Sound banking and products you can rely on.

Like a BKS savings account.

ANNUAL REPORT 2009

BKS Bank
3 Banken Gruppe

Special notes:

+8.3% p.a.

Our bank has grown steadily since being founded in 1922. It has developed from a small Carinthian bank into an international financial institution with subsidiaries and representative offices in Slovenia, Croatia, Italy, Hungary and the Slovak Republic. BKS Bank's shareholder value has grown continually since its IPO in June 1986, with the annual average return on a share bought at that time coming to 8.3 per cent after withholding tax*. Thanks to Management's responsible conduct, BKS Bank has no need to make provisions for risks on toxic investments.

Legal structure: joint stock company.
Domicile: Klagenfurt am Wörthersee.
Companies Register No.: Nr. FN91810s at the *Landesgericht* (provincial court) of Klagenfurt am Wörthersee.

DVR (Austrian Data Processing Register) No.: 0063703.

* Between June 1986 and the end of 2009. This figure takes into account all changes in nominal share capital, dividend distributions and price movements. Past performance is not a reliable indicator of future performance.

ANNUAL REPORT 2009

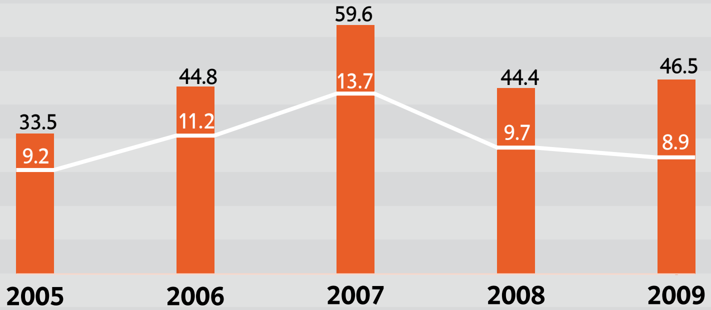
Account No.: 2009

Name: Grow with us!

Issuing office:

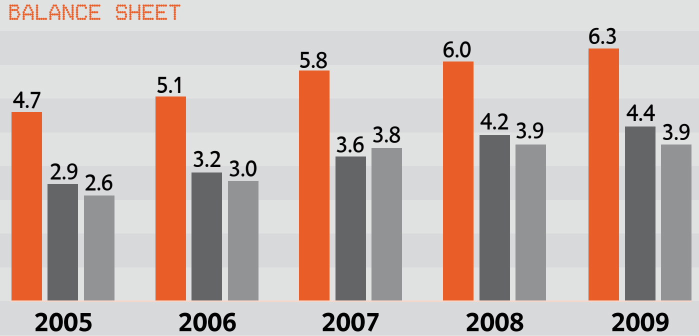
BKS Bank
3 Banken Gruppe

PROFIT



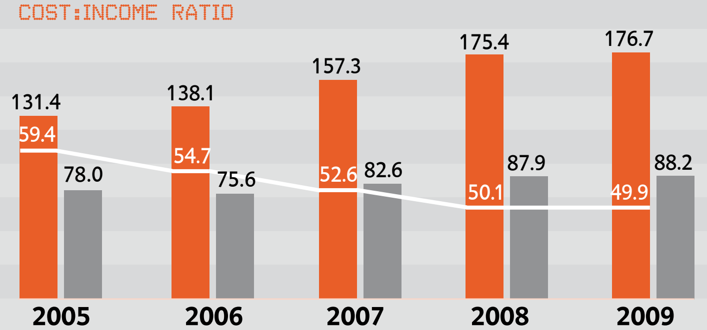
Profit for the year before tax, €m
Return on equity before tax, %

BALANCE SHEET



Assets Receivables from customers after impairment allowances
Primary funds €bn

COST:INCOME RATIO



Operating profit, €m General administrative expenses, €m CIR, %

Three-year Comparison

	2009	2008	2007
INCOME ACCOUNT, €m			
Net interest income	132.3	130.2	108.6
Impairment charges on loans and advances	(37.4)	(20.0)	(19.2)
Net fee and commission income	39.7	40.8	44.9
General administrative expenses	(88.2)	(87.9)	(82.6)
Profit for the year before tax	46.5	44.4	59.6
Consolidated net profit	40.4	41.9	50.8
BALANCE SHEET DATA, €m			
Assets	6,315.9	5,975.7	5,752.7
Receivables from customers after impairment allowances	4,350.2	4,186.1	3,561.6
Primary funds	3,907.9	3,945.1	3,781.8
Of which savings deposit balances	1,804.6	1,677.5	1,443.7
Of which liabilities evidenced by paper, incl. subordinated debt capital	564.7	452.0	451.8
Equity	577.5	464.7	450.5
Customer assets under management	9,343.5	8,739.3	10,057.9
Of which in customers' securities accounts	5,435.6	4,794.2	6,276.1
OWN FUNDS WITHIN THE MEANING OF BWG, €m			
Risk-weighted assets	4,258.4	4,087.7	4,039.2
Own funds	514.7	450.9	405.1
Of which Tier I	369.5	281.9	235.9
Surplus own funds before operational risk	174.0	123.9	82.0
Surplus own funds after operational risk	150.8	102.7	82.0
Tier 1 ratio, %	8.68	6.90	5.84
Own funds ratio, %	12.09	11.03	10.03
PERFORMANCE, %			
Return on equity before tax	8.9	9.7	13.7
Return on equity after tax	7.8	9.2	11.7
Cost:income ratio	49.9	50.1	52.6
Risk:earnings ratio (credit risk in % of net interest income)	28.3	15.4	17.7
RESOURCES			
Average number of staff	872	860	803
Branches	55	54	51

Highlights

January

Reconstruction of the BKS Bank in Viktring is completed, so this branch too now has a modern lounge for its customers.

February

BKS Bank opens its Pörtschach Centre. In addition to a branch, the centre also houses the new BKS Training Centre, a restaurant and shops.

March

The bank's *Durch die Bank gesund* (banking on health) scheme is launched. Its theme for 2009 is *Aufrecht durch die Bank* (totally straight). The focus is on healthy backs.

April

BKS Bank expands into Slovenia. Supplementing its branches in Ljubljana and Maribor, customers' needs are now serviced by a branch in Celje as well.

May

A new BKS Bank branch in Perchtolds–dorf opens. Twenty-one companies receive TRIGOS Carinthia and TRIGOS Styria awards.

June

Six-for-one split of BKS Bank's ordinary and preference shares.

July

Analysis work in preparation for our *New Corporate and Business Loan Management Process* project is completed. Project implementation begins.

August

BKS Bank announces good semi-annual results despite the crisis. It does not suffer from a credit crunch, and savings deposit balances continue to grow.

September

The Supervisory Board approves the raising of share capital on a seven-for-six basis. It takes place on the Vienna stock exchange in October. The issue is fully subscribed.

October

Futurist Matthias Horx inspires a total of 1,200 BKS Bank customers. Launch of the *New Branch Organization* and *New Retail Segment* projects.

November

BKS Bank's branch in Bruck a.d. Leitha is relocated to Neusiedl.

December

Medical Board President Dr. Walter Dorner presents an award to BKS Bank for its exemplary protection of non-smokers.

» Our new Training Centre in Pörtschach «

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* Sections marked with an asterisk are audited parts of the Annual Report.

ANNUAL REPORT 2009 PREFACE BY THE MANAGEMENT BOARD

PREFACE BY THE MANAGEMENT BOARD

Responsible Management.

Heimo Penker
CEO
Appointed until 2014

Responsible Management.

» Our solid business model proved its worth in the crisis. «

HEIMO PENKER
Born in Seeboden on Lake Millstatt in 1947.
At BKS Bank since 1972. CEO since 2005.

Heimo Penker was assistant lecturer at the Institute of Public Finance of the *Hochschule für Welthandel* (now the Vienna University of Economics and Business Administration) in Vienna prior to joining BKS Bank in 1972. He worked in various areas at BKS Bank before being appointed to the Management Board in 1984 at the age of 37. He became its official spokesman in 1997. His current term of office will end on 31 March 2014. Heimo Penker is married and father of three children. He has one grandchild.

Other posts:
Deputy chairman of the supervisory boards of *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*; member of the supervisory boards of *Oesterreichische Kontrollbank AG*, *Generali Holding Vienna AG*, *BKS Bank d.d.*, *BKS-Leasing a.s.* and *BKS-leasing Croatia d.o.o.*; vice-president of the *Verband der Österreichischen Banken und Bankiers* (Austrian Bankers' Association), chairman of the banking and insurance division of *Wirtschaftskammer Kärnten* (Carinthian economic chamber), Honorary Consul of the Republic of Italy in the province of Carinthia, vice-president of the Italian chamber of commerce in Vienna.

Remits within the Management Board:
Within the Management Board, he is responsible for corporate and business banking, retail banking, human resources and treasury operations; in addition, he has regional responsibility for the Bank's business operations in its markets in Carinthia, Styria and Vienna inside Austria as well as in Italy.

»We are proud to have acquired over 650 new shareholders in 2009.«

HERTA STOCKBAUER
Born in Klagenfurt in 1960.
At BKS Bank since 1992. Member of the Management Board since 2004.

After completing a degree in commercial science at Vienna's University of Economics and Business Administration, she worked as assistant professor and lecturer at the Institute of Commercial Science of the Alpen-Adria University in Klagenfurt until joining BKS Bank in 1992. Within BKS Bank, she worked in corporate and business banking and securities operations before moving to Controlling and Accounts, of which she became head in 1996. She was appointed to the Management Board in 2004. Her current term of office ends on 1 July 2014. Herta Stockbauer is married and the mother of two children.

Other posts:
Chairwoman of the supervisory boards of *BKS Bank d.d.*, *BKS-Leasing a.s.* and *BKS-leasing Croatia d.o.o.*; member of the supervisory board of *Drei-Banken Versicherungs-AG*; member of the management boards of *Industriellenvereinigung Kärnten* and the *respACT-austrian business council for sustainable development*; chairwoman of the *Universitätsrat* (university council) of the Alpen-Adria University in Klagenfurt; Honorary Consul of the Kingdom of Sweden in the province of Carinthia.

Remits within the Management Board:
Within the Management Board, she is responsible for controlling and accounts, credit risk management, loan back office operations, organization and information technology as well as the Bank's subsidiaries in Austria and abroad; in addition, she is responsible for operations in the Burgenland region inside Austria and the Slovenia, Croatia, Hungary and Slovak Republic regions abroad.

Herta Stockbauer
Member of the Management Board
Appointed until 2014

Dear Shareholder,

BKS Bank's risk-aware business culture has always been based on the same goals: providing investors with realistic returns, being a reliable partner to its customers and offering its employees secure jobs.

Since the outbreak of the subprime crisis in the summer of 2007 — culminating in the collapse of *Lehman Brothers* and a massive global banking crisis a year later — the way people think banking should be done has undergone a fundamental change. For a long time, solidity, predictability and sticking to doing business that one really understands was thought to be over-conservative — just like slow and gradual expansion abroad. Now, some two years down the line, our business model has proven its long-term worth. Even in 2009 — one of the toughest and most eventful years in banking history — BKS Bank continued to stand its ground. Indeed, its growth in segments where customer confidence is especially important actually exceeded the national average.

During 2009, BKS Bank developed very well in a more than difficult climate. Its consolidated net profit of €40.4 million was only just down on the previous year. The loan portfolio grew significantly and primary funds were strong.

The Group's consolidated assets grew by 5.7 per cent to €6.3 billion, while its consolidated net profit came to a respectable €40.4 million, reflecting customers' continuing trust. Moreover, for us at least, the much-cited credit crunch was not an issue. Receivables from corporate and business banking and retail banking customers grew by 4.2 per cent to €4.5 billion. Thanks to ample primary funds of €3.9 billion, BKS Bank is able to fund the bulk of its lending to customers out of customer deposit balances. During the year under review, customer savings deposit balances grew much more strongly than the national average, increasing by 7.6 per cent to €1.8 billion. This was an expression of trust of which we are very proud. Even without government help, our capital ratios at year-end were higher than at any time since the introduction of the *Basel II* capital adequacy standards. Our Tier 1 ratio rose from 6.9 to 8.7 per cent during the year. Among other things, this was because we received some €74 million of fresh capital from private and institutional investors by raising our share capital in October, notwithstanding the continuing volatility of the capital markets. Most of our old shareholders exercised their subscription rights, and we also acquired many new shareholders.

BKS Bank came through the financial crisis and all its adverse side-effects very well and used the economic slump to implement important reforms.

Naturally, our bank too felt the shockwaves of the financial crisis and the economic slump. Despite the historically low level of interest rates, liquidity costs have remained high, confidence in the interbank market is proving slow to recover, securities trading is still subdued and loan loss risks are still rising against the backdrop of a weak economy. We have done a great deal in recent quarters to ensure that we can do not have to keep looking over our shoulders during the next phase of the economic recovery. We have used this period to implement important reforms so as to optimize processes, prevent losses and cut costs while pressing ahead with increasing our sales performance. In the meantime, we take many of the things that were done for granted and tend to forget how much work was involved. We would therefore like to present a brief review of everything our staff achieved during the 2009 financial year.

Three restructuring projects carried out in 2009 have boosted our competitiveness. The focus was on process optimization, preventing losses and cutting costs while at the same time pressing ahead with increasing our sales performance.

- In Austria, we completed three big and ambitious organizational and rationalization projects on schedule and set up the resultant new organizational units. The main focus in 2009 was on our *Concentration of the Management of Lending to Corporate and Business Banking Customers* project. This does not just involve meeting legislative requirements. We also want to increase the efficiency and quality of our credit processing and risk assessment procedures. The project has brought about radical changes in our working methods, leading to the creation of a new department at Head Office with more than 90 members. Many of them were asked to put up with a great deal of inconvenience caused by the relocation of their workplaces.
- There have also been dramatic changes in the retail banking segment. Branches that previously only serviced customers in the retail banking segment will now be allocated professional and small self-employed customers as well. In addition, we will be taking effective action to reduce the burden of administrative work on our branches, letting them concentrate on their core task, namely sales.
- Following our smooth stock split in June 2009, we also carried out a very successful share capital increase. We are pleased to have acquired over 650 new shareholders during 2009.
- We opened new branches in Perchtoldsdorf, Neusiedl and Celje and rebuilt and modernized a number of existing branches. Our new training centre in Pörtschach went into operation and a new collective agreement was introduced. We came close to completing our preparations for the launch of securities operations in Slovenia and the extension of the product line for retail banking customers in Croatia.

Raising new share capital significantly increased our free float, giving us more than 650 new shareholders.

A whole series of smaller projects are happening alongside these big ones. Everything we are doing is aimed at safeguarding our bank and valuable jobs. As a result, 2009 and, probably, 2010 will be remembered not just as years of appalling economic conditions but also as a period of radical organizational shake-ups.

A challenging 2010 financial year: undiminished pressure on margins on primary deposit operations; further loan losses are possible.

It is doubtful whether we will be seeing an upturn before the end of 2010. Although there are now some signs of a recovery, we are still bracing ourselves for a challenging 2010 financial year. We can expect loan losses to remain high, while margins on primary deposit operations will still be under pressure and credit demand will not recover much. However, despite headwind, we will adhere to our business policy and will continue to expand. We will go on enlarging the branch network this year, we will be adding to our offerings in the retail banking segment in Croatia, we will make our first forays into the Slovakian banking market and we will do everything we can to continue to enlarge our customer base. Our strategy of gradually extending the product line as risks allow has served us very well to date. Having so far weathered the economic crisis without suffering serious damage — which is, increasingly, earning us public recognition — we are currently ideally placed to do so.

2010: We are stepping up our sales activities so as to build on already solid market positions.

We thank our shareholders, the members of the Supervisory Board and BKS Bank's employees.

We would like to end by thanking you, our shareholders, for the trust you have shown in us. We will continue to do our utmost to remain a solid bank distributing strong dividends. For the sake of a consistent dividend and capitalization policy, we will be recommending that the AGM approve the same dividend for the 2009 financial year as for the year before having allowed for the stock split. That would be €0.25 per share.

We would also like to thank all the members of the Supervisory Board for their productive and intensive teamwork with us during the year under review.

We are delighted that our staff embraced the year's changes with such commitment and would like to thank them for their understanding and high level of personal dedication.

Heimo Penker (CEO)

Herta Stockbauer

MANAGEMENT BOARD REMITS

Heimo Penker	**Herta Stockbauer**
Internal Audit	Internal Audit
Office of the Management Board	Office of the Management Board
Corporate and Business Banking	International Business
Retail Banking	Controlling and Accounts
Human Resources	Credit Risk Management
Treasury Operations	Operations, Organization, IT
	Loan Back Office
	Subsidiaries
Regional Remits	Regional Remits

Austria: Regional Head Offices	Abroad	Austria: Regional Head Office	Abroad
Klagenfurt Villach Spittal Styria Vienna	Italy	Burgenland	Slovenia Croatia Hungary Slovak Republic

ANNUAL REPORT 2009 REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

SUPERVISORY BOARD'S REPORT

Taking Control Seriously.

Hermann Bell
Chairman of the Supervisory Board
Appointed until the AGM in 2013
CEO (Ret.) of the Oberbank

Dear Reader,

Looking back, the 2009 financial year was both a special and a difficult one, particularly during the first two quarters. The stubborn financial markets crisis led to distortions whose after-effects are probably going to continue to impact on the entire economy in years to come. It therefore gives me great satisfaction to report that BKS Bank bore up well in this turbulent market environment, exhibiting a combination of exceptional flexibility, careful risk management and undiminished entrepreneurial spirit.

Regular exchanges of information between the Supervisory Board and the Management Board.

The Supervisory Board as a body continued to actively monitor every strategic measure taken by the enterprise and to provide support in an advisory capacity. It did so on the basis of the Management Board's detailed real-time written and verbal reports on the conduct of business by both *BKS Bank AG* and key Group members. The Supervisory Board was naturally involved in all important business policy decisions as a result, and it was always kept fully informed about the enterprise's risk position and risk management activities. Priority was given to taking appropriate action to provide for risks and to ensure the reliability of the Group-wide internal control system (ICS).

The members of the Supervisory Board examined, critically questioned and approved Management decisions and actions that require approval by virtue of the law, the Memorandum and Articles of Association (*Satzung*) or standing orders. This was done by way of draft resolutions proposed to plenary meetings of the Supervisory Board or on the basis of written information. As the Chairman of the Supervisory Board, I, moreover, had regular exchanges of information with the Management Board.

In-depth discussion of individual topics by the Supervisory Board's committees.

Among other things, the Audit Committee examined the enterprise's annual financial statements, risk management activities and internal control system (ICS),

The Supervisory Board's committees conscientiously performed the tasks assigned to them by the Supervisory Board as a body. The Supervisory Board's Audit Committee met ahead of meetings of the Supervisory Board as a whole on 31 March and 24 September. In its spring meeting, it concerned itself in detail—assisted by the bank auditors—with the examination and preparation of the adoption of the Annual Financial Statements of *BKS Bank AG* for 2008 as well as the Consolidated Financial Statements for 2008 and the Management Board's reports on our risk position and on adherence to Austria's *Corporate Governance Kodex*. The main focus of its autumn meeting was on preparing the year-end audit for 2009 and on the financial reporting process. During both meetings, it evaluated the efficiency of the internal audit process, the quality of BKS Bank's risk management activities, enterprise reporting processes, the internal control system (ICS) and the independence of the auditor of the annual accounts and gave its approval. The plenary meeting of the Supervisory Board was informed at once about decisions as they were made. While performing the tasks incumbent upon it by virtue of the law, the Memorandum and Articles of Association and Austria's *Corporate*

The Supervisory Board was involved in every decision of relevance to the enterprise.

Governance Kodex, the Supervisory Board concerned itself in detail with developments in the international money and capital markets and BKS Bank's business environment. In deepening discussions, it analyzed the enterprise's medium- and long-growth outlook. In particular, this body, made up of representatives of the equity holders and the workforce, supported the ambitious measures being taken to raise BKS Bank's share capital and the steps being undertaken to increase productivity in the corporate and business banking and retail banking segments, and, among other things, concerned itself with transactions by members of the Bank's boards, investment plans, bond issuances, compliance and anti-money laundering activities and appointments of management personnel. In addition, it amended the Management Board's standing orders in line with changes to the *Aktiengesetz* (Austrian stock corporation act) and the *Corporate Governance Kodex*. The Management Board's application for permission for BKS Bank to acquire a direct stake in listed company *SW-Umwelttechnik AG* and to exercise subscription rights during the share capital increase by *Oberbank AG* were granted. The Supervisory Board also concerned itself with the far-reaching effects of the *Aktienrechtsänderungsgesetz* (AktRÄG: Austrian stock corporation law amendment act) of 2009 on the conduct of future general meetings. This legislation was enacted to implement Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies.

The attendance rate of the 11 representatives of the equity holders and six staff representatives was high, at roughly 88 per cent. Reinhard Iro and Karl Samstag were unable to attend two meetings. Dietrich Karner and Robert Zadrazil were unable to attend one. No member of the Supervisory Board missed more than half of its plenary meetings.

The Supervisory Board appointments of Josef Korak, Maximilian Meran and Robert Zadrazil are renewed. The Staff Council delegates Margit Daniel to the Supervisory Board.

The 11 representatives of the equity holders on the Supervisory Board did not change during the year under review. The appointments of Josef Korak, Maximilian Meran and Robert Zadrazil were renewed for the maximum period permitted by the Memorandum and Articles of Association. As of 1 October 2009, Margit Daniel succeeded Erna Finster as one of the members of the Supervisory Board delegated by the Staff Council of BKS Bank.

The Annual Financial Statements of BKS Bank for 2009 receive an unqualified auditors' report.

The Auditors, *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt*, audited BKS Bank's accounts, Annual Financial Statements and Management Report. According to the results of the audit, the legal requirements were satisfied, and the audit did not give rise to any objections. The Annual Financial Statements and Management Report and the Auditors' audit reports were presented to all the members of the Supervisory Board. The Annual Financial Statements received an unqualified auditors' report. The Annual Financial Statements, Management Report and Profit Appropriation Proposal were also examined by the Supervisory Board.

Approval and adoption of the Annual Financial Statements and approval of the Profit Appropriation Proposal.

During its meeting on 30 March 2010, the Audit Committee examined the Consolidated Financial Statements and reported thereon to the Supervisory Board. The Supervisory Board endorses the results of the audit, expresses its approval of the Annual Financial Statements and Management Report presented by the Management Board and approves the company's Annual Financial Statements for 2009, which are thus final for the purposes of *§ 96 Absatz 4 Aktiengesetz*. The Supervisory Board concurs with the Management Board's proposal that, as in the previous year and having allowed for the share capital raised during the year under review, a dividend of €0.25 per share be distributed out of net profit for the year 2009, resulting in a distribution of €8,190,000—as against €7,020,000 in the previous year—and that the remaining profit be carried forward to a new account. The Consolidated Financial Statements and the Group Management Report, which had been prepared in accordance with the International Financial Reporting Standards (IFRSs), were submitted to the Supervisory Board.

The Supervisory Board endorses the results of the audit of the Consolidated Financial Statements.

The Consolidated Financial Statements as at and for the period ended 31 December 2009 present fairly, in all material respects, the assets, liabilities and financial position of the Group. The Notes on its profit or loss and cash flows prepared in accordance with the International Financial Reporting Standards (IFRSs) constitute an equally fair presentation in respect of the period from 1 January to 31 December 2009. The audit performed by *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt*, did not give rise to any objections. The Supervisory Board endorses the results of the audit and expresses its approval of the Consolidated Financial Statements and Group Management Report submitted by the Management Board.

Thanks to Management and staff.

Given that the banking environment was still difficult, the Bank's results in the year under review were very good. This was mainly attributable to the outstanding dedication of the members of the Management Board, our senior staff and every other member of staff. The Supervisory Board acknowledges it as a remarkable achievement.

Klagenfurt am Wörthersee
March 2010

Hermann Bell
Chairman

INVESTOR RELATIONS

Steering a Stable Course.

Christine Domforth
Graduate of the *Hochschule für Welthandel* (now the Vienna University of Economics and Business Administration) in Vienna
Christine Domforth worked for *Österreichischer Wirtschaftsverlag* as a journalist from 1973 to 1988. In 1988, she became economics and business editor of *Die Presse*, where she writes mainly about banking and the stock markets. In 2005, she won Bank Austria's Horst Knapp Prize. She has been a freelance journalist since 2009.

Guest Commentary by Christine Domforth

»Last year, the credit crunch was a bit like the Yeti. People talked about it a lot but nobody was able to prove it really exists.«

Gloom and doom pervaded the economy at the beginning of 2009, especially in the financial markets. Since then, the picture has changed completely. Most countries have emerged from the grip of the recession and their economies are growing again, if weakly. Having still been in free fall at the end of 2008, the world's stock markets staged a turbocharged rally in 2009, and many of the major multinational banks, having only survived with the help of billions of dollars from the government, were making billions of dollars of profit again just a year after *Lehman Brothers* collapsed. Above all, investment banking — pronounced dead by many — had an impressive comeback. Nonetheless, it is still far too early to celebrate, as, to name two examples, the dramatic financial crises in Greece and Dubai have shown.

We owe it mainly to the central banks that the financial system did not collapse altogether. They slashed interest rates dramatically around the world and flooded the market with cheap money. *Time Magazine* was not wrong to crown US Federal Reserve chairman Ben Bernanke "Person of the Year." At the same time, governments in the United States, Europe and the Far East thought big, injecting huge amounts into the economy to stave off a global 1930s-style economic crisis which, had it happened, would also have been politically perilous. However, budget deficits shot up as a result and a lot of effort will be needed to reduce them again.

When the financial crisis was at its height, politicians were agreed that the financial system needed radical reforms. Unfortunately, their reforming zeal flagged as the pain eased. Proposals for strict cross-border financial supervision were gradually undermined and the rating agencies, which had already failed during the Russian, Asian and, most recently, subprime crisis held on to their power. Having nearly plunged the world into the abyss, investment bankers in New York and London just went on gambling — but now with cheap money from the central banks — and accepting massive bonuses again. *Goldman Sachs* CEO Lloyd Blankfein is quoted as saying he was a "just a banker doing God's work." In other words, he, like many of his colleagues, had learnt absolutely nothing from the crisis. Scathing criticism of

» The majority of Austrian banks held up well in 2009. «

» Austria's banking landscape is likely to change considerably in the medium term. «

developments in the international financial markets has long since ceased to be a left-wing anti-capitalist monopoly. Even the German Federal President and former head of the IMF Horst Köhler has said that the "monster" has yet to be tamed and that the political response to the global financial crisis has been grossly inadequate.

The majority of Austrian banks held up well in a very difficult climate last year, helped not least by the much-criticized €100 billion government rescue package for the banking sector. It will, of course, be a number of years before we know whether the deal is really a good one for the taxpayer. Most of the country's banks reported pretty good operating profits in 2009. Impairment charges on loans and advances already totalled over €10 billion in 2008, and they stayed high, but the Austrian banking sector as a whole posted a profit for the year, albeit a modest one. In fact, according to a *Bank Austria* analysis, even though the situation in Central and Eastern Europe was very difficult, Austrian banks have to date achieved much better results during the financial crisis than the leading banks in Germany and Switzerland.

Austrian banks came under heavy fire last year because of their substantial investments in Eastern Europe. Something that had been acclaimed as a success story for years was now being damned as a sinkhole for billions of euros. More or less expert pundits, including US Nobel prize laureate Paul Krugman, predicted that Austria would soon go bankrupt because of the Eastern European exposures of *Bank Austria*, *Erste*, *Raiffeisen* et al. However, as we all know, predicted disasters often don't happen. Thanks to massive international support from the IMF, World Bank, EU and EBRD, Eastern Europe's economies stabilized a little. In addition, the IMF was forced to admit that it had made an embarrassing mistake when evaluating Austria's exposure in Eastern Europe. As a result, the doom, gloom and disaster reports about Austrian banks have disappeared from the international headlines. The shares of *Raiffeisen International* and *Erste Bank* were beaten down until the end of March, but they literally soared during the rest of 2009.

Crises are often particularly good at separating the men from the boys, and this home truth clearly applies to banking as well. Having already rescued *Kommunalkredit*, which had to be nationalized at the end of 2008, the Republic of Austria suddenly had to take over the ailing *Hypo Alpe Adria* just before Christmas 2009. The *Hypo* scandal is now a matter for the courts in Bavaria and Austria and is likely to provide material for any number of headlines in months to come. ÖVAG is also in serious trouble. It made big losses in 2009 as in years before, is unable to pay the interest costs of government support and may need to look for a financially strong partner.

In general, the Austrian banking landscape is likely to change considerably in the medium term. However, while there is talk of breaking up banks that are "too big to fail" in other countries, we are more likely to see a drop in the number of big banks in Austria.

