coach) service offers customers advice that goes well beyond a mere credit interview, and BKS Bank is a partner of the *Bauen und Sanieren* (building and renovating) network in Carinthia, whose services were equally well received.

Transparent new account models for corporate and business banking customers

The economic crisis also left its mark on the corporate and business banking segment. On the one hand, some industries are still struggling with lower order levels and revenues. On the other, small and medium-sized enterprises, which have for some time been BKS Bank's principal target group in this segment, are also of growing interest to big banks, which is in turn making competition tougher. BKS Bank is the primary banking provider of many important companies—and often has been for several generations of owners— and this is a status that we intend to retain.

For this reason, we regularly review our line of products and services in the corporate and business banking segment. In 2011, the focus was on revamping our account offerings, which led to substantial improvements for our customers. Companies can now choose from three types of account, depending on frequency of use. We have got rid of the old jungle of fees and charges, so all our services and prices have become completely transparent. Anybody can now use the calculator that has been specially created on BKS Bank's website to work out which model offers them the best value and what costs they can expect over the year. Corporate loans are an important part of our operations. More than three quarters of BKS Bank loans are used for investment. Credit squeezes have never happened at BKS Bank. We believe that we will continue to be able to provide our long-standing customers with the money they need despite stricter capital adequacy requirements. Liquidity management and ways of securing accounts receivable have become a more important part of our offerings. This is an area where the customer advisors at our regional head offices receive support from our specialists at Head Office.

Communication

BKS Bank uses the instruments of classical advertising and public relations work in its internal and external communication activities. As our market territories within Austria only include the provinces of Carinthia, Styria, Vienna, Lower Austria and Burgenland, we do so without nationwide television and radio campaigns so as to minimize the losses caused by non-selective advertising.

Our advertising therefore continued to depend on adverts in printed media, and we also used indoor displays and the windows of branches for poster campaigns during 2011. Direct communication with our customers at various events and functions is a high priority. The highlights in the year under review were the opening of our first branch in Slovakia, in Bratislava, Markus Hengstschläger's lectures about the power of genes to several hundred customers in Velden, Graz and Baden, a visit to the musical *Sister Act* at the Ronacher theatre in Vienna and the Hungary Forum at the Graz Fair, where our Regional Head Office for Styria was again one of the organizers. As ever, our public relations activities kept the press informed in an open and transparent manner and we responded to numerous press enquiries. BKS Bank's websites remained our most important online instrument. They are published in all the national languages of our main markets and in English. We are carrying out an extensive relaunch in 2012, and the preparations for this were already in their final stages in the year under review. We have discussed the use of social media and are currently looking at possible applications. Many customers like to use our newsletters as a source of information. New securities newsletters were added to the existing range.

As for internal communication, staff are fed daily information via BKS Bank's IntraNET, which can be accessed from any workstation. Alongside campaigns, product information and news about the enterprise, key company numbers and offers for staff are also published on the IntraNET on a regular basis. We created a new instrument — a so-called 'pop-up' that appears automatically every time a computer is switched on — to tell people about special achievements by staff members, branches and departments. Good news published there is particularly appreciated.

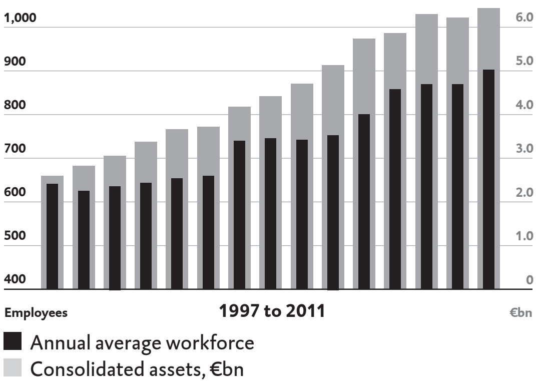
To aid personal communication, *jours fixes* take place regularly at the department, branch and unit level and the Management Board holds information events twice a year. During these events, it tells staff at each regional head office about the enterprise's development and strategies, the progress of projects and other important news. This year, staff will also be invited to go on a company outing to Graz during which they will be able to choose between a number of sightseeing tours followed by dinner together. The staff newspaper — a quality publication that focuses on employees and ongoing projects — is equally popular.

Employees

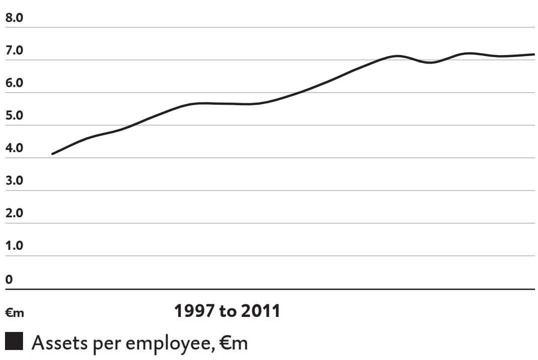
We can't say it often enough: our staff are key to BKS Bank's success. Well trained and motivated employees are absolutely essential to a service provider. BKS Bank is proud to have employees who are, without exception, highly loyal, committed and hard working. The average period of service with us is 15.9 years, and 162 employees have already been with BKS Bank for more than 30 years. As over 2,000 job applications in 2011 demonstrated, this esteem is mutual.

Over the past few years, our staff have also shown us how ready they are to accept change. A number of projects that have now been completed — like the restructuring of our corporate and business loan management processes and the addition of self-employed customers and small businesses to the retail banking segment — created new challenges. Thanks to an extensive training programme and an increase in the mobility of our employees, some of whom are now working at Head Office instead of regional head offices, we coped with the changes well. The new structures are now part of our daily routine, and we also transferred some of them to our foreign markets during the year under review.

SIZE OF WORKFORCE AND BALANCE SHEET ASSETS



BALANCE SHEET ASSETS PER EMPLOYEE



STAFF NUMBERS [1]

	2011	2010
Number of employees		
Total	1,098	1,055
– of which in Austria	907	884
– of which in Slovenia	76	64
– of which in Croatia	73	66
– of which in Slovakia	38	37
– of which in Italy	3	3
– of which in Hungary	1	1
– of which women	623	609
– of which men	475	446
Full-time employees	855	828
– of which women	395	393
Part-time employees	230	227
– of which women	220	216
Disabled employees	18	12
Employees by age group		
Below 35 years of age	331	318
35 to 50 years of age	482	462
Over 50 years of age	285	275
Period of service and fluctuation [2]		
Average period of service, years	15.9	16.2
Fluctuation rate	6.7	6.1
Hours of work lost [2]		
Sickness rate, % of working days	2.7	2.1
Number of work accidents	8	7
Number of employees on leave	48	44
– of which on training leave	5	4
Average duration of parenthood leave, years	1.6	1.6
Average duration of training leave, years	0.7	0.6
Return to work rate after parenthood leave, %	70	91.7
Return to work rate after training leave, %	75	100
Number of older staff doing part-time work	18	21
Management staff [2]		
Total management staff	119	119
– of which women	25	24
Management staff by age [2]		
Below 35 years of age	5	10
35 to 50 years of age	61	60
Over 50 years of age	53	49

[1] Please note that all the staff numbers provided in other parts of this Annual Report are, unless specifically stated otherwise, stated in staff years.

[2] These data refer exclusively to *BKS Bank AG*.

Increase in the workforce

Despite the crisis, we have been able to keep the size of our workforce constant in recent years, and there was actually a significant increase from 872 to 901 in 2011. As the charts on page 80 show, staff numbers have increased by less than our assets. In other words, our staff today are much more productive than they were 15 years ago.

Most new hirings during 2011 took place in Slovakia (where we started banking operations for the first time) and in Slovenia as well as in Austria, where we continued to expand our team of specialists. We updated our recruiting process to suit current conditions. Apart from giving us a new public face, this has also led to another increase in quality.

To ensure that our high recruiting needs can also be met abroad, we have already installed special human resources managers in Slovenia and Croatia. This has made us very good at hiring suitably qualified staff. BKS Bank still believes in having employees who work in the region that they come from because they understand customers' mentality and needs best. In every one of its markets, BKS Bank offers its employees flexitime models to suit local legislative requirements, and staff see this very positively. From 2012, we will also be introducing the assessment and promotion interviews that have been standard practice in Austria for some time in all our foreign markets.

For the first time, staff in Slovenia were offered management training in the year under review, and 16 people completed the course. Moreover, 11 people in Croatia also completed management training, and the first staff members completed our updated course for young management personnel in Austria. This is a modular course that includes practical project work. The 11 participants particularly liked the informal sessions with managers from industrial companies and BKS Bank, including *Infineon* management board member Monika Kircher-Kohl. We also continued our many other training programmes. Staff were offered a total of 253 seminars. One of the focuses was on our new rating system, which was revamped from both a banking and an IT point of view. The bulk of the training modules take place at the bank's own modern training centre in Pörtschach.

Family-friendly personnel policies

We also pressed ahead with our efforts to make it easier to combine a career with having a family. For details, we refer you to page 28 *et seq*, where we report on our progress implementing the changes decided upon during the *berufundfamilie* (JobAndFamily) audit process. One of our other goals is to increase the proportion of women in management positions. A flexitime system, flexible part-time working models and our own in-house crèche are just some of the things that are making it easier for women to combine having a career with bringing up children. Internal surveys have shown that many women do not believe themselves capable of facing both the challenges of a management role and the challenges of motherhood. Since the measures we have taken so far are proving very slow to bear fruit, we plan this year to make women more aware of how important working is when it comes to their own pensions and security in old age.

TRAINING AND JOB APPLICATIONS

	2011	2010
Training		
Average number of days of training per staff member *per annum*	5.3	3.4
Number of seminars held	253	185
Number of apprentices in training	18	12
Number of trainees	14	15
Job applications	2.021	2.140
– of which unsolicited applications	194	108
– of which applications for internships	191	215

Personnel Management also put into practice the latest regulations regarding job adverts, implementing the new legal requirements as to content. Similarly, preparations for the Pay Report, which BKS Bank is also required to publish from 2012, are well advanced.

Organization, Construction and IT

Infrastructure is an essential part of banking. Branches are still the most important way of maintaining personal contacts with customers, and everyday business life would no longer be thinkable without a functioning IT system. Our annual investment needs in this area are correspondingly high. Organization and IT costs are the second largest item of expenditure in the Income Statement after staff costs. During the year under review, BKS Bank spent €14.0 million on its IT systems and €6.0 million on construction projects.

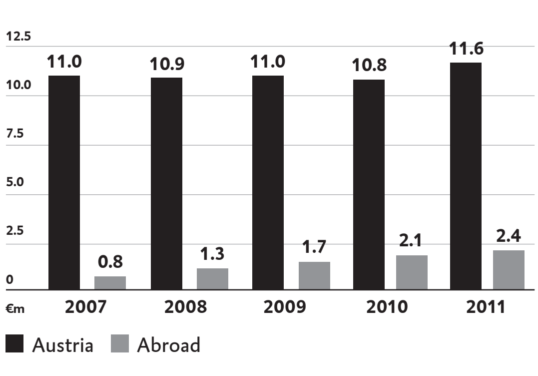
In the interests of competitiveness, cost efficiency and the optimal use of resources, our IT projects are carried out by *3-Banken-EDV Gesellschaft* (*3BEG*), which was set up in 1991. *3BEG* is a subsidiary within the *3 Banken Group* headquartered in Linz. Its centres of excellence in Klagenfurt and Innsbruck ensure a seamless and optimal flow of services to deal with hardware problems, and they also provide jobs for specialists. The centre of excellence in Klagenfurt is responsible for loan and deposit applications, controlling and accounting. Alongside the core banking applications provided by *3BEG*, BKS Bank also uses some local providers' products in its foreign markets so as to meet regional requirements as effectively as possible.

New rating system goes into operation

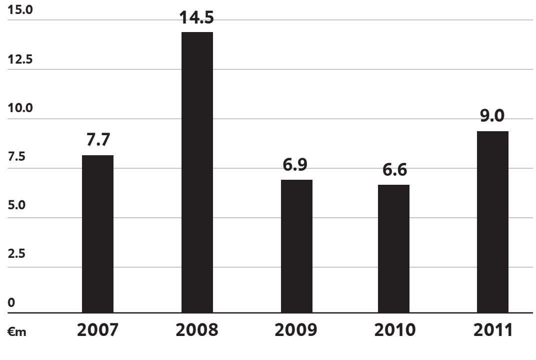
Following the completion of the big changeover to Windows Vista in 2010, during which all staff PCs were replaced, investments in software were at the forefront during 2011. The amendment to our rating system, to which two new rating classes were added, necessitated corresponding changes in BKS Bank's IT systems. All our retail and corporate and business banking customer advisors were trained to use the new programme, which was put into operation at the beginning of 2012. The electronic credit application process for retail banking customers was put into operation at the same time as the new rating system. The new overall package has several rating classes, improving the distribution of loans between the individual rating classes and making it possible to assess the risk associated with lending to a customer even more accurately.

The completion of our ZEBRA (close-to-real-time entry) project means that our customers now have access to closer to real time views of their banking transactions and the entries associated with them. We implemented

IT COSTS



INVESTMENT OUTLAY



the EMV chip or standard (Eurocard, Mastercard, Visa) to increase the security of *Bankomat* ATM card transactions, and domestic *Bankomat* transactions are now also stored on *Maestro* card chips, this having been the standard procedure for international transactions since 2010. In addition, we made further progress in the data protection and data security fields. For instance, we raised security standards for external mail traffic, constantly reminded our staff of the importance of data security and revised our authorization system.

Abroad, we finished implementing the IT link to our new branch in Bratislava, which went into operation in the spring. There were no major changes in Slovenia and Croatia, the IT systems there having already been adapted in the course of strategic additions to the line of products and services in recent years. As a result, they are state of the art.

The preparations for complying with the legal requirements associated with capital gains tax — which will be introduced in April 2012 — were also a challenge for *3BEG*. This work is already far advanced. Other projects in the 2012 financial year will include equipping the *Ebox*, which offers customers a secure form of communication, with new, more user-friendly software for use at self-service terminals.

Open plan offices and the Oscar Restaurant at Head Office

BKS Bank's construction projects are carried out by the Construction Group, which is part of the Operations Department. The two biggest projects during the year — the rebuilding of the third storey at Head Office and the complete reconstruction of the *Am Weiher* branch in Wolfsberg — were brought to a successful conclusion, as were the modernization of a number of branches and the design and equipping of the new branches at *Wiedner Hauptstrasse* (Vienna) and in Bratislava. During the rebuilding works at Head Office, the ceiling of the top floor was insulated and a ceiling cooling system was installed. This modern type of cooling system prevents draughts. It has been supplemented by automatic blind controls, this effective type of sun protection being the only way to regulate room temperatures in a way that is both efficient and pleasant for staff during the summer months. The office space also looks totally different now. The design is open plan. It is dominated by glass, light and space. Clean lines radiate tranquility. This open plan office design will give us greater flexibility when using the space. Sixty-three employees are currently working on the refurbished third floor. Another Construction Group project is the talk of the town in Klagenfurt at the moment, namely the newly designed restaurant in the BKS Bank building. It still goes under the well established name of *Oscar*. People are thrilled both by its gourmet cuisine and by its tasteful interior, which was designed by the architect Jana Revedin.

The Management Board wing at Head Office will be given a facelift and modernized during the first half of 2012. In addition, we will be amalgamating the *Ebenthal* and *Völkermarkter Strasse* branches and relocating them to a centre of excellence in *Völkermarkter Strasse* in Klagenfurt. The *Bad St. Leonhard* branch will be rebuilt, and our Regional Head Office for Vienna and the *Am Lugeck* branch located in it will move to a new location.

Important Equity Investments

EQUITY INVESTMENTS IN BANKS AND OTHER FINANCIAL SERVICES PROVIDERS

Equity Interest	>50%	20%–50%	10%–20%	<10%
BKS-Leasing GmbH	100.00%			
BKS-Immobilienleasing GmbH	100.00%			
BKS-leasing d.o.o.	100.00%			
BKS-leasing Croatia d.o.o.	100.00%			
BKS Bank d.d.	100.00%			
BKS-Leasing a.s.	100.00%			
Alpenländische Garantie-Gesellschaft mbH		25.00%		
Oberbank AG			16.95%	
Bank für Tirol und Vorarlberg AG			13.59%	
3 Banken-Generali Investment-GmbH			15.43%	
Drei-Banken Versicherungs-AG		20.00%		
Oesterreichische Kontrollbank AG				3.06%
BWA Beteiligungs- und Verwaltungs AG				0.89%
PayLife Bank GmbH				1.44%

OTHER EQUITY INVESTMENTS (SUBSIDIARIES AND ASSOCIATES)

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

OTHER EQUITY INVESTMENTS (NON-BANKS)

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

Key Dates in the Enterprise's History

1922	A. v. Ehrfeld enters into a limited partnership with *Bayerische Hypotheken- und Wechselbank* called *Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co.* The bank is headquartered in Klagenfurt. In the same year, it acquires branches in Villach and Spittal/Drau. A branch in Wolfsberg follows a year later. Initially, the bank only services corporate and business banking customers.
1928	Years of effort to transform the limited partnership into a stock corporation lead to the formation of *Bank für Kärnten* (bank for Carinthia). Despite the global crisis, the bank develops well.
1939	The company's name is changed from *Bank für Kärnten* to *Bank für Kärnten Aktiengesellschaft*.
1964	The bank adds small personal loans to its range as a new line of business. In the years that follow, it gradually enlarges its branch network.
1965	The bank enters into its successful alliance with the *Wüstenrot* building and loan association, enabling it to offer its customers building and loan products and services.
1970	The first joint *Drei-Banken* (3 Banks) bond is issued in partnership with *Bank für Oberösterreich und Salzburg* and *Bank für Tirol und Vorarlberg*.
1983	Our first expansion across the Carinthian border takes place when a branch is opened in Graz. The company's name is changed to *Bank für Kärnten und Steiermark Aktiengesellschaft* (BKS: Bank for Carinthia and Styria). *Alpenländische Garantie-GmbH*, Linz (*ALGAR*) is set up. This company safeguards BKS Bank, *Oberbank* and *Bank für Tirol und Vorarlberg* against any losses on big loans.
1986	IPO of BKS ordinary stock, which is traded in the *Amtlicher Handel* (official trading) segment on the Vienna Stock Exchange. At the time, BKS Bank's share capital is divided into 3.0 million shares with a nominal value of öS100 each.
1988	BKS enters the leasing market and sets up insurer *Drei-Banken Versicherungs-AG* together with its sister banks.
1990	The first branch in Vienna opens.
1991	BKS and its sister banks set up IT subsidiary *Drei-Banken-EDV GmbH*. Construction of the new Head Office building at *St. Veiter Ring 43* begins to plans by architect Wilhelm Holzbauer. The new offices open on schedule in November 1993.
1998	Conclusion of an extensive sales and cooperation agreement with the *Generali Vienna Group* covering the insurance and investment fund sectors. After the departure of our long-standing shareholder *Bayerische Hypotheken- und Wechselbank*, the *Generali Group* acquires roughly 7.44 per cent of BKS Bank's ordinary shares. Our international expansion begins with the opening of a representative office in Zagreb, Croatia, and the acquisition of a leasing company in Ljubljana, Slovenia, now called *BKS-leasing d.o.o.*
2000	BKS and its sister banks make their first high-publicity joint appearance as the *3 Banken Group*.
2002	Formation of *BKS-leasing Croatia d.o.o.*, which is headquartered in Zagreb.
2003	Acquisition of a majority stake in *Die Burgenländische Anlage & Kredit Bank AG* (*Die BAnK*).
2004	The first banking branch in Slovenia opens, in Ljubljana, and we set up a representative office in Italy.
2005	*Die BAnK* is merged into BKS. A representative office is set up in Hungary. Reflecting its expansion in recent years, our company is renamed as *BKS Bank AG*.
2006	BKS acquires *Kvarner banka d.d.*, Rijeka, to enter the Croatian banking market.
2007	A representative office is set up in Bratislava and BKS acquires *KOFIS Leasing* in Slovakia. It is assimilated into the BKS Bank Group and renamed as *BKS-Leasing a.s.*
2008	*Kvarner Banka d.d.* is renamed as *BKS Bank d.d.* and a branch is opened in Zagreb.
2009	A six-for-one split of BKS Bank's shares takes place and the company's issued share capital increases to €65.52 million in the course of a raising of share capital. Since then, BKS Bank's share capital has been represented by 30,960,000 ordinary no-par shares and 1,800,000 no-par preference shares.
2010	Securities operations begin in Slovenia, enabling us to provide all the products and services that are normally available from a so-called *universal bank*. Retail banking operations in Croatia are expanded.
2011	BKS enters the banking market in Slovakia, opening a branch in Bratislava.

Notes on the Scope of Consolidation

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

The members of the Group

The overview that follows lists the entities required by the International Financial Reporting Standards to be classified as members of the BKS Bank Group in the 2011 reporting year. The scope of consolidation did not change during the 2011 financial year.

The consolidated group on which Group analyses are based consisted of 18 banks and other financial service providers and entities rendering banking-related ancillary services. These entities included our leasing companies in Austria and abroad as well as *Alpenländische Garantie-Gesellschaft mbH* and *Drei-Banken Versicherungs-Aktiengesellschaft*. Given the sizes of the various companies in the Group, its consolidated net profit was predominantly generated by *BKS Bank AG*. The consolidated members of the BKS Bank Group comprised the banks and other financial service providers and entities rendering banking-related services that were controlled by *BKS Bank AG*. Minority interests in profit for the year were deducted when calculating consolidated net profit for the period. Other material equity investments of *BKS Bank AG* where the company held a stake of over 20 per cent were recognized in the Consolidated Income Statement in the amount of its interest in each entity's profit or loss for the period. In other words, they were accounted for using the equity method. The carrying amount of an equity investment was adjusted according to the company's interest in the change in the net

THE MEMBERS OF THE GROUP

Banks and Other Financial Service Providers

BKS Bank AG, Klagenfurt	*BKS-Leasing Gesellschaft mbH*, Klagenfurt	*Oberbank AG*, Linz
BKS-Immobilienleasing Gesellschaft mbH, Klagenfurt	*BKS-leasing d.o.o.*, Ljubljana	*Bank für Tirol und Vorarlberg AG*, Innsbruck
BKS-leasing Croatia d.o.o., Zagreb	*BKS-Leasing a.s.*, Bratislava [1]	*Alpenländische Garantie-Gesellschaft mbH*, Linz
BKS Bank d.d., Rijeka		*Drei-Banken Versicherungs-Aktiengesellschaft*, Linz

Consolidated
Accounted for using the equity method

Other Consolidated Entities

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt	*IEV Immobilien GmbH*, Klagenfurt	*Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG*, Klagenfurt
VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt	*LVM Beteiligungs Gesellschaft mbH*, Vienna	*BKS Hybrid alpha GmbH*, Klagenfurt
BKS Hybrid beta GmbH, Klagenfurt		

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

assets of the entity in question. 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*—were also accounted for in the Consolidated Financial Statements, using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of these banks, it exerted a significant influence as the result of long-term syndicate agreements. Consolidated net profit for the 12 months ended 31 December 2011 included BKS Bank's interests in these banks' profit for the year. The other consolidated entities, most of which were designated as real estate companies, rendered banking-related ancillary services.

Banks and other financial service providers

BKS Bank AG

The parent of the BKS Bank Group is *BKS Bank AG*, which is headquartered in Klagenfurt am Wörthersee. *BKS Bank AG* recorded profit from ordinary activities of €27.7 million, so it made another substantial contribution to consolidated net profit in 2011. Assets of roughly €6.2 billion also underlined its dominant role within the Group. The BKS Bank Group had an average of 901 employees in 2012, 793 of whom were working for *BKS Bank AG*.

BKS-Leasing Gesellschaft mbH

This Group subsidiary is headquartered in Klagenfurt am Wörthersee. It has been carrying on motor vehicle and movable property leasing business in BKS Bank's core operating territories in Austria since 1988. As a wholly owned subsidiary of *BKS Bank AG*—with share capital of €40.0 thousand—it makes up a group as defined by *KStG* (Austrian corporation tax act) together with *BKS-Immobilienservice Gesellschaft m.b.H.* *BKS Bank AG* acts as group parent and provides 12 employees and the back office infrastructure used in the sale and management of leases.

BKS-Immobilienleasing Gesellschaft mbH

Also a Group subsidiary, *BKS-Immobilienleasing Gesellschaft m.b.H.* was founded in 1989. It is headquartered in Klagenfurt am Wörthersee. It specializes in property leasing. Its business operations comprise the acquisition, construction, renting, letting and management of real estate. 99.75 per cent of its share capital of €40.0 thousand is held by *BKS-Leasing Gesellschaft mbH*, described above, and *Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG*, Klagenfurt, holds 0.25 per cent.

BKS-leasing d.o.o.
BKS-leasing Croatia d.o.o.