» The international stock markets are over the shock of the financial crisis. «

Last year, the credit crunch was a bit like the Yeti. It was on everybody's tongue, but nobody was able to prove it really exists. Quite the reverse. According to the Austrian Institute of Economic Research (WIFO), there is no evidence that SMEs are suffering a credit crunch. As WIFO stresses, even though the economy's overall performance declined, lending still grew slightly in 2009 and interest rate cuts by the ECB were being passed on to companies. However, banks are now applying much stricter standards when assessing customer creditworthiness than before the financial crisis, and risk premiums are now significantly higher, giving many companies a hard time. The international stock markets have got over the shock of the financial crisis fastest, and share prices rose rapidly virtually across the globe last year. The spectacular rise in prices was due mainly to injections of billions of dollars and euros in conjunction with the introduction of more lax accounting standards for ailing US banks and economic support measures like scrappage fees. It revived many investors' risk appetite from the spring of 2009. Equity markets in Brazil, Russia, and Indonesia soared most, recording price gains of 100 per cent and more. It was possible to earn an average return of roughly 25 per cent on shares in the United States and Europe last year — although this only made up for some of the massive losses that occurred in the 2008 crisis year.

The same applied to the Vienna stock exchange, which actually outperformed the Dax and the Dow in 2009. Vienna's benchmark ATX index, which had lost over 60 per cent in 2008, gained an impressive 43 per cent to end 2009 at nearly 2,500 points. Indeed, it gained over 70 per cent compared with its trough in March 2008. Naturally, only eternal optimists believe that Austria's stock market is going to be quick to return to the high of 5,000 points recorded in the summer of 2007.

The stock markets will not be alone in facing an hour of truth as the central banks gradually phase-out their policy of extremely cheap money, which has been both a balm and a narcotic for the financial markets. Banks too will then have a harder time, especially as the still weak economy threatens to lead to an increase in bankruptcies and, as a result, higher loan losses. The situation will be aggravated by the stricter capital adequacy requirements that will apply to banks from 2013 and by the risk that further speculative bubbles could burst — say in China or in commodity markets — throwing the financial markets into disarray. Whatever happens, the banking industry will not be short of challenges in 2010.

The Company's Boards and Officers

HONORARY PRESIDENT

Heinrich Treichl, member of the Supervisory Board of *BKS Bank AG* since 21 December 1970, Honorary President for Life since 23 April 1992.

REPRESENTATIVES OF THE EQUITY HOLDERS

Hermann Bell, Chairman, born in 1932, appointed until the AGM in 2013, first elected on 24 April 1972, chairman of the supervisory boards of *Oberbank AG*, *Wüstenrot Verwaltungs- und Dienstleistungen GmbH*, *Lenzing AG*, *Wüstenrot Vermögensbeteiligung GmbH*, *BAUHÜTTE-LEITL-WERKE GmbH* and *H. Pöttinger GmbH*.

Franz Gasselsberger, Vice-Chairman, born in 1959, appointed until the AGM in 2011, first elected on 19 April 2002, chairman of the management board of *Oberbank AG*, chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG*, member of the supervisory boards of *voestalpine AG*, *Energie AG Oberösterreich* and *Buy-Out Central Europe II Beteiligungs-Invest AG*.

Peter Gaugg, Vice-Chairman, born in 1960, appointed until the AGM in 2012, first elected on 29 April 1998, official spokesman of the management board of *Bank für Tirol und Vorarlberg AG*, vice-chairman of the supervisory boards of *Oberbank AG* and *Tiroler Röhren- und Metallwerke AG*, member of the supervisory boards of *Doppelmayr Seilbahnen GmbH*, *Silvretta Montafon Bergbahnen AG* and *Pipe & Pile International S.A.*

Reinhard Iro, born in 1949, appointed until the AGM in 2013, first elected on 26 April 2000, chairman of the management board of *Treibacher Industrie AG*.

Dietrich Karner, born in 1939, appointed until the AGM in 2011, first elected on 22 May 1997, CEO (Ret.) of *Generali Holding Vienna AG*, member of the management board of *DIE ERSTE österreichische Spar-Casse Privatstiftung*, member of the supervisory board of *Bank für Tirol und Vorarlberg AG*, chairman of the supervisory boards of *Generali Holding Vienna AG*, *Generali Rückversicherung AG* and *Generali Versicherung AG*, member of the supervisory board of *Generali Verzekeringsgroep N.V.*

Michael Kastner, born in 1947, appointed until the AGM in 2012, first elected on 19 April 2002, tax consultant, member of the supervisory boards of *Kastner & Öhler Warenhaus AG* and *Kastner & Öhler Beteiligungs AG*.

Wolf Klammerth, born in 1946, appointed until the AGM in 2013, first elected on 30 April 1999, chairman of the supervisory boards of *Wietersdorfer & Peggauer Zementwerke GmbH* and *Intercement d.o.o.*, president of the *Verwaltungsrat* (administrative board) of *Hobas AG*.

Josef Korak, born in 1948, appointed until the AGM in 2014, first elected on 26 April 2005, Chief Executive Officer of *Omya Central Europe*.

Maximilian Meran, born in 1930, appointed until the AGM in 2014, first elected on 22 May 1997, CEO (Ret.) of *BKS Bank AG*.

Karl Samstag, born in 1944, appointed until the AGM in 2012, first elected on 19 April 2002, member of the supervisory boards of *Allgemeine Baugesellschaft-A. Porr AG*, *UniCredit Bank Austria AG*, *Bank Austria Wohnbaubank AG*, *Oberbank AG*, *Bank für Tirol und Vorarlberg AG*, *Flughafen Wien AG*, *Österreichisches Verkehrsbüro AG*, *Schoeller-Bleckmann Oilfeld Equipment AG*, *Signa Property Funds Holding AG* and *VAMED AG*.

Robert Zadrazil, born in 1970, appointed until the AGM in 2014, first elected on 11 May 2006, chairman of the management board of *Schöllerbank AG*, member of the supervisory boards of *UniCredit Bulbank AD*, *Oesterreichische Kontrollbank AG*, *Zagrebačka Banka d.d.* and *Joint Stock Commercial Bank for Social Development*.

DELEGATED BY THE STAFF COUNCIL

Helmuth Binder, born in 1950, first delegated on 1 January 2005, staff representative at BKS Bank Graz.
Gerhard Brandstätter, born in 1959, first delegated on 1 August 1995, staff representative at BKS Bank Spittal.
Margit Daniel, born in 1957, first delegated on 1 October 2009, staff representative at BKS Bank Burgenland.
Erna Finster, born in 1955, first delegated on 2 March 2008, to 30 September 2009, staff representative at BKS Bank Wien.
Josef Hebein, born in 1952, first delegated on 26 July 1999, Chairman of the Central Staff Council of BKS Bank.
Herta Pobaschnig, born in 1960, first delegated on 1 June 2007, staff representative in the Supervisory Board, BKS Bank Head Office.
Hanspeter Traar, born in 1956, first delegated on 1 January 2003, staff representative in the Supervisory Board, BKS Bank Klagenfurt.

REPRESENTATIVES OF THE REGULATORY AUTHORITY

Alois Schneebauer, *Staatskommissär* (state commissioner), appointed as of 1 August 1999.
Johann Wittmann, *Stellvertretender Staatskommissär* (deputy state commissioner), appointed as of 1 August 2003.

MANAGEMENT BOARD

Heimo Penker, born in 1947, *Sprecher* (official spokesman) of the Management Board, appointed until 31 March 2014.
Herta Stockbauer, born in 1960, Ordinary Member of the Management Board, appointed until 1 July 2014.

COMMITTEES SET UP BY THE SUPERVISORY BOARD[1]

Audit Committee
The following members of the Supervisory Board belong to this committee: Hermann Bell (Chairman), Franz Gasselsberger, Peter Gaugg, Michael Kastner, Robert Zadrazil, Josef Hebein, Herta Pobaschnig, Hanspeter Traar. The Audit Committee meets at least twice a year. It again met twice in 2009.

Working Committee
The following members of the Supervisory Board belong to this committee: Hermann Bell (Chairman), Franz Gasselsberger, Peter Gaugg, Michael Kastner, Josef Hebein, Hanspeter Traar.

Credit Committee
The following members of the Supervisory Board belong to this committee: Hermann Bell (Chairman), Franz Gasselsberger, Peter Gaugg, Josef Hebein, Hanspeter Traar.

Personnel Committee
Members: Hermann Bell (Chairman), Peter Gaugg.

All board members currently in office can be reached at *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee.

[1] To avoid duplicating descriptions of the activities of the committees set up by the Supervisory Board, we refer the reader to the notes on page 39 *et seq.* The independence criteria for the members of the Supervisory Board are elucidated on page 39 and on our website at www.bks.at » *Investor Relations* » *Corporate Governance.*

Corporate Governance Report

Responsible Corporate Governance

The Management Board and Supervisory Board have clearly affirmed their commitment to Austria's *Corporate Governance Kodex* (CGK)

The Supervisory Board and Management Board of the listed company in the Group — *BKS Bank AG* — are committed without compromise to the principles of responsible corporate governance as set out in Austria's *Corporate Governance Kodex* and place particular emphasis on safeguarding, in a carefully balanced way, the interests of all the parties that have a stake the business success of BKS Bank, including above all its shareholders, customers, employees and business associates and, not least, the general public. Trust-based relations with shareholders, close cooperation between the Managing Board and the Supervisory Board, a reasonable system of compensation that is consistent with the Bank's financial standing, transparent financial reporting and efficient and detailed business reporting are all important elements of this ethos. BKS Bank's enterprise-wide frame of action for effective and sustainable corporate governance is based on the regulations set out in Austrian stock corporation, stock market and capital markets law, on European Commission recommendations, on the corresponding OECD guidelines and on the Memorandum and Articles of Association and the standing orders of the Management Board and Supervisory Board.

Our top priority is to preserve the independence of BKS Bank and the *3 Banken Group.*

It is a declared goal of this enterprise to preserve the independence of the enterprise itself and of the *3 Banken Group.* No single shareholder is in a position to directly or indirectly control BKS Bank. This will remain true in the future. Transparent teamwork between the Management Board, Supervisory Board, shareholders and employees with the BKS Bank's long-term success in mind provides the essential basis for remaining on the same growth path as in prior years.

The standards for responsible corporate governance undergo annual review and adaptation by the *Österreichischer Arbeitskreis für Corporate Governance* (Austrian working group on corporate governance). They are divided into three groups: *Legal Requirements* are based on mandatory legal standards that must be adhered to by all listed Austrian companies. In addition, there are so-called *Comply or Explain* rules, non-compliance with which must be publicly explained. Finally, the *Kodex* includes the *Recommendations.* These are mere proposals and do not require any explanations or disclosures. The commitment to applying Austria's *Corporate Governance Kodex* means that non-compliance with so-called *Comply or Explain* rules must be explained.

During 2009, BKS Bank continued to adhere to all the corporate governance principles that are applicable to it.

BKS Bank continued to consistently adhere to all the corporate governance principles that are applicable to it during the 2009 reporting year. The meeting of the Supervisory Board on 31 March 2009 agreed unanimously to adhere to the rules set out in the Austrian *Corporate Governance Kodex* as amended in January 2009 and only to deviate from it where the specific circumstances of *BKS Bank AG* or the *3 Banken Group* or the legislative provisions governing banks make this necessary. During the 2009 financial year, BKS Bank complied with all *C rules* with certain exceptions explained as follows:

BKS Bank explains its non-compliance with C rules as set out in the *Corporate Governance Kodex.*

- *Rule 2 C* (one share – one vote): 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.

Guaranteed minimum dividend for preference shareholders.

- *Rule 16 C*: In conformity with the provisions of the *Bankwesengesetz* (Austrian banking act) regarding the "four eyes" principle, the Management Board of BKS Bank does not have a chairman.
- *Rules 30 C* and *31 C*: The remuneration of key management personnel is reported as an aggregated line item on page 153 under point (44) of the Notes. For data protection reasons and respecting the right to privacy, remunerations of individual members of the Management Board are not reported.
- *Rule 45 C:* Because of the way the Bank's shareholder structure has evolved, representatives of the largest single equity holders have been elected to the Supervisory Board. Since the principal shareholders are banks, their representatives also hold positions on the boards of banks that compete with BKS Bank. However, this group of people are committed without compromise to the independence rule so as to avoid conflicts of interest as well as to fulfilling their obligations to the other shareholders.

Every member of BKS Bank's Supervisory Board is independent.

- *Rule 52 C*: As BKS Bank greatly values the expertise of its Supervisory Board, which consists of senior members of the Austrian business community, BKS Bank's Supervisory Board has more than 10 members.

The Management Board

The members of the Management Board manage the enterprise on their own responsibility and control the members of the Group.

The members of BKS Bank's Management Board manage the enterprise on their own responsibility. In the performance of their activities, they concern themselves primarily with defining the enterprise's objectives and the Bank's strategic orientation. They are in particular responsible for managing and monitoring the operative business segments and the Group-wide risk control system. The preparation of Management Board decisions is founded on an extensive internal reporting system that delivers detailed and reliable information about the Group's business performance, financial position and profit or loss, its plans and its success in attaining its goals as well as the existing risks.

Management of the enterprise is founded on a reliable and extensive reporting system.

Certain transactions must be discussed with colleagues and are subject to decisions by the Management Board as a body.

Within their own remits, both members of the Management Board are closely involved in day-to-day business and continuously informed about business

When making decisions, the members of the Management Board adhere to all the relevant legislative requirements, putting them above their personal interests and those of shareholders with a controlling interest.

developments and specific transactions. During Management Board meetings, the members discuss developments 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 body. The remits of the members of the Management Board are presented on page 21.

The Management Board reports regularly and in full to the Supervisory Board in the spirit of the clear separation between enterprise management and enterprise control required by stock corporation law. In the spirit of the *Corporate Governance Kodex*, the Management Board regularly discusses with the Supervisory Board and, in particular, with its chairman, the enterprise's current business performance and fundamental issues relating to its assets, liabilities, financial position and profit or loss and its risk management activities. However, as set out in the standing orders, certain Management Board decisions of particular import require Supervisory Board approval. This applies, for instance, to the granting of large loans and to material acquisitions and sales of strategic equity investments. The Management Board's reporting duties also include preparing regular quarterly reports on the business performance of the Group as a whole.

The Supervisory Board's consent is required in certain circumstances.

The Supervisory Board

Strict separation between management (the Management Board) and control (the Supervisory Board).

During the year under review, the Supervisory Board consisted of 11 representatives of the equity holders and six members delegated by the enterprise's Staff Council. The Supervisory Board supervises the completion and monitors the success of the banking transactions initiated by the Management Board. It is in particular responsible for examining the annual financial statements of *BKS Bank AG* and the BKS Bank Group. The Supervisory Board as a whole met four times during the 2009 financial year. The report by the Chairman of the Supervisory Board, Hermann Bell, provides further details of the Supervisory Board's activities during the year under review from page 24 of this Annual Report.

There are clear guidelines on verifying the independence of the member of the Supervisory Board to prevent conflicts of interest.

C rule 53 of the *Corporate Governance Kodex* requires the majority of the representatives appointed to the Supervisory Board to be independent. This means that they should not maintain a business or personal relationship with the company or its Management Board that could give rise to a material conflict of interest and is therefore likely to influence the respective member's conduct. Most of the representatives of the equity holders in BKS Bank's Supervisory Board are banking and business experts with relevant experience in the banking and financial fields. All of them have, in an individual statement, declared their own independence in accordance with the following requirements:

- A member of the Supervisory Board shall not in the previous three years have been a member of the management board or senior 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, all the requirements of § 87 *Abs. 1a 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 significant business interest. The approval by the Supervisory Board of individual transactions that meet the definition set out in *L rule* 48 shall not automatically be deemed to mean that that person is not independent . The conclusion or existence of normal banking agreements with the company will not affect that member's independence.
- A member of the Supervisory Board shall not have been BKS Bank's auditor in the past three years 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 whose supervisory board includes a member of BKS Bank's Management Board unless the one company is associated with the other company within the scope of a group or holds 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 a person in one of the positions described in the above points.

BKS Bank has also published its criteria for establishing the independence of the members of its Supervisory Board on its website at www.bks.at » *Investor Relations » Corporate Governance.*

BKS Bank does not have any business relationships with subsidiaries or persons that could affect their independence even outside the scope of its ordinary banking activities.

The Chairman of the Supervisory Board coordinates the work of its committees and chairs the Supervisory Board's regular meetings. As a rule and insofar as responsibilities for individual matters have not been assigned to expert committees, the Supervisory Board performs its tasks during its plenary meetings. The purpose of the expert committees is to make the Supervisory Board's work more efficient and to deal with complex issues. They have been set up in accordance with the requirements of the *Aktiengesetz* and the *Corporate Governance Kodex*. The following committees had been set up in the year under review and/or exist now.

The Supervisory Board performs its tasks in real time and efficiently during its regular plenary meetings and within the scope of its subsidiary committees.

The responsible work of the Supervisory Board committees.

Audit Committee: The Audit Committee is responsible for examining and preparing the adoption of the Annual Financial Statements, the Management Report and the Profit Appropriation Proposal, auditing the efficiency of Internal Audit, monitoring the effectiveness of the internal control system (ICS) and monitoring the independence of the Auditor. In the year under review, the Audit Committee hat eight members. The Audit Committee also examines any consolidated financial statements and makes a recommendation regarding the choice of Auditor, and it reports thereon to the Supervisory Board as a body.

Working Committee: The Working Committee, which has six members, is convened as required. It is in permanent 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 body.

Credit Committee: The Credit Committee votes by written ballot. It is kept regularly informed by the Management Board about developments in the loan portfolio. The Supervisory Board as a body is subsequently informed about decisions made by the five-member Credit Committee at its next plenary meeting.

The Personnel Committee is also responsible for every aspect of remuneration of the Management Board.

Personnel Committee: This committee is responsible for personnel decisions and nominations for membership of the enterprise's Management Board. It consists of two members of the Supervisory Board.

Shareholders and General Meeting

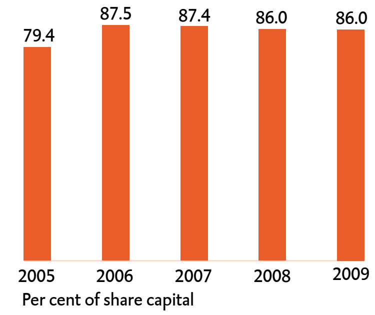
BKS Bank's shareholders can choose between ordinary no-par BKS shares and non-voting no-par preference shares.

BKS Bank has issued 30,960,000 ordinary no-par shares and 1,800,000 no-par preference shares. By virtue of the law or the Memorandum and Articles of Association, BKS Bank shareholders with voting rights are involved in material enterprise decisions. Among other things, they are responsible for voting on discharge of the members of the Management Board and the Supervisory Board from liability, electing the members of the Supervisory Board and the Auditor, voting on the appropriation of net profit, authorization of the issuance of new shares and making decisions regarding plans for changes to the enterprise's share capital and amendments to the Memorandum and Articles of Association.

The only exception to the one-share-one-vote rule applies to preference shareholders. 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 preference shareholders preferred treatment: The minimum dividend payable

to preference shareholders, payable, if necessary, in a later period, is 6 per cent of their respective interest in the company's share capital. The agenda of and results of votes cast at the 70th Ordinary General Meeting of BKS Bank on 29 May 2009 can be viewed on BKS Bank's website: click on *Investor Relations* and go to *Publications*.

ATTENDANCE AT THE AGM



Remuneration Report

The Supervisory Board has also assigned responsibility for every aspect of remuneration of the Management Board to its Personnel Committee which, therefore, also acts as Remuneration Committee. Generally, the remuneration of each active member of the Management Board of BKS Bank depends on the scope of that member's tasks and responsibilities, his or her contribution to the enterprise's business performance and reasonable standards in the industry. It consists of fixed payments and performance-based payments that depend on the Bank's medium- and long-term development. Under Austria law, the Management Board is appointed for a maximum of five years. When a member's duties end, his or her termination benefits will depend essentially on legislative provisions. The amount of the company pension as promised to one member of the Management Board will be based on an individual contract. The company pension of the second member of the Management Board has been regulated within the scope of a defined contribution pension fund solution.

Remuneration of the Management Board consists of fixed and performance-based payments.

The total remuneration paid to the members of the Management Board during the financial year is disclosed in the Notes to the Annual Financial Statements, on page 153. Pensions paid to former members of the Management Board came to €718 thousand, compared with €730 thousand in the previous year. Under the standing orders of the Management Board, additional duties of the Management Board must be approved by the Supervisory Board. No remuneration is paid for the exercise of offices within members of the BKS Bank Group. A directors and officers (D&O) insurance policy paid for by BKS Bank is in place. Among other things, it provides insurance cover against claims for compensation in respect of any financial losses and Management Board and Supervisory Board liability.

Remuneration of members of the Management Board is clearly regulated.

The annual remuneration of members of the Supervisory Board and their attendance fees are decided by the General Meeting. From the 2008 financial year, the Chairman of the Supervisory Board was awarded remuneration of €15,000, his or her deputies were awarded remuneration of €11,000 each and the other representatives of equity holders were awarded remuneration of €9,000 each. The attendance fee in each case is €100. Staff representatives perform their duties within the scope of their employment. Neither remuneration nor benefits were paid for

No stock option programme is in place for members of the Management Board or Supervisory Board or senior staff.

work performed personally, including in particular advisory and intermediary services rendered. BKS Bank had concluded stock option agreements pertaining to shares of BKS Bank neither with the members of the Management Board nor with the members of the Supervisory Board nor with senior staff.

REMUNERATION OF THE SUPERVISORY BOARD AND ATTENDANCE FEES

€	2009	2008
Chairman of the Supervisory Board	15,000	15,000
Vice-Chairman	11,000	11,000
Member of the Supervisory Board	9,000	9,000
Attendance fee per meeting attended	100	100

No loans were granted to members of the Supervisory Board. No loans were granted to members of the Management Board or persons or entities related to them on commercial terms and conditions normal in the industry and no such contracts were concluded with them.

Disclosure of the fees paid to the Auditor *KPMG Austria GmbH* .

During the 69th Ordinary General Meeting, *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigstelle Klagenfurt*, was charged with auditing the conduct of business at *BKS Bank AG* and within its Group. In 2009, the fees charged by *KPMG* Group-wide for performing the statutory audit and audits performed in accordance with the Memorandum and Articles of Association and regulatory requirements and for rendering audit related and tax consultancy services came to €740 thousand.

AUDIT FEES AND AUDITING SERVICES

€k	2009	2008
Fees for audit related services	570	581
Tax consultancy fees	96	80
Other fees	74	61
Total fees	**740**	**722**

Director's Dealings

Under § *48 d BörseG* (Austrian stock exchange act), the members of the Management Board of BKS Bank, the members of the Supervisory Board and persons standing in a close relationship to those persons are obliged to disclose the purchase or sale of BKS Bank shares if the amount of the transactions carried out for their own account during a calendar year equals or exceeds €5,000. During the year under review, three reportable purchases were reported to BKS Bank's Compliance Officer. The corresponding information was immediately sent to the *Finanzmarktaufsicht* (Austrian Financial Market Authority) and published on the FMA website at www.fma.gv.at. On the reporting date, the total number of BKS Bank shares held by the members of the Management Board and Supervisory Board — 4,840 ordinary no-par shares and 7,206 no-par preference shares — came to substantially less than one per cent of the shares in issue by the company.

Three director's dealing reports during the year under review.

Compliance

BKS Bank has an internal body of rules based on the *Standard Compliance Code* of the Austrian banking industry. It is founded on the principle of appropriateness.

BKS Bank's Compliance Code ensures proper and legal behaviour on the part of its boards, officers and employees.

Compliance is one component of our professional risk management system. Preventative organizational procedures and other measures are in place to ensure adherence to legislative provisions and other regulations when providing securities services. The primary purpose of compliance is to protect customers and investors. Its secondary purpose is to safeguard the reputation of listed Group parent BKS Bank. BKS Bank therefore expects its employees to behave with integrity and responsibility towards the Bank's customers and the enterprise, to handle so-called insider information with care and to strictly separate their work for the enterprise from their personal interests so as to prevent conflicts of interest.

During the year under review, the members of our Compliance Organization, who report directly to the Management Board and are not involved in active securities operations, defined 17 so-called *confidentiality areas* of a permanent nature and three temporary *ad hoc* confidentiality areas. One of the main focuses of their work was on the conscientious implementation of the FMA circular on organizational requirements pursuant to the *Wertpapieraufsichtsgesetz 2007* (WAG 2007: Austrian securities supervision act) regarding compliance, risk management and internal audit processes and the conflict of interest problem in some remuneration systems. Subject to the principle of appropriateness, our Compliance Organization became even more intensively involved in the Bank's internal information and reporting processes in close cooperation with Internal Audit and Risk Controlling, which are central administrative departments, in order to play an active role in minimizing risk in the securities field. The Supervisory Board was kept constantly informed about the regular checks and other activities carried out by the Compliance Organization. They did not expose any breaches during the year under review.

The Code of Conduct developed by BKS Bank staff in 2009 reflects a clear commitment to adhering to legislation, regulatory standards and social norms.

To support our employees and ensure a shared understanding of what constitutes ethically impeccable behaviour in every branch and office of the BKS Bank Group in Austria and abroad — and in recognition of the COSO recommendations — we drew up a Code of Conduct as part of our compliance universe. It was conceived for every employee and business segment within the BKS Bank Group. In addition, an active complaints management system has been in place at BKS Bank for over 10 years to make sure that our high quality standards are sustained.

Risk Management

Meticulous identification, assessment, management and monitoring of possible corporate risks within the scope of the risk management process.

As an internationally active bank, BKS Bank is exposed to numerous risks. Risk policy principles and guidelines are enshrined in BKS Bank's Risk Strategy. The Management Board reviews, updates and communicates these principles and guidelines throughout the Group on an annual basis. The role of Risk Controlling — a separate unit within the central Controlling and Accounting Department — is to carry out the systematic and comprehensive recognition, analysis, quantification, management and limitation of BKS Bank's risk positions across the enterprise. The resulting risk analyses are presented to the Management Board and the operating units that are affected (risk taking units) as well as to the Supervisory Board as a body on a quarterly basis in quarterly reports and the plenary report. A detailed report on BKS Bank's risk policy and risk management activities is provided in the Risk Report, from page 102, and in point (45) of the Notes, from page 154.

Internal Control System

Involving Internal Audit and Risk Management in the internal control system (ICS) safeguards the quality of enterprise reporting processes.

By closely involving Internal Audit and Risk Management, the BKS Bank Group's Group-wide internal control system (ICS) — which is based on generally accepted international standards — ensures the reliability of enterprise reporting to Management and to the supervisory boards and bodies. Besides performing the tasks assigned to it by the *Aktiengesetz* and *BWG*, the Audit Committee also monitors the internal control system's effectiveness.

Anti-Money Laundering Activities

BKS Bank's AML activities are based on an uncompromising *Know Your Customer* policy designed to prevent risk.

BKS Bank feels that it is particularly important to support the international fight against money laundering and terrorism financing and to put a stop to every kind of dubious money flow within its operating territories. An on-the-spot money laundering audit carried out by *OeNB* in late autumn 2008 within the scope of an FATF country evaluation confirmed that BKS Bank's business policies attach sufficient weight to money laundering issues. During the year under review, conspicuous financial transactions detected by the fine filters of our automated systems and during data quality checks were isolated, examined at Head Office and, if there was

reason to do so, reported to the responsible authorities. Our AML activities focused on rigorously reducing business links with offshore companies, routinely monitoring business relations being developed with politically exposed persons (PEPs) and the automated, Group-wide checking of transactions carried out by existing and new customers against international sanction lists.

Communication

BKS Bank has a *fair disclosure* policy. This means giving its shareholders, employees, customers, the media and interested members of the general public detailed, real-time information about the enterprise's position. The preferred Internet platform for all company information of relevance for corporate governance purposes is the website at www.bks.at. In addition, regular publications that are reportable under the *ad hoc* criteria set out in the EU Transparency Directive are also available on *OeKB*'s *EmittentenPortal.Austria* (Austrian issuers portal) and via the APA-OTS *euro adhoc* service. They include, in particular, the annual and semi-annual financial reports and the interim reports on the first quarter and first three quarters and announcements of new bond issuances, planned changes to key equity investment thresholds, other changes in share capital and similar measures that require disclosure.

Treating all shareholders equally and reporting in detail to every market participant are central to our investor relations work.

BKS Bank's Shares

Extensive Changes to Share Capital

Extensive changes to our share capital in the year under review to ensure that we can maintain a sustainable growth path:

Stage 1:
Share capital raised out of internal funds by €6.16 million (nominal) from €50.0 million to €56.16 million.

Stage 2:
Six-for-one stock split; the number of ordinary no-par shares in issue increases from 4,380,000 to 26,280.000; the number of no-par preference shares in issue increases from 300,000 to 1,800,000; at the same time, the shares' prices on the stock exchange are reduced by a factor of six.

Stage 3:
"One additional share per six" share capital increase of €9.36 million (nominal) from €56.16 million to €65.52 million through the issuance of 4,680,000 new ordinary no-par shares at an issue price of €15.75 each.

Summary:
Our share capital is now represented by 30,960,000 ordinary no-par bearer shares and 1,800,000 no-par bearer preference shares.

The gross proceeds from the raising came to roughly €73.7 million. This significantly increased our Tier 1 ratio to approximately 8.7 per cent.

Even in economically difficult times, BKS Bank has been able to hold its own thanks to its stability, dependability and level-headed growth. BKS Bank's shares have proved to be a solid investment for both private and institutional investors. We have always had sufficient own funds, even in the toughest phases of the recent financial crisis, but as an improvement in the market made itself felt, BKS Bank carried out a number of important changes to its share capital during the year under review. This was done to ensure that BKS Bank can maintain its sustainable growth path without outside help and to bring its own funds ratio into line with the figures that have now become benchmarks in international markets.

The foundation stone for raising new share capital was laid by the 70th Ordinary General Meeting on 29 May 2009. This AGM authorized the company to raise new share capital out of internal funds, increasing it by €6.16 million (nominal) to €56.16 million, and to carry out a six-for-one stock split. The reason for this raising of share capital out of internal funds was to turn the ratio of share capital to the number of shares in issue into a round number, giving each share a nominal value of €12 before the split and €2 after it. We point out that the prices of the ordinary no-par share and the no-par preference share had already reached the triple-digit euro range in March and May 2007, respectively. In other words, the prices of BKS Bank's shares had already put them up among the market's heavyweights. This increase in our share capital did not change our ownership structure, but it made our shares appear significantly lighter and, therefore, even more attractive to investors. It increased the number of ordinary no-par shares in issue by a factor of six from 4,380,000 to 26,280.000, and the number of no-par preference shares increased from 300,000 to 1,800,000. The prices of both share classes were adjusted accordingly, reducing them to one sixth of what they had previously been on 5 June 2009. The BKS Bank ordinary no-par share is listed in the *Standard Market Auction* segment. That day, it closed the day's trading at €17.33 instead of €104,00, and the no-par preference share closed at €14.08 instead of €84.50.

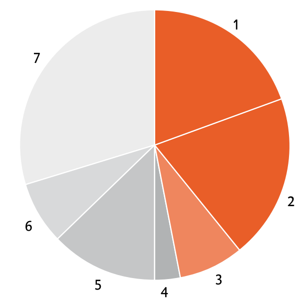
In the light of a generally harmonious stock market and lively interest on the part of investors, the Management Board decided on 24 September 2009, in consultation with the Supervisory Board, to raise the company's share capital from €56.16 million to a maximum of €65.52 million by issuing up to 4,680,000 new ordinary no-par shares (so-called "Young Shares") at an issue price of €15.75 each. The shares carried the right to a full dividend for the entirety of the 2009 financial year. The invitation to subscribe for the new ordinary no-par shares expired on 23 October. This offering met with great interest among BKS Bank's existing shareholders. In all, 86.3 per cent of all subscription rights were exercised. All the Young

Shares that were not purchased under subscription rights were subscribed for by private and institutional investors in Austria within the scope of a public offering. As a result, numerous investors joined the ranks of our bank's shareholders.

The gross proceeds from the raising, which amounted to roughly €73.7 million, significantly increased our Tier 1 ratio, strengthening it from 6.9 per cent at the close of 2008 to approximately 8.7 per cent at the end of the period under review. We will be using most of the funds from the increase in share capital to press ahead with growth in our core business segments. Besides expanding our credit operations, this will involve strengthening the branch network in Austria and abroad.

Since the raising, *BKS Bank AG* has had share capital of €65.52 million represented by 30,960,000 ordinary no-par bearer shares and 1,800,000 non-voting no-par bearer preference shares. The minimum dividend payable to preference shareholders, payable, if necessary, in a later period, is 6 per cent of their respective interest in the company's share capital. It is fully paid up, so there are no contributions outstanding on the shares issued by the company.

SHAREHOLDER STRUCTURE OF BKS BANK BY VOTING INTEREST



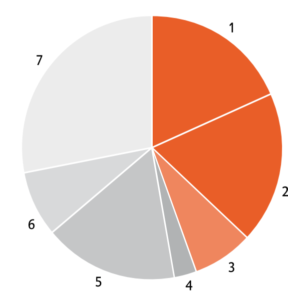
1 *Oberbank AG*	19.54%
2 *Bank für Tirol und Vorarlberg AG*	19.65%
3 *Generali 3 Banken Holding AG*	7.88%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	3.11%
5 Free float	12.72%
6 *UniCredit Bank Austria AG*	7.46%
7 *CABO Beteiligungs GmbH*	29.64%

The shareholders shown in red have signed a syndicate agreement.

Shareholder Structure

Oberbank AG, Linz, holds 19.54 per cent of the voting rights in *BKS Bank AG*. *BTV*, Innsbruck, holds 19.65 per cent. *Generali 3 Banken Holding AG*, Vienna, holds 7.88 per cent of the ordinary no-par shares. These three core shareholders have concluded a syndicate agreement; together, they own 47.07 per cent of the voting rights in *BKS Bank AG*. The syndication of the company's stock secures BKS Bank's independence as well as uniting the syndicate partners' interests within the scope of cooperation and sales alliances. No single shareholder is in a position to control BKS Bank either directly or indirectly. 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.

SHAREHOLDER STRUCTURE OF BKS BANK BY EQUITY INTEREST



1 *Oberbank AG*	18.52%
2 *Bank für Tirol und Vorarlberg AG*	18.57%
3 *Generali 3 Banken Holding AG*	7.44%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	2.98%
5 Free float	16.46%
6 *UniCredit Bank Austria AG*	8.02%
7 *CABO Beteiligungs GmbH*	28.01%

The shareholders shown in red have signed a syndicate agreement.

As shown in the margin, the biggest single equity holder is *UniCredit Bank Austria AG*. At 31 December 2009, it held a 36.03 per cent stake in *BKS Bank AG* (adding the interest of the biggest single shareholder—*CABO Beteiligungsgesellschaft m.b.H.*, which is wholly-owned subsidiary within the *UniCredit Bank Austria AG Group*—and the shares held directly by *UniCredit Bank Austria AG*). *Wüstenrot Wohnungswirtschaft reg. Gen. mbH* owns 2.98 per cent. Roughly 16.50 per cent of all BKS Bank shares are owned by free float shareholders. A substantial proportion of the free float is held by BKS Bank staff and by investors who particularly value BKS Bank's business model. At the end of 2009, *BKS-Belegschaftsbeteiligungsprivat-*

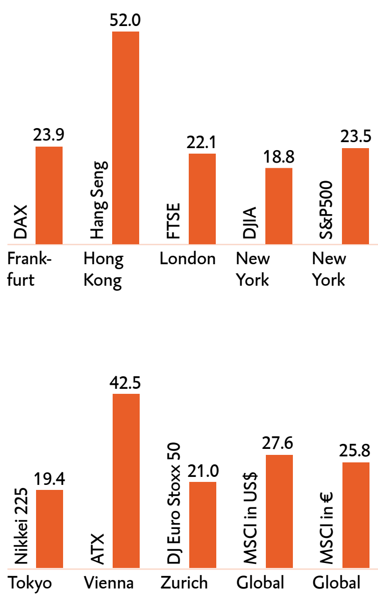
BKS Bank is tied to its sister banks *Bank für Tirol und Vorarlberg* (BTV) and *Oberbank AG* by similar shareholder structures and forms the *3 Banken Group* together with those banks. This well-balanced ownership structure safeguards their independence.

stiftung—which exists solely to distribute in full to employees of BKS Bank investment earnings in accordance with *§ 10 Abs 1 KStG* (Austrian corporation tax act)—controlled roughly 0.3 per cent of the voting rights. The held-for-trading portfolio of treasury shares consisted of 253,605 ordinary no-par shares and 332,390 no-par preference shares.

Share Performance

The dramatic collapse of US investment bank *Lehman Brothers* is likely to go down in history as the central trigger of the financial and economic crisis that respected economists are already calling the "great recession." A year later, the capital markets were calming down by the minute. The amplitudes of fluctuations in the market got visibly smaller as things gradually returned to normal. Driven by hopes of an end to the global recession, a significant rise in share prices began in March as investors became increasingly willing to take risks. It was only interrupted by brief periods of consolidation in June, at the end of September and, most recently, in October.

STOCK MARKET PERFORMANCE IN 2009



One-year performance based on closing prices
Source: *Yahoo Finance.*

Having still hit absurdly low levels in the autumn, prices on the major international stock markets crossed back above their 200-day averages in the middle of July. Massive (and recently ebbing) government spending programmes, rigorous expansionary monetary and interest rate policy action by the central banks—including, above all, the Federal Reserve in the United States (the Fed) and the ECB—and rapidly improving numbers in the corporate sector have boosted share prices in the eurozone and the United States. In the year under review, the Dow Jones, Euro Stoxx 50 and Standard & Poor's 500 (S&P500) gained 21.0 per cent to 2,966.24 and 23.5 per cent to 1,115.10 points, respectively.

During 2009, the US$-based MSCI World Equity Index, which covers all the key stock markets, rose by 27.6 per cent to 1,168.468 points. However, over a 10-year period, its negative performance (without factoring in dividends and inflation losses) came to a sobering 17.8 per cent. This was in the wake of the bursting of the Internet bubble and the stubborn and as yet unresolved financial and economic crisis of 2008/2009.

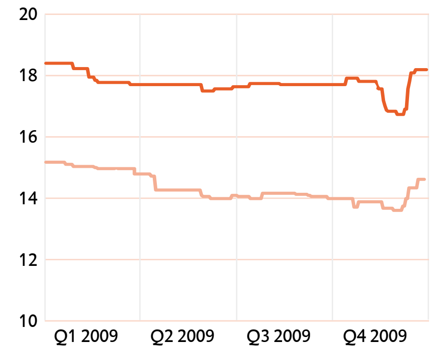
The key international share indices and the Vienna stock exchange's ATX closed the 2009 stock market year with sizeable gains, but their performance was significantly weaker than in earlier years .

On the Vienna stock exchange, the ATX gained 42.5 per cent after a March low of 1,411.95 points to end the year at 2,495.56. This made up for some of its heavy losses in the 2008 stock market year. The aggregate market capitalization of all the listed companies traded in the *Geregelter Markt* (regulated market) or *Dritter Markt* (third market) increased by 45.1 per cent to €79.5 billion, but it too did not match

previous highs. The same was true of trading turnover. Having averaged €11.7 billion a month in 2009, it dropped to an average of about €6 billion in 2009.

BKS Bank's ordinary and preference no-par shares are listed in the Vienna stock exchange's *Auction Market*. They held their own well during the year under review and in multi-year comparisons. The ordinary no-par share started 2009 at a high of €110.00. Allowing for the six-for-one stock split (see above), this translates into an adjusted price of €18.33. Thanks to our good results in the first two quarters, the price of our ordinary share stayed more or less stable in the months that followed, but it briefly dipped to €16.49 during a period of consolidation in the weeks after the raising of share capital. It then recovered to end the year under review at €18.10. The adjusted price of the preference share moved within a narrow band between a January high of €15.33 and a November low of €13.58. At the beginning of 2000, the BKS ordinary no-par share was trading at the equivalent of €15.17, while the preference no-par share had an adjusted price of €6.33.

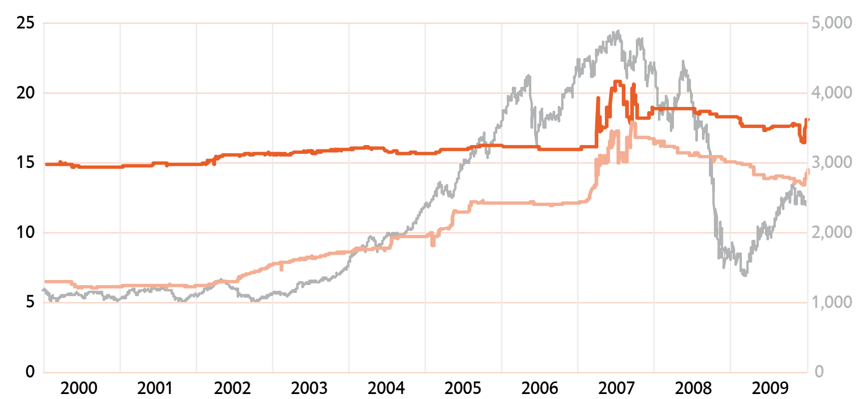
PRICES OF BKS BANK'S SHARES DURING THE YEAR UNDER REVIEW



BKS ordinary no-par share, €
BKS no-par preference share, €.
Historical values until 5 June 2009 have been restated.
Source: Vienna stock exchange.

Allowing for the stock split, our IFRS earnings per share were marginally down on 2008 to €1.25. The ordinary no-par share's P/E based on its price at the end of the year was 14.7. That of the no-par preference share was 11.95. The market capitalization of the BKS Bank shares listed on the Vienna stock exchange was €77.4 up on the end of the 2008 stock market year to €586.8 million.

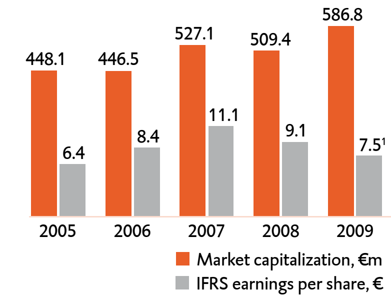
PERFORMANCE OF BKS BANK'S SHARES: 10-YEAR COMPARISON



BKS ordinary share, € BKS preference share, € ATX (Austrian Traded Price Index)
Restated historical BKS Bank share prices allowing for the six-for-one stock split on 5 June 2009.
Source: Vienna stock exchange.

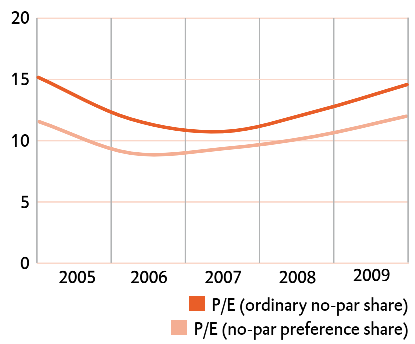
BKS Bank shares: an attractive and rewarding long-term investment. The performance of the ordinary and preference no-par shares has also proven comparatively crisis-proof over a 10-year period.

MARKET CAPITALIZATION AND IFRS EARNINGS PER SHARE



¹ Restated after the six-for-one stock split on 5 June 2009.

PRICE EARNINGS RATIO (P/E)



BASIC INFORMATION ABOUT BKS BANK'S SHARES

€ UNLESS OTHERWISE STATED	2009	2008	2007
Ordinary no-par shares in issue	30,960,000	4,380,000	4,380,000
No-par preference shares in issue	1,800,000	300,000	300,000
Closing price: ordinary/preference share	18.1/14.7	110.0/92.0	113.5/100.0
High: ordinary/preference share	18.2/15.3[1]	113.5/101.0	125.0/110.0
Low: ordinary/preference share	16.5/13.6[1]	110.0/92.0	97.0/73.6
Market capitalization, €m	586.8	509.4	527.1
IFRS earnings per share in issue	1.25	9.09	11.06
Dividend per share	0.25[2]	1.50	1.50
P/E: ordinary/preference share[1]	14.72/11.95	12.28/10.27	10.46/9.22
Dividend yield: ordinary no-par share	1.38	1.36	1.32
Dividend yield: no-par preference share	1.70	1.63	1.50

Securities ID Nos.; Ticker Symbols:	BKS BANK AG ST; BKS BANK AG VZ
Bloomberg: BKUS AV; BKUSN AV	Reuters: KAER.VI; KAER_b.VI
ISIN (ordinary share): AT0000624705	ISIN (preference share): AT0000624739

[1] Restated figures allowing for the six-for-one stock split on 5 June 2009.
[2] Proposal to the 71st Ordinary General Meeting on 19 May 2010.

Resolutions of the 70th Annual General Meeting

The 70th Ordinary General Meeting (AGM) was held on 29 May 2009 at BKS Bank's registered office in Klagenfurt. Over 91 per cent of the voting stock was represented at this Shareholders' Meeting, as was over 26 per cent of the free float. In separate ballots, the members of the Management Board and Supervisory Board were discharged from liability for the 2008 financial year, the AGM voted to use net profit for the 2008 financial year to distribute a dividend of €1.5 per share, and *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigstelle Klagenfurt*, were appointed as Bank Auditors for the 2010 financial year. All these decisions were unanimous. The AGM also unanimously reelected Josef Korak, Maximilian Meran and Robert Zadrazil as members of the Supervisory Board.

The Management Board's application for permission to raise the company's share capital out of internal funds by €6.16 million to €56.15 million by converting the appropriate portion of the tied capital reserves without issuing new shares and its application for permission to carry out a six-for-one stock split also met with unanimous approval from the shareholders. The AGM also unanimously authorized the Management Board to update the amount of share capital authorized by the 68th Ordinary General Meeting on 15 May 2007 (item 7 of the agenda) and to

All AGM votes on agenda items were unanimous.

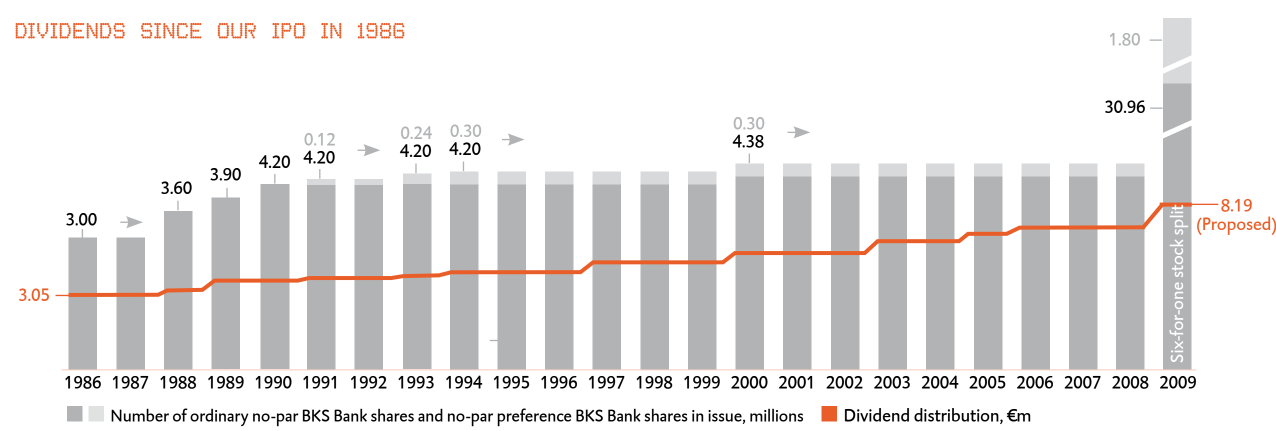
carry out all the necessary changes to the Memorandum and Articles of Association. Finally, the AGM authorized the company to acquire its own shares in the period up to and including 29 November 2011 in an amount of up to 10 per cent of its share capital for no specific purpose in conformity with *§ 65 Abs. 1 Z 8 AktG*.

Profit Appropriation Proposal

In the continuing pursuit of the ambitious, capital market orientated dividends policy of prior years, we will be recommending to the shareholders of BKS Bank at the 71st Ordinary General Meeting on 19 May 2010 the payment of a dividend of €0.25 per share out of *BKS Bank AG's* net profit, taking into account the increase in the number of shares in issue to a total of 30,960,000 ordinary no-par shares and 1,800,000 no-par preference shares caused by the stock split on 5 June 2009 and the raising of new share capital in October 2009. This would result in a total distribution of roughly €8.19 million, compared with €7.02 million in respect of the years 2006 through 2008.

Maintaining a responsible dividends policy.

DIVIDENDS SINCE OUR IPO IN 1986



Financial Calendar

2010 FINANCIAL CALENDAR

Press Conference to present the Annual Financial Statements for 2009	31 March 2010
Publication of the Annual Financial Statements in the Internet . . .	1 April 2010
. . . and in the official *Wiener Zeitung* gazette	1 April 2010
71st Annual General Meeting (AGM)	19 May 2010
Ex-dividend date	25 May 2010
Dividend payment date	27 May 2010
Interim Report as at and for the 3 months ended 31 March 2010	21 May 2010
Interim Report as at and for the 6 months ended 30 June 2010	20 August 2010
Interim Report as at and for the 9 months ended 30 September 2010	19 November 2010

INVESTOR RELATIONS CONTACT

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NOTE ON THE DISCLOSURE DIRECTIVE

Information about the Disclosure Directive is provided on our website at www.bks.at » *Investor Relations* » *Publications*.

ANNUAL REPORT 2009 THE ENTERPRISE

THE ENTERPRISE

Committed to Responsible Growth.

In Conversation

Boštjan Dežman
Head of BKS Bank in Slovenia

Michael Oberwalder
Head of Credit Risk Management

Karl Mertel
Head of Retail Banking

Sabine Lax
Head of BKS Bank's Regional Head Office in Villach

"We were all pulling together."

Sabine Lax, Head of our Regional Head Office in Villach, Boštjan Dežman, Head of BKS Bank in Slovenia, Karl Mertel, Head of Retail Banking and Michael Oberwalder, Head of Credit Risk Management, talking about the highs and lows during BKS Bank's 2009 financial year.

What did you see as the biggest challenge in 2009?
Michael Oberwalder: The biggest challenge was the fact that the credit and funding world had changed radically and that we had to get to grips with those changes.
Sabine Lax: It meant that we had to completely rethink things in a very short period.
Boštjan Dežman: But I gather that BKS Bank in Austria was still able to acquire large numbers of new retail banking customers.
Karl Mertel: That's true — but our solid , positive image was a great help. It is why both existing customers and numerous new customers placed their trust in us when times were turbulent. Simultaneously, we had the right solutions and products at the right time. 2009 was a very unusual year for us and for our customers. Share prices dropped in the first quarter, but the stock markets performed very well over the rest of the year. In those troubled times, the big challenge was to individually structure each customer's assets. We were able to restore our customers' self-confidence and prove that one can still succeed in times like these if one has suitably structured securities accounts and appropriate product solutions.

Can you give us a few examples of product solutions that were particularly appropriate in 2009?
Mertel: To tackle the problem of inflation, we issued our *Inflationsgarant* inflation guarantee bond, which sold very well. Another of our successes was, of course, the fact that our increase in share capital was actually slightly over-subscribed despite the continuing instability of the stock market. We were all very proud that BKS Bank was still an attractive investment for its shareholders in this critical period.
Lax: We entered into dialogue with our corporate and business banking customers at a very early stage. Our observation was that customers who planned for a variety of different scenarios early and took countermeasures in good time — say, by improving their liquidity planning — got through the year well.
Oberwalder: We were also helped by the fact that we didn't have any problems to cope with in our own investments. We hadn't invested in either Iceland or Lehman and we didn't have any toxic assets. We quickly restructured our liquidity planning processes, ensuring that we would not have to revoke or reduce even one loan commitment. Deposit and loan balances being healthy, we spent relatively little time dealing with our own problems and could concentrate fully on our customers.

What else was good about 2009?
Mertel: We could feel the bank's employees closing ranks. Everybody was pulling together — and together we were able to achieve a great deal.
Oberwalder: It was the only way we could meet the goal we had set ourselves at the beginning of the year: to gain strength through organizational change without reducing the workforce.
Lax: We could feel the importance of local customer proximity in times like these. BKS Bank has existed for nearly 90 years, and we have always been close to our customers. We are there for them, and we will be for years to come. This means

that we are close at hand for our customers, ready to listen to their needs, desires and complaints. Small and medium-sized enterprises are particularly unhappy if they have to deal with faraway head offices. They want to have someone they can talk to at eye level who is familiar with local conditions and who employs a stable and dependable business policy. Our predictability helps companies plan ahead.

Dežman: We are seeing the same thing in Slovenia, where we are thriving in the vicinity of our branches. It is hard to acquire new customers from further afield. In 2010, we will be able to offer our customers all the products and services that are normally available from a so-called *universal bank*. The next step will be to gradually expand by opening new branches.

Mr. Dežman, how did BKS Bank deal with the crisis in Slovenia?

Dežman: We too of course felt the slowdown in economic growth and the increase in credit risk. However, BKS Bank benefited from the fact that we are not yet active in the securities market in Slovenia, and as a lender, we have always prioritized security .

In fact, we were able to stand out from the crowd and make ourselves a good name during the crisis. We took part in the government's guarantee programme for personal loans and we were awarded a sizeable quota — which was an big mark of confidence. It brought us to the attention of a lot of prospective customers, who subsequently came to talk to us about our loan products.

What can we expect in 2010?

Oberwalder: We don't think the crisis is over yet. The economic numbers might be improving slightly, but various sectors and industries like construction and mechanical engineering will continue to feel the decline. We therefore expect credit risks to remain higher than usual in 2010.

Lax: That is why minimizing risks will still be our main priority. At the same time, we will be exploiting the opportunities created by BKS Bank's positive image. We were able to add large numbers of companies to our customer base in 2009, and we want to continue to do so in 2010.

Mertel: Thanks to our conservative and sustainable business policy, both existing customers and many new customers entrusted their savings to us in 2009. We now need to offer them attractive low-risk alternatives to suit their individual needs. This can and should lead to a renaissance in our securities operations.

Dežman: We will be completing our transformation into a so-called *universal bank* in 2010. Securities operations will be launched during the first quarter. Our focus after that will be on gradually expanding by opening new branches. This will make the return on our investments to date even better. We will be opening a new branch in southern Ljubljana before the end of March.

Strategy

We are a solid bank. This message was at the heart of many of BKS Bank's corporate communication activities in 2009. It aptly describes a strategy that we have been pursuing for years. BKS Bank offers its customers all the banking products and services that are usually available from a fully fledged bank. Our customer operations focus on medium-sized enterprises, jobholders and private individuals. If BKS Bank cannot supply a product or service itself — for instance in the leasing, building society, investment fund, life insurance or real estate fields — it will draw upon the services of its own subsidiaries and associates and its allies *Generali Versicherung AG* (insurer) and *Bausparkasse Wüstenrot AG* (building society). BKS Bank's core areas of expertise in the corporate and business banking segment include corporate finance, the investment of surplus liquid funds and domestic and foreign payments. In the retail banking segment, they are financial and investment consultancy services and home finance.

BKS Bank's business model is founded on organic growth and sustainability.

Everything we do is underpinned by the best possible assessment of the associated risks and their impact on the bank as a whole. BKS Bank's business model is founded on organic growth and sustainability. Consequently, expansion always takes place by degrees. When developing new markets, BKS Bank relies on gradual, low-risk expansion. As a rule, the first stage of entry into a new foreign market takes place via a leasing company; banking operations follow later. This makes us better able to assess market opportunities and gauge customers' real needs so that we can subsequently develop successful business relations more rapidly. In addition, we only do business that BKS Bank really understands. Risky speculation and opaque investments do not interest our bank and never have. Sustainable, solid performance is also ensured by the fact that the variable components of the remuneration paid to the members of the Management Board and senior staff are linked to the attainment of long-term goals. We have an excellent training programme and do carefully targeted senior personnel development work. We usually fill senior positions with existing employees, guaranteeing the steady development of know-how at BKS Bank.

Membership of the *3 Banken Group* safeguards BKS Bank's independence.

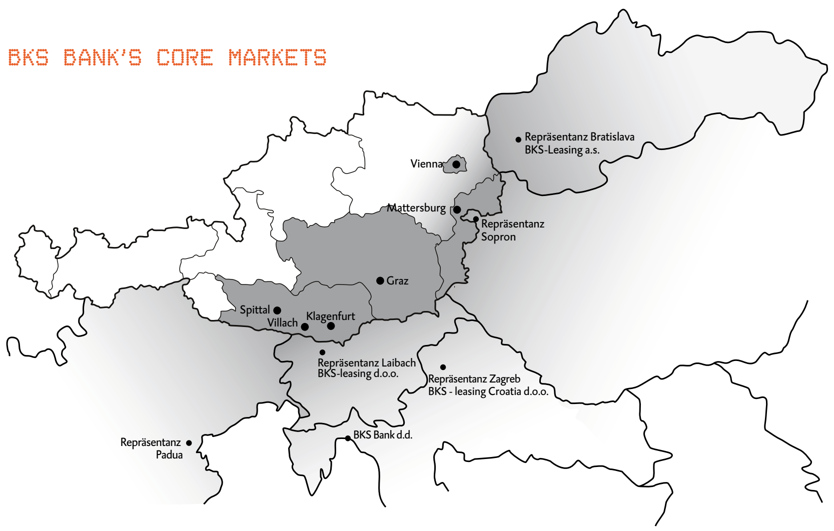
Membership of the *3 Banken Group* is another important part of our strategy. The other members are the *Oberbank* and *Bank für Tirol und Vorarlberg*. The group's sophisticated system of equity investments makes hostile takeovers virtually impossible and ensures the lasting stability of ownership structures within it. At the same time, collaboration through shared subsidiaries within the group enables BKS Bank to offer its customers state-of-the-art, cost-effective solutions.

In the course of the financial crisis, it became clear that the business model applied by every member of the *3 Banken Group* is the right one.

Markets

During the 2009 financial year, the companies in the BKS Bank Group serviced customers in the Austrian provinces of Carinthia, Styria, Burgenland, Lower Austria and Vienna, and its markets also included Slovenia, Croatia, the Slovak Republic, Italy and Hungary. The branch network was enlarged by the addition of new branches in Perchtoldsdorf and Celje (Slovenia), and the Bruck a.d. Leitha branch was relocated to Neusiedl. As a result of its membership of the *3 Banken Group*, BKS Bank's customers also have access to the supraregional network of its sister banks *Oberbank* and *BTV*. The table below provides an overview of BKS Bank's activities abroad.