BKS Bank acquired the company now called *BKS-leasing d.o.o.* in 1998, thus entering the Slovenian market. Within BKS Bank's organizational structure, *BKS-leasing d.o.o.*, which is headquartered in Ljubljana and has share capital of €260,000, is responsible for working the Slovenian market, focusing on motor vehicle and movable property leasing. Since its foundation, *BKS-leasing Croatia d.o.o.*, which was set up in 2002, is headquartered in Zagreb and has share capital of HRK9.0 million, has also successfully made use of BKS Bank's historical business links with the so-called *Alpe-Adria* region.

BKS-Leasing a.s.

BKS Bank acquired the company now called *BKS-Leasing a.s.* and previously called *KOFIS Leasing a.s.* in 2007. It is headquartered in Bratislava and also has branches in Banská Bystrica, Košice and Žilina.

BKS Bank d.d.

BKS Bank entered the Croatian banking market in 2006 when it acquired a majority shareholding in *Kvarner banka d.d.* Its stake was gradually increased to 100 per cent. This company is a stock corporation. In 2008, it was renamed as *BKS Bank d.d.* and opened a branch in Zagreb. It specializes mainly in lending to small and medium-sized industrial enterprises and businesses. It has assets of HRK1.08 billion and now possesses the infrastructure of a fully fledged bank. It currently has share capital of HRK120 million.

Oberbank AG

Oberbank AG, which is also known as *Bank für Oberösterreich und Salzburg*, was set up in 1869. It is headquartered in Linz. It is accounted for in the Consolidated Financial Statements of BKS Bank using the equity method. It is a leading independent provider of banking services to industry and medium-sized enterprises in its core regional markets, namely Upper Austria and Salzburg Province. It has branches in Vienna, Lower Austria, Bavaria, the Czech Republic, Hungary and Slovakia. It had an average workforce of 2,054 during the year under review. It ended the year with consolidated assets of €17.5 billion and profit for the year before tax of €126.0 million, making it, once again, one of Austria's most profitable banks in 2011. This company, which is listed on the Vienna Stock Exchange, had market capitalization of roughly €1.34 billion at the end of 2011.

Bank für Tirol und Vorarlberg AG

Bank für Tirol und Vorarlberg AG (*BTV*) was founded in 1904. It is anchored in its core markets in Tirol and Vorarlberg, which are in Western Austria. It is the third independent bank in the *3 Banken Group*, on an equal footing with *Oberbank AG* and *BKS Bank*. BTV operates in Vienna, Bavaria, Baden-Württemberg, eastern Switzerland and northern Italy and has 790 employees. Its consolidated assets grew to over €9.21 billion during the year under review. The *BTV Group's* profit for the year before tax came to €64.7 million. *BTV* had market capitalization of roughly €480 million at the end of 2011.

Alpenländische Garantie-Gesellschaft mbH

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

Drei-Banken Versicherungs-Aktiengesellschaft

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

Other consolidated entities

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H.

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

Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG
IEV Immobilien GmbH

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

BKS Hybrid alpha GmbH
BKS Hybrid beta GmbH

The principal object of *BKS Hybrid alpha GmbH*, which was set up in September 2008, and of *BKS Hybrid beta GmbH*, which was set up in April 2009, both of which are headquartered in Klagenfurt am Wörthersee, is to issue hybrid bonds and use the proceeds from such issuances to purchase the supplementary capital bonds (*Ergänzungskapitalanleihe*) of *BKS Bank AG*. According to the provisions of *BWG* (Austrian banking act), the proceeds from the issuance of these hybrid capital instruments have the character of equity and thus qualify as core Tier 1 capital of *BKS Bank Kreditinstitutsgruppe*.

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

Profit

Respectable profit for the year despite the continuing financial crisis

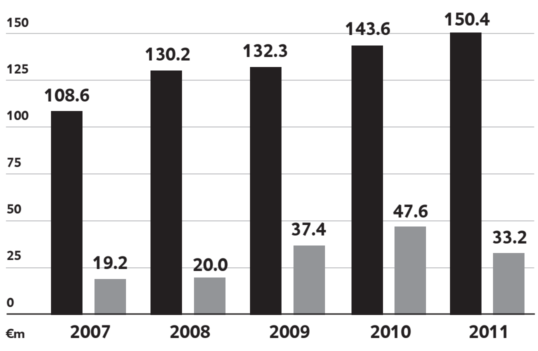
The 2011 reporting year was a mixed one when it came to profit. On the one hand, although the economy weakened visibly, we managed to strengthen our earnings from operations at the same time as reducing the impairment charge on loans and advances. Net interest income before the impairment charge was thus up on the very satisfactory figure reported in 2010, increasing by €6.8 million or 4.7 per cent to €150.4 million. On the other hand, the precariousness of the international financial markets took a toll on BKS Bank. In line with our accounting policies, the Greek government bonds in BKS Bank's portfolio of held-to-maturity (HTM) financial assets had to be written down to the market values of the bonds still in issue. This was in line with general practice across the European financial sector. In the end, this painful one-off effect was also reflected in BKS Bank's Income Statement. As you can see from Note (9) on page 127, it led to a revaluation loss of €33.1 million on held-to-maturity financial assets.

In contrast, the impairment charge on loans and advances fell significantly, dropping by €14.4 million to €33.2 million. However, although we stepped up our sales efforts and achieved a small drop in general administrative expenses, this only made up for some of the change in the HTM portfolio described above. Profit for the year before tax and profit for the year after tax were both about a quarter down on the previous year, coming to €38.6 million and €36.4 million, respectively.

Growth in interest operations, impairment charge on loans and advances reduced

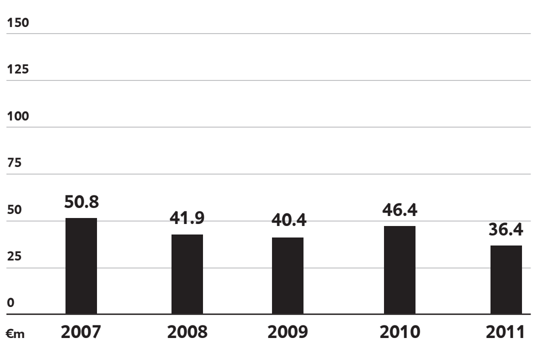
The previous year's positive trend in our interest operations continued. As the details in the Quarterly Review on page 118 show, earnings were substantially up on prior periods, especially in the third and fourth quarter. This

NET INTEREST INCOME AND IMPAIRMENT CHARGE ON LOANS AND ADVANCES



■ Net interest income before the impairment charge
■ Impairment charge on loans and advances

CONSOLIDATED NET PROFIT AFTER TAX



■ Consolidated net profit for the year after tax was the fruit of our consistent management of interest margins. The 6.7 per cent increase in profit from investments in entities accounted for using the equity method, including, in particular, *Oberbank* and *BTV*, also made a corresponding contribution to the pleasing growth in earnings.

IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€m	2011	2010	2009
Direct write-offs	0.9	2.2	3.7
Impairment allowances	39.6	50.0	38.6
Impairment reversals	(6.9)	(4.3)	(4.4)
Recoveries on receivables previously written off	(0.3)	(0.4)	(0.5)
Impairment charge on loans and advances	**33.2**	**47.6**	**37.4**

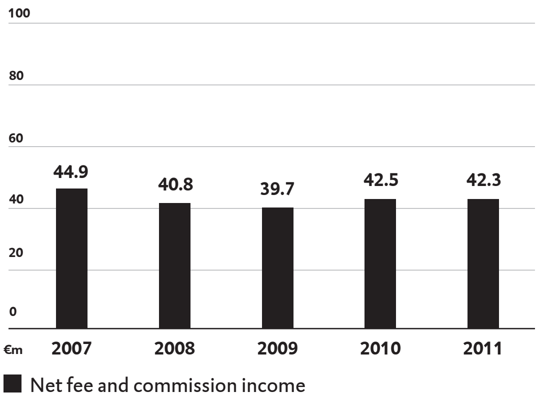
Let us now take a detailed look at the impairment charge on loans and advances. It is the sum of impairment allowances and reversals thereof, subsequent recoveries of written-off receivables, direct write-offs and commission payments to ALGAR — which is the *3 Banken Group* joint venture whose object is to guarantee large loans — and collective assessments of impairments of portfolios carried out in accordance with IAS 39 para. 64, which came to €5.3 million. Direct write-offs fell by about two thirds to €0.9 million. Impairment allowances came to €39.6 million, but we were able to carry out impairment reversals totalling €6.9 million. In line with our very restrictive risk policy, impairment charges at our foreign subsidiaries were gratifyingly low, coming to €2.3 million.

Net fee and commission income remains high

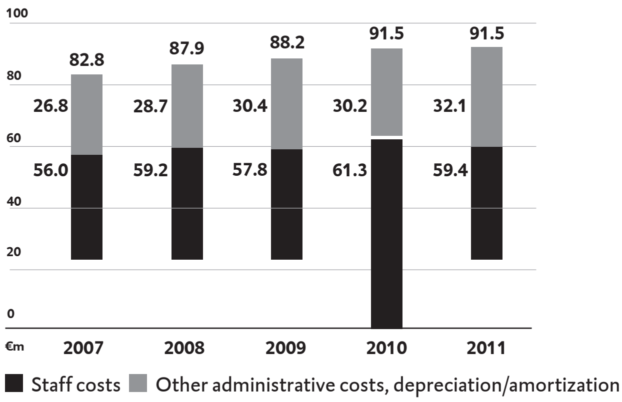
Net fee and commission income is another important component of profit. We were able to keep it roughly as high as in 2010, at €42.3 million. This line item consists mainly of fee and commission earnings from payment services, credit and securities operations and international operations. During the 2011 financial year, payment services and credit operations made the biggest contributions to profit, namely €16.8 million and €10.9 million, respectively. In contrast, securities operations were hit by a poor year on the stock exchange caused by the challenging and highly volatile market conditions. This was reflected by a fall in our earnings from securities operations, which declined by €0.9 million to €10.7 million. Net fee and commission income as a whole failed to live up to our expectations as a result.

Net trading income, which consists of earnings from foreign exchange trading and trading in derivatives, fell by 15.5 per cent to €1.3 million. Since proprietary trading is not a focus of our business activities, trading activities make only a small contribution to total profit.

NET FEE AND COMMISSION INCOME



GENERAL ADMINISTRATIVE EXPENSES



Profit for the year dented by profit/(loss) from financial assets

As we have already mentioned, *Profit/(loss) from financial assets*, which consists of the sub-items *Profit/(loss) from financial assets designated as at fair value through profit or loss*, *Profit/(loss) from available-for-sale financial assets* and *Profit/(loss) from held-to-maturity financial assets*, severely dented profit for the year. Having been positive €5.1 million in 2010, it was negative €32.5 million in 2012.

In the portfolio of financial assets designated as at fair value through profit or loss, revaluations made necessary by the sharp drop in rates on payer interest rate swaps and fair value hedges cost €2.7 million. This compared with a gain of €2.1 million in 2010.

Profit from the available-for-sale portfolio increased very satisfactorily, growing by 14.2 per cent to €3.4 million. While the impairment charge came to €1.2 million, realized gains totalled €4.6 million.

Like many other banks in Austria and abroad, BKS Bank has been investing in Greek government bonds for some time. At the end of the third quarter of 2011, the bailout plans announced by the EU shortly beforehand made a write-down of just 21 per cent seem likely. However, the stalling of negotiations between the eurozone countries, difficulties implementing reforms in Greece and the fresh bankruptcy rumours that resulted finally led to concrete decisions by the European Council (the name given to the meeting of the Presidents or Prime Ministers of each EU Member State). To prevent the international rating agencies from declaring Greece bankrupt, banks and other private financial intermediaries in the eurozone were asked to a agree to a voluntary haircut. At year-end, BKS Bank took the logical step of writing down its portfolio of Greek securities to the market values of the securities still in issue. Specifically, we held two Greek government bonds that had cost a total of €44.9 million maturing in 2014 and 2017 and carrying coupons of 4.3 per cent and 4.5 per cent, respectively. For this reason, having still been zero in 2010, *Profit/(loss) from held-to-maturity financial assets* came to negative €33.2 million in the year under review.

Staff costs unchanged

Staff costs remained our biggest item of expense, at €59.4 million (2010: €61.3 million). This is not surprising given that we are a service provider. Our respectable profit in 2011 was the fruit of strict cost discipline and the willingness of all the decision-makers and employees at BKS Bank to save money. The 3.1 per cent fall in staff costs was mainly due to an increase of 50 basis points to 4.75 per cent in the interest rate that is applied when calculating the provision for so-called *social capital*, which took us to within the range required for IFRS-compliant financial reporting. The valorization rate was left unchanged at 2.25 per cent during the year under review. The average workforce (full time equivalents) grew from 872 to 901. The workforce grew most at our foreign branches in Slovakia and Slovenia. The annual pay rises that took place under collective agreements averaged 2.3 per cent. They were an important factor in our expenses but did not take effect until 1 April 2011.

KEY COMPONENTS OF THE INCOME STATEMENT

€m	2011	2010	2009
Net interest income	150.4	143.6	132.3
Impairment charge on loans and advances	(33.2)	(47.6)	(37.4)
Net fee and commission income	42.3	42.5	39.7
Net trading income	1.3	1.6	1.4
Profit/(loss) from financial assets	(32.5)	5.1	(4.5)
General administrative expenses	(91.5)	(91.5)	(88.2)
Profit for the year before tax	**38.6**	**53.6**	**46.5**
Income tax expense	(2.2)	(7.2)	(6.1)
Consolidated net profit	**36.4**	**46.4**	**40.4**

The line item *Other administrative costs*, which includes the costs of opening new branches, rebuilding costs and IT expenses, increased from €23.9 million to €25.5 million. This line item was also closely scrutinized on a quarterly basis by those responsible for the various cost centres. Carefully targeted savings were made in the premises and marketing fields, where expenditures are discretionary. Depreciation/amortization was 5.0 per cent up on the previous year to €6.6 million. The stability levy (bank tax), which was payable for the first time in 2011, dented profit by €1.7 million. It is included in the line item *Other operating expenses*.

Profit for the year

Including all income and expenses and the impairment charge on loans and advances, the BKS Bank Group posted profit for the year before tax of €38.6 million for 2011, compared with €53.6 million the year before. After allowing for current and deferred tax expenses, which fell from €7.2 million to €2.2 million, profit for the year after tax came to €36.4 million. This was roughly one fifth down on the previous year.

Profit Appropriation Proposal

Distributable profit is determined on the basis of the annual financial statements of Group parent *BKS Bank AG*. This company posted profit for the financial year from 1 January through 31 December 2011 of €23.6 million, as against €31.2 million in 2010. €15.6 million of this profit was taken to retained earnings. Allowing for a profit carryforward of €0.3 million, *BKS Bank AG* posted net profit of €8.3 million. We will be recommending to the 73rd Annual General Meeting on 15 May 2012 that this profit should be used to distribute the same high dividend as for the previous year, that is €0.25 per ordinary and preference share, and that the remainder, €0.2 million, should be carried forward to a new account.

Key ratios are satisfactory

The usual corporate performance ratios are calculated on the basis of profit for the year, assets and equity. Naturally, our returns on equity (ROE) before and after tax, which came to 6.1 per cent and 5.7 per cent, respectively, were not a repeat of our good performance in prior periods because of the one-off effects of higher revaluation losses on the HTM portfolio. On the one hand, profit for the year weakened. On the other, equity increased significantly. However, our return on assets (ROA) was nearly as high as in 2009 and 2010, at 0.6 per cent. The cost:income ratio, which is calculated on the basis of items of income and expense, fell from 48.8 per cent in 2010 to an all-time low of 46.7 per cent in the year under review. This was again one of the best cost:income ratios in the Austrian banking industry. It reflected our successful cost management activities in recent years and was well below our internal 50 per cent benchmark. Our risk:earnings ratio—which had suffered from the significantly higher impairment charges on loans and advances that became necessary

KEY CORPORATE PERFORMANCE INDICATORS

	2011	2010	2009
ROE before tax (profit for the year in % of average equity)	6.1%	8.9%	8.9%
ROE after tax	5.7%	7.7%	7.8%
ROA after tax (profit for the year in % of average assets)	0.6%	0.7%	0.7%
Cost:income ratio	46.7%	48.8%	49.9%
Risk:earnings ratio (credit risk in % of net interest income)	22.1%	33.1%	28.3%
Tier 1 ratio	12.5%	9.6%	8.7%
Own funds ratio	15.4%	13.1%	12.1%
IFRS earnings per share in issue, €	1.13	1.44	1.25[1]

[1] Taking into account the six-for-one stock split on 5 June 2009.

once the financial crisis had begun — also fell in the year under review, reflecting the favourable economic conditions in the first half. It thus came to 22.1 per cent, which was close to BKS Bank's target of 20 per cent. Thanks to a Tier 1 ratio of 12.5 per cent and an own funds ratio of 15.4 per cent (see the section on *Own Funds* from page 96 for details), BKS Bank is also excellently prepared to cope with the challenging changes to the capital and liquidity regime for banks that will be created by Basel III.

Assets, Liabilities and Financial Position

BKS Bank's consolidated assets grew from €6.24 billion to €6.46 billion during the year under review. The essential factors were the gratifying development of the loan portfolio, which grew by 3.3 per cent, and significant growth in the portfolio of held-to-maturity financial assets. The equity and liabilities side of the Balance Sheet developed accordingly. Above all, so-called *primary funds* grew very satisfactorily. As a result, we achieved another important strategic goal in 2011 in our efforts to raise funds. Group-wide, roughly two thirds of our total funding needs were covered by customer deposit balances. In the interbank market, we reduced our receivables from other banks by 22.9 per cent to €116.5 million, while payables increased by 8.0 per cent to roughly €1.39 billion.

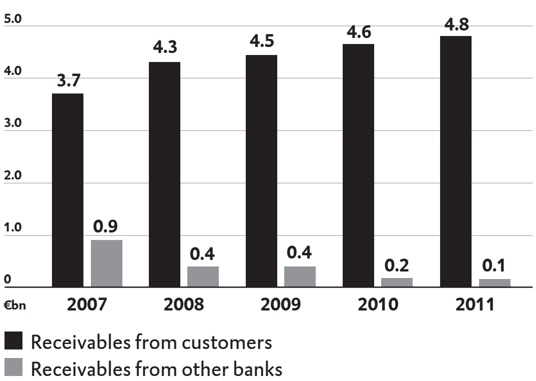
Balance Sheet Assets

Customer loan portfolio grows by 3.3 per cent

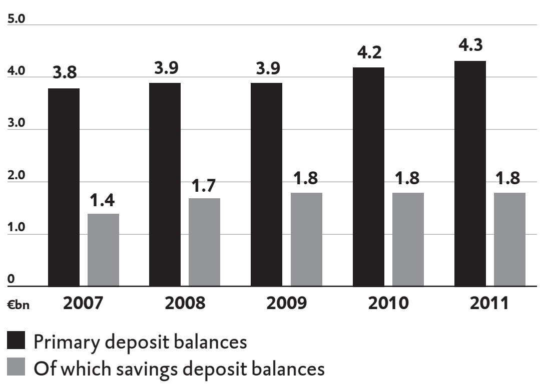
Having served the Austrian economy and its retail customers for decades, BKS Bank remained a leading provider of finance and investment project services in the period under review. The larger part of its receivables from customers were assigned to the corporate and business banking segment, which accounted for over three quarters of the loan portfolio under management by BKS Bank, or €3.73 billion (increase of 3.3 per cent). The retail loan portfolio totalled €1.08 billion at the end of the period under review (increase of 3.4 per cent). The impairment allowance balance, which resulted mainly from lending to corporate and business banking customers, increased by 2.7 per cent to €153.2 million. Credit risk in the retail banking segment was very low.

As in prior periods, *BKS Bank AG* accounted for the majority of the Group's receivables from customers, namely €4.38 billion, as against €4.25 billion at the end of 2010. The acquisition of highly creditworthy retail banking customers through our Slovenian branches, which generated roughly €54 million of new business, is noteworthy. Our foreign branch in Slovakia, which opened in the year under review, contributed €13.9 million

LOAN PORTFOLIO



PRIMARY DEPOSIT BALANCES



to the total. Volumes in Croatia generated through our banking subsidiary *BKS Bank d.d.* also developed very well, increasing by over a third to roughly €100 million by year-end. Most of this amount was generated by corporate and business banking operations.

The steady reduction of receivables denominated in Swiss francs continued to dominate the foreign currency loan portfolio during 2011. For more than three years, we have not been granting any new foreign currency loans in the retail banking segment. Energetic intervention by the Swiss National Bank from September to prevent the franc from appreciating any more versus the euro — a response to the massive turbulence in exchange rates during the summer months — made the situation much less tense, prompting many customers to convert their loans. This reduced BKS Bank's foreign currency customer loan portfolio by another SFr 103.5 million. The foreign currency portion of the total loan portfolio fell from 19.7 per cent to 17.3 per cent during the year.

Market conditions slightly slowed growth in the leasing market. Consequently, the lease finance operations carried on through our Austrian and foreign leasing subsidiaries located in Klagenfurt, Ljubljana, Zagreb and Bratislava failed to live up to our high expectations. The lease portfolio had a present value of €313.6 million at the end of 2011, compared with €327.8 million at the end of 2010.

Our securities investments in the various categories of financial asset are presented in detail in Notes (16) through (19). They increased from €1.34 billion at the end of 2010 to €1.46 billion on the balance sheet date in 2011. They consisted of financial assets designated as at fair value through profit or loss, available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets and investments in other entities accounted for using the equity method. The portfolio of financial assets designated as at fair value through profit or loss shrank marginally, by €8.0 million, to €119.6 million. In contrast, the HTM portfolio grew considerably. Since market interest rates were still low, we prioritized HTM securities. We invested €201.3 million and repaid €36.0 million. There was also a significant increase in our investments in entities accounted for using the equity method, which grew by 8.5 per cent to €309.9 million. This was mainly due to write-ups of our investments in our sister banks *BTV* and *Oberbank* carried out to reflect their outstanding business performance.

At 31 December 2011, *Cash and balances with the central bank* came to €85.8 million, compared with €114.9 million at the end of 2010. This line item comprises the cash and cash equivalents presented in detail in the Cash Flow Statement in the Notes on page 121. Because leases that had not yet entered into force were now included in the line item *Other assets*, the line item *Property and equipment* fell by 14.3 per cent. Our remaining balance sheet assets such as *Trading assets*, *Investment property*, *Intangible assets* and *Other assets* changed little in the year under review.

Balance Sheet Equity and Liabilities

Customer deposits increase in importance

The BKS Bank Group's mains source of funds in 2011 was so-called *primary deposit balances*, which comprise payables to customers, liabilities evidenced by paper and subordinated debt capital. The steady inflow of customer assets continued during the 2011 financial year. We see this as clear proof of the confidence that our customers have in BKS Bank's crisis-resistant business model. Including subordinated debt capital and liabilities evidenced by paper, customer funds under management came to €4.25 billion, which was enough to fund roughly 89 per cent of the loans and advances to customers in the portfolio at year-end. In other words, growth in that area had gone hand-in-hand with a precisely targeted deposit acquisition policy.

Once again, savings deposits balances accounted for the bulk of primary deposit balances in 2011. They ended the year at €1.79 billion, compared with €1.85 billion at the close of 2010. We mainly attribute the decline during the year under review, which was still small at just 3.3 per cent, to rampant terms-based competition caused by the challenging liquidity requirements that are planned within the scope of Basel III and to growing uncertainty among large sections of the population triggered by the unsolved sovereign debt crisis. People's search for supposedly safe investment alternatives has led to heavy investing in gold, property and other physical assets. Nonetheless, in the interests of sustainable liquidity management, attracting customer deposits will remain one of our most important strategic focuses in 2012. In the coming weeks and months, we want to tie both customers and savings deposit balances to BKS Bank by offering customers competitive terms and conditions for savings accounts — including, above all, *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts — and attractive durations.

The line item *Other liabilities*, which consists of sight and time deposit balances, came to €1.75 billion at year-end. Here, we mainly benefited from the sustained trust of our long-standing institutional clients in BKS Bank.

Raising funds through issuances of our own securities was a major priority in 2011. They comprised issuances of liabilities evidenced by paper and subordinated debt capital. Scheduled redemptions came to €50.0 million, while new issuances totalled €99.8 million. Although the total in issue increased to €715.7 million, it was still less than our target of approximately €800 million. However, because interest rates were extremely low, with the benchmark yields on German *bunds* moving well below the 2 per cent mark during the year, that target would have been hard to achieve. In this difficult environment, investors did not want their money to be tied up for long periods. Moreover, they increasingly invested the proceeds from maturing securities in real assets.

To make our programme of issuances even more attractive in the future, we also looked into the possibility of issuing covered bonds. By the end of 2011, we had created the prerequisites and obtained the necessary permissions for the issuance of such bonds, which are covered by a security pool of mortgage loans, receivables from public sector entities or other assets that are defined as eligible assets. These products should help us increase issuance volumes in 2012.

As the Statement of Changes in Equity on page 120 shows, the line item *Equity* increased by a solid 2.7 per cent from €627.8 at the beginning of the year to €644.9 million at year-end.

Own Funds

BKS Bank Kreditinstitutsgruppe manages its own funds in accordance with the provisions of the *Bankwesengesetz* (Austrian banking act) that are in force from time to time. Since the beginning of 2008, BKS Bank has been calculating its own funds ratio and basis of assessment in accordance with the Solvency Directive, which takes its bearings from Basel II. In the year under review, the own funds requirement for credit risk was still 8.0 per cent of the basis of assessment for the purposes of *§ 22 Abs. 2 BWG* (banking book). The basis of assessment is the sum of a bank's weighted receivables (comprising assets, off-balance sheet positions and derivatives). The calculation of the own funds requirement for the trading book is regulated by the provisions of *§ 22 o BWG*. Potential risk calculated in this way is measured against eligible own funds.

The small rise in risk-weighted assets from €4.35 billion to €4.42 billion, most of which was due to the increase in receivables from customers, improved our own funds ratio from 13.06 per cent at the end of 2010 to 15.44 per cent at 31 December 2011. It was therefore comfortably above the legal minimum ratio of 8.0 per cent. At the end of 2011, we had a Tier 1 ratio of 12.46 per cent, which was far above the ratio of 4.0 per cent that is currently required and also well above the more stringent regulatory requirement that is to be expected under Basel III, which is to provide for a significant increase in the minimum ratio. A transitional phase lasting until 2019 has been announced. During this phase, capital ratios will gradually be increased until they finally reach a probable minimum capital adequacy ratio of 10.5 per cent and a Tier 1 ratio of 7.0 per cent. Our surplus own funds reached a record high of €328.7 million, and even after taking account of the capital charge of €26.8 million required for operational risk, they still came to €301.9 million. This created an excellent basis for future lending growth for which capital charges will be required.

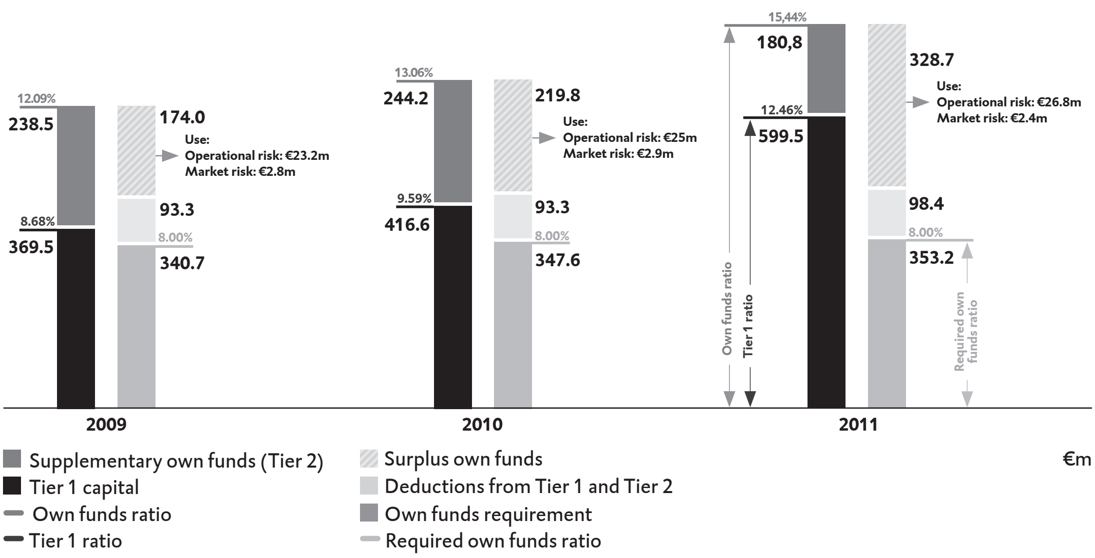
The implementation of the provision in *§ 24 Abs. 2 Z 4 BWG* that led to the inclusion of *Oberbank* and *BTV* in the calculation of consolidated own funds using the equity method played a crucial role in the increase in Tier 1 capital. Reserves increased accordingly, with goodwill being captured while the balance of gains and losses taken to equity was reduced.

OWN FUNDS, €m

(Method of Calculation: Basel II)	31/12/2011	31/12/2010	31/12/2009
Share capital	65.5	65.5	65.5
Hybrid capital	40.0	40.0	20.0
Reserves net of intangible assets	494.0	311.1	284.0
Tier 1 capital	**599.5**	**416.6**	**369.5**
Tier 1 ratio [1]	12.46%	9.59%	8.68%
Hidden reserves within the meaning of § 57 *BWG*	5.6	10.3	10.3
Eligible supplementary capital	134.6	155.8	149.8
Balance of gains and losses taken to equity	19.9	65.2	63.9
Eligible subordinated liabilities	20.7	12.9	14.5
Supplementary own funds (Tier 2)	**180.8**	**244.2**	**238.5**
Deductions from Tier 1 and Tier 2	98.4	93.3	93.3
Eligible own funds	**681.9**	**567.4**	**514.7**
Own funds ratio	15.44%	13.06%	12.09%
Basis of assessment for the banking book	4,415.2	4,345.1	4,258.4
Own funds requirement	**353.2**	**347.6**	**340.7**
Own funds requirement for the trading book	2.4	2.9	2.8
– Of which arising from open currency positions	1.4	2.2	1.9
Own funds requirement for operational risk	26.8	25.0	23.2
Surplus own funds (disregarding operational risk)	**328.7**	**219.8**	**174.0**
Surplus own funds (taking account of operational risk)	**301.9**	**194.8**	**150.8**

[1] In the year under review, the value of 50 per cent of the stakes held in banks was deducted during the calculation of this ratio.

OWN FUNDS OF THE KREDITINSTITUTSGRUPPE



Segmental Reports

The Corporate and Business Banking Segment

12,700 customers were being serviced in the corporate and business banking segment. Since BKS Bank originally operated as a pure corporate and business bank, this segment has the longest tradition, and it remained the most important source of profit. At the same time, corporate and business banking customers were our biggest borrowers. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and the Group's leasing companies insofar as they arose from business done with corporates and businesses.

The Retail Banking Segment

In addition to personal banking customers and jobholders, the retail banking segment also included small business owners, doctors and self-employed customers. Roughly 125,000 customers were being serviced in the retail banking segment. Besides the retail operations of *BKS Bank AG*, it also encompassed the retail operations of *BKS Bank d.d.* and all the leasing companies in the Group. Because of its dependence on branch operations, this was our most resource and cost intensive segment. However, it was indispensable to BKS Bank because about 85 per cent of savings deposit balances and over one quarter of sight and time deposit balances—that is, 57.0 per cent of payables to customers—were accounted for by retail banking customers, making this segment our bank's most important source of funds.

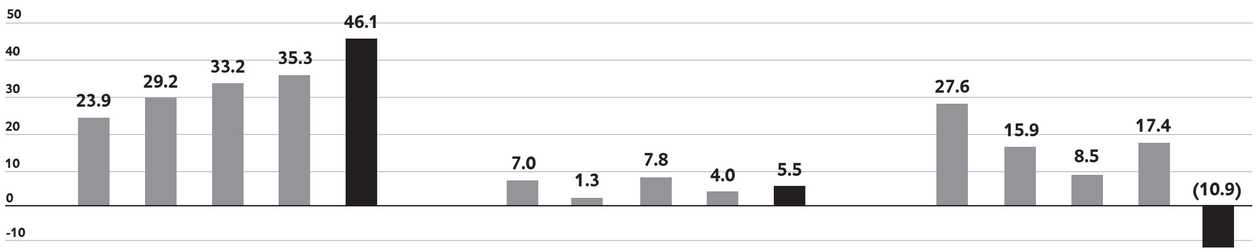
The Financial Markets Segment

The financial markets segment encompassed the profits from BKS Bank's financial assets. These consisted of profits from equity investments, from securities held in BKS Bank's own portfolios and from receivables from and payables to other banks as well as earnings from maturity transformation (interest rate term structure management).

BKS Bank's segmental reporting is based on the organizational structure of the Group, which provides the framework for its internal management reporting system. This structure is geared to its three major business divisions, namely *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. Back in 2010, business customers with borrowings of up to €40,000 and self-employed customers and doctors with borrowings of up to €1 million were taken out of the corporate and business banking segment and added to the retail banking segment. Please note that because of the altered segment definitions, comparability across the five-year reviews contained in these segmental reports is limited.

PROFIT FOR THE YEAR BEFORE TAX, BY SEGMENT

CORPORATE AND BUSINESS BANKING | **RETAIL BANKING** | **FINANCIAL MARKETS**



Corporate and Business Banking

€m	2007	2008	2009	2010	2011
ROE	12.0%	13.3%	14.1%	14.2%	18.3%
CIR	41.7%	40.4%	32.5%	29.8%	32.1%
RER	36.4%	33.3%	44.7%	49.9%	34.6%

Retail Banking

	2007	2008	2009	2010	2011
ROE	13.0%	2.8%	17.9%	8.8%	12.2%
CIR	82.9%	94.3%	82.4%	90.6%	87.4%
RER	6.6%	4.9%	6.0%	3.2%	3.6%

Financial Markets

	2007	2008	2009	2010	2011
ROE	17.5%	9.1%	3.6%	5.8%	-3.3%
CIR	24.2%	15.2%	33.3%	32.1%	18.9%
RER	—	—	—	—	2.9%

The Corporate and Business Banking Segment

Since BKS Bank was originally set up as a pure corporate and business bank, it has always seen itself as an expert point of contact for corporate and business banking customers, and this too is the way the market perceives us. BKS Bank's most important target groups are small and medium-sized industrial enterprises, businesses and trading enterprises. These companies view BKS Bank as a reliable banking provider that also helps and advises them skillfully in difficult economic times. This is why BKS Bank's corporate and business banking operations have continued to develop so well even in the recent turbulent economic years and why they are still our principal source of earnings. Profit for the year before tax in this segment came to €46.1 million, which was €10.8 million up on 2010, and the customer base remained very large.

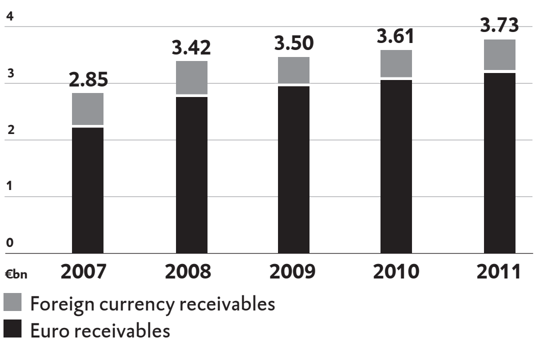
CORPORATE AND BUSINESS BANKING

€k	2011	2010	2009
Net interest income	90,261	93,343	78,890
Impairment charge on loans and advances	(31,222)	(46,567)	(35,233)
Net fee and commission income	22,341	21,338	20,011
General administrative expenses	(36,595)	(34,758)	(32,873)
Other operating profit	1,316	1,945	2,380
Profit for the year before tax	**46,101**	**35,301**	**33,175**
ROE before tax	18.3%	14.2%	14.1%
Risk:earnings ratio	34.6%	49.9%	44.7%
Cost:income ratio	32.1%	29.8%	32.5%

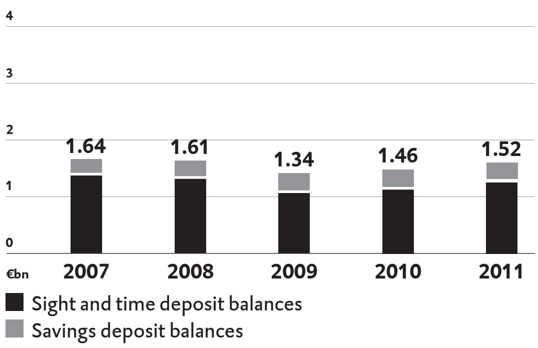
The much-cited credit squeeze never affected BKS Bank. The demand for corporate and business loans was very brisk in 2011. The corporate and business loan portfolio grew by 3.3 per cent to €3.73 billion. Over three quarters of all lending by the BKS Bank Group was still to companies. A large proportion was lent to small and medium-sized enterprises to finance investment projects. We were very cautious in our management of new loans to large enterprises so as not to increase credit risk. That notwithstanding, BKS Bank was also able to continue to finance interesting projects in that area. We were particularly in demand as a partner when it came to export subsidies, underscoring the qualifications and skills of our advisors in the corporate and business banking segment. Customers were also offered finance products through the BKS Bank Group's leasing companies, ensuring that every enterprise could be provided with an ideal financial package made up of a combination of loans, leases and subsidized finance.

BKS Bank completely overhauled its account packages in 2011, making them even more attractive. Corporate and business banking customers are now offered a choice of three account models to suit their individual usage patterns. Transparency has been increased by letting them choose between fixed basic fees, variable fees and transaction costs that depend on the frequency of transactions. Linear account management fees

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



PAYABLES TO CORPORATE AND BUSINESS BANKING CUSTOMERS



and minimum charges have been abolished. All our prices are now so simple that any customer can calculate which account package best suits them using the account model finder on our website at www.bks.at. This also makes it easier for companies to budget for their banking costs in a financial year.

Although a large part of the primary deposit balances that are so important to BKS Bank as a source of funds have always come from the retail banking segment, we have also been actively working on increasing deposit balances in the corporate and business banking segment. Sight and time deposit balances in this segment increased substantially as a result during the year under review, growing from €1.15 billion to €1.26 billion. This translates into an advance of nearly 10 per cent. On the other hand, balances from the hotly contested savings deposit market fell to €260.2 million.

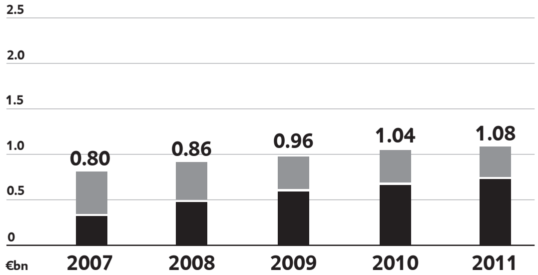
We will go on stepping up our cross-selling activities in 2012. They include offerings of insurance products. In the corporate and business banking segment, BKS Bank works together with broker *3 Banken Versicherungsmakler GmbH* — a *3 Banken* joint venture — in this field. The company's specially trained advisors accompany our corporate and business banking account managers on their visits to customers, making it possible to cater for our customers' insurance needs — even when they are very complex — with the greatest effectiveness. Companies continued to show a lively interest in our company pension and corporate risk insurance products.

Companies' interest in BKS Bank's products and services and the fall in risk charges led to an excellent profit for the year of €46.1 million. The most important source of profit was net interest income, which came to €90.3 million. Net fee and commission income also made a gratifying contribution to profit, increasing by roughly €1 million to €22.3 million. It proved possible to substantially reduce the impairment charge on loans and advances from €46.6 million to €31.2 million. This segment's risk:earnings ratio improved considerably as a result, falling from 49.9 per cent to 34.6 per cent. As for general administrative expenses, consistent savings kept the increase in the line item *Other administrative costs* small. At the same time, an adjustment to the interest rate used to calculate so-called 'social capital' made it possible to reverse provisions. Consequently, general administrative expenses in the corporate and business banking segment only increased from €34.8 million to €36.6 million in 2011. The growth in the segment's profit for the year and its cost efficiency were mirrored by a respectable return on equity of 18.3 per cent, which was well above the previous year's figure of 14.2 per cent. Its cost-income ratio was 32.1 per cent.

Retail Banking Segment

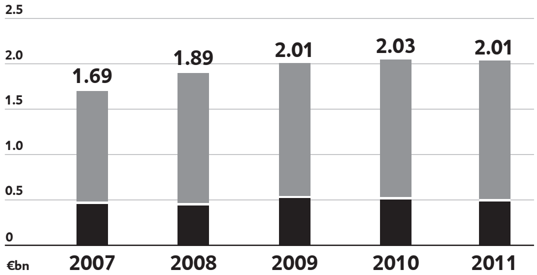
At the end of 2011, BKS Bank had 55 branches and roughly 125,000 retail banking customers. In addition to personal banking customers and jobholders, the retail banking segment now also encompassed small business owners, doctors and self-employed customers, who were migrated to it in 2010. Because it is highly dependent on branch operations, this segment is very resource and cost intensive. Nonetheless, it is indispensable to us as our most important source of funds. Roughly 85 per cent of savings deposit balances and 28 per cent of other payables to customers are currently generated by our retail banking operations. In addition, retail customers account for over one fifth of our loan portfolio.

RECEIVABLES FROM RETAIL BANKING CUSTOMERS



Foreign currency receivables
Euro receivables

PAYABLES TO RETAIL BANKING CUSTOMERS



Sight and time deposit balances
Savings deposit balances

The retail customers segment still had to contend with challenging competition during 2011. In volume terms, securities operations had yet to return to pre-financial crisis levels, and competitive pressures in the savings deposit and issuance markets were heightened because every bank was still very dependent on so-called *primary deposit balances* as a source of funds. At the same time, our commitment to offering our customers modern branches cost a correspondingly large amount of money. BKS Bank was fully aware of the difficult conditions and continued to take appropriate countermeasures in 2011. We reorganized our securities operations during the year under review. Among other things, high net worth clients are now being offered personal asset management services. The repositioning our securities operations focused on attracting new investment customers and boosting investment volumes. BKS Bank was also able to extend its line of products and services for private banking customers during 2011. Special units were set up in Klagenfurt, Graz, Mattersburg and Vienna to bring about a significant gain in customer satisfaction. During this project, we created a new and more transparent price model for securities products and services that will already be in place in 2012. The name of our new securities account model is *Das Wertpapier-Depot nach Mass* (the made-to-measure securities account). It provides the ideal price model for every customer's needs. This improvement makes us confident of significantly increasing fee and commission income in 2012 following a drop of about 8 per cent in the year under review.

Another measure taken to strengthen this low-risk customer segment was to extend the line of products and services available from the Bratislava branch to include a retail customer range. On the products side of the equation, this meant launching home construction loan and deposit operations and starting to sell insurance products. BKS Bank is still determined to become market leader in Carinthia in 2012 and to increase its market share in the retail customers segment to 15 per cent from the current figure of about 13 per cent.

Most of the savings deposit balances with BKS Bank, namely €1.53 billion out of a total of €1.79 billion, were accounted for by retail customers. This was welcome in that it kept our concentration risk low. The traditional savings products were still thriving. Above all, there was brisk demand for *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts with durations of between one and two years — like, for instance, the *Wachstumssparbuch* growth passbook account — and the on-demand BKS *Sparcard* saving card accounts. The building society contract remained one of the most popular savings products. As usual, BKS Bank cooperated with *Wüstenrot* in this area, signing some 4,300 new contracts in the period under review. However, there is the risk that saving with a building society will lose much of its attractiveness because of the cuts in premium subsidies contained in the current draft proposal for the austerity package.

3 Banken-Generali Investment-Gesellschaft did well in market comparisons, significantly outperforming the rest of the Austrian market for the third year running. Funds under management by this company did fall by 2.72 per cent to €4.99 billion, but at the same time, the market as a whole shrank by 7.29 per cent. Innovative management concepts that included investing more in fundamentally strong equities under the motto 'Value' and a proactively managed investment ratio were warmly received by the company's customers. Its tangible assets strategy, which is based on a mix of value stocks, commodity stocks and gold, also helped it achieve a big increase of €40 million in funds under management. The company's 'special' funds operations developed very satisfactorily, resulting in a net increase in funds under management in that area of €180 million. Because of private investors' increasing risk aversion, there was a small fall-off in 'public' funds operations.

RETAIL BANKING SEGMENT

€k	2011	2010	2009
Net interest income	33,980	31,394	36,950
Impairment charge on loans and advances	(1,230)	(993)	(2,201)
Net fee and commission income	18,607	20,192	18,744
General administrative expenses	(46,832)	(47,902)	(46,805)
Other operating profit	983	1,282	1,119
Profit for the year before tax	**5.508**	**3.973**	**7.807**
ROE before tax	12.2%	8.8%	17.9%
Risk:earnings ratio	3.6%	3.2%	6.0%
Cost:income ratio	87.4%	90.6%	82.4%

The retail customers segment profited from the unbroken demand for solid saving solutions that can be used to make provisions for old age. Many of the products that are normally used to provide for the future are insurance products. In this field, BKS Bank acts as a strategic partner of insurer *Generali Versicherung AG* through *3-Banken Versicherungs-AG*, which is a shared subsidiary of the *3 Banken Group*.

BKS Bank's sales of classical regular-premium endowment insurance policies in cooperation with *Generali* developed particularly well. Premium income in this segment was up on prior periods. On the other hand, because of the state of the market, sales of single-premium endowment insurance policies lost a great deal of ground during the period under review. This was attributable to the adverse conditions created by low interest rates and the increase in the statutory minimum duration of single-premium policies to 15 years. In all, *3-Banken Versicherungs-AG* concluded 41,296 contracts, 34,364 of which were risk insurance policies underwritten by the company itself and 5,481 of which were *Generali* endowment insurance policies. Premium volumes recorded *3-Banken Versicherungs-AG* in partnership with broker *3 Banken Versicherungsmakler GmbH* came to €69.3 million, with BKS Bank accounting for 23.7 per cent or €16.4 million of that total.

The demand for loans was brisk in the 2011 financial year, especially in the home loan field. The retail loan portfolio totalled €1.08 billion at the end of 2011, or 3.4 per cent more than at the end of 2010. In other words, this loan portfolio increased by slightly more in percentage terms than the loan portfolio in the corporate and business banking segment. Given the significantly lower risk:earnings ratio, this was highly satisfactory. The requisite impairment charge on loans and advances was very small, at €1.2 million, which was a success given the growing number of personal bankruptcies. According to statistics published by *Creditreform*, the number of private bankruptcies increased by 5.5 per cent over 2011 as a whole. Seventy-nine per cent of the creditors asked said poor money management was the main reason for insolvencies. BKS Bank takes its responsibilities as a lender seriously and tries to protect its customers from overindebtedness by meticulously checking their credit standing. In turn, this keeps credit risk in the retail banking segment extremely low.

Profit for the year before tax in the retail banking segment was significantly up on the previous year to €5.5 million, and net profit was €1.5 million up on the previous year. One reason was the drop in general administrative expenses, which fell by €1.1 million to €46.8 million. We were required to change the interest rate applied when calculating provisions for so-called 'social capital' (*Sozialkapitalrückstellung*), reducing the burden on the staff-intensive retail banking segment. Moreover, we are pleased to report that net interest income was €2.6 million up on the previous year despite persistently tough competition in the primary deposits market. At the end of the period under review, *BKS Bank AG* reported an average deposit margin of 0.35 per cent, compared with 0.39 per cent at 31 December 2010. However, low earnings from securities operations led to a fall in profit from services in this segment of €1.6 million to €18.6 million. As for ratios, the retail banking segment delivered an outstanding risk:earnings ratio of 3.6 per cent. This was the fruit both of our risk-aware management of new business and of the high level of collateralization in the retail banking segment. In addition, this segment's cost:income ratio was 3.2 percentage points better than in 2010 at 87.4 per cent.

Financial Markets

Against the backdrop of a euro crisis that was escalating, especially in the second half of 2011, the responsibility for and forward-looking management of so-called *structural income* earned in the financial markets segment were in the hands of BKS Bank's Asset Liability Management (ALM) Committee. Structural income includes earnings from interbank trading, proprietary securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements.

In the course of the year, BKS Bank adjusted its rates — including, above all, its credit interest rates — in line with the uptrends and downtrends in market rates — which corresponded to movements in European benchmark rates — changing them appropriately whenever market indicators changed. At the same time, since the competition for customer funds, which was intensive, was primarily interest rate based, we had to offer our customers attractive terms and conditions in order to raise so-called *primary funds*. This is a trend that is bound to continue in the 2012 financial year. In order to manage its interest rate operations, BKS Bank made allowance for today's more stringent liquidity risk management standards during an extensive funds transfer pricing process carried out to ascertain the costs that arise when refinancing financial products. Based on the marginal costs of raising funds, BKS Bank thereby computed appropriate loan rate markups and bonuses for deposit products.

The increase in structural income as the year progressed boosted net interest income by over one third compared with the previous year to €25.6 million. However, this income boost was not enough to make up for the impairment on our Greek exposure and the big dent in our profit from financial assets that it caused. The write-down to our holdings of Greek government bonds to their market values at 31 December — and therefore of more than the allowances for country risks already made in prior quarters — necessitated additional corrections to the value of our held-to-maturity portfolio, leading to a loss on HTM financial assets of €33.2 million. Having come to €17.4 million in 2010, this segment's profit for the year before tax slumped to negative €10.9 million, even though profit for the period had still been positive €3.7 million in the first half of 2011. We reduced our remaining exposure to the loan markets of the 'PIIGS' countries to a minimum in the light of the as yet half-hearted efforts to consolidate Europe's national budgets. At year-end 2011, our exposure in Portugal, Ireland, Italy and Spain came to just €46.7 million. As part of our uncompromising risk strategy, we made an impairment charge for country risk for the first time in the period under review, which came to €0.7 million as of year-end. Revaluation losses on financial assets designated as at fair value through profit or loss came to €2.7 million. The drop of €4.9 million in this segment's profit from financial assets designated as at fair value through profit or loss compared with 2010 resulted mainly from revaluation losses on interest rate swaps in the banking book as interest rates fell in the course of the year. Realized gains of €4.6 million made up for the requisite impairment charge of €1.2 million on the portfolio of available-for-sale assets.