BKS BANK'S CORE MARKETS



● Regional head office, head office of a leasing company or representative office.

BKS BANK'S ACTIVITIES ABROAD

COUNTRY	BANKING	LEASING	REPRESENTATIVE OFFICE
Slovenia	Branches in Ljubljana, Maribor, Celje	*BKS-leasing d.o.o.*, Ljubljana	Ljubljana
Croatia	*BKS Bank d.d.*, Rijeka, Zagreb Branch	*BKS-leasing Croatia d.o.o.*, Zagreb	Zabreb
Slovak Republic	Cross-border operations	*BKS-Leasing a.s.*, Bratislava	Bratislava
Italy	Cross-border operations		Padova
Hungary	Cross-border operations		Sopron

Customers, Products and Services

BKS Bank is a so-called *universal bank* that offers its retail and corporate and business banking customers a comprehensive range of banking services. Personal care and regional proximity are at the heart of our customer relationships. BKS Bank is committed to the "know-your-customer" principle. As a bank with strong regional ties, we meet our customers at eye level. BKS Bank's account managers are familiar with local conditions and the environments in which companies are operating. Consequently, soft facts can be included in decision-making processes. Customers also appreciate the fact that we can be depended on to keep our word. Because of our solid, risk-averse business culture, many retail banking customers also place their trust in BKS Bank, whether by investing their assets with us or using us as a lender.

Corporate and Business Banking Customers

BKS Bank was set up as a pure corporate and business bank in 1922, but it began providing retail banking services as well in the 1960s. Because of that past history, BKS Bank has always been an important partner to the industrial sector and small and medium-sized enterprises in many areas of the economy. Numerous family businesses have been BKS Bank customers for generations.

BKS Bank's corporate and business banking customers prefer decisions to be made locally, and they appreciate the fact that smaller businesses too are provided with services that other banks only offer their bigger customers. BKS Bank's account managers in the corporate and business banking segment are highly trained. Moreover, they have access to our experts at Head Office if they need specialized information in areas like grants and subsidies and export finance. As a result, BKS Bank is able to advise its customers particularly effectively. Made-to-measure solutions are especially important when one is making investment decisions — but they are only possible if advisory staff have the necessary know-how.

Thanks to the know-how of our advisory staff, we are able to offer our customers made-to-measure solutions.

BKS Bank was servicing 17,900 corporate and business banking customers in the year under review. They benefited from an extensive line of products and services ranging from traditional loan and investment products to special tools like interest rate caps. In the light of the economic climate, advisory services focused more closely on liquidity management in 2009. Another focus was on business subsidies. Alongside long-term schemes, these subsidies also included various regional and national measures to revive the economy. BKS Bank remained one of Austria's most important regional processors of export subsidies.

Retail Banking Customers

BKS Bank's core areas of expertise in the retail banking segment are home loans and investment, and it goes without saying that we also offer our retail banking customers a full range of other banking services. BKS Bank's account packages often provide the basis for extending the range of services used by a customer, with pension and saving products becoming an ever more important aspect of our advisory role.

We add Perchtoldsdorf and Celje to the branch network. The Bruck a.d. Leitha branch is relocated to Neusiedl.

Branches still form the bedrock of successful partnerships with our retail banking customers. Although online offerings are on the increase and everyday life is becoming more and more technology-dominated, personal meetings are an essential part of providing quality advisory services. BKS Bank is therefore gradually enlarging its branch network. During the 2009 financial year, we opened new branches in Perchtoldsdorf and Celje and relocated the Bruck a.d. Leitha branch to Neusiedl. In addition, we redesigned a number of branches, giving them an attractive and modern ambience that positively invites customers to do their banking there. Customers who want to take advantage of the Internet can use BKS Bank' online banking services. In addition, Internet users can go online to open accounts with BKS Bank, buy saving products and ask BKS Bank for quotes for made-to-measure leases and loans. Moreover, they can use a pension and savings advisor tool to get interactive advice tailored to their own personal pension and savings needs.

Growing demand for pension and saving products.

The securest saving and investment products were especially in demand among BKS Bank's retail banking customers during the year under review, continuing the renaissance of the *Sparbuch* passbook. Thanks to BKS Bank's outstanding product and risk know-how and holistic and objective investment advice services, customers continued to entrust their investments to us. The securities issued by the BKS Bank Group also remained popular, and the demand for home loans stayed stable. BKS Bank has not granted any more foreign currency loans since the Austrian Financial Market Authority advised against doing so in the autumn of 2008. The demand for pension and saving products grew ever stronger. In addition to advising customers on providing for their own old age, BKS Bank also gives them tips on creating financial cushions for their children and grandchildren, for instance to help pay high educational costs.

Communication

Communicating with Customers

BKS Bank's customer communication activities put a lot of emphasis on personal contact in order to keep us as close as possible to our customers. For instance, we hold frequent events where those attending can network with one another as well as talking to noted experts. To take one example, futurist Matthias Horx inspired over 1,200 customers during his lectures in Velden, Graz and Baden. For many, his optimistic theories about the future were a welcome change to media crisis mongering. The award galas for the TRIGOS Carinthia and TRIGOS Styria awards were also upbeat occasions, giving companies whose social responsibility transcends the requirements of the law a platform to present themselves.

Matthias Horx instilled 1,200 customers with optimism about the future.

Journalist Eugen Freund talked to users of our *PremiumService* about the probable effects of Barack Obama's presidency, while members of our *MedService* dipped into the world of wine and cheese. Interest in a series of lectures on the government's economic rescue package organized in partnership with *TPA Horwath* and *Arbeitsmarktservice* (Austrian job centres) was also keen. Many of our customers came to the opening ceremonies for our new and redesigned branches in Austria and abroad. Our joint annual visit to the Carinthian Summer Music Festival, a Trigonale concert and the Brahms Competition Winner's Concerts have also become cultural fixed points in the year for many of our key account customers.

As part of our strict savings course, we cut spending on marketing and took care to be particularly efficient in our use of resources. We had three main marketing focuses during 2009: supporting sales with classical advertising campaigns about home construction and providing for one's old age; marketing the raising of our share capital with the help of an integrated communication package; and setting up a special online information portal to supplement our PR activities and adverts and the information material available in branches. A high-impact cinema spot called "Don't lose any sleep over things." was shown in selected cinemas in the autumn. As the huge response to the spot demonstrated, creativity and originality can be used to create a big effect with comparatively little effort.

Audiences are enthusiastic about our cinema spot.

BKS Bank's website at www.bks.at is an important means of communication. It is not just a source of information for customers. The online shop on the website lets us use it an additional sales channel as well. The newsletter feature is also proving popular, enabling users to subscribe to receive information of interest to them on a modular basis.

Communicating with Staff

BKS Bank caters for its employees' growing thirst for information as well as for demographic changes with a variety of measures in the internal communication, professional development, health and skill and employability fields.

As is true of external communication, BKS Bank believes that a high level of transparency is an important aspect of communicating with staff. The Management Board holds briefing sessions at least twice a year to update every member of staff about BKS Bank's business strategy, ongoing projects, current results and the enterprise's future plans. In addition, we hold regular *jours fixes* in every department, regional head office and branch to present and discuss current topics and what BKS Bank is doing.

Moreover, every member of staff has access to our IntraNET. Besides guidelines, manuals and information about marketing and sales activities, the IntraNET presents monthly numbers in an easy to understand barometer, health tips and a whole lot more. Three times a year, our staff magazine, *cocktail*, provides staff with an overview of ongoing projects, presents various departments and units, reports on our activities abroad and, above all, focuses on one specific group of people — our employees themselves.

Involving employees in restructuring processes.

Three big projects launched in 2009 affected many of BKS Bank's employees: concentrating the management of lending to corporate and business banking customers; redesigning the organization of our branches; and reorientating our retail banking segment. Each of those projects involved staff from every regional head office. People who were not directly involved in a project were brought up-to-date by regular reports in the IntraNET and the staff magazine and in the course of briefings.

Furthermore, we supplemented our Vision and Mission Statement with precepts for branches and for our individual Head Office departments.

Every Regional Head Office and our Head Office in Klagenfurt foster our "we feeling" by organizing activities for staff in their free time. These include excursions and Christmas parties.

Employees

In general, employees can choose between various forms of flexible working hours.

BKS Bank made its mark as an attractive employer during the 2009 financial year. Personnel Management again processed over 1,750 unsolicited applications for jobs (including applications for work experience). As this shows, BKS Bank is a sought-after employer despite the banking industry's worsening image. BKS Bank's legendary commitment to the welfare of its workforce is one contributing factor. Among other things, this takes the form of flexitime models (flexible hours without core hours of work), excellent compatibility of family and work, measures to promote the advancement of women, various forms of staff participation and attractive professional development opportunities.

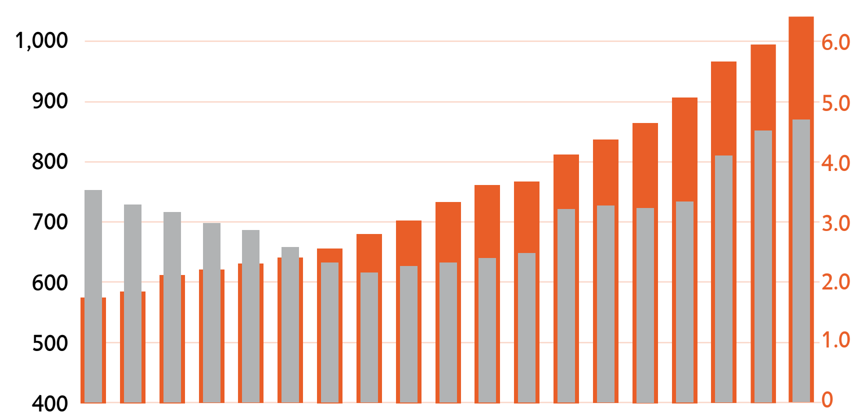
The reduction of flexitime credits and unused vacation time cuts costs.

Nonetheless, Personnel Management had to cope with a number of challenges during the year under review. Since staff costs are the biggest item of expense at a service provider like BKS Bank, we continued to rigidly cut costs in this area. Systematically reducing unused vacation time and greatly cutting back on flexitime credits enabled us to significantly reduce the associated provision balances. A review of our staffing schedules (among other things in connection with the restructuring of the management of lending to corporate and business banking customers and reducing the administrative burden on branches) allowed us to virtually dispense with hiring new staff. Unlike many other companies, BKS Bank does not lay off staff. We are proud to be a secure and stable employer.

The increase in the workforce is mainly due to the realization of our plans for growth.

The BKS Bank Group employed an average of 872 people (full-time equivalents) during 2009, compared with 860 in 2008. In terms of the number of heads in the workforce, it employed 1,035 people at the end of 2009, 137 of whom were work-

HUMAN RESOURCES AND ASSETS



1991 to 2009

Average number of employees Consolidated assets, €bn

Personal career prospects play an important part in tying Austrian and foreign employees to BKS Bank.

ing abroad. Their average period of service with us remained high and stable, at 15.8 years. Nearly all the people working for BKS Bank outside Austria were working in their home markets, where they are more familiar with the local culture and regional demands. We intend to make the key building blocks of our extensive training programme — most of which have so far been in German — accessible to our foreign employees as well. To this end, we opened our structured graduated training scheme to senior staff in Slovenia for the first time and we internationalized our trainee programme. We have had separate personnel managers in Slovenia and Croatia since 2008, and the Slovak Republic will be following suit.

Staff in Austria had access to 222 seminars offering them basic and advanced professional and personality development training. We were able to hold many of the training modules at BKS Bank's training centre in Pörtschach. The centre has been open for our staff since the summer of 2009. It meets all the requirements of modern, learning-orientated seminar techniques.

The Central Loan Back Office department gives 90 employees a new role.

One of our challenges in 2009 was our *New Corporate and Business Loan Management Process* project. This project led to structural changes involving the creation of the Central Loan Back Office department (ZMF) and the closure of the Central Service and Production department (ZSP). The new department currently employs more than 90 people. New staffing schedules, job descriptions and so on had to be rapidly developed. In future, the administrative work previously done by regional head offices will be handled by the staff at ZMF. This has meant big changes for our employees at regional head offices, some of whom now have to commute to Klagenfurt. However, individual solutions have been found for employees from Graz, Vienna and Burgenland, who naturally cannot be expected to commute on a daily basis given the distances involved. As a result, some of them have transferred to Sales. This project will be completed in the summer of 2010.

A new collective agreement for banks has been in force since July 2009. Salaries for new entrants are higher and the salary curve flattens off as periods of service get longer.

An important change for staff took effect in July 2009 when the new collective agreement for the employees of banks and bankers was introduced after years of negotiation. The key changes were the restructuring and more exact definition of employee groups and the restructuring of pay scales, adding a seventh tier. This has resulted in higher starting salaries for new staff combined with a flatter salary curve as periods of service get longer. Every staff member was brought into the new system with the same salary as before. Based on their prior period of service, staff members have been given a guarantee that their previous expectations will not be disappointed, offering them the security they need.

Organization and IT

A failsafe IT landscape and modern branches are key to BKS Bank's success, so we attach considerable importance to both. Our IT costs came to €11.5 million in 2009, and we invested €6.9 million in building projects.

IT Projects

IT projects at BKS Bank are the responsibility of *3-Banken-EDV Gesellschaft mbH* (*3BEG*). This is a shared subsidiary of BKS Bank and its sister banks. The changeover to the Windows Vista operating system was one of the year's biggest projects. Fifty per cent of our terminals had already been converted as planned by the end of 2009. Since we also replaced all the PCs at converted branches so as to make the best use of Vista, this involved extensive capital expenditure on hardware. Besides enhancing performance, this will save costs in the future because newer equipment needs less servicing, reducing the amount of work that needs to be done by technicians on the spot.

Fifty per cent of all terminals have already been converted to the Windows Vista operating system by the end of the year.

We boosted our internal performance by enhancing the CAR application framework. To date, customer data management, customer base management, ratings and the PAVS personal data administration system have been embedded into this framework. We achieved our goal of making CAR 50 per cent faster. In the medium term, this will cut licence and maintenance costs in the host system, which are based on computer usage.

The *Zahlungsdienstegesetz* (ZaDiG: Austrian payment services act) entered into force on 1 November 2009, incorporating the EU directive on payment services in the internal market (Payment Service Directive or PSD) into Austrian law. This made it necessary to adapt a number of programmes, which was done in time to ensure that every solution was running smoothly on 1 November. In the cash disbursements field, BKS Bank converted its ATMs to the so-called *EMV standard*. This means that the chips in *Maestro* cards are now read, instead of the magnetic stripes, making criminal manipulation harder. So far, the new standard has been put in place for international transactions. It will be introduced for domestic transactions in 2010.

BKS Bank is well prepared for the Austrian payments services act.

3BEG continued to do a lot of work for BKS Bank in its foreign markets. Securities operations were launched in Slovenia in the first quarter of 2010, and the product line for retail banking customers in Croatia was significantly enlarged in 2009. Our preparatory IT work in Slovenia was virtually completed during the year under review, and two cornerstones for product diversification in Croatia — the customer management and online banking systems — are also already in place.

The preparation of IT systems for the diversification of our products and services in foreign markets is all but completed.

Construction Projects

BKS Bank uses local suppliers for its construction projects.

BKS Bank tries to use local suppliers for its construction projects so as to contribute to the economy in the region. Besides building the new branches in Perchtoldsdorf, Celje and Neusiedl that opened during 2009, BKS Bank's Construction Group — which is part of the Operations Department — also rebuilt the *Sparberspachgasse* branch in Graz and the *Villach Hauptplatz* branch and completed work on our Training Centre in Pörtschach. At the same time, the Construction Group developed new internal standards for building projects so as to increase energy efficiency, reinforcing our commitment to sustainability. We will continue to build new branches and renovate old ones during the coming financial year. The Construction Group is already working on our next branch, located in Ljubljana, and another branch will follow in Vienna. We are redesigning a number of branches, including Völkermarkt and Marz. BKS Bank's biggest internal relocation to date went without a hitch in the fourth quarter of the year under review, when 122 workplaces were rapidly moved during the restructuring of our corporate and business loan management processes and the resulting creation of the Central Loan Back Office Department. The completion of our new Training Centre in Pörtschach means that our former central training facilities can now also be used as office space. This has created room for 50 new workplaces at Head Office.

Organization

The restructuring of corporate and business loan management processes leads to the creation of a new department. The administrative burden on branches is reduced.

Three major restructuring projects took place within BKS Bank during 2009, two of which were carried out with the support of management consultants *Droege&Comp*. The purpose of our project to reorganize the management of corporate and business loans was to facilitate adherence to minimum lending standards. The cores of this concept were the introduction of a central risk analysis system and further centralization of loan processing. This will significantly improve the quality of our customer risk and loan application assessments. The centralization of the bulk of our loan processing activities went hand-in-hand with standardization, boosting efficiency as well as quality and enabling account managers to focus even more closely on the customer and the market. The Central Loan Back Office department came into being as a result of this project. The project will be completed in June 2010 with the integration of administrative units at our regional head offices in Styria, Burgenland and Vienna. In September, we launched our parallel *New Branch Organization* project. Its purpose is to reduce the administrative burden on branches. We identified a total of 46 possible optimizations, ranging from outsourcing to the streamlining of our guidelines on remits and responsibilities. This restructuring process was also completed in June 2010.

Sustainability

Business success, social responsibility and the sparing use of resources are part of the vision that constantly shapes our actions.

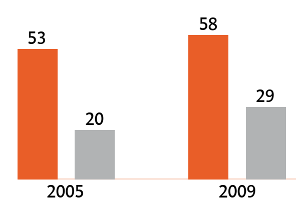
The Workforce

BKS Bank is awarded the ÖÄK no-smoking seal of quality.

Walter Dorner, President of the Austrian medical association, praised BKS Bank when he awarded us the sought-after ÖÄK no-smoking seal of quality in December 2009 for our outstanding contribution to health preservation. "BKS Bank offers individual coaching to people who are trying to quit and even pays half the cost. This displays exceptional management awareness of the need to foster health." We became a smoke-free bank back in 2006. This was part of our *Banking on Health* project, which addresses a different area of health preservation each year. In 2009, staff were able to strengthen their back muscles within the scope of our *Aufrecht durch die Bank* (totally straight) programme. In addition to lectures and monthly bulletins in the IntraNET, we offered them spinal gymnastics in a number of modules, and "active" corners for doing back exercises were set up at Head Office and our regional head offices.

The development of our Code of Conduct was another important project. It was drafted by a staff working group with the support of Iris Strasser of *Verantwortung zeigen* (the "showing responsibility" initiative). The aim was to help employees cope with everyday situations. Two questions were always at the fore: how will a critical public judge my actions, and how can each one of us act as responsibly as possible? The Code of Conduct is also available on BKS Bank's website at www.bks.at » *BKS Bank* » *Sustainability* » *The workforce*, making it an expression of applied transparency that clearly illustrates BKS Bank's mode of operation.

THE PROPORTION OF WOMEN IN THE WORKFORCE AND SENIOR POSITIONS HELD BY WOMEN



■ The proportion of women in the total workforce at BKS Bank, %
■ Senior positions held by women, %

BKS Bank's unwavering commitment to its corporate social responsibilities is one aspect of our vision. Even when times are tough, it goes without saying that BKS Bank will continue to offer its employees the same benefits as before. To name just a few, they include flexitime models, flexible hours without core hours of work, training that always takes place during working hours, the *Kinki* crèche and a variety of special social and family benefits.

As the growing proportion of women in the workforce shows, BKS Bank is an attractive employer for women, not least because of the many things it does to help them have a family and a career. The number of women in senior positions has also grown, but there is still room for improvement.

During 2010, we want to motivate more women to aim for senior positions. The proportion of women in BKS Bank's workforce has risen steadily in recent years, and so too has the number of women in senior positions. However, there are still far fewer women in senior positions than men. We therefore set up a working party last year to identify the factors that prevent women from progressing to senior positions. The first part of our solution is a two-day workshop to help women decide whether or not they want to join senior management.

Society

THE TRIGOS CARINTHIA AND TRIGOS STYRIA LAUREATES IN 2009:

TRIGOS Category: The Workplace
Embatex AG
GREENoneTEC Solarindustrie GmbH
Knapp AG
Messner KG
Paltentaler Minerals GmbH & Co KG

TRIGOS Category: Society
ATRIO BetriebsgesmbH
JMB Fashion Team GesmbH
Kärntner Sparkassen AG
Lognostik
SPAR Steiermark und Südburgenland
The Cleaning Company CC-Tatschl GmbH

TRIGOS Category: The Market
Kärntnermilch reg.Gen.m.b.H.
NORIS Feuerschutzgeräte GmbH

TRIGOS Category: Ecology
Biolandhaus Arche
*Biohotel Daberer**** vital & spa*
Eine Welt Handel AG
Technisches Büro für Landschaftsökologie und Landschaftsplanung
Saubermacher Dienstleistungs AG
Sto Ges.m.b.H.
Wietersdorfer & Peggauer Zementwerke GmbH

Special prize awarded by *Wirtschaftsinitiative Nachhaltigkeit*
Feistritzwerke-STEWEAG GmbH

He could hardly carry it alone. Five-year-old Niklas Ilmar accepted the TRIGOS Carinthia award in the "Ecology/Small Businesses" category together with his father Ilmar Tessman. The award's weight and its striking design are intended to show that responsibility is something you have to actively take in hand. The *Arche* ecological country hotel run by the Tessman family was just one of 21 winners of a TRIGOS award for responsible enterprises in Carinthia and Styria. BKS Bank awards the TRIGOS prizes in partnership with the *Business Data Consulting Group*, *Caritas*, *Diakonie*, the *Industriellenvereinigung* (Austrian industrialists' association), the Austrian Red Cross, *respACT*, *SOS Children's Villages*, *Umweltdachverband*, the *Wirtschaftskammer* (Austrian Federal Economic Chamber) and the *Die Presse* newspaper. Other partners of TRIGOS Carinthia and TRIGOS Styria include the *Kleine Zeitung* newspaper, the *Wirtschaftsinitiative Nachhaltigkeit* sustainability initiative, *Verantwortung zeigen* (showing responsibility), *Strasser&Strasser*, *Eco World Styria*, UBIT and *Taten statt Worte* (action not words).

This unique platform of businesses and civilian organizations has set itself the goal of fostering the breakthrough of sustainability and responsible corporate governance in Austria by honouring enterprises whose social and ecological responsibility transcend the requirements of the law. The award categories are "The Workplace", "Society", "The Market" and "Ecology." For the first time, the *Wirtschaftsinitiative Nachhaltigkeit* gave away its special *Styrian Lighthouse Award for Sustainable Management* within the scope of TRIGOS Styria.

BKS Bank initiated TRIGOS Carinthia and TRIGOS Styria four years ago to motivate other companies to actively demonstrate their corporate social responsibility. As the 66 entries showed, it has succeeded. Seeing examples of the ways in which enterprises of all sizes profit from corporate social responsibility encourages others to adopt a similar commitment.

Besides organizing TRIGOS Carinthia and TRIGOS Styria — which have an indirect impact — BKS Bank also has an active commitment to corporate social responsibility. BKS Bank is still paying for one employee at *Kärntner in Not* (Carinthian in need) as well as providing continuous support in the form of free remittance slips, donor cheques and so on. These contributions enable the *Kleine Zeitung* newspaper to pass all donations directly on to the needy without having to deduct any administrative costs. During 2009, BKS Bank pledged to support the *Sonnenmond* children's hospice project of the *MOKI-Kärnten – Mobile Kinderkrankenpflege* mobile child health care charity, concluding a sponsorship agreement with the project's leaders. This in-patient children's hospice will be a place where children with incurable or degenerative diseases can spend time together with their parents and brothers and sisters right from the time of the initial diagnosis to their death. Building work is to start as soon as the Province of Carinthia has given permission. BKS Bank also sponsors an integration centre called *Pferde bringen Sonne ins Leben* (horses bring sunshine into your life), where children and young people with special needs can take part in therapeutic horseback riding and many other activities. In addition, BKS Bank supports numerous other projects by charities like *SOS Children's Villages*, *Caritas*, the *Fühl dich wohl* socio-pedagogical community and Austria's *Kinderkrebshilfe* children's cancer charity. Education and culture are just as important to BKS Bank as its contribution in the social field. For instance, it is one of the principal sponsors of the AHS foreign language competition, the *Junior* competition and a variety of lectures at Alpen-Adria University in Klagenfurt as well as the Brahms competition and the cultural and arts centres of Burgenland.

BKS Bank signs a sponsorship agreement with the planned *Sonnenmond* children's hospice.

The Environment

The tenet of BKS Bank's commitment to protecting the environment is that small things can have a big impact. We are a service provider, so we do not have much scope to reduce our footprint — but we are gradually exploiting and developing the scope that we do have. For instance, since the year under review, every PC that is no longer being used is automatically shut down at 7 pm. This alone saves enough energy to supply six households. Similarly, our air conditioning systems have been equipped with automatic limiters that stop it getting colder than 19°C or hotter than 23°C. We are also being more careful about energy efficiency and using resources sparingly on our building sites. Finally, we have purchased a hybrid car to make business trips more environmentally friendly.

Automatically shutting PCs down at 7 pm saves enough energy to supply six households.

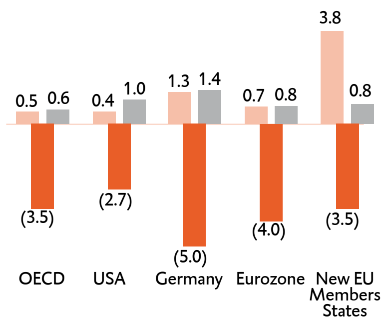
At the same time, we think it is important to make our employees aware that every one of us can help reduce our use of resources. We ask them to behave as they would at home, and we help them do so by regularly publishing tips in our IntraNET.

GROUP MANAGEMENT REPORT

Sustainable Management.

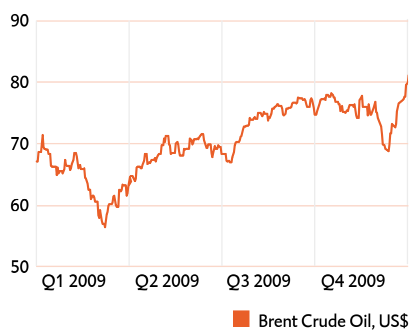
The Economic Environment

THE GLOBAL ECONOMY



Change in real GDP versus the previous year, %
Sources: *WIFO, OECD.*

CRUDE OIL PRICES



Source: *Bloomberg.*

Following the massive slump in the 2008/2009 winter half that then worsened in the first quarter of 2009, it was summer before the global economy reached the bottom of the cycle. From that time, key growth indicators like incoming orders and industrial output improved perceptibly. However, the economy's main sources of stimulus remained the extensive fiscal packages in place in many countries and the rigorous monetary policies of central banks. This was particularly true in the big industrial and emerging economies, including above all the United States and Europe and the economies of Southeastern Asia. While China's GDP growth slowed only slightly (thanks to the government's rigorous infrastructure programmes) from 9 per cent in 2008 to 7 per cent in the year under review, the United States had difficulty emerging from the recession's shadow. Despite an expansionary fiscal policy and a budget deficit that skyrocketed to over 12 per cent of GDP, real US GDP fell by 2.7 per cent. In addition, the North American property market — one of the causes of the global systemic crisis — recovered little from the slump in property prices. Starting from a multi-year low, crude oil prices on commodity markets rose relentlessly. At the end of December, benchmark Brent crude was trading at US$77.93 a barrel, or about 95 per cent more than at the beginning of the year.

The deep recession also hit the eurozone with full force at the turn of 2008/2009. The utilization of capacities reached historical lows in virtually every Euroland country. The eurozone's two biggest economies — Germany and France — having managed to escape from the recession in the second quarter of 2009 with growth of 0.3 per cent, the economic conditions in the rest of the eurozone with the exception of Spain and Greece appear to have stabilized somewhat as well. However, import demand from the United States and the new EU Member States (whose rapid catch-up process was virtually halted as a result of their dependence on capital imports) was still too weak to permanently revive exports in the year under review. Despite a slight recovery during 2009, the eurozone's real GDP is likely to have shrunk by 4.0 per cent compared with 2008. The situation in the job market worsened further in the wake of the recession. The annual average jobless rate having risen to 10.0 per cent, *Eurostat* estimates that the number of people unable to find a job had already reached about 15.8 million by the end of 2009.

In the international financial markets, every risk asset class had slid to new lows in the undertow of the financial markets crisis by the end of the first half of March. Under pressure because of the global aversion to risk, the big central banks felt forced to stretch their money and interest rate policy instruments to the limit. The central bank in the Unites States (the Fed) cut its key rate to close to zero and, above all, helped to stabilize the financial sector by "credit easing." The Fed left its federal funds target unchanged at 0.00 to 0.25 per cent in December, but it did signal its intention to end most of its emergency credit programmes on 1 February 2010.

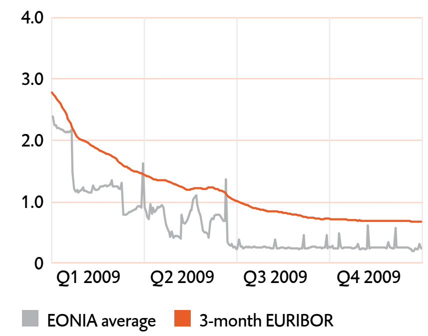
The ECB too pursued a consistently pragmatic policy of monetary easing. For the first time, the ECB's minimum bid rate on its main refinancing operations in euros fell to 1 per cent as of 13 May, and since that time, its peak refinancing facility rate has stood at 1.75 per cent. The ECB further extended its already generously dimensioned liquidity operations. In June, it announced its first long-term repo and it also engaged in partially unconventional open market operations like purchasing massive quantities of covered bonds. As a result, money market rates fell sharply during the year. At the end of 2009, the 3-month Euribor was at an annual low of 0.700 per cent, having stood at 2.892 per cent at 31 December 2008. The EONIA average fell sharply from 2.352 at year-end 2008 to 0.410 per cent at year-end 2009. At the end of 2009, yields on 10-year government bonds in the eurozone were about 3.5 per cent. The euro was back to over US$1.40 in September, and it ended the year at US$1.4406 after peaking at US$1.5083. This was mainly a reflection of concern about the sustainability of US financial policy, the fears of inflation triggered by the liquidity glut and growing doubts about the US dollar's suitability as a global reserve currency as the year progressed.

Austria too was not immune to the international downtrend, especially as its biggest trading partners in the EU and in Southeastern Europe felt the economic slump most. Goods exports, output of material goods and capital expenditure on plant and machinery fell over 2009 as a whole, and in some cases, there was a double-digit decline. It was mid-2009 before a trend reversal set in on the back of Austria's economic and job market packages as world trade recovered. However, the Austrian industrial sector's utilization of its capacities had dropped as far as 74 per cent, so the propensity to invest was still poor. On the other hand, in contrast to the situation in many other countries in the EU, relatively big increases in real wages, the extension of so-called "social" transfers and, not least, the temporary stimulus that came from the scrappage premium introduced on 1 April led to a 0.2 per cent increase in private household consumption. The domestic job market was relatively quick to react to the slump in the economy. The jobless rate calculated using the Austrian method rose from 5.8 to 7.4 per cent of the working population. Because of the sharp decline at the beginning of the year, WIFO expects real GDP to have fallen significantly, by 3.4 per cent, over 2009 as a whole. There may be some growth again in 2010.

EXCHANGE RATES

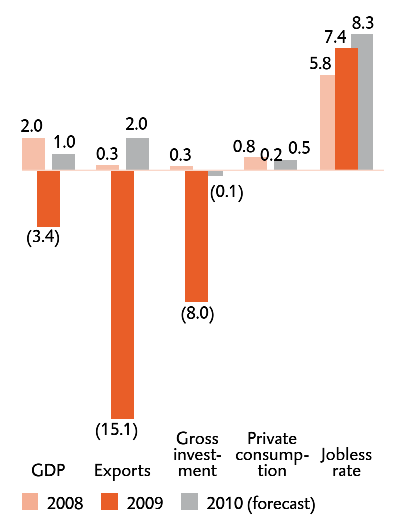
Source: *OeNB.*

MONEY MARKET RATES



Source: *OeNB.*

ECONOMIC INDICATORS IN AUSTRIA



Changes versus the previous year adjusted for inflation, %
Source: *WIFO.*

Karl-Heinz Kratzwald
Account Manager in the Corporate and Business Banking Segment
Spittal Regional Head Office

Joined BKS Bank in 1979 as an account manager in the retail banking segment with a special focus on loans. He has been advising corporate and business banking customers for over 25 years.

Carinthia

» We are still the leading lender to Carinthian businesses. «

Carinthia is where BKS Bank's success story began. It was set up in Klagenfurt in 1922 and took its first expansionary step into Styria in 1983. Subsequent territorial expansion was more rapid. Although BKS Bank has steadily increased its business volumes in other markets, Carinthia still accounts for the larger part of its assets and profit. BKS Bank employed an average of 531 people in Carinthia in 2009, and it has a presence in every Carinthian county through its 27 branches. It is the foremost provider of banking services in Carinthia, where it has big market shares in the corporate and business banking and retail banking segments. Having been set up as a bank for corporate and business banking customers, BKS Bank is one of the biggest lenders to Carinthian businesses. It again supported numerous investment projects during 2009.

Like Austria in general, Carinthia too was hit by the recession. Many businesses had to work short time for at least a few months, and the number of companies forced to file for bankruptcy rose. So too did the Carinthian jobless rate, which came to 9.3 per cent. This was well above the Austrian national average of 7.4 per cent (source: *Arbeitsmarktservice*, review of 2009) and was higher than in any other Austrian province.

Styria

» BKS Bank has a powerful network of 12 branches in Styria. «

Styria has been one of BKS Bank's growth territories and core markets since it opened its first branch in *Kaiserfeldgasse* in Graz in 1983. BKS Bank now has an attractive branch network in Styria consisting of six branches in Graz and one each in Deutschlandsberg, Feldbach, Gleisdorf, Hartberg, Leibnitz and Weiz. They offer Styrians all the products and services that are normally available from a so-called *universal bank*. BKS Bank sees further growth potential in Graz and Upper Styria.

BKS Bank's regional head office in Styria employs 99 people. Styria is the second-biggest contributor to our loan and investment portfolios after Carinthia. BKS Bank's customer base in Styria already consists of some 2,960 companies and nearly 20,000 private individuals, and it is steadily growing. BKS Bank has become an important provider of banking services to the Styrian economy, offering its customers made-to-measure solutions, extensive know-how and outstanding advisory services.

For a long time, the Styrian economy, which is stronger than Carinthia's, was an important motor of growth, but it too struggled in 2009. The so-called "automobile cluster" and the many companies that supply it suffered from the effects of the global economic crisis, as did the plant engineering and construction industry and numerous other sectors and industries.

Gerhard Macher
Member of our Services Staff
Styria Regional Head Office

Joined BKS Bank 20 years ago. Among other things, he is responsible for building services and fire prevention.

Claudia Schwartz
Retail Account Manager
Wiener Neustadt Branch

In banking since 1989. Joined *Burgenländische Anlage- und Kredit Bank AG* as a branch manager in 1999. Since returning from maternity leave, she has at her own request been working as a retail account manager with a special focus on loans.

Vienna, Burgenland, Lower Austria

» Many customers in Eastern Austria also prefer a smaller bank that gives them personal attention—and BKS Bank is their bank of choice. «

BKS Bank opened its first branch in Vienna 20 years ago, in 1990. Since then, the South-East axis between Klagenfurt and the capital has become a well-developed market. Styria has long been one of BKS Bank's core markets, and Burgenland became one in 2003 when it acquired a majority stake in *Die Burgenländische Anlage- und Kreditbank AG* (*BAnK*). *BAnK* was merged with BKS Bank in 2005, and the process of restructuring it was completed soon after. This involved reconfiguring the former *BAnK* branch network, extending the product line and implementing all of BKS Bank's internal guidelines.

We now have three branches in Vienna (*Am Lugeck*, *Meidling* and *Floridsdorf*). Since being founded, BKS Bank has managed to position itself as a reputable David between the banking Goliaths. We service large numbers of savers and investors, and we have also been able to establish a strong foothold in the corporate and business banking segment. We are looking for a site for another branch in Vienna. Our two branches in Lower Austria are among the newest in the network. The Perchtoldsdorf branch was opened during the year under review, and the Pöttsching branch was relocated to Wiener Neustadt in 2007. BKS Bank's branches in Burgenland are located in Mattersburg—which is also the site of our regional office in Burgenland—and in Eisenstadt, Gols, Neusiedl, Marz and Oberpullendorf. Our Burgenland regional head office and its affiliated branches employ 65 people. Thirty-two people work at our Viennese regional head office or at its branches.

Dušan Senica
Branch Manager in Celje

Held various management posts at companies in the *ALPOS Group* from 1992 to 2002. Went into banking in 2002 and set up a management consultancy business in 2006. Joined BKS Bank in 2009.

International Operations Slovenia

» Despite the crisis, we had a good start in Celje. We aim to acquire more salary account customers during 2010. «

Slovenia is the foreign market where BKS Bank has been operating longest. We entered the market in 1998 by buying a leasing company now called *BKS-leasing d.o.o.* In the meantime, BKS Bank also offers its Slovenian customers banking products and services. A new branch in Celje was added to our branches in Ljubljana and Maribor in 2009. Another branch in Ljubljana (and probably one in Kranj) will follow during 2010.

Slovenia too felt the crisis but it did relatively well by international standards. It was the foreign BKS Bank market least impacted by the crisis. Nonetheless, we slightly reduced our internal growth targets for 2010.

BKS Bank's most important line of business in Slovenia is still lending. On the balance sheet date of 31 December 2009, our three Slovenian branches had a total loan portfolio of €414.8 million, and if one includes cross-border operations, BKS Bank's loan portfolio in the Slovenian market came to €534.3 million. As a result, Slovenia is still our third-largest credit market after Carinthia and Styria. Loan evaluation processes are always strict. Our anti-crisis measures in Slovenia included a loan collateralization programme (the government guarantees home and business loans that meet specific criteria). BKS Bank applied to be a partner bank in the home construction programme and we were pleased to be allocated a large quota, underscoring the government's confidence in our bank. Leasing subsidiary *BKS-leasing d.o.o.* also posted a satisfactory result given the circumstances, recording assets of roughly €65.1 million on the reporting date.

On average, the BKS Bank Group in Slovenia employed 45 people in 2009 (2008: 34), eight of whom were working for our leasing subsidiary (2008: 7).

BKS Bank will be commencing securities operations in Slovenia in the first quarter of 2010, completing its transformation into a fully fledged bank.

SLOVENIA'S ECONOMIC DEVELOPMENT: PROJECTED % CHANGE

%	2009	2010
Real GDP	(4.7)	0.6
Consumer Prices	0.5	1.5

Source: International Monetary Fund, World Economic Outlook, October 2009; www.imf.org.

Croatia

» I am delighted that we will be able to offer our retail banking customers a raft of new products in 2010. «

BKS Bank operates in Croatia through a leasing company — *BKS-Leasing Croatia d.o.o.* — and in the banking market through *BKS Bank d.d.* The latter was acquired in 2007, when it was still called *Kvarner Banka d.d.* The squeeze-out was completed in 2009, making BKS Bank its 100 per cent shareholder.

BKS Bank d.d.'s activities during 2009 focused on extending its range of products for retail banking customers. Previously, our Croatian subsidiary mainly specialized in lending to small and medium-sized industrial enterprises, and retail banking customers only had access to its saving and time deposit services. However, in the year under review, we put the infrastructure of a fully fledged bank in place. Salary accounts and online banking services were introduced, and new personal loan products and a range of *Maestro* and credit cards and insurance products were close to finalization at the end of 2009. These will be made available to our Croatian customer in the course of the first quarter of 2010. This diversification will enhance BKS Bank's growth opportunities in Croatia and spread risks more. On the balance sheet date, *BKS Bank d.d.* had 53 employees and assets of roughly €81 million.

Since being formed, our leasing subsidiary *BKS-Leasing Croatia d.o.o.* has become an established player in the market. It had nine employees and recorded a lease portfolio worth €56.1 million at the end of the financial year under review.

The Croatian economy was very hard hit by the crisis. BKS Bank expects it to recover slightly in 2010, but it will still lag behind other markets. Nonetheless, we are looking for another location in Varazdin for a sales office from which we intend to develop the north of the country for business operations.

CROATIA'S ECONOMIC DEVELOPMENT: PROJECTED % CHANGE

%	2009	2010
Real GDP	(5.2)	0.4
Consumer prices	2.8	2.8

Source: International Monetary Fund, World Economic Outlook, October 2009; www.imf.org.

Mirjana Padovan Banić
Account Manager in the Corporate and Business Banking Segment at *BKS Bank d.d.*, Rijeka

Joined *BKS Bank d.d.* in 2007.

Lenka Rybánska
CEO of *KS-Leasing* a.s., Bratislava

Joined *KOFIS Leasing* in 2002. It was acquired by BKS Bank in 2007 and renamed as *BKS-Leasing* a.s. She has been CEO since 2007.

Slovak Republic, Italy, Hungary

» The restructuring of *BKS-Leasing* a.s. begun in 2008 bore fruit in 2009. We are glad that we did it in good time. «

Slovak Republic

BKS Bank entered the Slovakian market in 2007 when it acquired a leasing company now called *BKS-Leasing a.s.* We continued to concentrate exclusively on leasing during 2009. *BKS-Leasing a.s.* had a lease portfolio worth €47.5 million at the end of 2009 and employed an average of 29 people during the year. In addition to its head office in Bratislava, it has offices in Žilina, Košice and Banskà Bystrica. During 2010, BKS Bank will begin preparations for the opening of a banking branch in Bratislava. Although the Slovak Republic was hard hit by the economic crisis in 2009, it is the market within BKS Bank's territories for which the highest rates of growth are being forecast.

THE SLOVAK REPUBLIC'S ECONOMIC: PROJECTED % CHANGE

%	2009	2010
Real GDP	(4.7)	3.7
Consumer prices	1.5	2.3

Italy

In Italy, BKS Bank has a representative office in Padova that offers our corporate and business banking customers a bridge into Upper Italy. In addition, we provide numerous Italian customers with investment services at our branches and offices close to the border. We had originally planned to set up a banking subsidiary in Italy in the 2009 financial year, but it was postponed indefinitely, the profit outlook seeming too poor and the risk too high in the economic crisis.

ITALY'S ECONOMIC DEVELOPMENT: PROJECTED % CHANGE

%	2009	2010
Real GDP	(5.1)	0.2
Consumer prices	4.5	4.1

Hungary

As in previous years, we only did cross-border business in Hungary. It gave us a loan portfolio of €39.6 million at 31 December 2009. In view of the troubled state of the market, BKS Bank will not be engaging directly in this market place in 2010 and will be limiting its activities to its representative office in Sopron.

HUNGARY'S ECONOMIC DEVELOPMENT: PROJECTED % CHANGE

%	2009	2010
Real GDP	(6.7)	(0.9)
Consumer prices	1.5	2.3

Source: International Monetary Fund, World Economic Outlook, October 2009; www.imf.org.

Notes on the Scope of Consolidation

BKS Bank has been preparing its financial statements in accordance with IFRSs since 2005.

BKS Bank published its Consolidated Financial Statements in accordance with the principles of the International Financial Reporting Standards for the first time for 2005, and it has done so since. These Consolidated Financial Statements were likewise prepared in accordance with IFRSs as adopted by the EU. They also satisfy the requirements set out in *§ 59a BWG* (Austrian banking act) and *§ 245a UGB* (Austrian enterprises code) regarding exempting consolidated financial statements prepared applying internationally accepted accounting principles.

Consolidated Entities

In the year under review, the BKS Bank Group was made up of 17 subsidiaries and entities accounted for using the equity method.

The overview that follows lists the companies required by the International Financial Reporting Standards to be classified as members of the BKS Bank Group in the 2009 financial year. The superordinate entity within the BKS Bank Group is *BKS Bank AG*, which also dominates the Group's accounts.

BANKS AND OTHER FINANCIAL SERVICE PROVIDERS

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

Consolidated
Accounted for using the equity method

OTHER CONSOLIDATED ENTITIES

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

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*. During the elimination of investments in and equity of subsidiaries on consolidation, an entity's cost was compared with the parent's interest in the entity's equity. Materiality was judged applying common, Group-wide criteria. The principal criteria of materiality were the assets, annual profit, revenues 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 amortized book values.

The consolidated members of the BKS Bank Group comprise the banks and other financial service providers and entities rendering banking-related services that are controlled by *BKS Bank AG*.

BKS Bank AG held stakes of 16.95 and 13.59 per cent, respectively, in *Oberbank AG* and *Bank für Tirol und Vorarlberg AG* (*BTV*), and it owned 18.51 and 15.10 per cent, respectively, of the voting rights. The exercise of voting rights is regulated in syndicate agreements. This allows participation in these entities' financial and business decisions within the scope of the *3 Banken Group* without having control of them. In accordance with the mandatory standard *IAS 28 Investments in Associates*, these investments were therefore accounted for in the Consolidated Financial Statements using the equity method even though those banks lacked the status of subsidiaries of *BKS Bank AG* and the threshold stake of 20 per cent was not held.

Oberbank AG and *Bank für Tirol und Vorarlberg AG* are accounted for in the Consolidated Financial Statements using the equity method.

Banks and Other Financial Service Providers

BKS Bank AG is the parent of the BKS Bank Group. It is headquartered in Klagenfurt. *BKS Bank AG* turned profit from ordinary activities of €33.0 million in 2009, making a substantial contribution to consolidated profit. Assets of roughly €6.04 billion also underlined its dominant role within the Group.

Following a squeeze out, *BKS Bank AG* has held 100 per cent of the shares in Croatian **BKS Bank d.d.,** which is headquartered in Rijeka, since June 2009. The company's original name was *Kvarner banka d.d.*, but it was renamed as *BKS Bank d.d.* in September 2008.

BKS-Leasing Gesellschaft m.b.H., Klagenfurt, is a wholly owned subsidiary. 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* deemed to be a single entity with *BKS Bank AG* since 1996, it makes up a group as defined by the *KStG* (Austrian corporation tax act) together with *BKS-Immobilienservice Gesellschaft m.b.H.* It has share capital of €40.0 thousand. *BKS Bank AG* acts as group parent and provides the 11 employees and the back-office infrastructure used for the sale and management of leases. Another subsidiary—**BKS-Immobilienleasing Gesellschaft m.b.H.,** Klagenfurt—is a service provider that handles the acquisition, construction, renting, letting and management of real estate.

BKS-leasing d.o.o., Ljubljana, was set up in 1996 and acquired by BKS Bank in May 1998. We set up **BKS-leasing Croatia d.o.o.** at the end of 2001 to exploit the potential of the Croatian market. It is headquartered in Zagreb. The business activities of both companies focus primarily on motor vehicle and movable property leasing. BKS Bank acquired a majority stake in *KOFIS Leasing a.s.* in March 2007, renaming it as **BKS-Leasing a.s.** in October 2007. This leasing company is headquartered in Bratislava and also has branches in Žilina, Košice und Banskà Bystrica. It makes up a subgroup together with *BKS-Finance s.r.o.*

Alpenländische Garantie-Gesellschaft mbH (*ALGAR*), Linz, was set up as a bank in 1983. It is a *3 Banken Group* joint venture that is accounted for within the BKS Bank Group using the equity method. *ALGAR* is not profit-orientated. It focuses on mitigating the large loan risks of the three banks that are its equity holders. It does so by giving guarantees and by assuming liability for loans and advances in other ways. Fifty per cent of *ALGAR*'s share capital of roughly €1.8 million is held by *Oberbank AG*. Twenty-five per cent stakes are held by *BTV* and BKS Bank.

Oberbank AG was set up in 1869 under the name *Bank für Oberösterreich und Salzburg*. It is headquartered in Linz. It too 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 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, the Slovak Republic and Hungary as well as leasing offices in the Slovak Republic. It had an average workforce of 1,990 during the year under review. It ended the year with consolidated assets of €16.0 billion and posted profit for the year before tax of €92 million, making it, once again, one of Austria's most profitable banks.

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*—which also operates in Vienna, Eastern Switzerland, Veneto, South Tyrol, Bavaria and Baden-Württemberg—had a workforce of 862 and consolidated

assets of €8.5 billion at the end of 2009. The *BTV Group* recorded profit for the year before tax of €51.3 million.

Insurer **Drei-Banken Versicherungs-Aktiengesellschaft** (*3BV-AG*), Linz, was set up in 1988. It sells its own risk insurance products and the endowment and property insurance products of *Generali Versicherung AG* as an insurance agent. 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 *3 BV-AG*'s share capital of €7.5 million. *BTV* and BKS Bank hold 20 per cent each.

Other Consolidated Companies

Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG, Klagenfurt, is the operational property company within the BKS Bank Group. It mainly acquires, lets and sells land and buildings and carries out construction projects of every kind. In particular, it builds business premises and lets them to *BKS Bank AG*. **IEV Immobilien GmbH,** Klagenfurt, manages this property company and is liable as general partner. *BKS Bank AG* holds direct stakes of 100 per cent in these companies.

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H., Klagenfurt, built and now lets BKS Bank's Head Office building at *St. Veiter Ring 43* in Klagenfurt. *BKS Bank AG* holds an indirect stake of 100 per cent in this company.

The principal object of **BKS Hybrid alpha GmbH,** Klagenfurt, which was set up in September 2008, is to issue hybrid bonds and use the entirety of the proceeds from such issuances to purchase the supplementary capital bonds (*Ergänzungskapitalanleihe*) of BKS Bank.

BKS Bank AG also holds 100 per cent of the shares in **VBG-CH Verwaltungs- und Beteiligungs GmbH,** which, in turn, holds 100 per cent of the shares in **LVM Beteiligungs Gesellschaft m.b.H.** Their assets arise from the granting of funds to foreign subsidiaries in the Group. Both companies were included in the Consolidated Financial Statements for the first time as of 1 January 2009.

Profit

Austrian banks will remember the 2009 financial year for some time. Several needed government help to strengthen their equity capital base, and two have been nationalized since the financial crisis began. Austria's corporate sector was particularly hard hit by the economic crisis in the first half of 2009. Although the economy began to pick up slightly in the autumn, BKS Bank believes that 2010 is likely to be another rather slow year and that several sectors and industries will still be in recession.

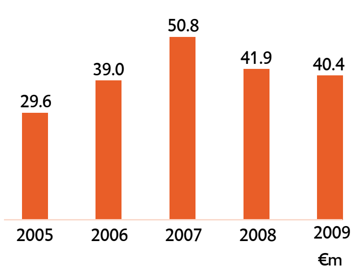
Although we did not post a record result for 2009, we can be pleased with our performance given the current situation. Our business policy has always been responsible and risk averse. Even under these difficult conditions, it enabled us to record consolidated net profit for the year of €40.4 million.

A positive trend with earnings rising significantly in the second half.

The trend was positive. The year started weakly in the middle of the recession, but the year-on-year decline in profit shrank progressively in the course of the year. As a result, although our profit in the nine months ended 30 September 2009 was still €9.1 million down on the same period of the previous year, the combined efforts of every member of staff at BKS Bank had reduced the decline to €1.5 million by year-end. There was another sign of this positive trend. Net interest income before impairment charges on loans and advances came to €132.3 million, which was already up on the 2008 figure of €130.2 million. Consequently, we were able to post a respectable overall profit for the year.

BKS Bank's own funds position was also stronger in 2009 than in 2008. In part, this was because of our successful raising of new share capital. We had a Tier 1 ratio of 8.7 per cent at the end of 2009, as against 6.9 per cent at the end of 2008, and our own funds ratio improved to 12.1 per cent.

CONSOLIDATED NET PROFIT



KEY COMPONENTS OF THE INCOME STATEMENT

€m	2009	2008	2007
Net interest income	132.3	130.2	108.6
Impairment charges on loans and advances	(37.4)	(20.0)	(19.2)
Net fee and commission income	39.7	40.8	44.9
Net trading income	1.4	1.4	1.8
Profit/(loss) from financial assets	(4.5)	(23.1)	4.2
General administrative expenses	(88.2)	(87.9)	(82.8)
Profit for the year before tax	**46.5**	**44.4**	**59.6**
Income tax expense	(6.1)	(2.5)	(8.8)
Consolidated net profit	**40.4**	**41.9**	**50.8**

Net Interest Income

Net interest income is BKS Bank's most important component of profit. Net interest income before impairment charges on loans and advances came to €132.3 million, or 1.6 per cent more than the figure of €130.2 million recorded in 2008. BKS Bank had to allow for the turbulent market climate by recognizing appropriate impairment charges. Impairment charges on loans and advances thus reduced net interest income by €37.4 million (2008: €20.0 million), reflecting BKS Bank's caution. This resulted in net interest income after impairment charges of €94.9 million, compared with €110.2 million in the 2008 reporting year. Roughly 7.2 per cent thereof was generated by our leasing companies in Austrian and foreign markets and by *BKS Bank d.d.* The performance of the entities accounted for using the equity method, including in particular *Oberbank* and *BTV*, also made an important contribution to net interest income. The drop in the interest cost of funds increased the contribution made by entities accounted for using the equity method from €14.3 million in 2008 to €16.0 million in the year under review.

Net interest income before impairment charges on loans and advances is up on 2008.

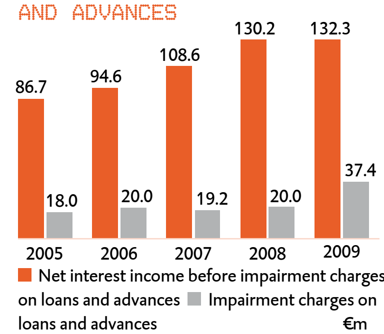
Impairment Charges on Loans and Advances

As we have already mentioned, BKS Bank significantly increased its impairment charges on loans and advances — which, applying IFRSs, have to be deducted directly from net interest income — to €37.4 million to allow for the decline in economic strength that occurred in every one of BKS Bank's markets. Given that many businesses will only be affected by the crisis with a time lag next year and others will be slow to recover from the loss of business in 2009 (if they ever do), we are assuming that these charges will again be much bigger than in past years in the 2010 financial year.

IMPAIRMENT CHARGES ON LOANS AND ADVANCES

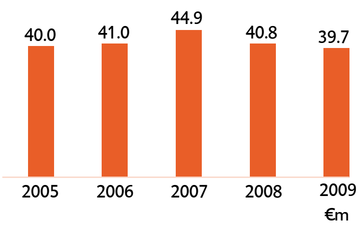
€m	2009	2008	2007
Direct write-offs	3.7	1.2	1.6
Impairment allowances	38.6	24.0	23.0
Impairment reversals	(4.4)	(4.9)	(4.7)
Subsequent recoveries	(0.5)	(0.4)	(0.7)
Impairment charges	**37.4**	**20.0**	**19.2**

NET INTEREST INCOME AND IMPAIRMENT CHARGES ON LOANS AND ADVANCES



This line item is the net total of impairment allowances and impairment reversals, subsequent recoveries of receivables already written off, direct write-offs and commission payments to *ALGAR* used to cover the large loan risks of the *3 Banken Group*. Direct write-offs came to €3.7 million, compared with €1.2 million in 2008. Whereas impairment allowances came to €38.6 million, or 60 per cent more than in 2008, it was possible to carry out impairment reversals totalling €4.4 million in the corporate and business and retail loan segments. Impairment charges on loans and advances came to 0.8 per cent of outstanding receivables less contingent liabilities.

NET FEE AND COMMISSION INCOME



There are signs of a recovery in our service operations

Net Fee and Commission Income

The trend in the services segment was positive during the year under review. Full-year net fee and commission income came to €39.7 million, which was a mere 2.7 per cent below the figure of €40.8 million recorded in 2008. However, earnings from securities operations continued to decline. Net fee and commission income from securities operations came to €11.1 million. Net fee and commission income from lending operations and net fee and commission income from payment services developed well, coming to €9.4 million and €15.0 million, respectively. Both were up on the previous year.

Net Trading Income

Net trading income consists of earnings from securities trading, foreign exchange trading and trading in price and interest rate derivatives. It was static on the year at €1.4 million between 1 January and 31 December 2009. In other words, the good results recorded across the Group during the 2009 financial year were not the fruit of risky trading activities.

Profit/(Loss) from Financial Assets

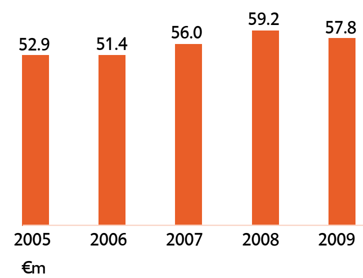
Profit/(loss) from financial assets was still negative, but we were able to reduce the loss by four fifths from negative €23.1 million in 2008 to negative €4.5 million in 2009. This line item includes profit/(loss) from assets requiring designation as *at fair value through profit or loss* (FV) or classification as *available for sale* (AfS) or *held to maturity* (HtM) pursuant to IFRS 7 and was therefore particularly exposed to the direct and indirect effects of the financial crisis during the 2009 financial year.

Within the category of financial assets at fair value through profit or loss, the revaluation of derivatives led to a revaluation loss of €1.3 million in the year under review, and using the fair value option caused a revaluation loss of another €0.8 million. The result was a loss of €2.1 million in this category.

There was a loss on available-for-sale financial assets of €2.4 million. This figure includes revaluation losses on financial investments of €6.6 million and revaluation losses on long-term equity investments of €0.4 million. On the other hand, we recorded realized gains of €4.7 million.

General Administrative Expenses

STAFF COSTS



BKS Bank is a service provider, so it is not surprising that staff costs remained our biggest item of expenditure, totalling €57.8 million. This compared with €59.2 million in 2008. Our respectable results in 2009 were attributable to strict cost discipline and the willingness to save shown by BKS Bank's decision-makers and employees. It was above all the systematic reduction of unused vacation time and flexitime credits and prudent personnel planning that enabled us to cut staff costs by 2.3 per cent. With the help of rigorous monitoring we were able to release €0.7 million of our provision for unused vacation time and flexitime credits. Pay rises under collective agreements — which averaged 3.2 per cent across all salary brackets in 2009 — had a big impact on staff costs. The average workforce during the year grew by 12 full time equivalents to 872. The interest rate applied when calculating provisions for post-employment, jubilee and termination benefits was unchanged during the year under review at 4.75 per cent. However, we reduced the valorization rate applied to staff provisions from 3.0 to 2.75 per cent.