Profit contributed by the entities accounted for using the equity method, namely *Oberbank*, *BTV*, *ALGAR* and *Drei-Banken Versicherungs-AG*, was a stable pillar of earnings in the financial markets segment, and our investments in *Oesterreichische Kontrollbank AG* and *Europay Austria Zahlungsverkehrssysteme GmbH* were also an appreciable source of income. BKS Bank's portfolio of investments in entities accounted for using the equity method grew by €24.4 million overall. The increase was generated mainly by our interests in the equity of our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*.

As a result of the developments we have described, this segment's return on equity failed to match the prior-year figure of 5.8 per cent, coming to negative 3.3 per cent. On the other hand, its cost:income ratio fell from 32.1 per cent to just 18.9 per cent as net interest income rose sharply but general administrative expenses fell by €0.6 million on the year.

Our management of banking risks was rigorous and consistent throughout the financial markets segment and was, above all, supported by the appropriate management of limits. The chart on the next page depicts the distribution of our receivables from other banks using BKS Bank's 10-class rating

FINANCIAL MARKETS SEGMENT

€k	2011	2010	2009
Net interest income	25,560	19,150	17,452
Impairment charge on loans and advances	(752)	0	0
Net fee and commission income	615	755	551
Net trading income	1,325	1,568	1,433
General administrative expenses	(5,222)	(5,831)	(6,461)
Profit/(loss) from financial assets	(32,516)	5,102	(4,511)
Profit/(loss) for the year before tax	**(10,872)**	**17,426**	**8,457**
ROE before tax	(3.3%)	5.8%	3.6%
Risk:earnings ratio	2.9%	—	—
Cost:income ratio	18.9%	32.1%	33.3%

system. In 2011, 95.7 per cent of BKS Bank's correspondents were in the top AA to A3 rating classes. Our network of correspondents consists of some 350 banks with which we have regular money dealings.

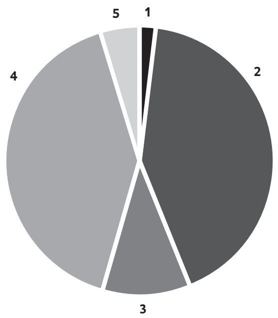
BKS Bank redoubled its efforts to attract primary deposits during 2011 so as to reduce its dependence on entering into liabilities in the money market to raise funds. We were able to satisfy our long-term funding needs by issuing nine tranches of our own securities for €99.5 million.

BKS BANK NOTES ORIGINATED IN 2011[1]

Name		ISIN	Nominal Amount, €m
4%	*BKS Obligation 2011-2018/1*	AT0000A0MRD3	15.0
3%	*BKS Obligation 2011-2015/2*	AT0000A0NFK1	11.7
4¾%	*BKS Ergänzungskapital-Obligation 2011-2019/3*	AT0000A0P1K4	20.0
3¾%	*BKS Obligation 2011-2017/4*	AT0000A0PS30	20.0
3%	*BKS Obligation 2011-2016/5*	AT0000A0S5A3	17.8
2¼%	*BKS Plus Garant 2011-2016*	AT0000A0M5S1	5.0
	BKS Inflations Garant 2011-2016/I	AT0000A0P2F2	5.0
	BKS Inflations Garant 2011-2016/II	AT0000A0PG00	3.0
	BKS Inflations Garant 2011-2016/III	AT0000A0PKJ8	2.0

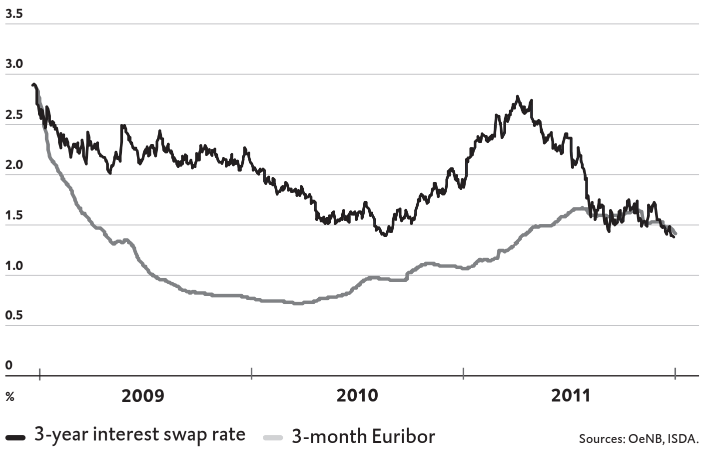
[1] This does not constitute an offer or an inducement to buy or sell the notes mentioned. Nor does it constitute a recommendation to buy or sell. These issuances took place during the 2011 reporting year on the basis of the base prospectus issued by BKS Bank and the final terms and conditions published in each case. These are available on the issuer's website at www.bks.at and from the branches of *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt, Austria, free of charge during normal hours of business

RECEIVABLES FROM OTHER BANKS, BY BKS BANK RATING



1 Rating class AA	**2.2%**
2 Rating class A1	**41.9%**
3 Rating class A2	**10.6%**
4 Rating class A3	**41.0%**
5 Other	**4.3%**

SELECTED MONEY AND CAPITAL MARKET RATES



Sources: OeNB, ISDA.

Risk Report

As active participants in transactions in the international financial markets, banks are of course also exposed to the risks in those markets. Consequently, BKS Bank's ability to extensively capture and measure those risks and all other risks connected with banking activities and to monitor and manage them close to real-time is crucial to the Group's long-term success.

The risk management process therefore actively anticipates changes in market conditions to limit possible losses on business activities and to optimize our risk/earnings profile using sensitivity and scenario analyses and stress tests. BKS Bank's risk policy standards, accountabilities and management principles are enshrined both in its business policies and in its risk strategy. The Management Board decides risk policy, approves risk management principles, sets limits for all relevant risks and lays down risk monitoring procedures. Our bank's risk management strategy is founded on our tried and tested conservative handling of all operational and other banking risks.

Internal Control System

Our Group-wide Internal Control System is based on generally accepted international standards. It serves primarily to secure our assets, increase our profitability, ensure that we adhere to laws, business policy guidelines and internal arrangements and prevent damage caused by our own staff or by malicious third parties within the scope of overall bank management. In addition, the Internal Control System ensures the reliability of corporate reporting, including, in particular, financial reporting to Management and to the Supervisory Board's committees. It is the responsibility of Accounts and Controlling, a Head Office unit that acts on the basis of Group financial reporting policies. The most important processes are laid down in the Group Manual. Based on an audit plan approved by the Management Board and on a Group-wide assessment of the risks associated with all of the enterprise's activities, Internal Audit audits operational processes on an annual basis to measure potential risks and to identify possible improvements. The Supervisory Board's Audit Committee is responsible for monitoring the effectiveness of the BKS Bank Internal Control System.

Risk management

Risk management is an integral part of BKS Bank's overall bank management activities. The focus is on ensuring the attainment of the enterprise's goals by identifying, assessing and managing risks. The existing risks are analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and measurement and monitoring procedures and an appropriate organizational structure and matched by a suitable amount of equity. When we accept risks, we continuously evaluate them to assess whether they are viable in the light of our risk-bearing capacity and worthwhile from an opportunities and risk perspective. Our risk management process strives always to limit possible losses on our business activities and to optimize our risk and return profile. The methods uses to measure risk within the BKS Bank Group are state-of-the-art and based on common practice in the banking industry. BKS Bank's risk strategy is reviewed, updated and communicated throughout the Group by the Management Board on an annual basis. The results of the risk analysis that is based on this strategy are passed on to the Management Board and the operating units that are affected and brought to the attention of the Supervisory Board on a quarterly basis in quarterly reports and the plenary report. A detailed presentation of the risk principles applied, our organizational structures and our risk measurement and risk monitoring processes can be found in the section of the Notes to the Consolidated Financial Statements entitled *Management of Overall Bank Risk*. The areas of risk of most importance to BKS Bank are credit risk (which includes equity investment risk), market risk, liquidity risk and operational risk.

Credit risk

Credit risk is BKS Bank's biggest risk category by far, as is evident when one looks at our economic and regulatory capital requirements. Within the Group, credit risk is monitored, managed and analyzed both at the single customer level and at the portfolio level.

During the year under review, BKS Bank's total loan portfolio inclusive of contingent liabilities increased by €81.0 million to €5.3 billion. In 2011, BKS Bank used its 10-class internal rating system without any changes. Rating classes AA to B2 accounted for approximately 84 per cent of the loan portfolio. In these rating classes, the capacity of borrowers to repay their borrowings is solid. When acquiring new business, the focus was on customers in the range of A1 to B1. Customers with a heightened risk of default are assigned to rating class C1. We classify receivables rated C2 to D2 as carrying an acute risk of default or being in default/irrecoverable.

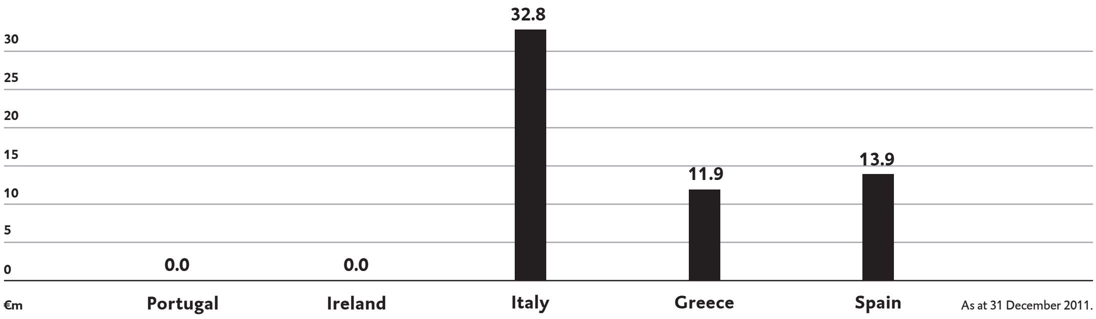
The impairment allowance balance totalled €153.2 million at 31 December 2011. €39.6 million of that resulted from impairment allowances recognized against a backdrop of persistently difficult economic conditions in certain sectors and industries. The massive downgrading of the debt of the 'PIIGS' countries by the international rating agencies led to an impairment charge of €0.8 million for country risk. Our risk:earnings ratio improved from 33.1 per cent to 22.1 per cent during the year. Whereas this ratio of risk charges to net interest income worsened marginally from 3.2 per cent to 3.6 per cent in the retail banking segment, it improved significantly, from 49.9 per cent to 34.6 per cent, in the corporate and business banking segment, where volumes are much higher.

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

As in prior years, the main sector and industry focuses in the loan portfolio were *Gewerbe* businesses, the industrial sector and private households. These accounted for roughly 65.7 per cent of our total risk exposure. They were followed, in percentage terms, by retailing and wholesaling and the professions. This gave BKS Bank's loan portfolio a broad and well diversified mix of regions, sectors and industries.

The foreign loan portfolio grew by 9.8 per cent during the year under review. Our business activities abroad focused on business centres in the regions in which we operate near the Austrian border. Slovenia, Croatia and Slovakia accounted for roughly 82 per cent of our foreign loan portfolio. We have set a Group-wide ceiling of 28.0 per cent on the proportion of the total loan exposure that can be accounted for by lending to non-banks abroad. In the year under review, this category of lending accounted for 26.0 per cent of the total. For risk management and risk control purposes, we apply different rating standards to domestic and foreign loans. As a rule, our lending guidelines abroad are more stringent and are tailored to the peculiarities of the country concerned. Lending to non-banks accounted for 45.3 per cent of the portfolio in Italy, and 90.5 per cent thereof was collateralized. We remained particularly careful in our management of currency

OVERVIEW OF PIIGS EXPOSURES



As at 31 December 2011.

risks and continued to strive to steadily and permanently reduce the proportion of foreign currency loans in the total loan portfolio. Foreign currency loans can no longer be granted to consumers. The proportion of foreign currency loans in relation to total loans in the portfolio fell by 240 basis points to 17.3 per cent between the end of 2010 and the reporting date. During 2011, the portfolio of Swiss franc foreign currency loans, which is of the greatest importance to us, was cut by SFr103.5 million to SFr913.0 million in a successful implementation of BKS Bank's strategy of reducing this portfolio.

In our efforts to continuously improve our internal rating system on a best practice basis, we carried out an extensive project to introduce a new rating system in 2011. Our goals were to optimize the quality of forecasting for the individual rating classes and, in turn, to improve the informational basis for making loan decisions, monitoring portfolios and managing overall bank risk. The project was successfully completed at the end of 2011. Among other things, it resulted in the addition of three more rating classes. We migrated to the new rating system at the beginning of January 2012.

Equity investment risk

BKS Bank's policy is only to acquire equity investments that serve its banking operations. When investing in subsidiaries, the emphasis is on acquiring strategic partners in the banking and financial institution sectors and ancillary, banking-related service industries. BKS Bank does not strive to acquire equity investments in countries whose legal, political or economic situations are judged to be risky or to trade on a regular basis in such investments. Risk in the bank's current equity investment portfolio is felt to be small, and we do not intend to take on any larger equity investment risks in the future. The indicator used to evaluate our equity investment risk is the proportion of our assets accounted for by equity investments on the balance sheet. At the end of 2011, it was 5.6 per cent. At 31 December 2011, our equity investment portfolio totalled €358.2 million, compared with €333.5 million at the end of the previous year. Our investments in *Oberbank* and *BTV* accounted for €307.0 million of this total

Market risk

Market risks result from changes in interest rates, equity prices, commodity prices and foreign exchange rates. They are mainly a consequence of adverse and unanticipated changes in economic and competitive conditions. Differing maturities and interest rate adjustment periods lead to interest rate risks on the assets and liabilities side of the account. Generally, they can be hedged against by a combination of on-balance sheet and off-balance sheet transactions. At the end of the year, the ratio of BKS Bank's interest rate risk to its eligible own funds assuming a shift in rates of 200 basis points—this ratio must be reported in the interest rate statistics prepared for *OeNB*—came to 3.92 per cent, as against 3.97 per cent at the end of the previous year.

Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always kept its currency risks low. Consequently, open currency positions are only held in small amounts and for short periods. When it comes to BKS Bank's own investments in shares, we mainly invest in German and Austrian stock market securities. The proportion of shares and equity funds in the treasury portfolio is not allowed to exceed 10 per cent. At year-end 2011, they accounted for 4.8 per cent of the portfolio.

Value at risk is an important tool for market risk management. We changed our method for calculating market risk in 2011, replacing the variance-covariance model with historical simulations. Using this method, past changes in market prices are used directly to assess risks in the present portfolio. At 31 December 2011, the *economic capital* needed to cover market risk on a going-concern basis came to €12.1 million. Overall, BKS Bank did not suffer any over-large fluctuations in value at risk during 2011.

Liquidity risk

One of the key roles of banks in the international financial markets system is performing maturity transformation. This is necessary because investors want prompt access to their assets whereas borrowers want long-term credit. Performing this task constantly leads to liquidity surpluses and deficits that, under normal market conditions, can be evened out in the money market. However, since the financial crisis in 2008, this market has only functioned to a very limited extent, and it was not yet restored to full functionality in the financial year under review. This difficult market situation continued to be a serious challenge for us. However, thanks to our conservatism, it was a challenge we were able to master. The central banks' role as a source of liquidity remained an important one.

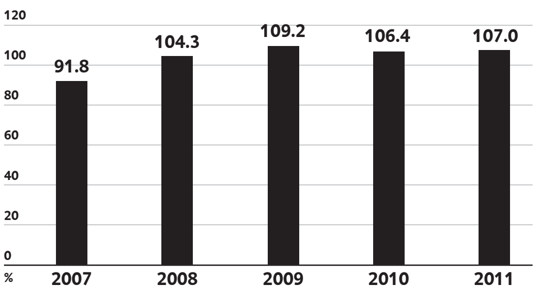
Liquidity management at BKS Bank (i.e. ensuring the bank's solvency at all times) is performed with the help of a daily liquidity projection for each main currency. Limits have been defined at the short end to set boundaries to our liquidity risks. To ensure liquidity, we mainly hold highly-liquid securities that are eligible for refinancing by the European System of Central Banks as a liquidity buffer and, as a lender, we prefer to acquire fungible assets. The monitoring of our liquidity buffer within the scope of our daily liquidity reports is one supporting pillar of our liquidity risk management activities. It came to approximately €0.78 billion at the end of 2011.

BKS Bank raises long-term funds by issuing its own securities. In all, placements of our own securities, which comprise liabilities evidenced by paper and subordinated debt capital, came to €99.8 million during the year under review. We measure so-called *deposit concentration* to assess the deposit withdrawal risk caused by the possibility of a run on deposits. This variable illustrates the dangers associated with a reliance on large deposits. Depending on the degree of that reliance, it can lie between zero and one. A deposit concentration close to one would indicate a worryingly high predominance of large deposits. At 31 December 2011, BKS Bank had a deposit concentration of 0.31, as against 0.32 at the end of the previous year. In other words, its reliance on large deposits was low.

The loan:deposit ratio is an essential gauge of the sustainability of liquidity management activities, showing the relationship between the loan portfolio and primary deposit balances. Our medium-term target is parity. Even though the competition for primary deposits was eroding margins, we were able to sustain this ratio at 107.0 per cent in 2011. It proved possible to fund most of the growth in the loan portfolio through inflows of primary deposits, which comprise saving, sight and time deposits and the proceeds from issuances of our own securities.

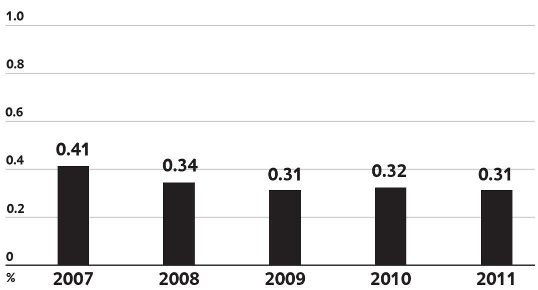
Each quarter, we analyze a variety of crisis scenarios to evaluate the potential impact of sudden stress events on our liquidity position. These stress scenarios are divided into general macroeconomic scenarios (market crises), scenarios specific to particular institutions (counterparty crises) and combined stress scenarios.

LOAN:DEPOSIT RATIO



The loan portfolio as a percentage of primary deposit balances

DEPOSIT CONCENTRATION



The BKS Bank Group's reliance on large deposits
1= very high, 0 = none

Austria's new liquidity risk management directive has been in force since 1 January 2010. This directive implements the provisions of *§ 25 Abs. 1* and *§ 39 Abs. 1, 2 und 2b BWG*, laying down minimum standards for liquidity risk management. BKS Bank has refined and extended its liquidity management processes to meet the requirements of this directive. For instance, in the fourth quarter of 2011, we began a project to re-examine and optimize the existing allocation of liquidity costs in the light of the liquidity risk management directive and the CEBS guidelines. This project has now been fully implemented. As a result, liquidity pricing based on marginal costs is now taken fully into consideration when calculating minimum loan rates.

Operational risk

BKS Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people or systems or from external events. Such risks can increase BKS Bank's costs or reduce its profits. BKS Bank's operational risks are limited by appropriate and continually improved internal control systems. Our refinement of our operational risk management processes and internal control systems during the year under review was accompanied by more exact and, above all, Group-wide measurement and management processes. Its focuses were as follows:

BKS Bank's internal data protection and data security project included, among other things, revising internal rules and standards, further improving technical safeguards for the protection of personal data and developing awareness measures which, among other things, will result in a bank-wide training programme that will be rolled out this financial year.

We revised the bank's internal emergency procedures against the backdrop of the increasing complexity of technical information systems and the far-reaching integration and automation of business processes. The aim was to limit the serious effects on processes and possible damage that might result from lengthy downtimes of IT applications and disasters like floods and fires.

The new product introduction process was refined, ensuring that the units involved in trading in, selling, processing and managing new products and services can get to know those products and services at an early stage and that appropriate administrative, accounting and controlling procedures can be set up in good time.

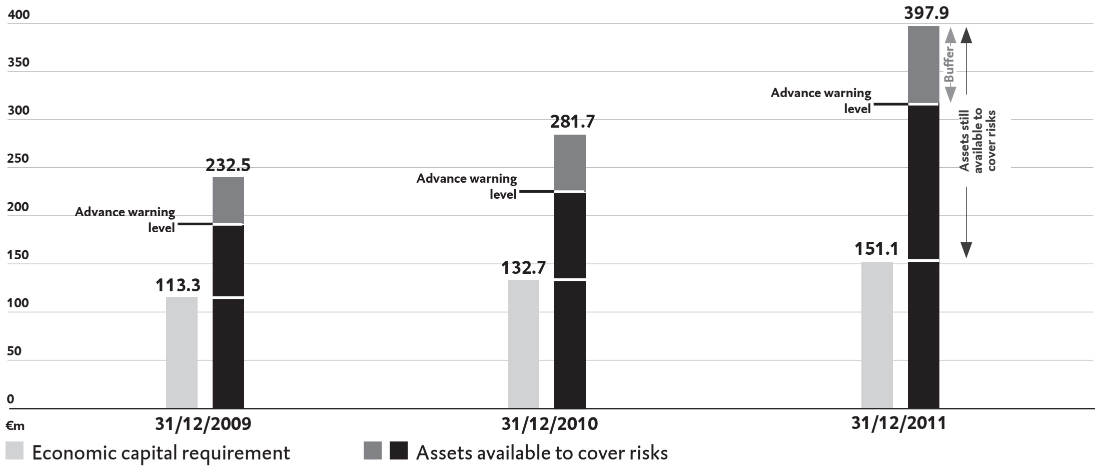
In addition, numerous individual measures developed as a result of our Group-wide operational risk assessment in 2010 were put into effect, and we worked on continually improving back office processes.

Risk-bearing capacity and stress testing

The risk-bearing capacity analysis process (the Internal Capital Adequacy Assessment Process, or ICAAP) is an essential component of BKS Bank's overall bank risk management process. The aim is to ensure that BKS Bank always has sufficient assets available to cover risks in order to absorb the risks it has assumed even in the unexpected event that such risk events occur within a year. Our economic capital requirement calculated on a going concern basis was €151.1 million at 31 December 2011, compared with €132.7 million at the end of 2010. The corresponding assets available to cover risks came to €397.9 million, compared with €281.7 million at the end of 2010. An advance warning threshold of 80 per cent of the assets available to cover risks was set for the purpose of monitoring our risk-bearing capacity.

As in the previous year, the economic capital requirement for credit risk was BKS Bank's biggest risk capital requirement. Credit risk in the corporate and business banking segment accounted for about 74 per cent of our total risk. Credit risk was responsible for about 80 per cent of our total potential loss. Market risk was responsible for 8 per cent.

CALCULATION OF RISK-BEARING CAPACITY ON A GOING CONCERN BASIS



Macroeconomic stress scenarios are used to assess our risk-bearing capacity assuming various changes in the economic environment. The underlying scenarios describe an unusual but plausible deterioration in the national economy. The stress tests that were carried out revealed that BKS Bank's economic capital had increased compared with the end of the previous year. However, its risk-bearing capacity sufficed in every scenario. Continuing to develop BKS Bank's risk-bearing capacity and stress testing concept is still a focus of our attention.

Compliance management system

Compliance risk is the risk to the bank that laws, other regulations, codes of conduct or proper business standards might not be adhered to. The foremost goal of the compliance management system is to prevent breaches of laws and regulations and to safeguard the BKS Bank Group, its boards and officers, its employees and its owners from compliance risks.

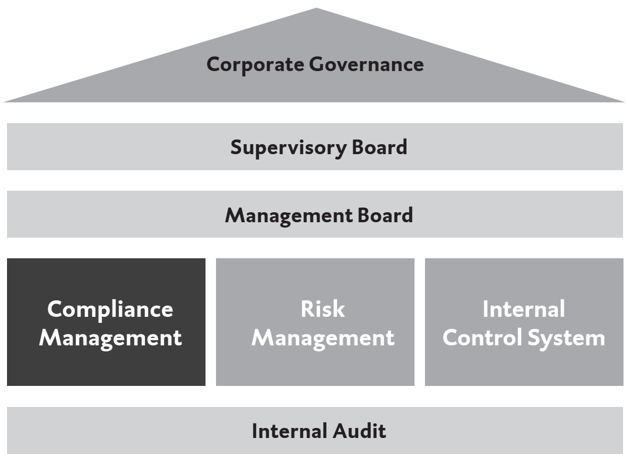
To this end, a compliance management system has been put in place in the BKS Bank Group within the scope of a project initiated by the Management Board as a whole in 2011. The starting point for our project work was a self-assessment process carried out in every key division and department within the organization. During this process, we identified and assessed the relevant compliance risks and, where necessary, agreed improvements and put them into effect. The compliance project also looked at traditional capital markets compliance, concentrating on continuing to refine the day-to-day monitoring of staff and proprietary transactions, extending software support and managing conflicts of interest. In addition, we stepped up our training activities. Every staff member attended a total of 17 on-the-spot compliance refresher modules to ensure comprehensive adherence to compliance rules and regulations.

Our compliance management system is based on three elements: recognition (risk identification and assessment, continuous monitoring); prevention (training, consultation desk, measures to raise awareness); and action (professional management of risk events, zero tolerance principle). BKS Bank's Management Board as a whole is responsible for setting up the Compliance Organization and suitable communication channels in order to ensure that we achieve our compliance targets. It is working to create a corporate culture based on honesty and integrity and on behaviour by every member of staff and all our management personnel that is in conformity with legislation and regulations. The latter are responsible for adherence to and the application of legislation and internal regulations in their respective departments and business divisions. Management personnel who are responsible for processes at Head Office are the responsible parties for the purposes of administrative penal law in accordance with § 9 *Absatz 2 VStG* (Austrian administrative penal law act) and will be held liable to the authorities in respect of the consequences of any breach.

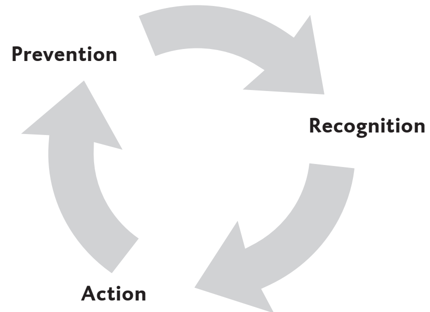
The remits of the Compliance Office, which has also been greatly strengthened in personnel terms, primarily cover the areas of capital markets compliance, anti-money laundering and terrorism financing prevention set out in *WAG 2007* (Austrian securities supervision act), *Börsegesetz* (Austrian stock exchange act), *Emittenten-Compliance-Verordnung* (Austrian issuer compliance directive) and the banks' Standard Code of Compliance as well as a series of other tasks aimed at meeting general compliance targets. Among other things, they include implementing and continuously updating appropriate compliance guidelines and rules and regulations, giving employees further training on compliance with the valid legal requirements, regulations, codes of conduct and standards, assessing compliance risks at regular intervals and preparing independent reports for the Management Board and the Supervisory Board's Audit Committee and, subsequently, the Supervisory Board as a whole and the Financial Market Authority.

It was BKS Bank's declared goal to continue to take effective action to prevent money laundering and terrorism financing in 2011, and the use of valid automated systems and data quality controls made this possible. A combination of the online screening of all money flows, daily transaction analyses and the matching and monitoring of existing and new customer data against international embargoed person lists facilitated the detection of any suspicious financial transactions. When one was detected, a report was sent to the responsible authority. Our AML activities focused on meticulously adhering to existing anti-money laundering guidelines and the recommendations of the Financial Action Task Force on Money Laundering (FATF) and the *Bundeskriminalamt* (BKA: federal bureau of criminal investigation) and on regularly checking initial business contacts with politically exposed persons (PEPs) to ensure that transactions were normal and plausible banking transactions and to make sure that there were no grounds for suspicion. During the year under review, BKS Bank's employees were given regular training in anti-money laundering and terrorism financing prevention. A compulsory e-learning programme, periodic information days for new staff and regular exchanges of experience between the AML unit and the decentralized anti-money laundering officers at our regional head offices were essential aspects of this training.

THE COMPLIANCE MANAGEMENT SYSTEM



ELEMENTS



Outlook for 2012

People who still had the impression in the spring of 2011 that the financial and economic crisis of 2008/2009 was already a thing of the past (except in a few peripheral European countries with runaway budget deficits) thanks to the heterogeneous but relatively strong economic recovery were proved wrong. They were forced to witness the tragedy of the EU governments' desperate attempts to stave off Greek bankruptcy. The loss of confidence in public finances that has now turned into the 'euro crisis' is currently the biggest threat to the world economy. We have seen a global decline in key economic indicators since the middle of 2011. The real rate of growth of the world economy slowed to 3.2 per cent as a result, following growth of 3.8 per cent in 2010. This has also affected the emerging markets, including, above all, China. A number of central banks have already hiked interest rates, and some have increased them by a large amount. At the same time, many threshold countries are already feeling the drop in demand from the industrialized countries.

At the moment, the economic outlook still seems to be best in the United States. Despite the problems in the job market, the leading indicators have recently strengthened a little, and the consumer survey data that have been published so far suggest that real GDP will grow slightly this year, increasing by 1.3 per cent. That compares with 1.6 per cent in 2011.

Because of the stubborn sovereign debt crisis, many EU member states felt compelled to step up their austerity measures to prevent the interest burden on their budgets from increasing any more and to get interest rates on new issues of government bonds back to acceptable levels. The eurozone quickly slipped back into economic difficulties again as a result of the rigorous cuts in social benefits and rising tax burdens that accompanied these efforts to reduce budget deficits and because of scepticism in the financial markets. This also affected the exchange rates of the euro against the currencies of the eurozone's principal trading partners. It weakened by 7.4 per cent versus the US dollar between the beginning of the fourth quarter of 2011 and the end of the year as well as by 3.5 per cent versus the Japanese yen and by 8.6 per cent versus the Chinese renminbi. According to WIFO, the eurozone can only expect real GDP growth of 0.3 per cent this year, compared with 1.7 per cent in 2011, and the EU commission is already predicting a minor recession. A real (though weak) economic recovery is not to be expected before 2013, when growth should increase to about 1.7 per cent if exports pick up as expected.

Given the gloomy export outlook and reduced propensity to invest, the Austrian economy will only grow by about 0.4 per cent in real terms in 2012, effectively interrupting growth. Above all, the negative effects of the increasingly restrictive economic policy of one of Austria's main trading partners, namely Italy, and Hungary's economic difficulties are making themselves felt. It is not yet clear what impact domestic demand will have on the economy as wage settlements increase and inflation falls to an expected 2.1 per cent. According to WIFO forecasts, consumer spending will increase by 0.7 per cent in real terms over the year as a whole.

In view of the rather subdued economic outlook, we believe that central banks will leave monetary policy loose. The US Federal Reserve intends to retain its extremely cheap money policy until at least the end of 2014, and recently, the federal funds rate has stayed between zero and 0.25 per cent. The ECB might even cut its main refinancing operations rate even more, having of late, on 9 February, again left it at its all-time low of 1.0 per cent. This means that the secondary market yield is also likely to stay very low in 2012. Regardless of the downgrading of the debt of a large number of eurozone countries, including Austria, by the *Fitch Ratings* and *Standard & Poor's* rating agencies, the yield gaps between the government bonds of those countries and German *bunds* have tended to narrow since the beginning of the year. As part of its continuing efforts to encourage the granting of bank loans and promote the liquidity of the euro money market and, therefore, to ensure that monetary policy impulses go on being effectively transmitted to the real economy in the eurozone in the future, the ECB Council has stepped up its refinancing operations, enlarged the list of assets taken as collateral for euro system operations and temporarily reduced the minimum reserve ratio from 2.0 per cent to 1.0 per cent. One consequence of the large amount of surplus liquidity is that money market rates have continued to fall. Having started 2012 at 1.343 per cent, the 3-month Euribor was at 1.021 per cent at the time of writing.

Thanks to its financial strength and strategic orientation, BKS Bank is well prepared to grasp the opportunities and manage the risks that the 2012 financial year will bring. The general economic environment that we have described, the uncertainty that is still prevalent in the financial markets and the flight into supposedly secure alternative investments have had a knock-on effect on the yield curve, which was already very flat. Consequently, in the weeks and months to come, we expect the business environment to be challenging and plagued by market uncertainties. In the first few weeks of this financial year, we have still been confronted with a level of competition for customer deposits that is eroding margins. This could affect the BKS Bank Group's net interest income. However, we expect to continue to have unrestricted access to central bank money and the money and capital markets. As we compete for customer deposits, we plan to strengthen our funding base with the help, above all, of further inflows of savings deposits and attractive issuances in the capital markets. The latter will include covered bonds.

Measures to reposition ourselves in the highly competitive securities segment focused on acquiring new customers and increasing investment volumes. Made-to-measure securities account models ranging from our 'Start' package to 'Classic', 'Comfort' and 'Premium' packages should be well received, although the growth in our credit operations is likely to stay within the slightly narrower limits imposed by the state of the economy. On the other hand, the corporate sector's financial position has improved considerably in the last few quarters, and we believe that our bank will be able to cope well with any problems coming from that direction. We will continue to enlarge our branch network in 2012, namely in the Vienna area and Slovenia. Our efforts to drive down costs will focus mainly on increasing the efficiency of our loan back office operations. We will continue to expand abroad, launching retail customer operations in Slovakia. The focus in the regulatory field will be on implementing Basel III, CRD IV and CRR I. The implementation of FATCA will also be resource intensive. No material, reportable events took place between the end of the financial year and the preparation of the Annual Financial Statements and their certification by the Auditor.

Overall and in the absence of any further unexpected one-off effects, our profit in 2012 is likely to be within our usual solid range. We believe at the moment that our profit for the year 2012 will enable us to further increase BKS Bank's enterprise value by augmenting its reserves at the same time as distributing an appropriate dividend.

Klagenfurt am Wörthersee
14 March 2012

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

IFRS-COMPLIANT CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS OF THE NOTES

NOTES ON IFRS-COMPLIANT FINANCIAL REPORTING

BKS Bank prepared its Consolidated Financial Statements for the 2011 financial year in accordance with the provisions of the IFRSs and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as exempting consolidated financial statements within the meaning of *§ 59a BWG* (Austrian banking act) in conjunction with *§ 245a UGB* (Austrian enterprises code). During the preparation of these Consolidated Financial Statements, all standards whose application was mandatory for the financial year were applied. Comparative figures for the previous year were also based on the relevant standards.

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

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

Income Statement of the BKS Bank Group for the 2011 Financial Year

FULL YEAR

€k	Note	2011	2010	+/(-) Change, %
Interest income		222,853	206,802	7.8
Interest expenses		(91,733)	(81,262)	12.9
Profit from investments in entities accounted for using the equity method		19,301	18,091	6.7
Net interest income	(1)	**150,421**	**143,631**	**4.7**
Impairment charge on loans and advances	(2)	(33,204)	(47,560)	(30.2)
Net interest income after impairment charge		**117,217**	**96,071**	**22.0**
Fee and commission income		45,212	45,333	(0.3)
Fee and commission expenses		(2,908)	(2,791)	4.2
Net fee and commission income	(3)	42,304	42,542	(0.6)
Net trading income	(4)	1,325	1,568	(15.5)
General administrative expenses	(5)	(91,460)	(91,472)	0.0
Other operating income net of other operating expenses	(6)	1,737	(195)	>100
Profit/(loss) from financial assets (FV)	(7)	(2,730)	2,126	>100
Profit from financial assets (AFS)	(8)	3,399	2,976	14.2
Profit/(loss) from financial assets (HTM)	(9)	(33,185)	0	—
Profit for the year before tax		**38,607**	**53,616**	**(28.0)**
Income tax expense	(10)	(2,162)	(7,187)	(69.9)
Profit for the period		**36,445**	**46,429**	**(21.5)**
Minority interests in profit for the period		(4)	(4)	0.0
Consolidated net profit for the year after minority interests		**36,441**	**46,425**	**(21.5)**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit for the year after minority interests	36,441	46,425	(21.5)
Gains and losses not recognized in profit or loss			
– Exchange differences	(402)	(340)	18.2
– Available-for-sale reserve	(13,410)	4,042	>100
– Arising from investments in entities accounted for using the equity method	155	5,652	(97.3)
– Deferred taxes on items taken directly to equity	3,179	(841)	>100
Comprehensive income	**25,963**	**54,938**	**(52.7)**

QUARTERLY REVIEW

€k	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Interest income	60,101	57,300	54,528	50,924	54,478
Interest expenses	(24,809)	(24,068)	(22,191)	(20,665)	(20,038)
Profit from investments in entities accounted for using the equity method	4,991	6,124	4,639	3,547	5,073
Net interest income	**40,283**	**39,356**	**36,976**	**33,806**	**39,513**
Impairment charge on loans and advances	(4,423)	(6,279)	(10,095)	(12,407)	(11,221)
Net interest income after impairment charge	**35,860**	**33,077**	**26,881**	**21,399**	**28,292**
Net fee and commission income	10,659	10,628	10,096	10,921	11,012
Net trading income	(71)	471	538	387	338
General administrative expenses	(22,250)	(22,621)	(23,766)	(22,823)	(24,288)
Other operating income net of other operating expenses	(61)	849	349	600	(1,124)
Profit/(loss) from financial assets (FV)	(322)	(3,286)	(1,170)	2,048	2,648
Profit/(loss) from financial assets (AFS)	4,447	64	(1,205)	93	892
Profit/(loss) from financial assets (HTM)	(16,035)	(17,150)	0	0	0
Profit for the period before tax	**12,227**	**2,032**	**11,723**	**12,625**	**17,770**
Income tax expense	(1,633)	1,949	(597)	(1,881)	(2,458)
Profit for the period	**10,594**	**3,981**	**11,126**	**10,744**	**15,312**
Minority interests in profit for the period	(1)	(1)	(1)	(1)	(1)
Consolidated net profit for the period after minority interests	**10,593**	**3,980**	**11,125**	**10,743**	**15,311**

Balance Sheet of the BKS Bank Group as at 31 December 2011

ASSETS

€k	Note	31/12/2011	31/12/2010	+/(-) Change, %
Cash and balances with the central bank	(11)	85,819	114,922	(25.3)
Receivables from other banks	(12)	116,503	151,161	(22.9)
Receivables from customers	(13)	4,801,095	4,647,335	3.3
– Impairment allowance balance	(14)	(153,246)	(149,149)	2.7
Trading assets	(15)	344	408	(15.7)
Financial assets designated as at fair value through profit or loss	(16)	119,614	127,560	(6.2)
Available-for-sale financial assets	(17)	295,115	309,999	(4.8)
Held-to-maturity financial assets	(18)	738,732	614,401	20.2
Investments in entities accounted for using the equity method	(19)	309,929	285,524	8.5
Intangible assets	(20)	12,022	11,775	2.1
Property and equipment	(21)	62,610	73,097	(14.3)
Investment property	(22)	16,978	16,543	2.6
Deferred tax assets	(23)	17,104	15,873	7.8
Other assets	(24)	33,374	18,726	78.2
Total assets		**6,455,993**	**6,238,175**	**3.5**

EQUITY AND LIABILITIES

€k	Note	31/12/2011	31/12/2010	+/(-) Change, %
Payables to other banks	(25)	1,386,250	1,283,998	8.0
Payables to customers	(26)	3,535,614	3,490,971	1.3
Liabilities evidenced by paper	(27)	455,016	404,201	12.6
Trading liabilities	(28)	391	490	(20.2)
Provisions	(29)	77,444	82,642	(6.3)
Deferred tax liabilities	(30)	9,274	12,154	(23.7)
Other liabilities	(31)	86,349	72,541	19.0
Subordinated debt capital	(32)	260,730	263,361	(1.0)
Equity		644,925	627,817	2.7
Total minority interests and equity		644,922	627,818	2.7
Minority interests in equity		3	(1)	>100
Total equity and liabilities		**6,455,993**	**6,238,175**	**3.5**

EARNINGS AND DIVIDEND PER SHARE

	2011	2010
Average number of shares in issue (ordinary and preference shares)	32,214,469	32,231,639
Dividend per share, € (ordinary and preference shares)	0.25	0.25
Earnings per ordinary and preference share, € (diluted and undiluted)	1.13	1.44

Earnings per share compares consolidated net profit for the period with the average number of no-par shares (*Stückaktie*) in issue. In the period under review, earnings per share and diluted earnings per share were the same because no financial instruments with a dilution effect on the shares were outstanding.

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Profit for the Year	Equity
At 1 January 2011	65,520	97,929	(259)	16,571	401,628	46,429	627,818
Distribution						(8,048)	(8,048)
Taken to retained earnings					38,381	(38,381)	0
Profit for the year						36,445	36,445
Gains and losses taken directly to equity			(402)	(10,584)	508		(10,478)
Increase in share capital							
Other changes					(815)		(815)
– Arising from use of the equity method					1,450		
– Arising from changes in treasury shares					(2,268)		
At 30 December 2011	**65,520**	**97,929**	**(661)**	**5,987**	**439,702**	**36,445**	**644,922**
Available-for-sale reserve							5,527
Deferred tax reserve							460

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Profit for the Year	Equity
At 1 January 2010	65,520	97,929	81	8,063	365,485	40,441	577,519
Distribution						(8,057)	(8,057)
Taken to retained earnings					32,384	(32,384)	0
Profit for the year						46,429	46,429
Gains and losses taken directly to equity			(340)	8,508	345		8,513
Increase in share capital							
Other changes					3,414		3,414
– Arising from use of the equity method					1,824		
– Arising from changes in treasury shares					1,583		
At 30 December 2010	**65,520**	**97,929**	**(259)**	**16,571**	**401,628**	**46,429**	**627,818**
Available-for-sale reserve							19,290
Deferred tax reserve							(2,719)

Minority interests are of secondary importance in the BKS Bank Group's Statement of Changes in Equity (2011: €3.3 thousand; 2010: negative €0.7 thousand). At the end of 2011, BKS Bank held 620,336 ordinary no-par treasury shares and no-par preference treasury shares (year-end 2010: 470,727 shares) with a market value of €8.2 million (year-end 2010: €5.5 million) in its own portfolio.

The 72nd AGM on 18 May 2011 authorized the Management Board within five years from the time of registration in the companies register (*Firmenbuch*) of the pertinent change to the Memorandum and Articles of Association (*Satzung*) pursuant to *§ 169 AktG* and with the consent of the Supervisory Board to increase the company's share capital by up to €13,104,000 through the issuance of up to 6,552,000 ordinary no-par bearer shares and to set the issue price and lay down the terms and conditions of issue in consultation with the Supervisory Board. The Supervisory Board is authorized to adopt amendments to the Memorandum and Articles of Association arising from the issuance of shares within the limits of the authorized capital.

Cash Flow Statement

CASH FLOWS

€k	2011	2010
Profit for the year before minority interests	**36,445**	**46,429**
Non-cash positions in profit for the year:		
– Depreciation, amortization and impairment charge on receivables and property and equipment	36,475	49,194
– Changes in provisions	(1,628)	8,604
– Gains and losses on disposals	(4,510)	(5,188)
– Change in other non-cash items	13,343	(11,343)
Subtotal	**80,125**	**87,696**
Change in assets and liabilities arising from operating activities after correction for non-cash items		
– Receivables from customers and other banks, effect of using the fair value option	(126,271)	61,446
– Trading assets	64	1,838
– Other assets	(14,648)	8,972
– Payables to customers and other banks	146,895	(258,337)
– Liabilities evidenced by paper	50,815	82,656
– Trading liabilities	(99)	(1,629)
– Provisions and other liabilities	7,065	17,809
Net cash from operating activities	**143,946**	**451**
Proceeds from:		
– Sales of financial assets and property and equipment	130,781	112,373
Outlay on:		
– Purchases of financial assets and property and equipment	(290,504)	(142,044)
– Acquisition of subsidiaries	0	0
Net cash from/(used in) investing activities	**(159,723)**	**(29,671)**
Increases in share capital	0	0
Dividend distributions	(8,048)	(8,057)
Subordinated liabilities and other financing activities	(5,278)	20,557
Net cash from financing activities	**(13,326)**	**12,500**
Cash and cash equivalents at end of previous year	**114,922**	**131,642**
Net cash from operating activities	143,946	451
Net cash from/(used in) investing activities	(159,723)	(29,671)
Net cash from/(used in) financing activities	(13,326)	12,500
Cash and cash equivalents at end of year under review	**85,819**	**114,922**
Taxes, interest and dividends		
– Income tax paid	6,015	2,420
– Interest received	214,223	202,252
– Interest paid	87,051	82,803
– Dividends received	904	1,129

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

Notes to the Consolidated Financial Statements of BKS Bank Material Accounting Policies

I. General information

The Annual Financial Statements of the BKS Bank Group were prepared in accordance with the provisions of the IFRS standards issued by the IASB (International Accounting Standards Board) applicable as at the reporting date and as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC). The Management Board of *BKS Bank AG* signed the Consolidated Financial Statements on 14 March 2012 and approved them for submission to the Supervisory Board. The Supervisory Board has the task of examining the Consolidated Financial Statements and stating whether it approves the Consolidated Financial Statements.

II. Recognition and measurement

Scope of consolidation

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

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

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

Consolidation policies

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

Foreign currency translation

The Annual Financial Statements were prepared in euros (the functional currency). Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that were not prepared in euros were translated using the *modified closing rate method*. Assets and liabilities were translated at the closing exchange rates ruling on their balance sheet dates. Expenses and income were translated applying average rates of exchange in the respective financial year. Exchange differences were recognized as a component of equity.

Impairment allowance balance

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis and creating provisions. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet. We made allowances 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*. A collective assessment of impairment of the portfolio was likewise carried out in accordance with IAS 39 para. 64, a collective assessment of impairment of the portfolio for country risks being recognized as well for the first time in 2011. In order to calculate the provision for country risk, the exposures outstanding at the reporting date were broken down into risk classes and appropriate risk weights were applied.

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 through profit or loss in the Income Statement.

Receivables

Receivables were recognized on the Balance Sheet at amortized cost before impairment charges.

Property, equipment, 'other' intangible assets

Property, equipment and 'other' intangible assets were recognized at cost of acquisition or conversion less ordinary depreciation or amortization. Depreciation and amortization rates 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.

Calculation of goodwill

A goodwill impairment test is performed annually. When goodwill on the Balance Sheet is tested for impairment, its carrying amount is compared with the present value of the company's interest in all future cash flows (value in use). Present value is measured on the basis of a discounted cash flow model. A two-phase mathematical model is used.

Phase 1: In phase 1, cash flows in the ensuing five years are calculated and discounted on the basis of the company's budgets.

Phase 2: In phase 2, a perpetual annuity is calculated on the basis of cash flow in the most recent plan year.
The parameters used for discounting purposes are the yield on 10-year government bonds in the eurozone, a premium for equity risk and an extra premium for country risk.

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 being 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 and liabilities 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* using the fair value option (FV). Their inclusion in this category was decided by the Asset Liability Management Committee. These positions (asset or liability and associated derivative) were thus measured at fair value and any revaluation gains or losses were 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 measured 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 decline in the expected future cash flows), a charge for the impairment was recognized in the Income Statement. If the reason for such a charge no longer existed, a write-back was recorded. In the case of equity capital instruments, it was made to equity through the AFS reserve. In the case of debt instruments, it was made to income. Investments in entities that were neither consolidated nor accounted for using the equity method were deemed to be part of the AFS portfolio.

Held-to-maturity financial assets

This line item comprises financial instruments that are to be held to maturity (HTM). Premiums and discounts are spread over their term using the *effective interest rate method*. Impairment losses were recognized through profit or loss.

Investment property

This line item encompasses property intended for letting to third parties. It was measured at amortized cost (*cost method*). The fair values of our investment properties are disclosed in the Notes. They were, for the most part, based on estimates (external expert reports). Depreciation rates vary between 1.5 per cent and 3.0 per cent.

Other assets

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

Payables

Payables, with the exception of payables valued at fair value through profit or loss, were on the whole recognized at the amounts payable.

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 tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. 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, gains and losses taken to equity in accordance with IAS 39 and profit for the year or period). BKS Bank strives to strengthen its capital base on a sustainable basis by ploughing back its profits.

Provisions

Provisions were created if there was a reliably determinable legal or actual obligation to a third party arising from an event in the past likely to cause a drain of assets.

Provisions for so-called 'social capital' (*Sozialkapitalrückstellung*) were calculated in accordance with the provisions of IAS 19. An interest rate of 4.75 per cent was applied when calculating provisions for post-employment, termination and jubilee benefits (31 December 2010: 4.25 per cent). Other parameters were applied as follows:
– salary trend: 2.25 per cent (31 December 2010: 2.25 per cent);
– career trend: 0.25 per cent (31 December 2010: 0.25 per cent).

Actuarial gains and losses were recognized immediately through profit or loss in the Income Statement.

The provision for mortality benefits was also calculated in accordance with IFRS principles. In the 2011 financial year, the provisions for post-employment, termination, jubilee and mortality benefits were calculated applying IFRS principles according to the *AVÖ 2008* table using the *projected unit credit method*.

Net interest income

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

Impairment charge on loans and advances

This line item captures impairment allowances, impairment reversals and direct write-offs (additions to and deductions from the impairment allowance balance). Recoveries on receivables previously written off were also accounted for in this line item.

Net fee and commission income

This line item comprises income from services rendered to third parties net of the expenses attributed to such services.