We also cut down on other administrative costs. Nonetheless, all the requisite investments in our infrastructure, like equipping branches with the latest information technology and rebuilding or renovating branches and offices went ahead as planned, these being expenditures with a lasting beneficial effect on profit. As a result, other administrative costs came to €24.1 million in 2009, compared with €22.7 million the year before. Because of various construction and infrastructure works, depreciation/amortization/write-offs increased by 4.3 per cent to €6.3 million.

We were able to keep aggregate general administrative expenses within the BKS Bank Group virtually static on the previous year at €88.2 million (increase of €0.4 million).

Profit for the Year

Taking account of all items of income and expense and impairment charges, the BKS Bank Group's consolidated net profit came to €40.4 million in 2009, as against €41.9 million in 2008. The 4 per cent decline on the previous year was due to an increase in impairment charges and the fall in earnings caused by the financial and economic crisis, especially in the first half of the year.

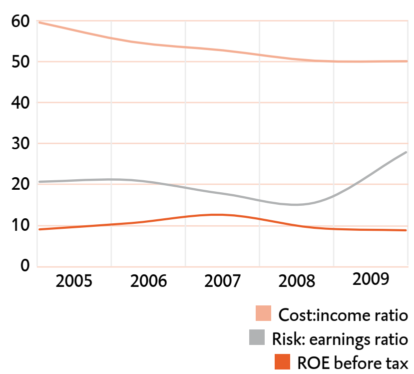
Performance Indicators

PERFORMANCE INDICATORS

	2009	2008	2007
ROE before tax (profit for the year in % of average equity)	8.9%	9.7%	13.7%
ROE after tax	7.8%	9.2%	11.7%
ROA after tax (profit for the year in % of average assets)	0.7%	0.7%	0.9%
Cost:income ratio	49.9%	50.1%	52.6%
Risk:earnings ratio (credit risk in % of net interest income)	28.3%	15.4%	17.7%
Credit risk in % of customer receivables	0.8%	0.4%	0.5%
IFRS earnings per share in issue, €	1.25[1]	9.09	11.06

[1] Allowing for the six-for-one stock split on 5 June 2009.

KEY PERFORMANCE INDICATORS



As the most common performance ratios are calculated on the basis of profit for the year, assets and equity, changes in valuation standards have had a profound effect on performance numbers. Our cost:income ratio was under the 50 per cent mark for the first time, at 49.9 per cent. This was again well below our internal 55 per cent benchmark, reflecting our strict cost management during the financial year under review Our returns on equity before and after tax both failed to match recent levels, coming to 8.9 and 7.8 per cent, respectively. This was because profit for the year fell slightly and equity increased substantially. Our return on assets (ROA) was unchanged versus 2008, at 0.7 per cent. Our risk:earnings ratio was affected by greatly increased impairment charges on loans and advances, coming to 28.3 per cent.

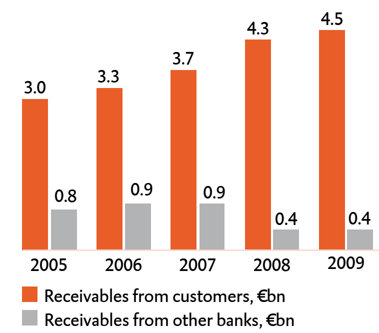
Assets, Liabilities, Financial Position

BKS Bank's consolidated assets grew by 5.7 per cent from €6.0 billion to €6.3 billion during the 2009 financial year, thus staying above the €6 billion mark. Growth was again a reflection of the increase in the loan portfolio. On the equity and liabilities side of the Balance Sheet, primary deposit balances remained high and steady, making an important contribution to our funding base.

Balance Sheet Assets

The credit crunch, much-cited in the media, was not an issue within the BKS Bank Group during 2009, as was demonstrated by a 4.2 per cent increase in receivables from customers. During the year under review, BKS Bank's portfolio of loans to retail and corporate and business banking customers grew to €4.5 billion. Besides lending by the Group parent *BKS Bank AG* (€4.1 billion, which was 4.0 per cent up on the previous year), this figure also includes lending by the Group's leasing companies in Austria and abroad and by *BKS Bank d.d.* Roughly 14.5 per cent of the total was lent abroad.

THE LOAN PORTFOLIO: NO CREDIT CRUNCH



Broken down into customer segments, corporate and business banking customers accounted for the lion's share of the loan portfolio, namely about €3.6 billion. Lending to retail banking customers accounted for €0.9 million. The tense economic situation made it necessary to increase impairment charges on loans and advances by 17.9 per cent to €113.4 million (2008: €96.2 million).

Almost all of the increase in receivables from customers was accounted for by loans and advances in euros. BKS Bank did not grant any new foreign currency loans to retail banking customers. This was to comply with a recommendation by *Oesterreichische Nationalbank* and the Austrian Financial Market Authority. Customers took the opportunity to switch numerous loans originally granted in a foreign currency to euros. Together, these two factors reduced the proportion of foreign currency loans in relation to total loans in the portfolio to just under 19.9 per cent. We left receivables from banks at a relatively low level of €396.4 million (down €9.7 million), having still lent twice as much to other banks in 2007.

No new foreign currency loans are granted to retail banking customers.

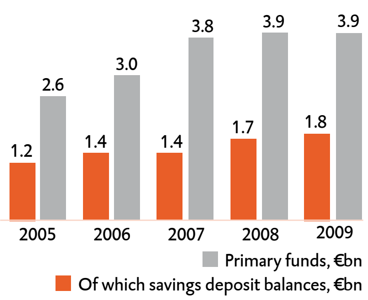
Financial assets — presented in detail in points (15) through (18) of the Notes — grew slightly from €1.16 billion to €1.28 billion. This line item comprises financial assets designated as at fair value through profit or loss, available-for-sale (AfS) assets, held-to-maturity (HtM) assets and investments in other entities accounted for using the equity method. Financial assets designated as at fair value through profit or loss decreased by 3.2 per cent to €123.4 million. We redeemed a number of government bonds and debt certificates in the AfS portfolio, which was one reason why it shrank from €344.0 million to €311.2 million. Because interest rates were low, most newly acquired financial assets were assigned to the HtM portfolio, which grew to €592.1 million during the years under review. Investments in entities accounted for using the equity method — which consist mainly of investments in our sister banks *BTV* and *Oberbank* — increased by €26.4 million to €258.3 million. Part of the increase was due to the raising of share capital by the *Oberbank*, during which BKS Bank exercised its subscription rights.

Other assets increased slightly during the financial year under review to total €27.7 million. Cash and balances with the central bank came to €131.6 million at 31 December 2009. This line item comprises the cash and cash equivalents presented in detail in the Cash Flow Statement in the Notes on page 135. Our remaining balance sheet assets consisted of trading assets, property and equipment, intangible assets and — shown as separate line items on the Balance Sheet — deferred tax assets and investment property. Among other things, trading assets included the derivative financial instruments in the trading book that were measured at fair value.

Balance Sheet Equity and Liabilities

So-called *primary deposits* remained BKS Bank's principal source of funds. This makes our customers' undiminished trust in us even during the turbulent times that we experienced in the year 2009 all the more gratifying. Primary funds still totalled €3.91 billion at year end as a result (2008: €3.95 billion).

PRIMARY FUNDS STABLE, SAVINGS DEPOSIT BALANCES GROW



We were particularly successful when it came to increasing savings deposit balances and the value of the BKS Bank debt securities in issue. Having already been high at the end of 2008, at €1.68 billion, savings deposit balances within the BKS Bank Group grew by another 7.6 per cent to over €1.80 billion.

We were able to place roughly €170 million of new BKS Bank debt securities in the market, which was more than ever before. As this showed, investors see BKS Bank's bond issuances as a low-risk investment opportunity. In all, our own securities in issue, comprising liabilities evidenced by paper and subordinated debt capital, increased by €112.8 million to €564.7 million.

Time and sight deposit balances within the BKS Bank Group had fallen to €1.54 billion by the end of the year. The institutional investor deposit market was hotly contested in 2009. In view of low interest rates, the pressure to rely on terms and conditions to defend one's market shares grew. However, BKS Bank was hesitant

to do so for reasons of profitability. Payables to other banks continued to grow, increasing by another 19.4 per cent to €1.69 billion.

Most of the sizeable increase in equity was due to the raising of new share capital that took place during the 2009 financial year. It gave BKS Bank roughly €73 million of fresh share capital. In addition, our good profit for the year and revaluation gains on AfS financial assets taken to equity also significantly improved our equity position.

Own Funds

BKS Bank Kreditinstitutsgruppe computes its own funds requirement using the Basel II standardized approach.

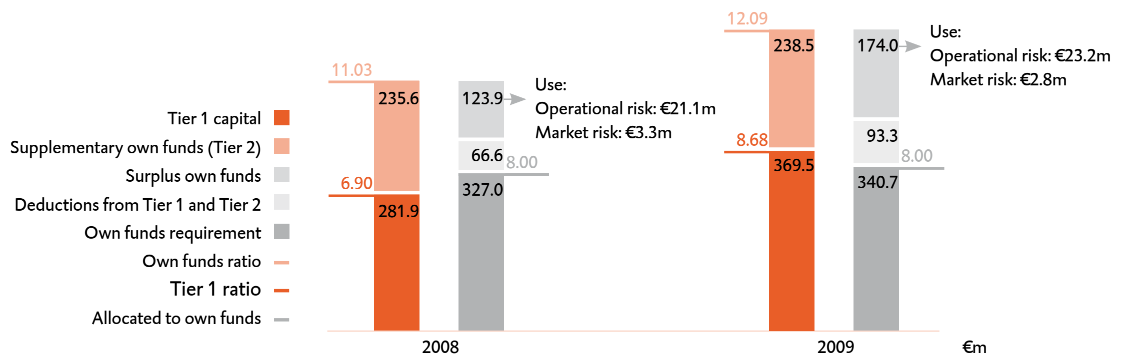
Since 2008, BKS Bank has been calculating its own funds requirement for credit and operational risk in accordance with the Solvency Directive, which takes its bearings from *Basel II*. The standardized approach is used.

BKS Bank Kreditinstitutsgruppe manages its own funds in accordance with the provisions of the *Bankwesengesez* (Austrian banking act) that are in force from time to time. 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), taking as the basis the sum of the 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.

At the end of the year under review, eligible own funds calculated in accordance with the provisions of *§§ 23 und 24 BWG* came to €514.7 million. *BKS Bank AG*'s share capital was raised in two stages during the year, namely by €6.16 million (nominal) out of internal funds and by €9.36 million (nominal) by issuing 4,680,000 new ordinary no-par shares. This increased it to a total of €65.52 million. The substantial increase in receivables from customers increased the basis of assessment for the banking book by €170.7 million to approximately €4.26 billion. Both the own funds ratio and the Tier 1 ratio of the *Kreditinstitutsgruppe* rose sharply during the year, namely by 106 and 178 basis points, respectively, to 12.09 and 8.68 per cent.

Against the backdrop of an increase in the own funds requirement to €340.7 million, our surplus own funds came to €174.0 million at the end of the year. This compared with €123.9 million at 31 December 2008. The surplus after taking account of the capital charge required for operational risk was a respectable €150.8 million.

OWN FUNDS OF THE KREDITINSTITUTSGRUPPE



OWN FUNDS

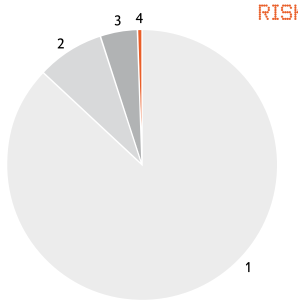
(METHOD OF CALCULATION: BASEL II) €m	31/12/2009	31/12/2008
Share capital	65.5	50.0
Hybrid capital	20.0	20.0
Reserves net of intangible assets	284.0	211.9
Tier 1 capital	**369.5**	**281.9**
Tier 1 ratio	8.68%	6.90%
Hidden reserves within the meaning of §57 *BWG*	10.3	5.6
Eligible supplementary capital	149.8	154.9
Balance of gains and losses taken to equity	63.9	61.3
Eligible subordinated liabilities	14.5	13.8
Supplementary own funds (Tier 2)	**238.5**	**235.6**
Deductions from Tier 1 and Tier 2	93.3	66.6
Eligible own funds	**514.7**	**450.9**
Own funds ratio	12.09%	11.03%
Basis of assessment for the banking book	4,258.4	4,087.7
Own funds requirement	**340.7**	**327.0**
Own funds requirement for the trading book	2.8	3.3
– Of which arising from open currency positions	1.9	2.3
Own funds requirement for operational risk	23.2	21.2
Surplus own funds (disregarding operational risk)	**174.0**	**123.9**
Surplus own funds (taking account of operational risk)	**150.8**	**102.7**

Risk Report

Identification, analysis and management of all significant risks throughout the Group within the scope of the risk management process.

It is generally impossible to make money in banking without taking risks. BKS Bank's risk policy has always been to consistently avoid risks that it cannot bear without outside help, but nonetheless, the systemic crisis — which has been slow to ease — has made it clear how important it is for us to deal with banking risks in a planned and targeted way and to limit and manage them professionally if we are to safeguard our corporate success. Given the breadth of our business activities, it is therefore essential for us to effectively identify, measure, aggregate and manage risks within the scope of our risk management process as well as to allocate an appropriate amount of equity to each business activity.

INDIVIDUAL RISK CATEGORIES IN RELATION TO OVERALL BANK RISK



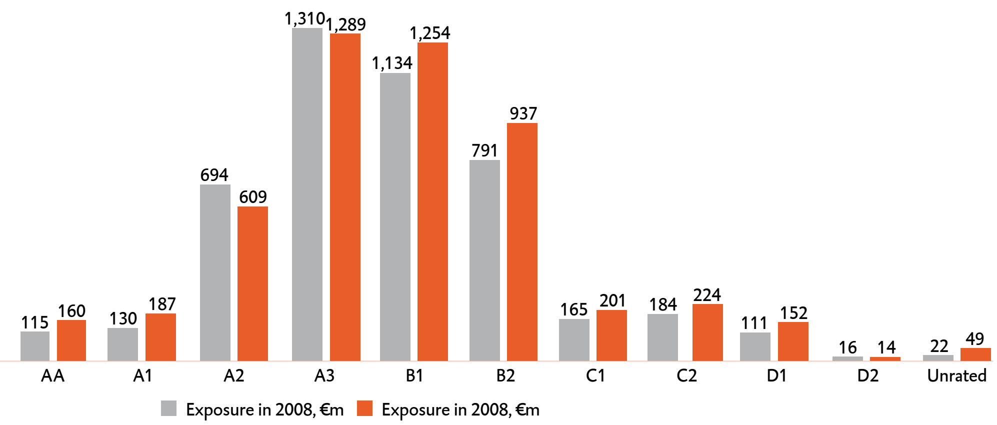
1 Credit risk	87.2%
2 Market risk	7.8%
3 Operational risk	4.5%
4 Liquidity risk	0.5%

BKS Bank's risk policy standards, accountabilities and management principles are enshrined in its business policies and in its risk strategy, which targets the efficient deployment of own funds from a risk and return point of view. A detailed presentation of the risk principles applied, the associated 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*. As a consequence of the risk strategy we apply, 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. Our credit risk management objectives are the long-term optimization of the relationship between risk and return in

RECEIVABLES FROM CUSTOMERS, BY RATING



BKS Bank's lending operations and the achievement of the credit risk targets budgeted for in the corporate and business banking and retail banking segments.

During the year under review, BKS Bank's total loan portfolio inclusive of contingent liabilities increased to €5.1 billion. BKS Bank has a 10-class internal rating system. Rating classes AA to B1 account for about 70 per cent of the loan portfolio. In these rating classes, the ability of borrowers to repay their borrowings is unlimited. When acquiring new business, the focus is on customers in this risk range. Customers in the rating classes C2 and D1 are classed as having a heightened risk of default. We classify receivables rated D2 as carrying an acute risk of default.

Our impairment allowance balance came to €113.4 million. There was a net increase of €38.6 million in the year under review against the backdrop of the difficult economic conditions. This was €14.6 million more than in 2008. Our risk:earnings ratio suffered accordingly, deteriorating from 15.4 to 28.3 per cent. It increased just marginally in the retail banking segment, by about 174 basis points to 6.6 per cent, but in our much bigger corporate and business banking segment, this ratio — which compares the necessary impairment charges on loans and advances with net interest income — rose substantially from 33.4 to 42.7 per cent.

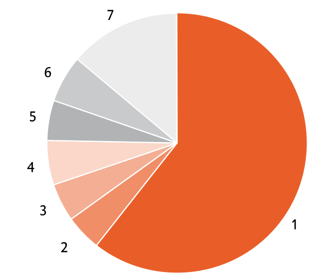
BKS Bank's large loan risks are secured by a cover pool at *Alpenländische Garantie-Gesellschaft m.b.H.* (*ALGAR*), which is a *3 Banken* subsidiary. *ALGAR*'s role is to guarantee the large loans of the three banks in the *3 Banken Group*. It does so by giving guarantees and assuming liability for loans and advances in other ways.

The structure of loan collateral at BKS Bank is presented in the chart in the margin. Private and commercial property accounted for about 60.9 per cent of total collateral. Other collateral was evenly spread across account and savings balances, securities accounts, guarantees, insurance policies and pledged assets.

As in prior years, the main sector and industry focuses of the loan portfolio in 2009 were *Gewerbe* businesses, the industrial sector and private households, which accounted for roughly 63.2 per cent of our total exposure. They were followed, in percentage terms, by retailing and wholesaling and the professions. This gave the portfolio a well balanced mix of sectors and industries backed up by appropriate risk diversification.

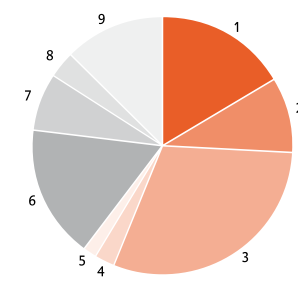
The foreign loan portfolio grew by 21.9 per cent versus the end of 2008. Our lending operations abroad focused on business centres in the regions in which we operate near the Austrian border. Slovenia, Croatia and the Slovak Republic accounted for 81.6 per cent of our foreign loan portfolio. We have set a Group-wide ceiling of

FURNISHED COLLATERAL



1 Property	60.9%
2 Account and savings balances	4.3%
3 Securities accounts	3.8%
4 Guarantees	6.5%
5 Insurance	4.7%
6 Pledged assets	4.7%
7 Other	15.2%

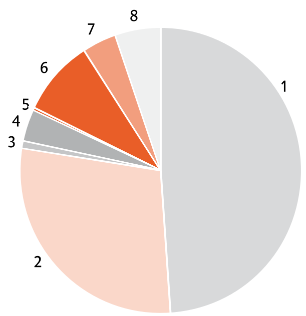
LENDING BY SECTOR AND INDUSTRY



1 Industry	16.5%
2 Retailing and wholesaling	9.4%
3 *Gewerbe* businesses	30.2%
4 Transport	2.4%
5 Public sector	1.7%
6 Private individuals	16.5%
7 Professions	7.2%
8 Tourism	3.5%
9 Other	12.6%

A well balanced mix of sectors, industries and countries backed up by appropriate risk diversification.

FOREIGN LENDING, BY COUNTRY



[1] Slovenia	49.2%
[2] Croatia	28.4%
[3] Italy	0.9%
[4] Hungary	3.6%
[5] Czech Republic	0.2%
[6] Germany	8.8%
[7] Slovak Republic	4.0%
[8] Other foreign countries	4.9%

25 per cent on the proportion of total lending that can be accounted for by lending to non-banks abroad. In the year under review, this category of lending accounted for 24.1 per cent of the total.

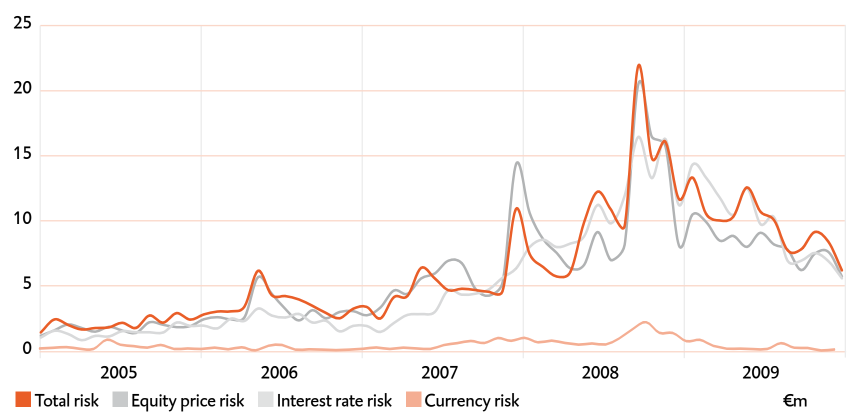
For risk management and risk control purposes, we apply different rating standards to Austrian and foreign lending. As a rule, our lending guidelines abroad are more stringent and are tailored to the peculiarities of each country.

The proportion of foreign currency loans in relation to total loans in the portfolio fell from 22.5 per cent at the end of 2008 to 19.9 per cent at year-end 2009. We had already set ourselves the clear goal of steadily reducing the proportion of foreign currency loans in the portfolio in line with FMA recommendations in 2008, and we achieved it both effectively and on a permanent basis in the year under review.

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. BKS Bank has defined three categories of market risk, namely interest rate risk, equity price risk and currency risk.

MARKET RISKS (VALUE AT RISK)



At 31 December 2009, the *economic capital* needed to cover market risk on a going-concern basis came to €6.2 million, compared with €14.0 million at the end of the previous year. This reflected the gradual stabilization of money and capital markets after the 2008 crisis year, when volatilities were high.

Interest rate risk and equity price risk are of central importance from a market risk management point of view. At the end of 2009, 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 4.54 per cent, as against 9.46 per cent at the end of the previous year.

Liquidity Risk

The primary goal of our liquidity risk management activities is to ensure by maintaining adequate reserves of liquidity that BKS Bank is always in a position to meet its financial obligations. The sharp drop in market liquidity during the recent financial crisis and the rather slow restoration of confidence among market participants made our liquidity risk management activities very challenging, especially during the last quarter of 2008 and at the beginning of 2009. However, the challenges were ones that we could master.

Liquidity risk management has become a very complex and over-arching topic in the wake of the financial crisis.

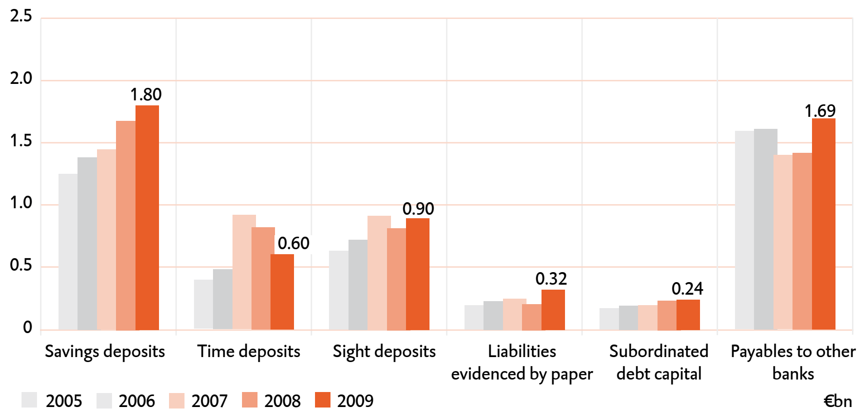
In the course of a project to optimize the entirety of the liquidity management process, we refined our short-term and long-term liquidity management procedures and methods of calculating our funding requirements, developed a comprehensive emergency action plan and amended our risk-policy guidelines to meet today's stricter standards. The emergency action plan will make sure that everybody involved in the liquidity crisis management process is properly coordinated in a crisis. Among other things, the process of ensuring that we have adequate short- and medium-term liquidity and the management of our funding structure concentrated on the careful intraday management of inpayments and outpayments — i.e. the day-to-day management of buying and selling on the interbank money market — and on participation in regular *OeNB/ECB* tender procedures.

An ambitious project to optimize the liquidity management process.

Central banks are also paying closer attention to banks' liquidity positions. New weekly reporting requirements have been introduced, and these too have been integrated into our reporting processes.

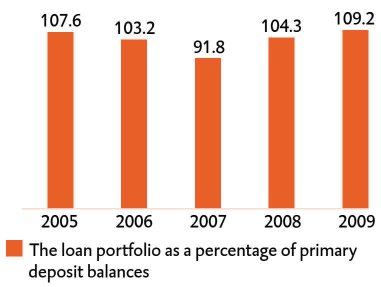
Additional requirements laid down by the regulators.

FUNDS FROM EXTERNAL SOURCES



The chart above provides a breakdown of our various sources of funds. In the year under review, the main emphasis was still on building up primary deposit balances. In all, placements of our own securities, made up of liabilities evidenced by paper and subordinated debt capital, nearly doubled in 2009 to total roughly €170 million.

LOAN-TO-DEPOSIT RATIO



We measure so-called *deposit concentration* to evaluate the deposit withdrawal risk caused by the possibility of a run on deposits. This variable illustrates the dangers associated with relying on large deposits. Depending on its development, it can lie between zero and one. At 31 December 2009, BKS Bank had a deposit concentration of 0.31, as against 0.34 at the end of the previous year. In other words, its dependence on large deposits was low.

The loan-to-deposit ratio has become an essential gauge of the sustainability of liquidity management activities, showing the relationship between the loan portfolio and primary deposit balances. At the end of the year, it was 109.2 per cent. The strong growth in the loan portfolio was financed mainly by primary deposits (savings, sight and time deposits and issuances of our own securities).

Operational Risk

Events in recent years have heightened our awareness of the need for the active management and reporting of operational risk. Consequently, we carry out regular risk assessments on a bottom-up basis every three years. The result is a specific operational risk profile for every one of our profit centres, documenting the risk profile of each.

One of our main focuses in the year under review was on carrying out risk analyses of stop-loss orders placed in connection with foreign currency loans. We continued to curb and limit the residual risks that always exist because of human error or fraud. During 2009, our regulatory capital requirement for operational risk was calculated using the standardized approach. Our regulatory own funds requirement in the year under review was €23.2 million. This compared with actual operational risk losses of just €0.4 million. In other words, the total burden of operational risks was below the previous year's already very low level of €0.5 million.

OPERATIONAL RISK: RISK LOSSES BY CATEGORY

Equity Investment Risk

BKS Bank's policy in this area is, first and foremost, only to acquire equity investments that are conducive to its banking operations. When investing in subsidiaries, the emphasis during the year under review was 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.

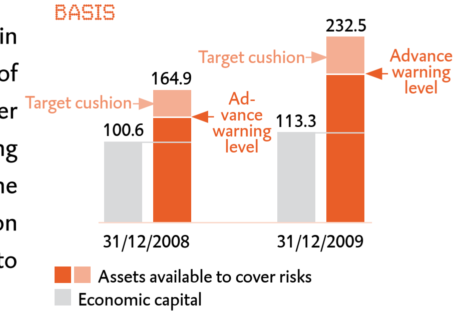
Consequently, risk in the Bank's equity investment portfolio is currently felt to be small, and we do not intend to take on any larger equity investment risks in the future. Our equity investments totalled €305.2 million at 31 December 2009, compared with €277.8 million at the end of the previous year. This total included €253.5 million of investments in *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*. In the year under review, BKS Bank subscribed for new shares on a proportionate basis during the raising of share capital by *Oberbank AG* that were worth nearly €10 million, and it set up a company called *VBG-CH Verwaltungs- und Beteiligungs GmbH* to fund leasing subsidiaries abroad.

Risk in BKS Bank's equity investment portfolio is only marginal.

Calculating our Risk-bearing Capacity

The results of measuring the different categories of risk are aggregated to obtain a total potential loss (economic capital requirement). During the calculation of the Bank's risk-bearing capacity, this is compared with the assets available to cover risks. At 31 December 2009, our economic capital requirement calculated on a going concern basis was €113.3 million, compared with €100.6 million a year earlier. The assets available to cover risks came to €232.5 million, compared with €164.9 million at the end of 2008. An advance warning level of 80 per cent of the assets available to cover risks was defined to facilitate monitoring our risk-bearing capacity.

CALCULATION OF RISK-BEARING CAPACITY ON A GOING CONCERN BASIS



Outlook for 2010

A clear trend towards economic recovery and stabilization of the financial markets, although it will still take time to get over the crisis.

The International Monetary Fund (IMF) recently raised its real growth forecast for the world economy to 3.9 per cent. However, we should not lose sight of the fact that the present improvement in the global economy is founded on extensive economic programmes and that the increase in stability is still far from self-sustaining. The escalating global need for public sector consolidation, a more sudden end to fiscal and monetary policy stimulation by central banks and renewed turbulence in the money and capital markets could quickly mar the economic picture. However, a relapse into recession seems unlikely, especially as key interest rates in the United States and the eurozone are still very low. Both the ECB Council and the Federal Reserve Open Market Committee have indicated that they will not be changing the key rates in their respective currency areas — the minimum bid rate on main refinancing operations in euros and the federal funds rate — and are not targeting an increase in the interest rates charged for loans to consumers and the corporate sector. This notwithstanding, the US discount rate was increased by 25 basis points to 0.75 per cent on 19 February.