Net trading income

This line item comprises income and expenses arising from our proprietary trading activities. Positions in the trading book were 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 Consolidated Financial Statements of *BKS Bank AG* for the 2011 financial year were prepared in accordance with the applicable provisions of the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board as adopted by the EU. Standards, interpretations and revisions and amendments already published and adopted by the EU whose application was not yet mandatory (IFRS 9, IFRS 10 and IFRS 13) were not applied ahead of time.

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 copy deadline date.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	2011	2010	+/(-) Change, %
Interest income from:			
Credit operations	166,682	151,056	10.3
Fixed-interest securities designated as at fair value through profit or loss	2,954	3,854	(23.4)
Fixed-interest securities classified as available-for-sale	6,355	6,893	(7.8)
Fixed-interest securities classified as held-to-maturity	24,388	21,533	13.3
Lease receivables	11,815	12,546	(5.8)
Shares	3,668	3,362	9.1
Investment property	1,036	1,012	2.4
Investments in 'other' subsidiaries	1,657	1,917	(13.6)
Other equity investments	4,298	4,629	(7.2)
Total interest income	222,853	206,802	7.8
Interest expenses on:			
Deposits from customers and other banks [1]	64,991	58,053	12.0
Liabilities evidenced by paper	26,385	22,921	15.1
Investment property	357	288	24.0
Total interest expenses	91,733	81,262	12.9
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	22,801	19,723	15.6
Financing costs of investments in entities accounted for using the equity method [2]	(3,500)	(1,632)	>100
Profit from investments in entities accounted for using the equity method	**19,301**	**18,091**	**6.7**
Net interest income	**150,421**	**143,631**	**4.7**

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

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	2011	2010	+/(-) Change, %
Impairment allowances	39,555	50,043	(21.0)
Impairment reversals	(6,904)	(4,258)	62.1
Direct write-offs	867	2,196	(60.5)
Recoveries on receivables previously written off	(314)	(421)	(25.4)
Impairment charge on loans and advances	**33,204**	**47,560**	**(30.2)**

This line item contains impairment charges on lease receivables in the amount of €2.2 million (2010: €9.7 million).

(3) NET FEE AND COMMISSION INCOME

€k	2011	2010	+/(-) Change, %
Fee and commission income from:			
Payment services	18,058	17,475	3.3
Securities operations	11,546	12,411	(7.0)
Credit operations	11,322	10,576	7.1
International operations	3,179	3,782	(15.9)
Other services	1,107	1,089	1.7
Total fee and commission income	45,212	45,333	(0.3)
Fee and commission expenses arising from:			
Payment services	1,305	1,215	7.4
Securities operations	848	795	6.7
Credit operations	379	417	(9.1)
International operations	156	136	14.7
Other services	220	228	(3.5)
Total fee and commission expenses	2,908	2,791	4.2
Net fee and commission income	**42,304**	**42,542**	**(0.6)**

(4) NET TRADING INCOME

€k	2011	2010	+/(-) Change, %
Price-based contracts	47	96	(51.0)
Interest rate and currency contracts	1,278	1,472	(13.2)
Net trading income	**1,325**	**1,568**	**(15.5)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	2011	2010	+/(-) Change, %
Staff costs	59,401	61,317	(3.1)
– Wages and salaries	44,197	42,785	3.3
– Social security costs	12,235	12,828	(4.6)
– Costs of old-age benefits	2,969	5,704	(47.9)
Other administrative costs	25,487	23,898	6.6
Depreciation/amortization	6,572	6,257	5.0
General administrative expenses	**91,460**	**91,472**	**0.0**

Expenditure on old-age benefits included defined contribution plan payments to a pension fund in the amount of €1.3 million (2010: €1.4 million).

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	2011	2010	+/(-) Change, %
Other operating income	5,602	5,047	11.0
Other operating expenses	(3,865)	(5,242)	(26.3)
Other operating income net of other operating expenses	**1,737**	**(195)**	**>100**

The annual goodwill impairment test at *BKS-Leasing a.s.* revealed zero impairment (2010: €3.3 million).

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

€k	2011	2010	+/(-) Change, %
Revaluation gains and losses on derivatives	(2,244)	39	>100
Gain/(loss) as a result of using the fair value option	(486)	2,087	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	**(2,730)**	**2,126**	**>100**

Fixed-interest loans to customers in the amount of €60.9 million (31 December 2010: €45.5 million), bonds in the asset portfolio in the amount of €58.7 million (31 December 2010: €82.1 million) and BKS Bank's own issuances in the amount of €97.9 million (31 December 2010: €84.1 million) were hedged by means of appropriate interest rate swaps using the fair value option. The effect of these hedges totalled negative €486 thousand (2010: €2,087 thousand). The effect of the fair value option is essentially the amount that cannot be attributed to changes in market risk (credit risk).

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

€k	2011	2010	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	3,399	2,976	14.2
Profit from available-for-sale financial assets	**3,399**	**2,976**	**14.2**

Negative €1,227 thousand of revaluation gains and losses and realized gains and losses was attributable to impairments (2010: negative €2,446 thousand). €4,626 thousand was attributable to the sale of assets (2010: €5,422 thousand).

(9) PROFIT/(LOSS) FROM HELD-TO-MATURITY FINANCIAL ASSETS

€k	2011	2010	+/(-) Change, %
Revaluation gains and losses and realized gains and losses	(33,185)	0	—
Profit/(loss) from held-to-maturity financial assets	**(33,185)**	**0**	**—**

Revaluation gains and losses and realized gains and losses totalling negative €33.1 million (2010: zero) resulted from writing down BKS Bank's Greek exposure. This write-down has been taken into consideration in the segmental reports.

(10) TAX

€k	2011	2010	+/(-) Change, %
Current tax	(3,099)	(7,600)	(59.2)
Deferred tax	937	413	(>100)
Tax	**(2,162)**	**(7,187)**	**(69.9)**

RECONCILIATION FOR 2011

€k	2011	2010
Profit for the year before tax	38,606	53,616
Applicable tax rate	25%	25%
Computed tax expense	9,652	13,404
Effect of differing tax rates	(391)	(132)
Tax savings		
– arising from tax-exempt profit from equity investments	(7,143)	(6,414)
– arising from other tax-exempt income	(1,018)	(1,188)
– arising from other valuation adjustments	(170)	(757)
Additional tax incurred		
– as a result of non-allowable expenses	513	1,699
– arising from other tax effects	904	924
Aperiodic tax expenses	(185)	(349)
Income tax expense in period	**2,162**	**7,187**
Effective tax rate	5.6%	13.4%

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2011	31/12/2010	+/(-) Change, %
Cash in hand	31,453	30,119	4.4
Credit balances with central banks of issue	54,366	84,803	(35.9)
Cash and balances with the central bank	**85,819**	**114,922**	**(25.3)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Receivables from Austrian banks	22,505	82,164	(72.6)
Receivables from foreign banks	93,998	68,997	36.2
Receivables from other banks	**116,503**	**151,161**	**(22.9)**

RECEIVABLES FROM OTHER BANKS, BY TERM TO MATURITY

€k	31/12/2011	31/12/2010	+/(-) Change, %
Due on demand	68,922	51,144	34.8
Up to 3 months	13,992	8,331	68.0
From 3 months to 1 year	24,922	78,971	(68.4)
From 1 year to 5 years	8,667	12,535	(30.9)
From 5 years and over	0	180	—
Receivables from other banks	**116,503**	**151,161**	**(22.9)**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Corporate and business banking customers	3,726,078	3,607,883	3.3
Retail banking customers	1,075,017	1,039,452	3.4
Receivables from customers	**4,801,095**	**4,647,335**	**3.3**

Receivables from customers includes receivables arising from finance leases in the amount of €313.6 million (31 December 2010: €327.8 million).

RECEIVABLES FROM CUSTOMERS, BY TERM TO MATURITY

€k	2011	2010	+/(-) Change, %
Due on demand	250,917	297,602	(15.7)
Up to 3 months	744,739	772,097	(3.5)
From 3 months to 1 year	693,018	608,868	13.8
From 1 year to 5 years	1,279,722	1,194,923	7.1
From 5 years and over	1,832,699	1,773,845	3.3
Receivables from customers	**4,801,095**	**4,647,335**	**3.3**

The bulk of lease assets had a maturity of more than one year.

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	2011	2010	+/(-) Change, %
At beginning of period under review	149,149	113,401	31.5
+ Added	36,796	47,195	(22.0)
– Reversed	(6,893)	(4,258)	61.9
– Used	(25,664)	(7,147)	>100
+ Exchange differences	(142)	(42)	>100
At end of period under review	**153,246**	**149,149**	**2.7**

The impairment allowance balance includes provisions for the economic risks arising in connection with leasing operations and impairment charges on lease receivables in the amount of €18.5 million (31 December 2010: €21.0 million).

(15) TRADING ASSETS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	0	0	—
Positive fair values of derivative financial instruments			
– Currency contracts	344	408	(15.7)
– Interest rate contracts	0	0	—
Trading assets	**344**	**408**	**(15.7)**

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

€k	31/12/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	58,722	82,097	(28.5)
Loans	60,892	45,463	33.9
Financial assets designated as at fair value through profit or loss	**119,614**	**127,560**	**(6.2)**

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

€k	31/12/2011	31/12/2010	+/(-) Change, %
Up to 3 months	7,936	6,017	31.9
From 3 months to 1 year	1,151	29,596	(96.1)
From 1 year to 5 years	84,639	66,407	27.5
From 5 years and over	25,888	25,540	1.4
Financial assets designated as at fair value through profit or loss	**119,614**	**127,560**	**(6.2)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	158,765	178,621	(11.1)
Shares and other variable-yield securities	88,096	83,365	5.7
Investments in other associates and in subsidiaries	33,105	32,864	0.7
Other equity investments	15,149	15,149	0.0
Available-for-sale financial assets	**295,115**	**309,999**	**(4.8)**

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

€k	31/12/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities			
Up to 3 months	1,522	8,319	(81.7)
From 3 months to 1 year	51,472	17,335	>100
From 1 year to 5 years	84,375	77,559	8.8
From 5 years and over	21,396	75,408	(71.6)
Available-for-sale financial assets	**158,765**	**178,621**	**(11.1)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Bonds and other fixed-interest securities	738,732	614,401	20.2
Held-to-maturity financial assets	**738,732**	**614,401**	**20.2**

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

€k	31/12/2011	31/12/2010	+/(-) Change, %
Up to 3 months	34,597	15,322	>100
From 3 months to 1 year	90,003	32,997	>100
From 1 year to 5 years	323,420	281,877	14.7
From 5 years and over	290,712	284,205	2.3
Held-to-maturity financial assets	**738,732**	**614,401**	**20.2**

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

€k	31/12/2011	31/12/2010	+/(-) Change, %
Oberbank AG	207,699	189,772	9.4
Bank für Tirol und Vorarlberg AG	97,267	90,815	7.1
Alpenländische Garantie-Gesellschaft mbH	964	960	0.4
Drei-Banken Versicherungs-AG	3,999	3,977	0.6
Investments in entities accounted for using the equity method	309,929	285,524	8.5

(20) INTANGIBLE ASSETS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Goodwill	8,888	8,888	0.0
Other intangible assets	3,134	2,887	8.6
Intangible assets	**12,022**	**11,775**	**2.1**

The line item *Goodwill* contains goodwill resulting from the first-time consolidation of *BKS Bank d.d.* in the amount of €8.9 million (31 December 2010: €8.9 million).

The parameters and data used to test goodwill for impairment can change in unforeseen ways. They were significantly affected by the economic environment in general and by market conditions in Croatia. Values were calculated using sensitivity analysis while increasing the country risk premium by about 3 per cent. The enterprise value calculated in this way was the carrying amount of the goodwill and net assets of *BKS Bank d.d.* The results of the impairment test did not lead to any write-down.

(21) PROPERTY AND EQUIPMENT

€k	31/12/2011	31/12/2010	+/(-) Change, %
Land	2,802	2,679	4.6
Buildings	49,805	48,192	3.3
Other	10,003	22,226	(55.0)
Property and equipment	**62,610**	**73,097**	**(14.3)**

(22) INVESTMENT PROPERTY

€k	31/12/2011	31/12/2010	+/(-) Change, %
Land	8,167	8,248	(1.0)
Buildings	8,811	8,295	6.2
Investment property	**16,978**	**16,543**	**2.6**

At 31 December 2011, the fair value of our investment property totalled €25.4 million (31 December 2010: €24.7 million).

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

€k	Equipment	Intangible Assets[1]	Property[2]	Total
Cost at 1 January 2011	137,597	6,674	29,504	173,775
Added	5,664	1,576	1,427	8,667
Disposals	(18,522)	(74)	(1,642)	(20,238)
Exchange differences	(104)	(56)	0	(160)
Reclassification	(132)	132	0	0
Cost at 31 December 2011	**124,503**	**8,252**	**29,289**	**162,044**
Accumulated depreciation/amortization	(61,893)	(5,118)	(12,311)	(79,322)
Carrying amount at 31 December 2011	**62,610**	**3,134**	**16,978**	**82,722**
Carrying amount at 31 December 2010	73,097	2,887	16,543	92,527
Depreciation/amortization in 2011	4,634	1,443	495	6,572

[1] 'Other' intangible assets. [2] Investment property.

(23) DEFERRED TAX ASSETS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Receivables from customers	490	603	(18.7)
Trading assets and liabilities	38	65	(41.5)
Impairment allowances	5,122	3,511	45.9
Available-for-sale financial assets	565	716	(21.1)
Held-to-maturity financial assets	318	253	25.7
Property and equipment	318	572	(44.4)
Other assets and liabilities	5,757	4,868	18.3
Provisions (for post-employment and termination benefits, other provisions)	4,402	5,285	(16.7)
Tax loss carryforwards	94	0	—
Deferred tax assets	**17,104**	**15,873**	**7.8**

(24) OTHER ASSETS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Positive fair values of derivative financial instruments	14,521	8,628	68.3
Other items	16,296	8,021	>100
Deferred items	2,557	2,077	23.1
Other assets	**33,374**	**18,726**	**78.2**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Payables to Austrian banks	1,011,595	961,280	5.2
Payables to foreign banks	374,655	322,718	16.1
Payables to other banks	**1,386,250**	**1,283,998**	**8.0**

PAYABLES TO OTHER BANKS, BY TERM TO MATURITY

€k	31/12/2011	31/12/2010	+/(-) Change, %
Due on demand	29,616	49,677	(40.4)
Up to 3 months	880,109	1,087,867	(19.1)
From 3 months to 1 year	184,116	102,125	80.3
From 1 year to 5 years	273,566	40,875	>100
From 5 years and over	18,843	3,454	>100
Payables to other banks	**1,386,250**	**1,283,998**	**8.0**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Savings deposit balances	**1,786,344**	**1,847,218**	**(3.3)**
Corporate and business banking customers	260,189	312,012	(16.6)
Retail banking customers	1,526,155	1,535,206	(0.6)
Other payables	**1,749,270**	**1,643,753**	**6.4**
Corporate and business banking customers	1,261,040	1,149,255	9.7
Retail banking customers	488,230	494,498	(1.3)
Payables to customers	**3,535,614**	**3,490,971**	**1.3**

PAYABLES TO CUSTOMERS, BY TERM TO MATURITY

€k	31/12/2011	31/12/2010	+/(-) Change, %
Due on demand	1,119,733	1,059,562	5.7
Up to 3 months	841,794	951,612	(11.5)
From 3 months to 1 year	1,163,706	1,076,281	8.1
From 1 year to 5 years	346,332	391,022	(11.4)
From 5 years and over	64,049	12,494	>100
Payables to customers	**3,535,614**	**3,490,971**	**1.3**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2011	31/12/2010	+/(-) Change, %
Issued bonds	316,926	279,800	13.3
Other liabilities evidenced by paper	138,090	124,401	11.0
Liabilities evidenced by paper	**455,016**	**404,201**	**12.6**

Other liabilities evidenced by paper includes €97.9 million (31 December 2010: €84.1 million) of liabilities measured at fair value (fair value option).

LIABILITIES EVIDENCED BY PAPER, BY TERM TO MATURITY

€k	31/12/2011	31/12/2010	+/(-) Change, %
Up to 3 months	7,091	5,939	19.4
From 3 months to 1 year	38,794	26,816	44.7
From 1 year to 5 years	334,270	281,611	18.7
From 5 years and over	74,861	89,835	(16.7)
Liabilities evidenced by paper	**455,018**	**404,201**	**12.6**

(28) TRADING LIABILITIES

€k	31/12/2011	31/12/2010	+/(-) Change, %
Interest rate contracts	391	490	(20.2)
Trading liabilities	**391**	**490**	**(20.2)**

(29) PROVISIONS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	66,238	69,082	(4.1)
Provisions for taxes (current tax)	958	4,026	(76.2)
Other provisions	10,248	9,534	7.5
Provisions	**77,444**	**82,642**	**(6.3)**

During the year under review, the calculation of so-called 'social capital' was based on an interest rate of 4.75 per cent (2010: 4.25 per cent). *Other provisions* consists essentially of staff related provisions and provisions for stepped coupon products.

PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Provision balance at 1 January	69,082	69,372	(0.4)
+ Interest cost	2,538	2,811	(9.7)
+ Service cost	1,051	1,255	(16.3)
– Payments during the year under review	(4,780)	(4,150)	15.2
± Actuarial gain/(loss)	(1,653)	896	>100
– Reversal/transfer of provisions for former employees	0	(1,102)	—
Provision balance at 31 December	**66,238**	**69,082**	**(4.1)**

BREAKDOWN OF PROVISIONS

€k	Post-emp. Benefits & Similar Obligations	Taxes and Other	Total 2011	Total 2010	+/(-) Change, %
Provision balance at 1 January	69,082	13,560	82,642	78,610	5.1
+ Changes in scope of consolidation	—	—	—	—	—
+ Exchange differences	(6)	(3)	(9)	(7)	28.6
+ Added	1,722	1,885	3,607	10,631	(66.1)
– Used	1,072	3,431	4,503	4,980	(9.6)
– Reversed	3,345	948	4,293	1,612	>100
± Transferred	(143)	143	0	—	—
Provision balance at 31 December	**66,238**	**11,206**	**77,444**	**82,642**	**(6.3)**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2011	31/12/2010	+/(-) Change, %
Receivables from customers	814	858	(5.1)
Trading assets and liabilities	41	58	(29.3)
Financial assets and liabilities designated as at fair value through profit or loss	2,545	2,245	13.4
Available-for-sale financial assets and liabilities	2,426	5,212	(53.5)
Held-to-maturity financial assets and liabilities	641	1,091	(41.2)
Property and equipment	0	65	0
Other assets and liabilities	1,573	1,519	3.6
Liabilities evidenced by paper	361	641	(43.7)
Provisions (for post-employment and termination benefits) and other liabilities	873	465	87.7
Deferred tax liabilities	**9,274**	**12,154**	**(23.7)**

Deferred taxes totalling €3.2 million (31 December 2010: €841 thousand) were taken directly to equity (*AFS Reserve*).

(31) OTHER LIABILITIES

€k	31/12/2011	31/12/2010	+/(-) Change, %
Negative fair values of derivative financial instruments	70,497	54,490	29.4
Other items	14,379	16,518	(12.9)
Deferred items	1,473	1,533	(3.9)
Other liabilities	**86,349**	**72,541**	**19.0**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2011	31/12/2010	+/(-) Change, %
Supplementary capital	220,730	223,361	(1.2)
Hybrid capital	40,000	40,000	—
Subordinated debt capital	**260,730**	**263,361**	**(1.0)**

SUBORDINATED DEBT CAPITAL, BY TERM TO MATURITY

€k	31/12/2011	31/12/2010	+/(-) Change, %
From 3 months to 1 year	24,548	22,985	6.8
From 1 year to 5 years	94,256	110,837	(15.0)
From 5 years and over	141,926	129,539	9.6
Subordinated debt capital	**260,730**	**263,361**	**(1.0)**

Supplementary capital notes in the amount of €24.7 million will mature during the 2011 financial year (2011: €23.0 million).

DETAILS OF BKS BANK'S SUBORDINATED DEBT CAPITAL (NOMINAL VALUES)[1]

€k		31/12/2011	31/12/2010	Full Term
4½%	*Ergänzungskapital-Obligation 2003-2011/2*	—	10,000	8 years
4½%	*Ergänzungskapital-Obligation 2003-2011/4*	—	13,000	8 years
4¼%	*Ergänzungskapital-Obligation 2004-2012/2*	14,700	14,700	8 years
4¼%	*Ergänzungskapital-Obligation 2004-2012/4*	10,000	10,000	8 years
	Stufenzins-Ergänzungskapital-Obligation 2005-2013/2	10,000	10,000	8 years
3¾%	*Ergänzungskapital-Obligation 2005-2013/4*	10,000	10,000	8 years
Variable	*Ergänzungskapital-Obligation 2006-2014/1*	22,000	22,000	8 years
Variable	*Ergänzungskapital-Obligation 2006-2021/PP*	2,350	2,350	15 years
4½%	*Ergänzungskapital-Obligation 2006-2014/3*	5,600	5,600	8 years
Variable	*Ergänzungskapital-Obligation 2006-2014/4*	25,000	25,000	8 years
4¾%	*Ergänzungskapital-Obligation 2007-2015/1*	10,000	10,000	8 years
5%	*Ergänzungskapital-Obligation 2007-2017/3*	9,100	9,100	10 years
5%	*Ergänzungskapital-Obligation 2007-2015/6*	15,000	15,000	8 years
4½%	*Ergänzungskapital-Obligation 2008-2016/2*	7,700	7,700	8 years
	Stufenzins-Ergänzungskapital-Obligation 2008-2020/4	15,000	15,000	12 years
5%	*Ergänzungskapital-Obligation 2009-2017/3*	20,000	20,000	8 years
4¾%	*Ergänzungskapital-Obligation 2009-2017/8*	19,500	19,500	8 years
	Stufenzins-Ergänzungskapital-Obligation 2010-2020/2	16,000	16,000	10 years
4¾%	*Ergänzungskapital-Obligation 2011-2019/3*)*	20,000	—	8 years
7.35%	*Hybridanleihe der BKS Hybrid alpha GmbH 2008*	20,000	20,000	Unlimited
6%	*Hybridanleihe der BKS Hybrid beta GmbH 2010*	20,000	20,000	Unlimited
	Total subordinated debt capital	**274,950**	**271,950**	

[1] This does not constitute an offer or invitation to buy or sell the notes mentioned herein. Nor does it constitute a recommendation to buy or sell. Since May 2009, issuances have taken place on the basis of the base prospectus published by BKS Bank in each case and the final terms published in each case. These are available from the issuer's website at www.bks.at or free of charge from the branches of *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt, Austria, during normal business hours.

(33) CONSOLIDATED EQUITY

€k	31/12/2011	31/12/2010	+/(-) Change, %
Subscribed capital	65,520	65,520	—
– Share capital	65,520	65,520	—
Capital reserves	97,929	97,929	—
Retained earnings and other reserves	481,476	464,368	3.7
Equity before minority interests	644,925	627,817	2.7
Minority interests	(3)	1	>100
Consolidated equity	**644,922**	**627,818**	**2.7**

The share capital was represented by 30,960,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share had a nominal value of €2.0. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. At year-end, eligible own funds came to €681.9 million (31 December 2010: €567.4 million). BKS Bank had €328.7 million of surplus own funds (31 December 2010: €219.8 million).

Additional disclosures required by IFRSs

(34) FAIR VALUES

€k	Fair Values Market Values	Fair Values Other	31/12/2011 Fair Values Total	Carrying Amounts	Difference 2011
Assets					
Receivables from other banks	—	116,724	116,724	116,503	221
Receivables from customers	—	4,854,518	4,854,518	4,801,095	53,423
Financial assets designated as at fair value through profit or loss	58,722	60,892	119,614	119,614	—
Available-for-sale financial assets	277,537	17,578	295,115	295,115	—
Held-to-maturity financial assets	771,204	—	771,204	738,732	32,472
Investments in entities accounted for using the equity method	296,512	4,963	301,475	309,929	(8,454)
Equity and liabilities					
Payables to other banks	—	1,390,609	1,390,609	1,386,250	4,359
Payables to customers	—	3,538,667	3,538,667	3,535,614	3,053
Liabilities evidenced by paper	316,928	137,557	454,485	455,016	(531)
Subordinated debt capital	256,765	2,350	259,115	260,730	(1,615)

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

The tables above present the fair values of the respective balance sheet items. Fair values are the amounts for which financial instruments could be exchanged between knowledgeable, willing parties in an arm's length transaction on the balance sheet date. The fair values shown in the *Market Values* column were determined by prices quoted on active markets. In general, the fair values shown in the *Other* column were determined using input factors that were observable for the respective assets and liabilities (e.g. the yield curve), and the *Other* column also includes assets in the amount of €22,541 thousand (31 December 2010: €21,945 thousand) in the line items *Available-for-sale financial assets* and *Investments in entities accounted for using the equity method* whose value was determined using internal valuation methods. In general, other items were measured using present value techniques. The *Difference* column shows the respective differences between *Fair Values Total* and *Carrying Amounts*.