For the first time since 2007, the US Federal Reserve restricts the funds liberally provided to commercial banks by hiking its discount rate to 0.75 per cent.

To date, the indicators in all the key economic regions have been showing a trend towards economic recovery, but it varies from region to region. While quarter-on-quarter real GDP growth in the United States strengthened to 5.9 per cent in the fourth quarter of 2009, it temporarily flattened off to 0.1 per cent in the EU. The recovery in the United States will depend greatly on whether or not it proves possible to achieve a turnaround in the inventory cycle and to increase exports so as to cushion the demand shortfall once action to stimulate the economy has been discontinued. Given that the property and economic crisis has yet to end, private households cannot be expected to stimulate the economy on a sustained basis.

Escalating budget deficits in Greece, Spain and Portugal are hampering economic stabilization in the eurozone.

The eurozone economy has profited from export recovery, extensive regionally coordinated economic programmes and action taken to restore a functioning financial system. The ECB expects real GDP to grow by about 1.2 per cent in 2010. Recently, the critical states of the budgets of a number of Member States have caused negative publicity, and the highly speculative credit insurance market is again attracting suspicion. The EU Commission having placed Greek budgetary policies under strict supervision in order to get its public finances back in order, the precarious national budgets of Spain and Portugal are now in its sights as well. Fears of lasting pressure on the euro weakened it to a low of US$1.3607 in the middle of February, compared with US$1.4406 at the end of 2009. The uptrend on the stock markets since March 2009 has given way to a period of consolidation. Prices in the eurozone and the United States fell in January and February, with the DJ Euro Stoxx 50 and S&P 500 falling, respectively, by as much as 12 per cent compared with the beginning of the year to a low of 2,617.77 points and by 6.7 per cent to 1,056.74 points. Yields on long-end government bonds also fell on both sides of the Atlantic

in January and at the beginning of February, suggesting that investors' interest in risky investments was waning.

Under these conditions, Austria's economic recovery is likely to be weak and prone to setbacks. WIFO expects Austria's real GDP to grow by just 1.5 per cent in 2010. The uptrend is still too sluggish to take the pressure off the job market. Although export growth will be well below pre-crisis levels in both 2010 and 2011 at 4.0 and 6.0 per cent, respectively, exports and private consumption will still be the principal pillars of the economy. On the other hand, capital expenditure on plant and machinery will weaken by another 1 per cent in 2010 and only grow by a modest 2.0 per cent in 2011. The utilization of capacities is still very low, so companies will initially be able to increase production comparatively strongly without having to invest directly in new plant and equipment or locate external sources of funds. Industrial construction and non-subsidized residential construction will stay weak. On the other hand, the rate of inflation will remain favourable. Even when the downward corrections to energy and food prices have run their course, real consumer prices are still only likely to rise by a modest 1.3 per cent this year.

A fragile economy in Austria; investment demand in Austria still falling slightly in 2010; no job market recovery in sight.

The domestic and international banking industries are currently under a great deal of regulatory and political pressure. However, having implemented important organizational reforms, our Bank is strategically excellently positioned to face any challenge. We will be meeting the new demands created by changes in the competitive situation, banking supervision and our Bank's operating environment without weakening our strategy for growth. 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. We will continue to enlarge the branch network this year. We will expand our line of products and services for retail banking customers in Croatia, take our first steps into the banking market in the Slovak Republic and do everything we can to go on enlarging our customer base. Our strategy of gradually extending the product line as credit standings and risks allow has served us very well to date. Moreover, we remain committed to our declared goal for 2010, which is to present to our shareholders another balance sheet free from unwelcome surprises and a dividend recommendation to match our results. We are confident that BKS Bank will — thanks to its proven business model, firm and stable capital base and strengthened market position in its core business segments — overcome the hurdles of a challenging 2010 financial year as a reliable partner to its customers and shareholders.

BKS Bank's financial strength and strategic orientation mean that it is ready to exploit the opportunities and face the challenges that are forthcoming in 2010.

SEGMENTAL REPORT

Broadly Based Growth.

Segmental Report

Extensive know-how in every field of finance.

For decades, the listed Group parent *BKS Bank AG* has — in partnership with the members of its group and the *3 Banken Group* — positioned itself and thrived as a major regional bank in southern Austria. Because of its independence and expertise as well as transparent and lean decision-making structures, numerous corporate and business banking and retail banking customers have always remained loyal to BKS Bank. Our sales network is geared to catering for regional concerns and customers' needs. The network currently consists of 55 branches and five representative offices. In addition to the usual banking products, the broad line of financial products and services also includes the associated banking-related services like leasing, insurance and building society services provided through subsidiaries, associate companies and alliances. In addition, BKS Bank operates an online shop that sells day-to-day banking products.

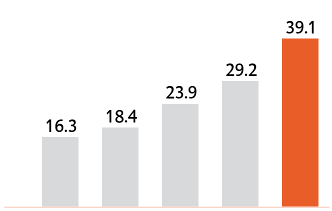
Three segments:
Corporate and Business Banking
Retail Banking
Financial Markets

BKS Bank's operations are divided into three segments so as to meet our customers' needs as fully as possible and support their investment projects in an effective and transparent manner. They are *Corporate and Business Banking*, *Retail Banking* and *Financial Markets*. Our segmental reports are therefore based on this organizational structure, which underlies the Group's internal management systems.

The same segmental subdivisions are used for the purposes of internal control of the BKS Bank Group. The performance of each segment is measured on the basis of profit for the year before tax and the performance indicators *return on equity* (ROE), *cost:income ratio* (CIR) and *risk:earnings ratio* (RER). The return on equity expresses the relationship between profit for the year and average equity employed in a segment. Detailed segment numbers are presented in point (36) of the Notes on page 150.

PROFIT FOR THE YEAR BEFORE TAX, BY SEGMENT

CORPORATE AND BUSINESS BANKING

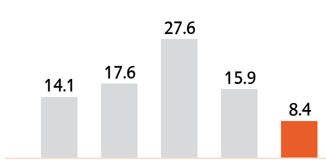


€m	2005	2006	2007	2008	2009
ROE	9.8%	10.3%	12.0%	13.3%	16.2
CIR	44.0%	41.7%	41.7%	40.4%	30.7
RER	42.8%	43.9%	36.4%	33.3%	42.7

RETAIL BANKING

€m	2005	2006	2007	2008	2009
ROE	10.4%	17.2%	13.0%	2.8%	5.1%
CIR	85.9%	80.3%	82.9%	94.3%	91.9%
RER	5.4%	3.8%	6.6%	4.9%	6.6%

FINANCIAL MARKETS



€m	2005	2006	2007	2008	2009
ROE	10.6%	11.6%	17.5%	9.1%	3.6%
CIR	24.3%	20.2%	24.2%	15.2%	33.3%

Corporate and Business Banking

Corporate and business banking has the longest history at BKS Bank and is one of the Bank's supporting pillars. We have some 17,900 corporate and business banking customers. The *Corporate and Business Banking* segment encompasses all income and expenses arising from business done with companies and self-employed customers by *BKS Bank AG*, *BKS Bank d.d.* in Croatia and BKS Bank's leasing companies.

Retail Banking

The *Retail Banking* segment encompasses all income and expenses arising from business done with private individuals and jobholders by *BKS Bank AG*, *BKS Bank d.d.*, *BKS-Leasing GmbH*, *BKS-leasing d.o.o.*, *BKS-leasing Croatia d.o.o.* and *BKS-Leasing a.s.* BKS Bank had some 116,800 retail banking customers at the end of 2009. Because of the sizeable human and spatial resources used by this segment, it is typically very cost-intensive. Most of its operating profit is generated in domestic markets. The retail banking segment accounted for about €1.88 billion or roughly 56.1 per cent of total payables to customers of €3.34 billion, so it remained an indispensable source of funds during the years under review.

Financial Markets

The *Financial Markets* segment encompasses profits from BKS Bank's equity investments, from securities held in BKS Bank's own portfolios and from receivables from and payables to other banks. In addition, it encompasses earnings from maturity transformation (which BKS Bank groups together under the term *structural income*).

Diethmar Wölle
Head of BKS Bank's
Klagenfurt Regional Head Office

Joined BKS Bank in 2005.
Responsible for corporate and
business banking operations in
the Klagenfurt and Wolfsberg
regions.

Corporate and Business Banking Segment

» Corporate and business banking remains our most important source of profit. «

Our account managers in the corporate and business banking segment were servicing a total of 17,900 companies during the year under review. BKS Bank remained a solid partner even in the turbulent 2009 financial year. The corporate and business banking segment is BKS Bank's most important generator of profit. Profit for the year before tax in the corporate and business banking segment came to €39.1 million, accounting for over four fifths of the BKS Bank Group's consolidated net profit.

Net interest income was key to the segment's excellent performance, increasing by 49.4 per cent to €82.5 million. We owe this success to improved margins, prices that were more closely aligned with customers' credit standings and a stronger focus on small and medium-sized enterprises. The latter generated good level of new business. At the same time, BKS Bank sharply increased its impairment charges on loans and advances in the corporate and business banking segment from €18.4 million to €35.2 million to make allowance for the weakened economy, which was causing many companies serious losses of revenue and orders.

CORPORATE AND BUSINESS BANKING

€m	2009	2008	2007
Net interest income	82.5	55.2	47.1
Impairment charges on loans and advances	(35.2)	(18.4)	(17.1)
Net fee and commission income	22.2	23.1	22.4
General administrative expenses	(32.9)	(32.3)	(29.3)
Other operating profit	2.4	1.6	0.9
Profit for the year before tax	**39.1**	**29.2**	**23.9**
Segment's contribution to consolidated net profit	83.9%	65.7%	40.1%
ROE before tax	16.2%	13.3%	12.0%
Cost:income ratio	30.7%	40.4%	41.7%

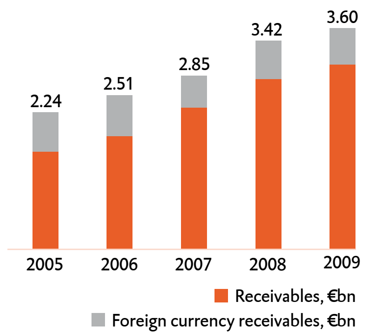
Increased risk reduced the segment's risk:earnings ratio by 9.4 percentage points to 42.7 per cent. Excellent profit for the year had a corresponding beneficial effect on performance ratios. The segment's return on equity climbed from 13.3 to 16.2 per cent in the year under review, and it proved possible to significantly reduce its cost:income ratio from 40.4 to 30.7 per cent. This was helped by systematic sales management processes, which provided our account managers in the corporate and business banking segment with targeted sales support, and by the exploitation of opportunities for rationalizations and improvements. For instance, BKS Bank launched one of its biggest ever restructuring programmes in the year under review, reviewing both corporate and business loan management and risk analysis processes (see our comments on page 68).

Corporate and Business Finance

No credit crunch: BKS Bank significantly increases its lending in 2009.

BKS increased its lending to corporate and business banking customers by €181.5 million to €3.6 billion, providing Austrian companies with sufficient funds to successfully realize their investments. Corporate and business loans account for over three quarters of BKS Bank's aggregate loan portfolio. The bulk of lending is in euros.

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



BKS Bank offers its corporate and business banking customers an extensive line of products and services ranging from traditional credit products to leasing to special services. In the year under review, customers continued to benefit from the extensive know-how of our subsidy specialists. Alongside long-term subsidies and support, numerous national and regional subsidies were introduced to help revive the economy during 2009. BKS Bank informed its customers in detail about these schemes. To find out about their options at first-hand, many companies took advantage of a series of lectures on "Steering Your Company Safely through Turbulent Times" held at all our regional head offices in cooperation with *Arbeitsmarktservice* (Austrian job centres) and auditors *TPA Horwath*. BKS Bank was able to defend its position as one of Austria's foremost regional processors of export subsidies.

The finance lease portfolio continues to grow, but the growth takes place in foreign markets.

Finance lease products were still in demand during the 2009 financial year as the present value of current lease contracts increased from €301.6 million to €310.8 million. However, rates of growth differed. While lease portfolios in our foreign markets in Slovenia and Croatia continued to expand, demand in Austria and the Slovak Republic remained weak.

Deposits and Investments

Entrusting BKS Bank with more savings deposits was not just an ongoing trend in the retail banking segment. We are pleased to be able to report that the same was true in the corporate and business banking segment. The savings deposit balances of corporate and business banking customers increased by 36.7 per cent or nearly €100 million to €370.3 million. We created a new product for corporate and business banking customers called the *UnternehmerInnen-Sparbuch*, or businessperson's passbook. One can utilize this passbook as a saving instrument by making a single deposit of at least €10,000. The longest fixed period is six months. This product offers companies a relatively flexible way of holding savings deposits. Sight and time deposit balances depend to a large degree on the investment behaviour of institutional clients. Terms-based competition in this area was intense during the year under review. BKS Bank acted strategically, deciding not to increase balances at the expense of profit. As a result, "other" payables in the corporate and business banking segment fell from €1.3 billion to €1.1 billion.

The *UnternehmerInnen-Sparbuch* businesspersons' passbook is well received by corporate and business banking customers.

One of the focuses of our account management services in the corporate and business banking segment during 2009 was on making better use of cross-selling potential. We intensified our advisory work in the insurance and company pension fields.

Payment Services

The emphasis in the payment services field was on making the changes required by Austria's new *Zahlungsdienstegesetz* (ZaDiG: payment services act), which entered into force on 1 November 2009. Numerous payment services were affected, for instance domestic and foreign payments (including standing orders), direct debits, *Maestro* and credit card payments and cash deposits into and withdrawals from accounts. Our corporate and business banking customers were told about the resultant changes in good time.

Retail Banking Segment

» Many private investors are still nervous and are putting all of their faith in *Sparbuch* passbook accounts. «

BKS Bank had an average of 116,800 retail banking customers in 2009. They were still exclusively jobholders, but we have been redefining the retail banking segment since the beginning of 2010. As a result, it will now also include professionals and micro businesses. It is particularly true of professionals and proprietors of micro businesses that their personal financial consultancy needs often go hand in hand with those of their businesses. It therefore makes sense to group them together when rendering account management services. Moreover, these customers' needs are very different from those of medium-sized and large enterprises.

The retail banking segment accounts for the bulk of deposit balances with BKS Bank, making it a particularly important source of funds for our bank. We are pleased to report that our customers continued to place their trust in BKS Bank in 2009,

RETAIL BANKING SEGMENT

€m	2009	2008	2007
Net interest income	33.3	32.3	31.3
Impairment charges on loans and advances	(2.2)	(1.6)	(2.1)
Net fee and commission income	16.5	17.0	20.9
General administrative expenses	(46.8)	(47.6)	(44.2)
Other operating profit	1.1	1.2	1.0
Profit for the year before tax	**1.9**	**1.3**	**7.0**
Segment's contribution to consolidated net profit	4.2%	2.9%	11.8%
ROE before tax	5.1%	2.8%	13.0%
Cost:income ratio	91.9%	94.3%	82.9%

Heinrich Graf
BKS Bank Branch Manager
in Vienna

After years working for another bank, he joined *Burgenländische Anlage- und Kreditbank AG* in 1997. It subsequently merged with BKS Bank in 2005. Branch Manager since 1999.

which was still a difficult financial year. Nonetheless, the crisis did leave its mark on our retail operations. In particular, the demand for securities services was still weak. Private investors had yet to get over the shock of the impact the financial crisis had on the capital markets in 2009 and remained indisposed to invest on the stock exchange. However, there was still demand for conservative forms of investment. At the same time, according to *Kreditschutzverband von 1870* (KSV 1870: Austrian credit protection association of 1870), company insolvencies affected over 28,000 employees nationwide last year, which was 32 per cent more than in 2008. According to KSV 1870, there was a simultaneous increase in the number of personal bankruptcies to over 9,700, setting a new record. Against this backdrop, many of our customers were very careful with their money. Above all, some home construction projects were postponed.

Net interest income grows by €1.1 million to €33.3 million.

Nonetheless, BKS Bank achieved an increase in profit for the year in the retail banking segment to €1.9 million. This compared with €1.3 million in 2008. The increase was largely attributable to a rise in net interest income, which grew by €1.0 million to €33.3 million, reflecting the big inflow of savings deposits. However, terms-based competition for deposits was intense, and for profit reasons, BKS Bank preferred to stay out of it. Net fee and commission income was virtually static on the previous year at €16.5 million as securities operations failed to develop the hoped-for momentum.

Our cost-cutting programme also bore fruit in the retail banking segment. Despite the high fixed costs caused by our branch network, we were able to cut general administrative expenses in this segment to €46.8 million and managed to reduce the segment's cost:income ratio to 91.9 per cent. However, this was still well above our target of 75 per cent. Thanks to our *New Branch Organization* project, which aims to reduce the administrative burden on branches, BKS Bank expects its costs structure in the retail banking segment to go on improving in years to come. We nearly doubled this segment's return on equity from 2.8 to 5.1 per cent.

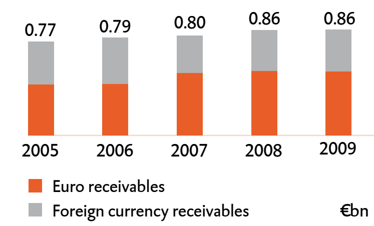
Personal Loans

Demand for home loans falls in 2009.

The personal loan portfolio totalled €864.6 million at the end of the period under review, which was virtually the same as the 2008 figure of €864.8 million. This was mainly due to a small drop in the demand for home loans, which account for the bulk of lending in the retail banking segment. Although many people took advantage of the federal government's economic package, which also included renovation subsidies, many shrank from starting new house and home projects. As a result, the demand for renovation loans remained high but there was less demand for classical

mortgages. Demand for consumer loans held steady. Finance lease products were mainly sold through our leasing subsidiaries abroad.

RECEIVABLES (RETAIL BANKING)



The ratio of euro loans to foreign currency loans in the portfolio continued to shift in favour of euro loans. As a result, roughly 64 per cent of the loans granted to retail banking customers were euro loans. Following the recommendations of *OeNB* and the *Finanzmarktaufsicht* (Austrian Financial Market Authority), BKS Bank has not granted any new foreign currency loans to retail banking customers since the autumn of 2008. In addition, BKS Bank's account managers actively encouraged every customer with a foreign currency loan to mitigate the associated risks (e.g. by changing over to euros or switching to repayment-based loans). Some customers made use of the tailor-made solutions that we were suggesting.

Deposits

Deposit balances reach new highs.

Savings deposit balances at BKS Bank totalled €1.8 billion. Most of the total, namely €1.4 billion, was accounted for by retail banking customers. BKS Bank's reputation as a solid and conservative bank persuaded many new customers to entrust their savings to us. As a result, savings deposit balances were higher than ever before in BKS Bank's history, with retail banking customers accounting for €27.6 million of the increase. The BKS *Kapitalsparbuch* fixed-term, fixed-rate passbooks were particularly popular, as their fixed terms mean that they can give savers a better return than an at call investment. At year-end, customers had €197.4 million deposited in our at call variable-rate *Sparcard* saving card accounts.

Securities Operations

Following a severe slump in 2008, securities operations recovered only slightly in 2009 and failed to live up to our expectations. Although the rise in prices in international stock markets increased the value of customer security deposits to €5.4 billion, boosting commission on account balances, that total also includes balances held at *3 Banken-Generali Investment-GmbH*, which uses BKS Bank as its custodian bank. Few retail investors chose to make fresh investments in asset classes that offer the possibility of higher returns. As a result, net fee and commission income from securities operations fell to €11.1 million, having already dropped to €12.6 million in 2008.

That makes it all the more gratifying to be able to report that the demand for BKS Bank's own securities was brisk. In all, we were able to place about €170 million o f supplementary capital bonds and other BKS Bank bonds in the market.

Our excellently trained investment advisors are our interface to customers, giving them advice in conformity with the Markets in Financial Instruments Directive.

OVERVIEW OF BKS BANK'S SECURITIES INVESTMENT PROCEDURE

BKS Bank's investment strategy is based on business and profit outlooks and the risk situation

Customer is given our **MiFID Information Brochure**

↓

Asset Structure Analysis

↓

An **Investor Profile** is prepared on the basis of the investor's personal experience, knowledge, financial circumstances and investment goals

↓

The **structure of the securities account** is decided using the 3-pillar model: traditional investments, investments with a safety net, alternative investments

↓

The **structure of the securities account is put in place** using fund investments, structured products, alternative instruments and individual securities

↓

Regular performance tests and re-assessment of the structure of each securities account

Numerous awards for the fund products of *3 Banken-Generali Investment-GmbH*.

BKS Bank's sales range also includes the products of *3 Banken-Generali Investment-GmbH*, which is a joint subsidiary of BKS Bank, *Oberbank*, *BTV* and *Generali*. Several of this company's funds did particularly well in the year under review. For instance, the *3 Banken Österreich-Fonds* substantially outperformed the rest of the market and its competitors, delivering performance of 69 per cent. *Fonds Professionell* awarded the German funds prize in the 60-month bond fund of funds category to the *3 Banken Renten-Dachfonds A* fund, which is managed by our asset management unit in Klagenfurt. The *3 Banken Sachwerte-Fonds* fund, newly set up in September, was named one of the five leading fund innovations of 2009 in Austria, Germany and Switzerland by the respected German rating agency *FERI-Trust* together with the NTV news network.

Building Society and Insurance Operations

Building society products cater for investors' quest for security.

Building society products enjoyed a real renaissance during the 2009 financial year. The *Bausparkasse Wüstenrot* building society has been BKS Bank's ally since 1965, enabling us to offer our customers an attractive range of building society products. For many of our customers, this traditional way of saving is the perfect tool for medium-term asset growth, making it an indispensable component of our product portfolio. In addition, given that building society products are seen as one of the least risky ways of saving, the total of 4,617 new contracts signed — which was 8.8 per cent more than in 2008 — was another indication of the growing demand for security.

Thirty-nine per cent growth in new insurance policies. State-subsidized pension and savings products are particularly in demand.

BKS Bank also had a very successful year in the insurance market, where it acts as a strategic partner of *Generali Versicherung AG* through *3-Banken-Versicherungs-AG*. Contracts concluded with retail banking customers increased by 39 per cent, generating a net increase in premium of €23.8 million. State-subsidized pension and savings products were particularly in demand, with sales by BKS Bank more than doubling. In addition, classical endowment and pension insurance products, which have proved to be stable investments during the crisis, sold well. Customers were increasingly interested in pension and savings products in general, and the demand for saving and investment instruments for children and young people grew. This is because more and more parents and grandparents want to give their children and grandchildren a secure financial basis for their education or entry into professional life by making use of the opportunity to earn a respectable long-term yield on their savings for a relatively small monthly investment.

Cards

In the cards market, BKS Bank is a contract partner of *card complete Service Bank AG* and *PayLife Bank GmbH*, and it also sells *Diners* and *American Express* credit cards. This allows our customers to choose from among all the usual credit cards. By the balance sheet date, we had issued approximately 54,800 customer cards with *Maestro* functions and 21,000 credit cards. We put a great deal of emphasis on making both *Maestro* cards and credit cards more secure. BKS Bank's ATMs were converted to the EMV standard, so they can now read the chips of *Maestro* cards instead of the magnetic stripes, making it much harder for criminals to commit card fraud. We put this card technology into use in our international cards in 2009, and it is also being put into use in domestic cards this year. As for credit cards, *MasterCard* introduced its *Secure Code*, which makes Internet transactions even safer.

Sonja Köchl
Member of our money market, foreign exchange and securities trading team

Joined BKS Bank in 1999. Responsible for money market trading and liquidity management within the Treasury Division.

Financial Markets Segment

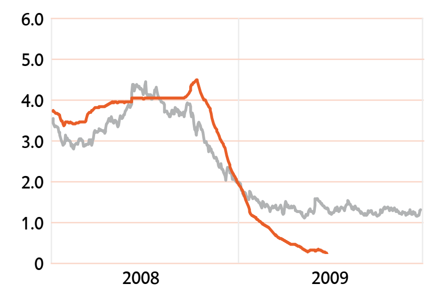
» Confidence in the interbank market is rising but is still nowhere near as high as before the financial crisis. «

As the financial crisis ebbed—albeit slowly—BKS Bank's Asset Liability Management (ALM) Committee was responsible for and carried out the proactive management of the so-called *structural income* earned in the *Financial Markets* segment. Structural income includes earnings from interbank trading, proprietary securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements.

Balanced and responsible management of the structure of the Balance Sheet.

Throughout the year—and especially in the lending market—BKS Bank matched its terms and conditions to the downtrend in reference rates, bringing them rapidly into line with the market as indicators moved. However, cuts in the corresponding rates paid on savings deposit balances were only possible with a time lag because of the regulations governing consumer services. At the same time, the intense competition for customer assets centred mainly on interest rates, so we had to offer our

SELECTED MONEY AND CAPITAL MARKET RATES



3-year interest swap rate ■ 3-month EURIBOR
Sources: *OeNB, ISDA.*

FINANCIAL MARKETS SEGMENT

€m	2009	2008	2007
Net interest income	17.5	43.2	27.7
Impairment charges on loans and advances	—	—	—
Net fee and commission income	0.6	1.4	1.4
Net trading income	1.4	1.4	1.7
General administrative expenses	(6.5)	(7.0)	(7.4)
Profit/(loss) from financial assets	(4.5)	(23.1)	4.2
Profit for the year before tax	**8.4**	**15.9**	**27.6**
Segment's contribution to consolidated net profit	18.1%	35.9%	46.3%
ROE before tax	3.6%	9.1%	17.5%
Cost:income ratio	33.3%	15.2%	24.2%

A challenging and intensively competitive backdrop dents net interest income and net fee and commission income. Profit for the year drops to €8.4 million.

customers favourable terms in order to attract so-called *primary funds*. However, the trend weakened in the second half.

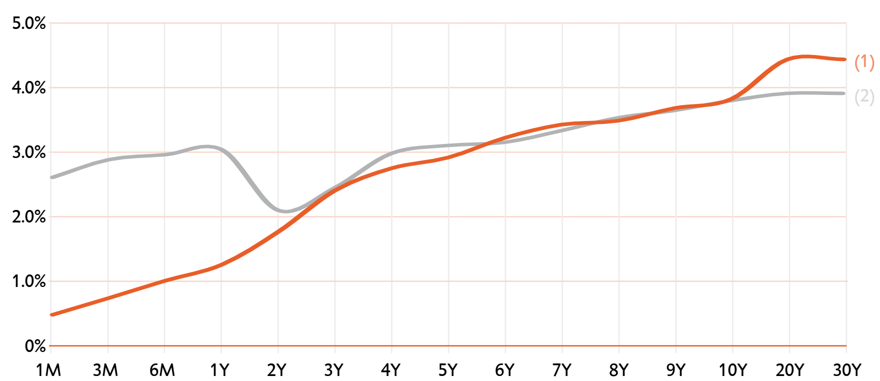
As a result, net interest income in the financial markets segment fell by about 60 per cent to €17.5 million. Revaluation losses on financial assets in this reporting segment totalled €4.5 million, but that was much less than in 2008, when they came to €23.1 million. Revaluation losses on financial assets designated as at fair value through profit or loss came to €2.1 million. This was €2.9 million less than in 2008, thanks mainly to a reduced allowance for impairments of interest rate swaps in the banking book as interest rates fell in the course of the year. Realized gains and receipts of premiums on options totalling €4.7 million made up for some of the requisite impairment charge of €7.0 million on our portfolio of available-for-sale assets. In 2008, the impairment charge on this portfolio came to €18.0 million.

Best possible risk mitigation was an essential element of all investments and disinvestments.

Profit made by the entities accounted for using the equity method, namely *Oberbank*, *BTV*, *ALGAR* and *Drei-Banken Versicherungs-AG*, was also a stable pillar of earnings in the financial markets segment. Income from our investments in *Oesterreichische Kontrollbank AG* and *Europay Austria Zahlungsverkehrssysteme GmbH* was likewise appreciable. BKS Bank's portfolio of equity investments increased by €26.4 million. Most of the increase was accounted for by our interest in the profits of our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*. Furthermore, during the year under review, we subscribed for 286,924 new ordinary no-par shares in *Oberbank AG* worth about €10.0 million. They were issued at a price of €34.72 in the course of a 16-for-one raising of new share capital in the autumn of 2009.

Asset Liability Management's decisions during the year are shaped by low interest rates.

AUSTRIAN YIELD CURVES (31 DECEMBER 2009 VERSUS 31 DECEMBER 2008)



(1) Yield curve at 31 December 2009 (2) Yield curve at 31 December 2008

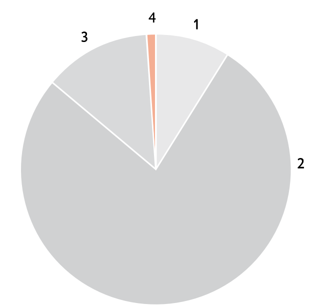
As we have outlined above, conditions in the market prevented the financial markets segment from performing strongly during the year. As a result, it closed the 2009 financial year with profit before tax of €8.4 million. Profit was therefore sharply down on 2008, falling by about 47 per cent. In the absence of so-called structural income, it remained impossible to make up for the decline in the second half, when the economic horizon was slightly brighter. Consequently, the segment's return on equity was just 3.6 per cent, failing to match the 2008 figure of 9.1 per cent. Although we were able to reduce general administrative expenses in this segment by over €0.5 million to €6.5 million, its cost:income ratio worsened from 15.2 to 33.3 per cent.