(35) INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2011

	Method*	Percentage Held	Assets, €k	Profit/(Loss) for the Year, €k
Alpenländische Garantie-Gesellschaft mbH	E	25.00	208,882	18
Oberbank AG	E	16.95	17,061,258	79,676
Bank für Tirol und Vorarlberg AG	E	13.59	8,988,540	83,321
Drei-Banken Versicherungs-AG	E	20.00	179,709	578
Drei-Banken-EDV Gesellschaft mbH	N	30.00	22,602	21

INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2010

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

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

Of the entities accounted for using the equity method, *Oberbank AG* and *BTV AG* were, for the following reasons, thus accounted for in the Consolidated Financial Statements even though a stake of at least 20 per cent was not held: A syndicate agreement is in place between *BKS Bank*, *BTV AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* in respect of their equity investments in *Oberbank AG*, and a syndicate agreement is in place between *BKS Bank AG*, *Oberbank AG*, *Generali 3 Banken Holding AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* in respect of their equity investments in *BTV AG*. At year-end, the market value of *BKS Bank AG*'s listed equity investments in *Oberbank AG* and *BTV AG* was €296.5 million (31 December 2010: €284.6 million). In turn, *Oberbank AG* and *BTV AG* held a total of 12,259,083 shares in *BKS Bank AG* (31 December 2010: 12,259,083 shares).

Alpenländische Garantie-Gesellschaft mbH (*ALGAR*), which is headquartered in Linz, is a *3 Banken Group* joint venture. It was set up as a bank in 1983. *ALGAR* is not profit-orientated. Its purpose is to mitigate the large loan risks of the three banks that are its equity holders. It does so by guaranteeing loans and advances and by assuming liability in other ways. Fifty per cent of *ALGAR*'s share capital of €3.0 million is held by the *Oberbank*. *BTV* and BKS Bank each hold a 25 per cent stake. Guarantee fees totalled €2.9 million (2010: €2.8 million).

Drei-Banken-EDV Gesellschaft mbH is the IT service provider to the *3 Banken Group*. *BKS Bank AG*'s payments to this company during the year under review came to €7.5 million (2010: €6.7 million).

(36) TRANSACTIONS WITH ASSOCIATES

€k	31/12/2011	31/12/2010	+/(-) Change, %
Assets			
Receivables from other banks	1,435	49,055	(97.1)
Receivables from customers	6,174	6,920	(10.8)
Liabilities			
Payables to other banks	235,241	185,294	27.0
Payables to customers	11,995	16,333	(26.6)

(37) TRANSACTIONS WITH SUBSIDIARIES

€k	31/12/2011	31/12/2010	+/(-) Change, %
Assets			
Receivables from customers	17,766	16,474	7.8
Other assets	460	1,720	(73.3)
Liabilities			
Payables to customers	2,184	4,037	(45.9)

(38) SEGMENTAL REPORTING

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

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	2011	2010	2011	2010	2011	2010
Net interest income	33,980	31,394	90,261	93,343	25,560	19,150
Impairment charge on loans and advances	(1,230)	(993)	(31,222)	(46,567)	(752)	0
Net fee and commission income	18,607	20,192	22,341	21,338	615	755
Net trading income	0	0	0	0	1,325	1,568
General administrative expenses	(46,832)	(47,902)	(36,595)	(34,758)	(5,222)	(5,831)
Other operating income net of other operating expenses	983	1,282	1,316	1,945	118	(3,318)
Profit/(loss) from financial assets	0	0	0	0	(32,516)	5,102
Profit for the year before tax	**5,508**	**3,973**	**46,101**	**35,301**	**(10,872)**	**17,426**
Average risk-weighted assets	563,473	562,919	3,147,363	3,111,721	616,106	572,421
Average allocated equity	45,078	45,034	251,789	248,938	331,779	300,856
Segment liabilities	2,601,568	2,674,793	1,902,229	1,739,985	1,772,479	1,647,261
ROE based on profit for the year	**12.2%**	**8.8%**	**18.3%**	**14.2%**	**(3.3%)**	**5.8%**
Cost:income ratio	**87.4%**	**90.6%**	**32.1%**	**29.8%**	**18.9%**	**32.1%**
Risk:earnings ratio	**3.6%**	**3.2%**	**34.6%**	**49.9%**	**2.9%**	**—**

€k	Other		Total	
	2011	2010	2011	2010
Net interest income	620	(256)	150,421	143,631
Impairment charge on loans and advances	0	0	(33,204)	(47,560)
Net fee and commission income	741	257	42,304	42,542
Net trading income	0	0	1,325	1,568
General administrative expenses	(2,811)	(2,981)	(91,460)	(91,472)
Other operating income net of other operating expenses	(680)	(104)	1,737	(195)
Profit/(loss) from financial assets	0	0	(32,516)	5,102
Profit for the year before tax	**(2,130)**	**(3,084)**	**38,607**	**53,616**
Average risk-weighted assets	53,207	55,837	4,380,149	4,302,898
Average allocated equity	7,724	7,841	636,370	602,669
Segment liabilities	179,717	176,136	6,455,993	6,238,175
ROE based on profit for the year	**—**	**—**	**6.1%**	**8.9%**
Cost:income ratio	**—**	**—**	**46.7%**	**48.8%**
Risk:earnings ratio	**—**	**—**	**22.1%**	**33.1%**

During the financial year, we based our segmental reporting on internal management arrangements (the *management approach* based on IFRS figures) in accordance with the provisions of IFRS 8.

(39) NON-INTEREST ASSETS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Non-interest assets	**193,002**	**146,217**	**32.0**

Non-interest receivables from customers less impairments came to €107.1 million (31 December 2010: €68.6 million).

(40) SUBORDINATED ASSETS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Receivables from customers	19,068	17,093	11.6
Bonds and other fixed-interest securities	5,075	5,190	(2.2)
Shares and other variable-yield securities	7,075	7,252	(2.4)

(41) BALANCES IN FOREIGN CURRENCIES

€k	31/12/2011	31/12/2010	+/(-) Change, %
Assets	919,786	936,323	(1.8)
Liabilities	353,634	252,136	40.3

(42) ADMINISTRATIVE AND AGENCY SERVICES

€k	31/12/2011	31/12/2010	+/(-) Change, %
Administrative and agency services	**1,723**	**1,725**	**(0.1)**

(43) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2011	31/12/2010	+/(-) Change, %
Guarantees	407,658	410,626	(0.7)
Letters of credit	3,235	5,352	(39.6)
Contingent liabilities	**410,893**	**415,978**	**(1.2)**
Other commitments	634,395	632,580	0.3
Commitments	**634,395**	**632,580**	**0.3**

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

(44) INVESTMENTS IN SUBSIDIARIES AND SELECTED OTHER EQUITY INVESTMENTS

	K[1]	Equity, €m		Percentage Held by BKS Bank		Profit/(Loss) for the Year, €m	
		31/12/2011	31/12/2010	Directly	Indirectly	2011	2010
BKS-Leasing Gesellschaft mbH, Klagenfurt	C	0.49	0.49	100.00		0.01	0.01
BKS-Immobilienleasing Gesellschaft mbH, Klagenfurt	C	1.61	1.36		100.00	0.69	0.27
Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG, Klagenfurt	C	3.54	2.00	100.00		0.23	0.07
BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt[2]	C	2.17	1.77		100.00	0.41	0.39
BKS Immobilien-Service Gesellschaft mbH, Klagenfurt	N	0.22	0.22	100.00		0.46	0.72
BKS 2000-Beteiligungsverwaltungsgesellschaft mbH, Klagenfurt	N	19.51	21.50	100.00		(0.14)	2.26
Oberbank AG, Linz	E	964.09	897.47	16.95		79.68	81.54
Bank für Tirol und Vorarlberg AG, Innsbruck	E	548.55	472.46	13.59		83.32	38.27
Alpenländische Garantie-Gesellschaft mbH, Linz	E	3.86	3.84	25.00		0.02	0.00
Drei-Banken-EDV Gesellschaft mbH, Linz	N	3.50	3.48	30.00		0.02	0.00
3-Banken Beteiligung Gesellschaft mbH, Linz	N	21.22	21.18		30.00	0.04	0.09
Drei-Banken Versicherungs-Aktiengesellschaft, Linz	E	19.39	19.29	20.00		0.58	0.78
BKS-leasing d.o.o., Ljubljana	C	3.95	3.24	100.00		0.71	0.61
BKS-leasing Croatia d.o.o., Zagreb	C	1.28	0.03	100.00		0.32	(0.77)
E 2000 Liegenschaftsverwertungs-GmbH, Klagenfurt	N	0.07	0.04	99.00	1.00	0.03	0.20
VBG Verwaltungs- und Beteiligungsgesellschaft mbH, Klagenfurt	N	0.08	0.56	100.00		(0.98)	0.11
BKS Bank d.d., Rijeka	C	17.86	18.18	100.00		0.05	0.09
BKS-Leasing a.s., Bratislava	C	17.54	17.76	100.00		(0.22)	0.02
IEV Immobilien GmbH, Klagenfurt	C	0.04	0.04	100.00		0.00	0.00
BKS Hybrid alpha GmbH, Klagenfurt	C	0.06	0.05	100.00		0.01	0.01
BKS Hybrid beta GmbH, Klagenfurt	C	0.04	0.03	100.00		0.01	(0.01)
VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt	C	100.83	100.83	100.00		1.54	0.91
LVM Beteiligungs Gesellschaft mbH, Vienna	C	100.82	100.82		100.00	1.54	0.92

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

[2] Equity includes a subordinated *Genussrecht* (profit participation note) in the amount of €3.63 million (31 December 2010: €3.63 million).

BKS Bank's portfolio of equity investments consisted largely of strategic equity investments in banks (syndicate partners). Its investments in subsidiaries consisted primarily of investments in its strategic partners in the banking and other financial service sectors and banking-related ancillary service industries. Equity investment items comprised equity investments and investments in subsidiaries intended to give lasting support to BKS Bank's business operations. Those equity investments were largely carried at cost less any impairment charge. We did not record any gains or losses on the disposal of equity investment items during the 2011 financial year.

(45) EVENTS AFTER THE BALANCE SHEET DATE

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

(46) ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2011	31/12/2010
Money held in trust pursuant to *§ 230 a ABGB*	Securities	9,976	9,973
Arrangement deposit for stock exchange trading	Securities	1,596	1,595
Deposit for EUREX trading	Securities	50	50
Xetra collateral	Securities	1,215	1,208
Euroclear pledge	Securities	14,992	3,002
SEPA collateral for the Slovenia branch	Securities	529	282
Repos margin	Securities	1,002	—
Collateral for OeNB loans	Securities	160,076	121,425
Collateral for OeNB loans	Loans	110,007	148,635
Collateral for funds provided to *Banka Slovenije*	Loans	33,000	33,000

Disclosures Required by Austrian Law

(47) EMPLOYEES, BOARDS AND OFFICERS

	BKS Bank: 2011	BKS Bank: 2010
Average number of salaried (white-collar) staff:		
Salaried staff working for BKS Bank	793	767
Salaried staff working at BKS Bank for entities considered to be related parties	31	32
Salaried staff working at entities considered to be related parties	99	96
Salaried staff of the BKS Bank Group	923	895
– Salaried staff working for entities considered to be related parties from the Group's standpoint	22	23
Average number of non-salaried (blue-collar) staff	47	39
Emoluments of the Management Board, €k	1,166	1,011
Retirement pensions paid to former members of the Management Board and their surviving dependants, €k	739	731
Expenditure on termination and post-employment benefits for members of the Management Board, €k	604	830
Expenditure on termination and post-employment benefits for former members of the Management Board and their surviving dependants, €k	262	674
Expenditure on termination and post-employment benefits for employees (including former employees and their surviving dependants), €k	2,319	4,691
Remuneration paid to members of the Supervisory Board, €k	107	113
Advances and loans granted to members of the Management Board and Supervisory Board and close relatives	218	193
Deposit balances of members of the Management Board and Supervisory Board and close relatives	5,256	5,106

All advances and loans granted to and deposits accepted from members of the Management Board and Supervisory Board were granted or accepted on normal commercial terms and conditions. Disclosures have been made in accordance with IAS 24.

(48) FEES PAID TO THE BANK AUDITOR

€k	BKS Bank: 2011	BKS Bank: 2010
Fees for statutory audits	360	350
Other fees	218	196
Total fees	**578**	**546**

Risk Report

(49) MANAGEMENT OF OVERALL BANK RISK

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

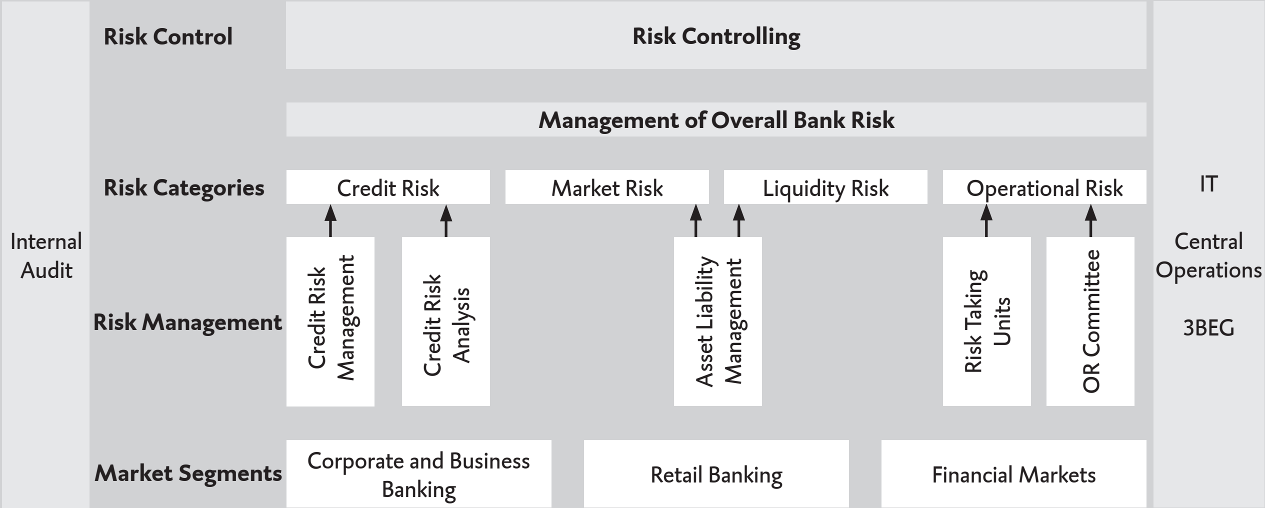
BKS Bank's risk management strategy centres on the conservative handling of risks. Risks at BKS Bank are analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. We have made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

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

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

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

THE ORGANIZATIONAL FOUNDATIONS OF RISK MANAGEMENT



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

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

All identified and measured unexpected risks are aggregated to obtain a figure for overall bank risk. The overall bank risk is the equivalent of our economic capital, which is the smallest amount of capital needed to cover unexpected losses. In contrast, the *expected loss* is calculated on the basis of average losses experienced in the past. Such 'foreseeable costs' are factored into prices as risk premiums (standard risk costs, liquidity premiums) and must be recouped through the terms and conditions imposed on customers.

This aggregated total potential loss is compared with the assets available to cover such a potential loss. The purpose of the comparison is to ascertain whether the bank is in a position to detect and cover any possible unexpected losses without suffering serious detriment to its business operations and without outside help.

At BKS Bank, unexpected losses within a period of observation of one year are predicted on a going-concern basis with a confidence interval of 95 per cent and on a liquidation basis with a confidence interval of 99.9 per cent.

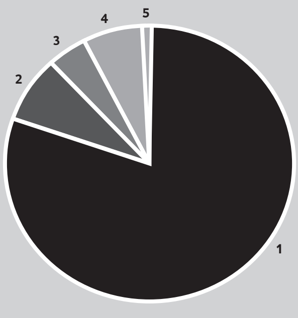
To ensure capital adequacy on a going-concern basis, risk potential and risk-bearing capacity must be matched to one another in such a way that the bank is in a position to absorb an adverse burden while continuing to conduct business in an orderly manner. To ensure that this is the case and to enable us to initiate countermeasures early, we have set an advance warning threshold of 80 per cent of the assets available to cover risks on a going-concern basis.

Ensuring capital adequacy on a liquidation basis is a regulatory requirement. It serves to protect creditors.

Stress test scenarios provide supplementary information to improve estimates of the effects of possible extreme market movements and to make it possible to initiate risk mitigating action early. Our stress scenarios differentiate between *mild recession*, *worst case* and *greatest relevance* scenarios. The *greatest relevance* scenario is reviewed once a quarter. The other scenarios are reviewed once a year.

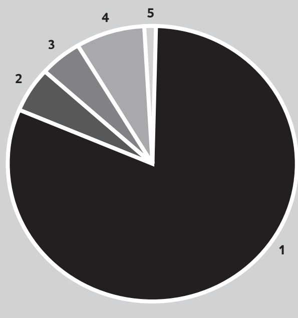
The results of risk-bearing capacity calculations together with the development of risks and covering asset balances, the utilization of the risk limits and stress test evaluations are reported to the Management Board and risk management units on a quarterly basis. Economic capital is an important instrument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

INDIVIDUAL RISK CATEGORIES IN RELATION TO OVERALL BANK RISK



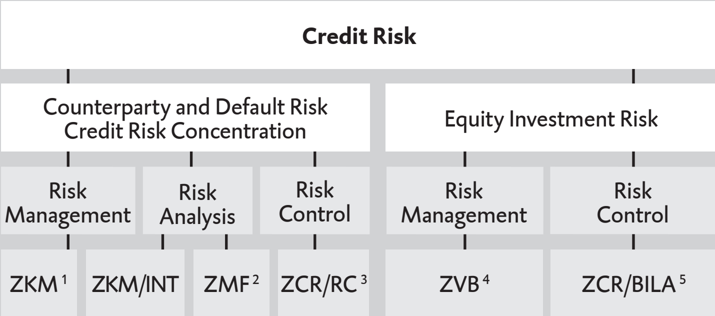
2011

	2011	2010
1 Credit risk	80.3%	81.5%
2 Market risk	8.0%	5.4%
3 Operational risk	4.2%	4.7%
4 Liquidity risk	7.2%	8.0%
5 Other risks	0.3%	0.4%



2010

Credit Risk



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

Credit risk is the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by deterioration in a business counterparty's credit standing or, indirectly, by country risk as the result of a counterparty's domicile or place of residence. Credit risk is BKS Bank's biggest risk category by far, as is evident when one looks at our internal and regulatory capital requirements. Within the Group, credit risk is monitored and analyzed at the product and single customer level, at the level of groups of related customers and at the portfolio level.

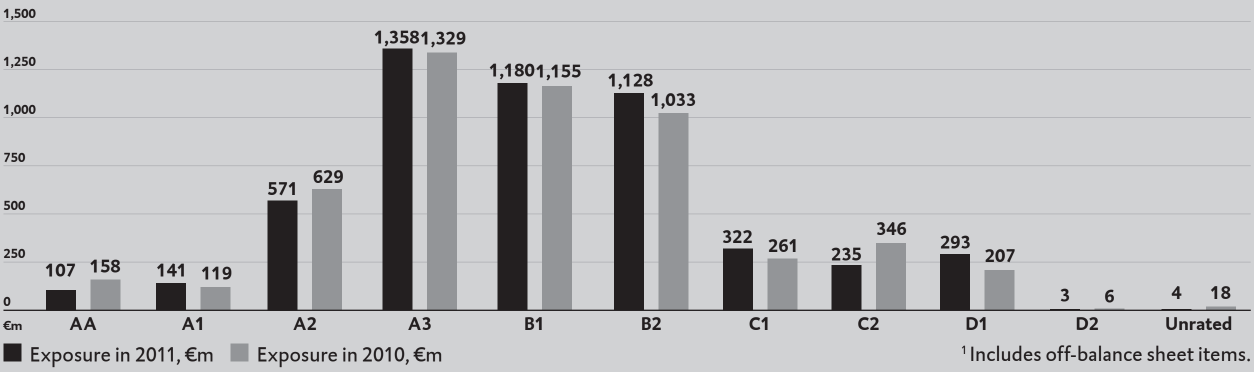
Our rating procedures are the cornerstone of effective risk management within the BKS Bank Group and an essential part of the decision-making processes carried out by Risk Management. The bank's internal rating models are subject to regular, annual quantitative and qualitative validation reviews during which each rating model is audited to check whether it accurately captures the risks being measured. The primary goal of the rating validation process is to check the 'selectivity' of the internal rating systems. Adequate collateralization and adherence to minimum rating class requirements are key objectives when risk positions are acquired.

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

Looking at our credit risk in terms of non-performing loans, such loans accounted for 5.8 per cent of the total portfolio at year-end 2011 (31 December 2010: 5.8 per cent). This figure was calculated on the basis of the non-performing loans contained in the classes C2 – D2 in BKS Bank's rating system net of recognized impairment allowances and collateral. The divisor was gross customer loan receivables inclusive of corporate bonds, guarantees and unused credit lines.

Impairment losses are calculated using a standardized process during which impairment charges are recognized on impaired receivables in respect of the collateral shortfalls. Charges are recognized on an item-by-item basis on loans to corporate and business banking customers and to other banks if the customer in question has a collateral shortfall of €70,000 or more. In the case of retail and personal banking customers, charges are recognized on an item-by-item basis if the customer in question has a collateral shortfall of €35,000 or more. Impairments are assessed collectively for loans to customers who are believed

RECEIVABLES FROM CUSTOMERS, BY RATING CLASS[1]



[1] Includes off-balance sheet items.

to be at risk of default but whose collateral shortfalls are smaller. Similarly, the requisite impairment allowance is calculated for uncovered exposures where there is a country risk and an impairment charge is, if required, made. In addition, BKS Bank has recognized an allowance for incurred but not yet reported losses on the basis of portfolio analysis in accordance with the International Financial Reporting Standards (IAS 39 para. 64). The impairment process is regulated by a Group-wide guideline.

Concentrations of credit risk are managed at the portfolio level. We aim for a balanced distribution of credit exposures by size. Limits have also been set for individual geographical regions, these being expressed in percentages of BKS Bank's assets. Our lending to individual sectors and industries is likewise closely monitored. To this end, regular evaluations are carried out, and we maintain a clear strategic focus. It is BKS Bank's strategy to permanently reduce the total portfolio of foreign currency and repayment vehicle loans.

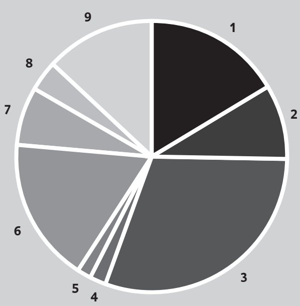
We have established the following key principles in this area:
– Foreign currency loans cannot be granted to consumers.
– Foreign currency loans with capital accumulating repayment vehicles are no longer allowed.
– Concrete targets for reducing the foreign currency loan portfolio are set during the annual budgeting process.

Our credit risk management activities also differentiate between exposures according to loan duration. Longer durations are deemed to increase risks and are subject to special lending conditions.

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

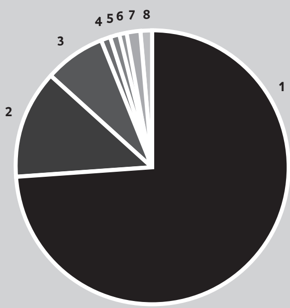
Collateral management is another central pillar of risk management. It is the responsibility of the central Credit Risk Management and Back Office departments. Comprehensive written valuation guidelines specify which forms of collateral are permissible. Standardized collateral valuation policies have been defined. Generally, they are based on the average proceeds from liquidation achieved in the past. Real estate collateral is valued and regularly audited by experts from the Back Office Division who are not involved in the lending process. At the end of 2011, 95.7 per cent of BKS Bank's correspondents were in the top AA to A3 rating classes.

LENDING, BY SECTOR AND INDUSTRY



1	Industry	**15.5%**
2	Retailing, wholesaling	**9.6%**
3	*Gewerbe* businesses	**32.6%**
4	Transport	**2.2%**
5	Public sector	**1.4%**
6	Private individuals	**17.6%**
7	Professions	**7.2%**
8	Tourism	**3.8%**
9	Other	**10.1%**

LENDING, BY COUNTRY



1	Austria	**74.0%**
2	Slovenia	**13.0%**
3	Croatia	**7.2%**
4	Hungary	**0.9%**
5	Slovakia	**1.1%**
6	Italy	**0.3%**
7	Germany	**2.1%**
8	Other	**1.4%**

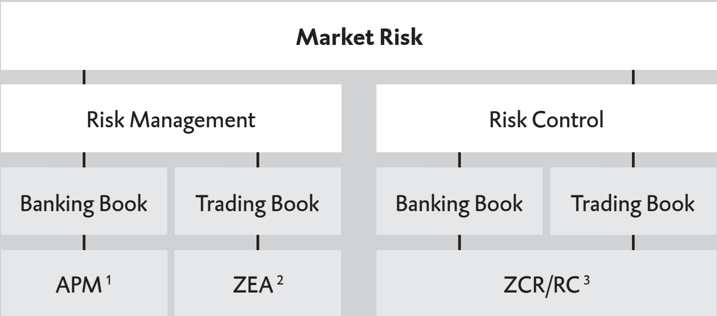
Equity Investment Risk

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

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

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

Market risk



[1] Asset Liability Management.
[2] Central International and Treasury Department.
[3] Central Controlling and Risk Controlling Department.

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

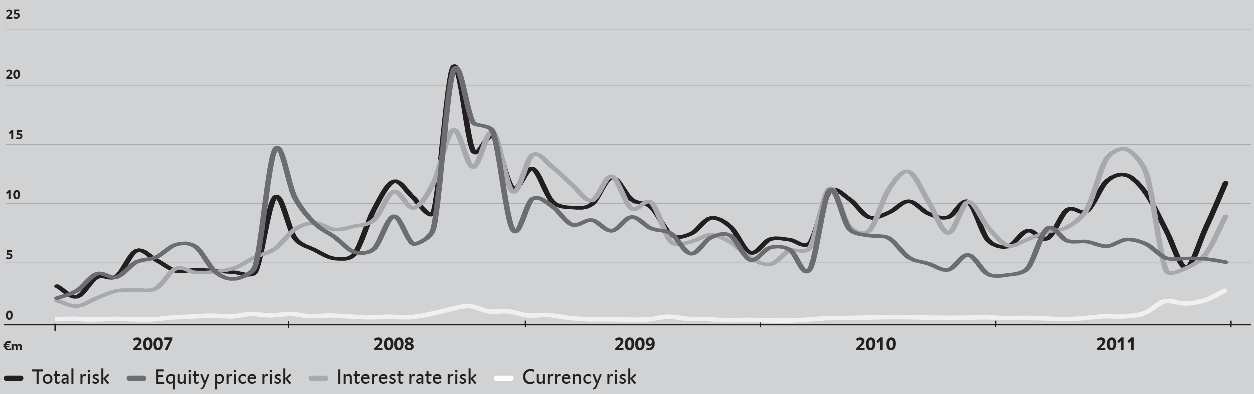
We manage market risks and set market risk limits using a combination of different ways of measuring risk (value at risk, modified duration, volumes and economic capital stress testing). The Management Board sets the overall limit once a year within the scope of the budgeting process. In doing so, it takes account of the Group's risk-bearing capacity.

The *value-at-risk approach* (historical simulation) is used to obtain a quantitative figure for market risks in the trading and banking books under given market conditions. It is an estimate of the maximum possible loss in the future within a given holding period and with a certain probability. Value at risk (VAR) enables us to apply a constant and uniform measure of risk to all our proprietary operations.

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

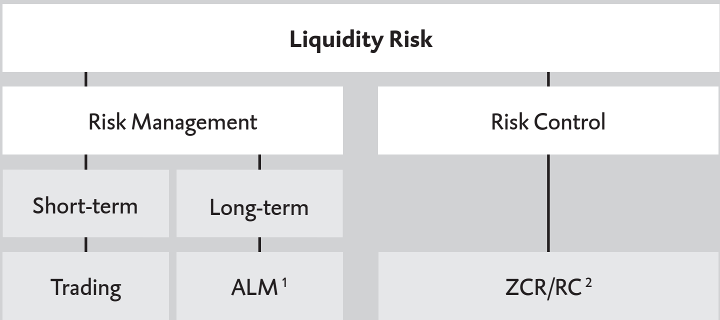
Managing interest rate risk in the banking book is the responsibility of the Asset Liability Management (ALM) Committee. This committee is made up of the Management Board and the heads of the relevant banking departments. The ALM Committee meets once a month to discuss the results of present value and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

MARKET RISKS (VALUE-AT-RISK BASIS)



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

Liquidity risk



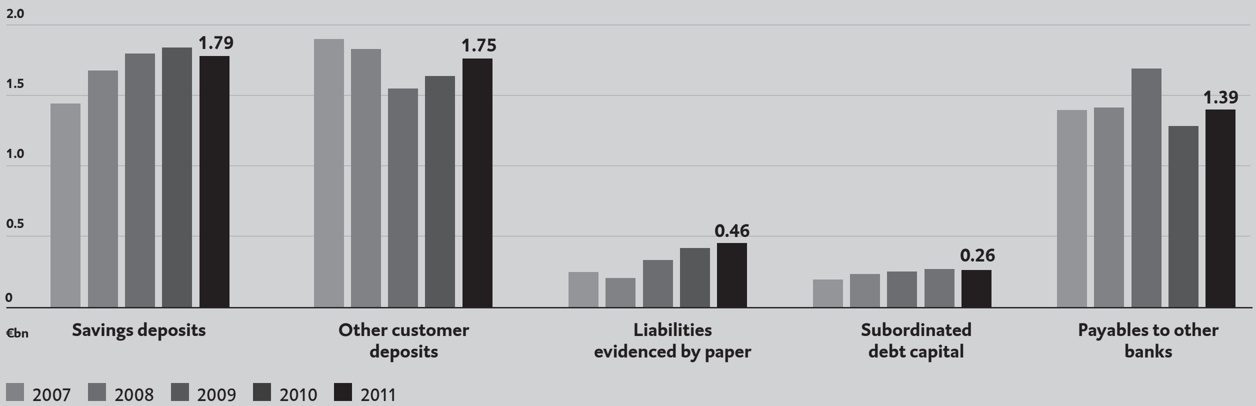
[1] Asset Liability Management.
[2] Central Controlling/Risk Controlling Department.

Liquidity risk is the risk that it may not be possible to meet current or future financial obligations in full or in time. It also includes the risk that, in the event of a liquidity crisis, it may only be possible to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk). The management of liquidity risk is governed by clearly defined principles enshrined within our risk strategy or contained in our liquidity risk management manuals.

Diversifying our funding profile to achieve a mix of investor categories, products and maturities is an essential part of our liquidity risk management activities. On an intraday basis, this is done through the management of daily deposits and withdrawals. This process is based on information about transactions that affect liquidity. It includes information about payment instructions, advance information about the upcoming customer transactions provided by Sales, information about proceeds from the bank's own issuances provided by the Securities Back Office Department and information about securities transactions provided by the Treasury Division. Any liquidity peaks are evened out through *OeNB*. The management of medium-term and longer-term liquidity is carried out by Asset Liability Management. The Risk Controlling Unit is responsible for liquidity risk control, which involves checking adherence to the principles, procedures and limits that have been laid down.

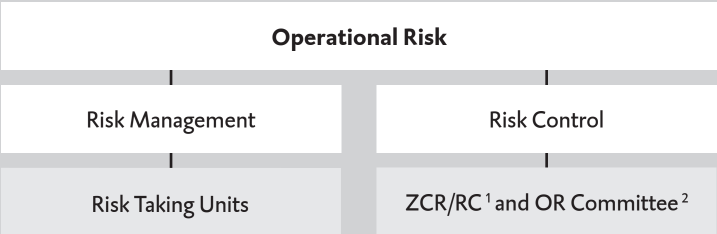
If it is discovered that anything unusual has occurred or if certain early warning scores or limits have been reached, an appropriate *ad hoc* report will be prepared for the Management Board.

FUNDS FROM EXTERNAL SOURCES



All the assets and liabilities of relevance to our funding profile are presented by maturity band in our daily liquidity projections. These projections present the funding surplus or shortfall in each maturity band, making it possible to manage our liquidity positions. In addition, we have developed an extensive system of limits (limits for each maturity band, time-to-wall limits) that gives the Management Board and the responsible risk management units a quick overview of the current situation. Analyses are supplemented by reliable stress tests. Depending on the nature of the source of stress, we distinguish between general macroeconomic scenarios, banking-specific scenarios and combined stress scenarios.

Operational risk



[1] Central Controlling/Risk Controlling Department.
[2] Operational Risk Committee.

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

At BKS Bank, operational risks are limited using appropriate internal control systems that undergo continuous refinement. They include a raft of organizational measures ranging from the adequate separation of functions during processes (separation of front office from back office activities, dual-control or 'four-eyes' principle) to extensive internal rules and regular inspections to emergency plans and self-auditing systems. We combat IT risks with the help of professional IT security management carried out by *3Banken-EDV Gesellschaft*, which is a joint venture with our sister banks, and extensive data protection and data security measures within the bank. The effectiveness of these precautions is regularly reviewed by Internal Audit. System weaknesses detected by Internal Audit are immediately passed on for remedial action.

In addition, we attach great importance to creating an adequate controlling environment. For instance, Management and executive personnel are clear about the importance of adhering to rules and regulations, appropriate precautions are made when hiring new staff, and we promote the personal and professional skills of Management and other staff within the scope of a highly developed training system. We also combat staff related risks with the help of particularly generous fringe benefits and a multitude of CSR measures.

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

We use a variety of techniques to ensure the effective management of operational risk:
- we carry out self-assessments on a bottom-up basis; the result is a specific risk profile for each business segment;
- we record operational risk losses in a loss database;
- we develop risk mitigating measures on the basis of risk analyses carried out within the scope of such self-assessments and analyses of actual losses;
- quarterly operational risk reports are prepared for the Management Board, the heads of the risk taking units and Head Office divisions and departments.

As in prior years, we used the *standardized approach* as the basis for calculating our regulatory capital requirement for operational risk in 2011. Our regulatory own funds requirement in the year under review was €26.8 million (31 December 2010: €25.0 million). This compared with actual operational risk losses (allowing for reimbursed losses) of €0.91 million. These losses resulted from a total of 235 loss events recorded in the period from January through December 2011.

(50) BALANCE OF DERIVATIVES OUTSTANDING (BANKING BOOK)

€k		Nominal, by Term to Maturity	
	Less Than 1 Year	1 – 5 Years	Over 5 Years
Interest rate contracts	**90,000**	**728,224**	**139,180**
OTC products	90,000	728,224	139,180
Interest rate swaps	90,000	728,224	139,180
– Calls	45,000	364,112	69,590
– Puts	45,000	364,112	69,590
Interest rate options	—	—	—
– Calls	—	—	—
– Puts	—	—	—
Currency contracts	**1,168,457**	**1,177,354**	**—**
OTC products	1,168,457	1,177,354	—
Currency forwards	360,682	195	—
– Calls	181,225	102	—
– Puts	179,457	93	—
Capital market swaps	285,622	1,177,159	—
– Calls	162,226	550,156	—
– Puts	123,396	627,003	—
Money market swaps (currency swaps)	522,153	—	—
– Calls	260,539	—	—
– Puts	261,614	—	—
Securities contracts	**—**	**—**	**—**
Exchange traded products	—	—	—
Stock options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

BALANCE OF DERIVATIVES OUTSTANDING (TRADING BOOK)

€k		Nominal, by Term to Maturity	
	Less Than 1 Year	1 – 5 Years	Over 5 Years
Interest rate contracts	**30,000**	**13,900**	**17,190**
OTC products	30,000	13,900	17,190
Interest rate swaps	30,000	3,000	0
– Calls	15,000	1,500	0
– Puts	15,000	1,500	0
Interest rate options	—	10,900	17,190
– Calls	—	5,450	8,595
– Puts	—	5,450	8,595
Currency contracts	**—**	**—**	**—**
OTC products	—	—	—
Currency options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

FINANCIAL INSTRUMENTS (TRADING BOOK)

€k	31/12/2011	31/12/2010
Interest-bearing securities	0	0
Treasury shares	10,291	8,038

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
957,404	**890,644**	**6,512**	**6,075**	**22,793**	**19,473**
957,404	890,644	6,512	6,075	22,793	19,473
957,404	890,644	6,512	6,075	22,793	19,473
478,702	445,322	—	493	18,307	14,877
478,702	445,322	6,512	5,582	4,486	4,596
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
2,345,811	**2,033,221**	**7,613**	**2,241**	**45,386**	**31,798**
2,345,811	2,033,221	7,613	2,241	45,386	31,798
360,877	377,723	2,343	1,191	749	870
181,327	189,034	2,343	1,135	537	848
179,550	188,689	—	56	212	22
1,462,781	1,573,747	1,040	930	39,437	30,167
712,382	772,255	—	—	—	—
750,399	801,492	1,040	930	39,437	30,167
522,153	81,751	4,230	120	5,200	761
260,539	40,544	3,637	12	6	—
261,614	41,207	593	108	5,194	761
—	**—**	**—**	**—**	**—**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2011	31/12/2010	31/12/2011	31/12/2010	31/12/2011	31/12/2010
61,090	**123,546**	**161**	**230**	**150**	**260**
61,090	123,546	161	230	150	260
33,000	103,480	88	106	77	136
16,500	51,740	28	69	59	51
16,500	51,740	60	37	18	85
28,090	20,066	73	124	73	124
14,045	10,033	73	124	—	—
14,045	10,033	—	—	73	124
—	**—**	**—**	**—**	**—**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

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

The Company's Boards and Officers

The Management Board
Heimo Penker (CEO)
Herta Stockbauer
Dieter Krassnitzer

Representatives of the Equity Holders on the Supervisory Board
Hermann Bell, Chairman:
Peter Gaugg, 1st Vice-Chairman
Franz Gasselsberger, 2nd Vice-Chairman
Reinhard Iro
Waldemar Jud
Dietrich Karner
Michael Kastner
Wolf Klammerth
Josef Korak
Karl Samstag

Staff Representatives on the Supervisory Board
Helmuth Binder
Gerhard Brandstätter (to 17 June 2011)
Josef Hebein
Herta Pobaschnig
Sandra Schoffenegger (17 June 2011 to 1 November 2011)
Manfred Suntinger (from 1 November 2011)
Hanspeter Traar

Klagenfurt am Wörthersee
14 March 2012

The Management Board

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Closing Remarks by the Management Board

Management Board's Statement Pursuant to § 82 Absatz 4 BörseG

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

Klagenfurt am Wörthersee
14 March 2012

The Management Board

Heimo Penker (CEO)

Member of the Management Board responsible for the Corporate and Business Banking Segment and Retail Banking Segment, Human Resources, Public Relations, Marketing and Investor Relations. Regional responsibility for the Carinthia and Styria regions and for Italy.

Herta Stockbauer (Member)

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

Dieter Krassnitzer (Member)

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

Profit Appropriation Proposal

BKS Bank AG's 2011 financial year closed with net profit of €8,347,681.72. We propose that a dividend of €0.25 per share be distributed out of reported net profit as at 31 December 2011. The resulting distribution on 32,760,000 shares would be €8,190,000. Subject to § 65 *Abs. 5 Aktiengesetz*, we propose that the remainder be carried forward to a new account.

Klagenfurt am Wörthersee
14 March 2012

The Management Board

Heimo Penker (CEO) Herta Stockbauer (Member) Dieter Krassnitzer (Member)

Auditor's Report

(Independent Auditor's Report)
[Translation Provided by the Auditor]

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

BKS Bank AG, Klagenfurt am Wörthersee,

as well as the accounts for the financial year from 1 January to 31 December 2011. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2011, the consolidated comprehensive income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year ended 31 December 2011 as well as the notes to the consolidated financial statements.

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

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

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

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

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

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

Opinion

Our audit did not give rise to any objections. Based on the results of our audit, in our opinion, the consolidated financial statements comply with the laws and regulations and present fairly, in all material respects, the assets, liabilities and financial position of the group as of 31 December 2011 and its profit and cash flows for the financial year from 1 January 2011 to 31 December 2011 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Group Management Report

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

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

Klagenfurt
14 March 2012

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Bernhard Gruber
Wirtschaftsprüfer

Wilhelm Kovsca
Wirtschaftsprüfer

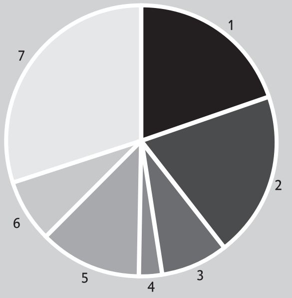
(Austrian Chartered Accountants)

Additional Notes

Overview of the 3 Banken Group

SHAREHOLDER STRUCTURE OF BKS BANK AG

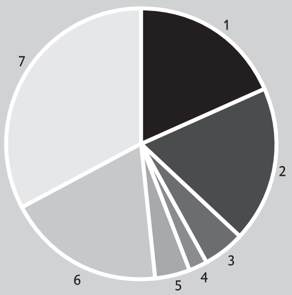
	By Voting Interest	By Capital Share
1 *Oberbank AG*	19.54%	18.52%
2 *Bank für Tirol und Vorarlberg AG*	19.65%	18.90%
3 *Generali 3 Banken Holding AG*	7.88%	7.44%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	3.11%	2.98%
5 Free float	12.72%	16.13%
6 *UniCredit Bank Austria AG*	7.46%	8.02%
7 *CABO Beteiligungs GmbH*	29.64%	28.01%



Share capital, €:	65,520,000
Ordinary no-par shares in issue:	30,960,000
No-par preference shares in issue:	1,800,000

SHAREHOLDER STRUCTURE OF OBERBANK AG

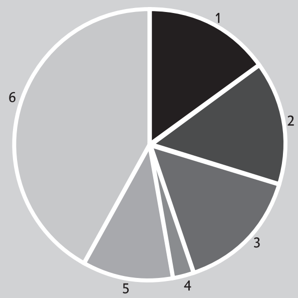
	By Voting Interest	By Capital Share
1 *BKS Bank AG*	18.51%	16.95%
2 *Bank für Tirol und Vorarlberg AG*	18.51%	17.00%
3 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	5.13%	4.62%
4 *Generali 3 Banken Holding AG*	2.21%	1.98%
5 Staff shares	3.98%	3.69%
6 Free float	19.12%	26.61%
7 *CABO Beteiligungs GmbH*	32.54%	29.15%



Share capital, €:	86,349,375
Ordinary no-par shares in issue:	25,783,125
No-par preference shares in issue:	3,000,000

SHAREHOLDER STRUCTURE OF BANK FÜR TIROL UND VORARLBERG AG

	By Voting Interest	By Capital Share
1 *BKS Bank AG*	15.10%	13.59%
2 *Oberbank AG*	14.69%	13.22%
3 *Generali 3 Banken Holding AG*	15.12%	13.60%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	2.53%	2.28%
5 Free float	10.86%	19.78%
6 *CABO Beteiligungs GmbH*	41.70%	37.53%



Share capital, €:	50,000,000
Ordinary no-par shares in issue:	22,500,000
No-par preference shares in issue:	2,500,000

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

	BKS Bank Group		Oberbank Group		BTV Group	
	2011	2010	2011	2010	2011	2010
INCOME ACCOUNT, €m						
Net interest income	150.4	143.6	341.7	318.9	164.6	146.6
Impairment charge on loans and advances	(33.2)	(47.6)	(97.6)	(103.8)	(37.1)	(42.1)
Net fee and commission income	42.3	42.5	104.5	101.2	42.5	43.3
General administrative expenses	(91.5)	(91.5)	(229.5)	(220.7)	(94.8)	(90.9)
Profit for the year before tax	38.6	53.6	126.0	114.5	64.7	61.8
Consolidated net profit for the year after tax	36.4	46.4	111.2	98.4	53.5	49.2
BALANCE SHEET DATA, €m						
Assets	6,456.0	6,238.2	17,483.7	16,768.4	9,214.7	8,886.6
Receivables from customers after impairment charge	4,647.8	4,498.2	10,563.9	10,129.7	6,030.1	5,774.8
Primary deposit balances	4,251.4	4,158.5	11,315.2	11,135.3	6,627.8	6,167.6
Of which savings deposit balances	1,786.3	1,847.2	3,407.6	3,447.2	1,260.0	1,284.2
Of which liabilities evidenced by paper, including subordinated debt capital	715.7	667.6	2,250.9	2,232.6	1,255.0	1,287.2
Equity	644.9	627.8	1,222.0	1,160.9	767.4	676.1
Customer assets under management	10,025.5	10,023.5	19,764.5	19,912.7	10,970.6	10,688.9
Of which in customers' securities accounts	5,774.1	5,865.0	8,449.3	8,777.4	4,342.8	4,521.3
OWN FUNDS WITHIN THE MEANING OF BWG, €m						
Risk-weighted assets	4,415.2	4,345.1	10,146.2	9,795.8	6,077.9	5,736.5
Own funds	681.9	567.4	1,673.1	1,635.1	934.7	853.2
Of which Tier 1	599.5	416.6	1,167.6	1,028.7	776.1	596.7
Surplus own funds before operational risk	328.7	219.8	860.2	849.0	448.0	391.5
Surplus own funds after operational risk	301.9	194.8	798.0	789.8	423.8	370.2
Tier 1 ratio, %	12.46	9.59	11.51	10.50	12.77	10.40
Own funds ratio, %	15.44	13.06	16.49	16.69	15.38	14.87
PERFORMANCE, %						
Return on equity before tax	6.07	8.90	10.56	10.57	8.96	9.59
Return on equity after tax	5.73	7.70	9.32	9.08	7.42	7.63
Cost:income ratio	46.71	48.87	50.64	50.28	45.65	47.18
Risk:earnings ratio (credit risk in % of net interest income)	22.07	33.11	28.58	32.55	22.54	28.70
RESOURCES						
Average number of staff	901	872	2,054	1,996	790	794
Branches and other business units	55	55	150	143	40	41

Glossary

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

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

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

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

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

The **Capital Requirements Directive – CRD IV**
To date, the 'legislative technique' for European bank supervision law has primarily been contained in two directives (2006/48/EC and 2006/49/EC). As a rule, directives are not directly applicable and must be transposed into national law by the Member States in order to become valid. According to the Commission's draft, the two existing directives will be replaced by one normal directive (the Capital Requirements Directive) and a (directly applicable) regulation (the Capital Requirements Regulation). The directive will require transposition into national law in accordance with the Member States' draft by not later than 31 December 2012.

The **Capital Requirements Regulation – CRR I**
In future, CRR I will contain all the mandatory requirements (i.e. capital adequacy requirements and capital definitions, leverage ratios, large investment rules, liquidity) and the disclosure regulations.

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

Corporate Social Responsibility (CSR) is a concept whereby enterprises combine social justice and environmental concerns with commercial goals and do so systematically, traceably, transparently and voluntarily.

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

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

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

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

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

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

FATCA stands for *Foreign Account Tax Compliance Act*. It is the abbreviation for a part of the Hiring Incentives to Restore Employment Act (HIRE Act) that entered into force in the United States in March 2010. FATCA's primary purpose is to ensure that persons liable for tax in the United States are properly taxed. It has far-reaching implications for financial institutions that service US American customers and/or invest in US assets or whose customers invest in US assets.

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

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

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

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

Historical simulation is a procedure for measuring market risk by value at risk using historical time series data.

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

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

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

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

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

The **International Swaps and Derivatives Association** (ISDA) is a trade organization of participants in the market for over-the-counter derivatives. It is headquartered in New York City.

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

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

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

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

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

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

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

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

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

PIIGS countries: PIIGS is the rather derogatory acronym used for five eurozone members — Portugal, Italy, Ireland, Greece and Spain — during the eurozone sovereign debt crisis in 2010.

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

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

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

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

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

The **Sarbanes-Oxley Act** was a response to various financial scandals enacted by the US Congress in July 2002. Its purpose was to introduce rules and standards for listed companies that would increase the transparency of their financial statements for the financial markets. Besides re-regulating the duties and responsibilities of corporate executives and increasing accountant liability, the act also introduced stricter requirements for the accuracy of published financial information.

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

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

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

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

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

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

Forward-looking Statements

This Annual Report contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 3 March 2012. If the assumptions upon which these forecasts were based prove wrong or if risk events transpire, actual results may, as touched upon in the Risk Report, differ from those that are currently expected. This Annual Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

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Highlights in 2011

1st place in the 'Ideen schlagen Wellen' (Ideas Make Waves) competition (CIP Prize)

BKS Bank's implementation ratio of 94.4 per cent in its Continuous Improvement Process (CIP) impressed the judges for the Ideas Make Waves Award organized by Austria's *Produktivitäts- und Wirtschaftlichkeitszentrum* (Productivity and Profitability Centre).

2nd place in the large enterprise category in the 'Familienfreundlichster Betrieb Kärntens' (Carinthia's most family-friendly company) competition

BKS Bank has had the *berufundfamilie* (JobAndFamily) quality mark since 2010. The measures developed as a result of the *berufundfamilie* audit process played a big part in this excellent ranking.

Bratislava branch opens

Since June 2012, BKS Bank has also been operating as a bank in Slovakia. For the moment, our EU branch in Bratislava will only be servicing corporate and business banking customers. Retail customer operations will follow in 2012.

Recommender Awards

BKS Bank's outstanding customer orientation was confirmed during the Recommender Awards.

'Durch die Bank gesund' (banking on health) scheme recognized as a 'Model of Good Practice'

Austria's Minister of Health Alois Stöger recognized BKS Bank's *Durch die Bank gesund* scheme as a national 'Model of Good Practice' for its contribution to the psychological health of employees.

www.bks.at