As in the corporate and business banking and retail banking segments, front-office and back-office activities are strictly separated in the financial markets segment. Rigorous and consistent management of the risks arising from interbank operations was an essential part of our rating process, which also included the appropriate management of limits. As a result, impairment charges in this area were not necessary during the year under review. The chart in the margin depicts the distribution of our receivables from other banks using BKS Bank's 10-class rating system. In 2009, all 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.

We strove to attract so-called *primary funds* during 2009 so as to reduce the amount of funds needing to be raised by entering into liabilities in the money market. We were able to meet our long-term funding needs by issuing nine tranches of our own securities for €167.8 million. One of our focuses was on placing supplementary capital bonds so as to strengthen the structure of our own funds.

The financial markets segment accounts for €8.4 million or 18.1 per cent of consolidated profit before tax.

RECEIVABLES FROM OTHER BANKS, BY BKS BANK RATING



[1] Rating class AA	8.91%
[2] Rating class A1	78.21%
[3] Rating class A2	12.85%
[4] Rating class A3	0.03%

Our correspondents are excellently rated. Liquidity is increasingly generated by an inflow of primary funds.

BKS BANK NOTES ORIGINATED IN 2009

DESIGNATION	ISIN	NOMINAL AMOUNT
4.50% BKS Bank Obligation 2009-2013/1	AT0000A0CKS7	€35.0 million
4.25% BKS Bank Obligation 2009-2015/2	AT0000A0CTM1	€15.0 million
5% BKS Bank-Ergänzungskapital-Obligation 2009-2017/3	AT0000A0D519	€20.0 million
4% BKS Bank-Obligation 2009-2015/4	AT0000A0DE48	€20.0 million
3.5% BKS Bank-Obligation 2009-2013/5	AT0000A0DT17	€14.2 million
4.0% BKS Bank-Obligation 2009-2014/6	AT0000A0EAQ8	€20.0 million
BKS Bank InflationsGarant 2009-2016	AT0000A0F0B7	€10.0 million
4% BKS Bank Obligation 2009-2014/7	AT0000A0FNW6	€23.5 million
4.75% BKS Bank Ergänzungskapital-Obligation 2009-2017/8	AT0000A0FRY3	€10.1 million

IFRS-COMPLIANT CONSOLIDATED FINANCIAL STATEMENTS FOR 2009

Never Unpredictable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes on IFRSs

BKS Bank prepared its Consolidated Financial Statements for the 2009 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 during the financial year were applied. Comparative figures for the previous year were also based on the relevant standards.

Austrian enterprise 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 must present an entity's assets, liabilities, financial position and profit or loss and its cash inflows and outflows according to actual circumstances. Such 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 a segmental report. 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 on an accrual basis and adherence to the going-concern principle, the main focuses being on intelligibility, relevance and comparability.

During the 2009 financial year, we applied IFRS 8 for the first time. IFRS 8 has re-regulated segmental reporting. The essential change was that segmentation must now be based on internal management arrangements (the *management approach*). However, our segmentation into *Corporate and Business Banking*, *Retail Banking* and *Financial Markets* already satisfied the new requirements, so no material change took place at BKS Bank.

Revision of IAS 1

As a result of the revision of IAS 1, gains and losses taken directly to equity (OCI = other comprehensive income) must be added to comprehensive income in the period and presented in a statement of comprehensive income. Previously, items of OCI were only presented in the statement of changes in equity.

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 2009 financial year

(Statement of Comprehensive Income)

FULL YEAR

€k	NOTE	2009	2008	+/(-) Change, %
Interest income		232,317	341,669	(32.0)
Interest expenses		(116,019)	(225,770)	(48.6)
Profit from investments in entities accounted for using the equity method		16,013	14,308	11.9
Net interest income	(1)	**132,311**	**130,207**	**1.6**
Impairment charge on loans and advances	(2)	(37,434)	(19,996)	87.2
Net interest income after impairment charge		**94,877**	**110,211**	**(13.9)**
Fee and commission income		42,625	44,321	(3.8)
Fee and commission expenses		(2,922)	(3,514)	(16.8)
Net fee and commission income	(3)	39,703	40,807	(2.7)
Net trading income	(4)	1,433	1,408	1.8
General administrative expenses	(5)	(88,217)	(87,863)	0.4
Other operating income net of other operating expenses	(6)	3,259	2,930	11.2
Profit/(loss) from financial assets (FV)	(7)	(2,134)	(5,063)	(57.9)
Profit/(loss) from financial assets (AfS)	(8)	(2,377)	(17,989)	(86.8)
Profit for the year before tax		**46,544**	**44,441**	**4.7**
Income tax expense	(9)	(6,103)	(2,526)	>100
Profit for the year		**40,441**	**41,915**	**(3.5)**
Minority interests in profit for the year		(3)	(1)	>100
Consolidated net profit		**40,438**	**41,914**	**(3.5)**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

Consolidated net profit		40,438	41,914	(3.5)
Income and expenses taken directly to equity				
– Exchange differences		(614)	649	>100
– Available-for-sale reserve		16,704	(18,741)	>100
– Arising from investments in entities accounted for using the equity method		881	(9,363)	>100
– Deferred taxes on items taken directly to equity		(4,425)	3,468	>100
Comprehensive income		**52,984**	**17,927**	**>100**

QUARTERLY REVIEW

€k	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Interest income	50,966	53,856	58,800	68,695	92,486
Interest expenses	(20,425)	(24,333)	(29,926)	(41,335)	(58,006)
Profit from investments in entities accounted for using the equity method	4,163	4,278	3,192	4,380	3,606
Net interest income	**34,704**	**33,801**	**32,066**	**31,740**	**38,086**
Impairment charge on loans and advances	(8,358)	(10,325)	(9,463)	(9,288)	(2,360)
Net interest income after impairment charge	**26,346**	**23,476**	**22,603**	**22,452**	**35,726**
Net fee and commission income	10,831	9,669	9,554	9,649	9,877
Net trading income	28	555	488	362	378
General administrative expenses	(22,585)	(22,344)	(22,084)	(21,204)	(24,112)
Other operating income net of other operating expenses	766	637	1,020	836	1,112
Profit/(loss) from financial assets (FV)	439	653	245	(3,471)	(4,879)
Profit/(loss) from financial assets (AfS)	(1,234)	(357)	(250)	(536)	(15,250)
Profit for the period before tax	**14,591**	**12,289**	**11,576**	**8,088**	**2,852**
Income tax expense	(3,335)	(1,522)	(1,523)	277	720
Profit for the period	**11,256**	**10,767**	**10,053**	**8,365**	**3,572**
Minority interests in profit for the period	(3)	0	0	0	(1)
Consolidated net profit for the period	**11,253**	**10,767**	**10,053**	**8,365**	**3,571**

Balance Sheet of the BKS Bank Group as at 31 December 2009

(Statement of Financial Position)

ASSETS

€k	NOTE	31/12/2009	31/12/2008	+/(-) Change, %
Cash and balances with the central bank	(10)	131,642	69,235	90.1
Receivables from other banks	(11)	396,350	406,073	(2.4)
Receivables from customers	(12)	4,463,574	4,282,276	4.2
– Impairment allowance balance	(13)	(113,401)	(96,178)	17.9
Trading assets	(14)	2,246	7,310	(69.3)
Financial assets designated as at fair value through profit or loss	(15)	123,377	127,462	(3.2)
Available-for-sale financial assets	(16)	311,233	344,021	(9.5)
Held-to-maturity financial assets	(17)	592,047	460,115	28.7
Investments in entities accounted for using the equity method	(18)	258,325	231,907	11.4
Intangible assets	(19)	14,885	14,730	1.1
Property and equipment	(20)	77,154	73,143	5.5
Investment property	(21)	16,792	17,589	(4.5)
Deferred tax assets	(22)	13,976	14,311	(2.3)
Other assets	(23)	27,698	23,701	16.9
Total assets		**6,315,898**	**5,975,695**	**5.7**

EQUITY AND LIABILITIES

€k	NOTE	31/12/2009	31/12/2008	+/(-) Change, %
Payables to other banks	(24)	1,690,095	1,415,975	19.4
Payables to customers	(25)	3,343,211	3,493,121	(4.3)
Liabilities evidenced by paper	(26)	321,545	211,683	51.9
Trading liabilities	(27)	2,119	1,658	27.8
Provisions	(28)	78,610	82,738	(5.0)
Deferred tax liabilities	(29)	9,825	7,407	32.6
Other liabilities	(30)	49,791	58,141	(14.4)
Subordinated debt capital	(31)	243,190	240,301	1.2
Equity		577,512	464,671	24.3
Total minority interests and equity		577,519	464,660	24.3
Minority interests in equity		(7)	11	>100
Total equity and liabilities		**6,315,898**	**5,975,695**	**5.7**

EARNINGS PER SHARE

	2009	2008
Average number of shares in issue	32,409,793	27,659,658[1]
Dividend per share, €	0.25	0.25[1]
Earnings per share, € (diluted and undiluted)	1.25	1.52[1]

[1] Restated number of shares, dividend per share and earnings per share taking account of a six-for-one stock split carried out on the Vienna stock exchange on 5 June 2009.

Earnings per share compares consolidated net profit 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. In October 2009, BKS Bank issued 4,680,000 new ordinary no-par shares in the course of a raising of share capital.

Statement of Changes in Equity for the Period

TOTAL MINORITY INTERESTS AND EQUITY

€k	SUBSCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	PROFIT FOR THE YEAR	EQUITY
At 1 January 2009	50,000	40,736	332,009	41,915	464,660
Distribution				(6,984)	(6,984)
Taken to retained earnings			34,931	(34,931)	0
Profit for the year				40,441	40,441
Gains and losses taken directly to equity			12,546		12,546
Increase in share capital	15,520	57,193			72,713
Other changes			(5,857)		(5,857)
– Arising from use of the equity method			(2,378)		
– Arising from changes in treasury shares			(3,724)		
At 31 December 2009	**65,520**	**97,929**	**373,629**	**40,441**	**577,519**
Available-for-sale reserve					9,942
Deferred tax reserve					(1,879)

TOTAL MINORITY INTERESTS AND EQUITY

€k	SUBSCRIBED CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	PROFIT FOR THE YEAR	EQUITY
At 1 January 2008	50,000	40,736	309,011	50,762	450,509
Distribution				(6,835)	(6,835)
Taken to retained earnings			43,927	(43,927)	0
Profit for the year				41,915	41,915
Gains and losses taken directly to equity			(23,987)		(23,987)
Increase in share capital					
Other changes			3,058		3,058
– Arising from use of the equity method			(7,944)		
– Arising from changes in treasury shares			11,083		
At 31 December 2008	**50,000**	**40,736**	**332,009**	**41,915**	**464,660**
Available-for-sale reserve					(9,088)
Deferred tax reserve					2,546

Pursuant to a resolution of the 70th AGM on 29 May, the share capital of *BKS Bank AG* was raised out of internal funds by €6.16 million (nominal) from €50.0 million (nominal) to €56.16 million (nominal). This was followed a six-for-one stock split that took place on the Vienna stock exchange on 5 June, increasing the number of ordinary no-par shares in issue from 4,380,000 to 26,280,000 and increasing the number of no-par preference shares in issue from 300,000 to 1,800,000. Finally, in October, a seven-for-six increase in share capital was carried out, increasing the company's share capital by €9.36 million (nominal) from €56.16 million (nominal) to €65.52 million (nominal) through the issuance of 4,680,000 new ordinary no-par shares.

Cash Flow Statement
(Statement of Cash Flows)

CASH FLOWS

€k	2009	2008
Profit for the year before minorities	**40,441**	**41,915**
Non-cash positions in profit for the year:		
– Depreciation, amortization and impairment charge on receivables and property and equipment	35,431	21,401
– Changes in provisions	2,227	6,834
– Gains and losses on disposals	(4,663)	1,167
– Change in other non-cash items	(9,704)	135
Subtotal	**63,732**	**71,452**
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	(169,027)	(211,273)
– Trading assets	5,064	3,896
– Other assets	(3,662)	3,333
– Payables to customers and other banks	124,210	182,343
– Liabilities evidenced by paper	109,862	(39,860)
– Trading liabilities	461	(290)
– Provisions and other liabilities	(18,000)	14,991
Net cash from operating activities	**112,640**	**24,592**
Proceeds from:		
– Sales of financial assets and property and equipment	160,352	104,182
Outlay on:		
– Purchases of financial assets and property and equipment	(275,198)	(184,663)
– Acquisition of subsidiaries	(35)	(28)
Net cash from/(used in) investing activities	**(114,881)**	**(80,509)**
Increases in share capital	72,713	—
Dividend distributions	(6,984)	(6,835)
Subordinated liabilities and other financing activities	(1,081)	51,165
Net cash from financing activities	**64,648**	**44,330**
Cash and cash equivalents at end of previous year	**69,235**	**80,822**
Net cash from operating activities	112,640	24,592
Net cash from/(used in) investing activities	(114,881)	(80,509)
Net cash from financing activities	64,648	44,330
Cash and cash equivalents at end of year under review	**131,642**	**69,235**
Taxes, interest and dividends		
– Income tax paid	6,047	6,057
– Interest received	240,389	335,589
– Interest paid	125,168	226,101
– Dividends received	655	1,324

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 published 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/SIC). The Management Board of *BKS Bank AG* signed the Consolidated Financial Statements on 3 March 2010 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 (first included in 2007)
– *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] (first included in 2007)
– *IEV Immobilien GmbH*, Klagenfurt
– *Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG*, Klagenfurt
– *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH*, Klagenfurt
– *BKS Hybrid alpha GmbH*, Klagenfurt (first included in 2008)
– *VBG-CH Verwaltungs- und Beteiligungs GmbH*, Klagenfurt (first included as of 1 January 2009)[2]
– *LVM Beteiligungs Gesellschaft m.b.H.*, Vienna (first included as of 1 January 2009)[2]

Entities accounted for using the equity method:

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

[1] *BKS-Leasing a.s.* makes up a subgroup together with *BKS-Finance s.r.o.*
[2] *BKS Bank AG* holds 100 per cent of the shares in *VBG-CH Verwaltungs- und Beteiligungs GmbH*, which, in turn, holds 100 per cent of the shares in *LVM Beteiligungs Gesellschaft m.b.H.* Their object is to grant funds to foreign subsidiaries in the Group. Both *VBG-CH Verwaltungs- und Beteiligungs GmbH* and *LVM Beteiligungs Gesellschaft m.b.H.* were included in the Consolidated Financial Statements for the first time as of 1 January 2009.

Consolidation policies

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

Foreign currency translation

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

Impairment allowance balance

Account was taken of risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis and creating provisions. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet. We recognized charges for individual risk positions on an item-by-item basis applying classification-specific criteria. Provisions for contingent liabilities were recognized on the equity and liabilities side of the Balance Sheet in the line item *Provisions*. In addition, a collective assessment of impairment of the portfolio was carried out in accordance with IAS 39 para. 64.

Trading assets and liabilities

Within the line item *Trading assets*, primary financial instruments were measured at fair value. Derivative financial instruments were measured at fair value. Financial instruments with negative fair values were recognized on the Balance Sheet in the line item *Trading liabilities*. Revaluation gains and losses on this line item were recognized in the Income Statement in the line item *Net trading income*. Interest expenses incurred in the financing of trading assets were reported in the line item *Net interest income*.

Derivatives

Derivative financial instruments were measured at fair value. Changes in value were generally recognized in the Income Statement.

Receivables

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

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

Property, equipment and intangible assets (non-current) and investment property were recognized at cost of acquisition or conversion less ordinary depreciation or amortization. Annual depreciation and amortization lay within the following bands:

– immovable assets: 1.5 to 3.0 per cent;
– office furniture and equipment: 10 to 25 per cent;
– software: 25 per cent.

Ordinary depreciation and amortization are linear based on an asset's estimated useful life. Impairments are allowed for by recognizing extraordinary depreciation or amortization. If an impairment no longer exists, a write-back is made up to the asset's amortized cost. No extraordinary depreciation or amortization was recognized during the financial year.

Leasing

The leased assets within the Group required recognition as assets leased under finance leases (the risks and rewards incident to ownership of an asset remaining with the lessee for the purposes of IAS 17). Leased assets were recognized as receivables in the amount of the present values of the agreed payments taking into account any residual values.

Financial assets designated as at fair value through profit or loss

The measurement of certain positions took place under the collective designation *as at fair value through profit or loss* (FV) using the fair value option. They were thus measured at fair value through profit or loss and any revaluation gain or loss was recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss.*

Available-for-sale financial assets

Available-for-sale (AfS) securities are a separate category of financial instrument. They were generally measured applying stock exchange prices. If these were not available, values of interest rate products were estimated using present value techniques. Revaluation gains and losses were recognized in the AfS reserve and not through profit or loss. If such securities were sold, the corresponding part of the AfS reserve was released through profit or loss.

In the event of impairment (e.g. a debtor in severe financial difficulties or a measurable diminution of the expected cash flows), a charge for the impairment was recognized in the Income Statement. If the reason for such a charge no longer existed, a write-back was made. In the case of equity capital instruments, it was made to equity through the AfS reserve. In the case of debt instruments, it was made to income. Investments in entities that were neither consolidated nor accounted for using the equity method were deemed to be part of the AfS portfolio.

Held-to-maturity financial assets
This line item comprises financial instruments that are to be held to maturity (HtM). Premiums and discounts are spread over their term using the *effective interest rate method*. Impairment losses were recognized in the Income Statement.

Investment property
This line item encompasses property intended for letting to third parties. It was measured at amortized cost (cost method). The fair values of the investment properties are disclosed in the Notes. They are, for the most part, based on estimates (external expertises).

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

Payables
Payables were recognized at the amounts payable.

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

Equity
Equity consists of paid-in and earned capital (retained earnings, gains and losses taken to equity in accordance with IAS 39 and profit for the year).

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

“Social capital” provisions (*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 2008: 4.75 per cent). Other parameters were applied as follows:

– salary trend: 2.50 per cent (31 December 2008: 2.75 per cent);
– career trend: 0.25 per cent.

The “corridor approach” was not applied. Actuarial gains and losses were recognized immediately in profit or loss.

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

Calculation of goodwill
A goodwill impairment test is performed annually. When goodwill is tested for impairment, its carrying amount is compared with the present value of the company’s interest in all future cash flows.

Present value is measured on the basis of a discounted cash flow model. A two-phase mathematical model is 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 federal bonds in the eurozone, an equity risk premium and an extra charge for country risk.

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

Impairment charges on loans and advances
This line item captures impairment allowances and impairment reversals and transfers to and releases from impairment provisions. Recoveries on receivables previously written off were also accounted for in this line item.

Net fee and commission income
This line item comprises income from services rendered to third parties net of expenses attributed to such services.

Net trading income
This line item contains income and expenses arising from our proprietary trading activities. Positions in the trading book are marked to market. *Net trading income* also includes revaluation gains and losses.

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

The assumptions and estimates made for the purposes of the Consolidated Financial Statements were made on the basis of the knowledge and information available at the reporting date.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	2009	2008	+/(-) Change, %
Interest income from:			
Credit operations	177,085	280,246	(36.8)
Fixed-interest securities	31,563	29,752	6.1
Lease receivables	14,690	18,677	(21.3)
Shares	3,195	6,086	(47.5)
Investment property	1,013	960	5.5
Investments in subsidiaries	495	1,248	(60.3)
Other equity investments	4,276	4,700	(9.0)
Total interest income	232,317	341,669	(32.0)
Interest expenses on:			
Deposits from customers and other banks [1]	94,609	203,738	(53.6)
Liabilities evidenced by paper	21,173	21,684	(2.4)
Investment property	237	348	(31.9)
Total interest expenses	116,019	225,770	(48.6)
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	17,656	22,148	(20.3)
Financing costs of investments in entities accounted for using the equity method [2]	(1,643)	(7,840)	(79.0)
Profit from investments in entities accounted for using the equity method	**16,013**	**14,308**	**11.9**
Net interest income	**132,311**	**130,207**	**1.6**

[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	2009	2008	+/(-) Change, %
Impairment allowances	38,638	24,031	60.8
Impairment reversals	(4,412)	(4,864)	(9.3)
Direct write-offs	3,719	1,215	>100
Recoveries on receivables previously written off	(511)	(386)	32.4
Impairment charge on loans and advances	**37,434**	**19,996**	**87.2**

This line item contains impairment charges on lease receivables in the amount of €4.6 million (2008: €2.1 million).

(3) NET FEE AND COMMISSION INCOME

€k	2009	2008	+/(-) Change, %
Fee and commission income from:			
Payment services	16,062	15,161	5.9
Securities operations	11,769	13,524	(13.0)
Credit operations	9,956	9,865	0.9
International business	3,707	4,765	(22.2)
Other services	1,131	1,006	12.4
Total fee and commission income	42,625	44,321	(3.8)
Fee and commission expenses arising from:			
Payment services	1,059	1,097	(3.5)
Securities operations	677	923	(26.7)
Credit operations	584	1,056	(44.7)
International business	188	97	93.8
Other services	414	341	21.4
Total fee and commission expenses	2,922	3,514	(16.8)
Net fee and commission income	**39,703**	**40,807**	**(2.7)**

(4) NET TRADING INCOME

€k	2009	2008	+/(-) Change, %
Price-based contracts	71	46	54.3
Interest rate and currency contracts	1,362	1,362	0
Net trading income	**1,433**	**1,408**	**1.8**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	2009	2008	+/(-) Change, %
Staff costs	57,821	59,152	(2.3)
– Wages and salaries	41,278	40,223	2.6
– Social security costs	12,470	10,150	22.9
– Costs of retirement benefits	4,073	8,779	(53.6)
Other administrative costs	24,119	22,690	6.3
Depreciation	6,277	6,021	4.3
General administrative expenses	**88,217**	**87,863**	**0.4**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	2009	2008	+/(-) Change, %
Other operating income	4,830	4,674	3.3
Other operating expenses	(1,571)	(1,744)	(9.9)
Other operating income net of other operating expenses	**3,259**	**2,930**	**11.2**

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

€k	2009	2008	+/(-) Change, %
Revaluation gains and losses on derivatives	(1,288)	(4,771)	(73.0)
Gain/(loss) as a result of using the fair value option	(846)	(292)	>100
Profit from financial assets designated as at fair value through profit or loss	**(2,134)**	**(5,063)**	**(57.9)**

The values of fixed-interest loans to customers in the amount of €39.8 million (31 December 2008: €45.4 million), bonds in the asset portfolio in the amount of €83.6 million (31 December 2008: €82.0 million) and BKS Bank's own issuances in the amount of €85.8 million (31 December 2008: €85.5 million) were hedged by appropriate interest rate swaps using the fair value option. The effect of these hedges totalled negative €846.2 thousand (2008: negative €292.0 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	2009	2008	+/(-) Change, %
Unrealized and realized gains and losses	(2,377)	(17,989)	(86.8)
Profit from available-for-sale financial assets	**(2,377)**	**(17,989)**	**(86.8)**

Negative €7,040 thousand of unrealized and realized gains and losses was attributable to impairments. The sale of assets during 2009 had a positive effect of €4,663 thousand.

(9) INCOME TAX EXPENSE

€k	2009	2008	+/(-) Change, %
Current tax	(7,853)	(3,016)	>100
Deferred tax	1,750	490	>100
Income tax expense	**(6,103)**	**(2,526)**	**>100**

RECONCILIATION FOR 2009

€k	2009	2008
Profit for the year before tax	46,544	44,441
Applicable tax rate	25%	25%
Computed tax expense	11,636	11,110
Effect of differing tax rates	(177)	(28)
Tax savings		
– arising from tax-exempt profit from equity investments	(5,557)	(7,788)
– arising from other tax-exempt income	(2,107)	(865)
– arising from other valuation adjustments	(346)	(253)
Additional tax incurred		
– as a result of non-allowable expenses	734	287
– arising from other tax effects	1,922	399
Non-periodic tax expenses	(2)	(336)
Income tax expense in period	**6,103**	**2,526**
Effective tax rate	13.1%	5.7%

Details of the Balance Sheet

(10) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2009	31/12/2008	+/(-) Change, %
Cash in hand	34,100	34,136	(0.1)
Credit balances with central banks of issue	97,542	35,099	>100
Cash and balances with the central bank	**131,642**	**69,235**	**90.1**

(11) RECEIVABLES FROM OTHER BANKS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Receivables from Austrian banks	202,233	94,034	>100
Receivables from foreign banks	194,117	312,039	(37.8)
Receivables from other banks	**396,350**	**406,073**	**(2.4)**

RECEIVABLES FROM OTHER BANKS, BY TERM TO MATURITY

€k	31/12/2009	31/12/2008	+/(-) Change, %
Due on demand	29,872	52,273	(42.9)
Up to 3 months	326,988	125,323	>100
From 3 months to 1 year	22,047	194,114	(88.6)
From 1 year to 5 years	17,443	25,550	(31.7)
From 5 years and over	0	8,813	(100.0)
Receivables from other banks	**396,350**	**406,073**	**(2.4)**

(12) RECEIVABLES FROM CUSTOMERS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Corporate and business banking customers	3,599,021	3,417,478	5.3
Retail banking customers	864,553	864,798	0.0
Receivables from customers	**4,463,574**	**4,282,276**	**4.2**

Receivables from customers includes receivables arising from finance leases in the amount of €310.8 million (31 December 2008: €301.6 million).

RECEIVABLES FROM CUSTOMERS, BY TERM TO MATURITY

€k	31/12/2009	31/12/2008	+/(-) Change, %
Due on demand	146,255	173,600	(15.8)
Up to 3 months	761,829	748,157	1.8
From 3 months to 1 year	591,675	591,902	0.0
From 1 year to 5 years	1,168,538	933,749	25.1
From 5 years and over	1,795,277	1,834,868	(2.2)
Receivables from customers	**4,463,574**	**4,282,276**	**4.2**

The bulk of lease assets had maturities of one year or more.

(13) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2009	31/12/2008	+/(-) Change, %
At beginning of year under review	96,178	96,281	(0.1)
+ Added	33,557	19,950	68.2
– Reversed	(4,403)	(4,833)	(8.9)
– Used	(11,948)	(15,391)	(22.4)
+ Exchange differences	17	171	(90.1)
At end of year under review	**113,401**	**96,178**	**17.9**

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 €11.5 million (31 December 2008: €7.0 million).

(14) TRADING ASSETS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Bonds and other fixed-interest securities	177	168	5.4
Shares and other variable-yield securities	0	6	(100.0)
Positive fair values of derivative financial instruments			
– Currency contracts	117	15	>100
– Interest rate contracts	1,952	1,584	23.2
Other contracts	0	5,537	(100.0)
Trading assets	**2,246**	**7,310**	**(69.3)**

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

€k	31/12/2009	31/12/2008	+/(-) Change, %
Bonds and other fixed-interest securities	83,582	82,044	1.9
Loans	39,795	45,418	(12.4)
Financial assets designated as at fair value through profit or loss	**123,377**	**127,462**	**(3.2)**

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

€k	31/12/2009	31/12/2008	+/(-) Change, %
Up to 3 months	4,746	1,988	>100
From 3 months to 1 year	3,692	0	100
From 1 year to 5 years	67,154	33,812	98.6
From 5 years and over	47,785	91,662	(47.9)
Financial assets designated as at fair value through profit or loss	**123,377**	**127,462**	**(3.2)**

(16) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Bonds and other fixed-interest securities	180,758	220,758	(18.1)
Shares and other variable-yield securities	83,591	77,322	8.1
Investments in subsidiaries	31,848	31,755	0.3
Other equity investments	15,036	14,186	6.0
Available-for-sale financial assets	**311,233**	**344,021**	**(9.5)**

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

€k	31/12/2009	31/12/2008	+/(-) Change, %
Bonds and other fixed-interest securities			
Up to 3 months	2,456	3,477	(29.4)
From 3 months to 1 year	12,569	82,677	(84.8)
From 1 year to 5 years	69,746	40,098	73.9
From 5 years and over	95,987	94,506	1.6
Available-for-sale financial assets	**180,758**	**220,758**	**(18.1)**

(17) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Bonds and other fixed-interest securities	592,047	460,115	28.7
Held-to-maturity financial assets	**592,047**	**460,115**	**28.7**

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

€k	31/12/2009	31/12/2008	+/(-) Change, %
Up to 3 months	74,952	43,786	71.2
From 3 months to 1 year	0	15,964	(100.0)
From 1 year to 5 years	318,011	222,611	42.9
From 5 years and over	199,084	177,754	12.0
Held-to-maturity financial assets	**592,047**	**460,115**	**28.7**

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

€k	31/12/2009	31/12/2008	+/(-) Change, %
Oberbank AG	172,403	154,941	11.3
Bank für Tirol und Vorarlberg AG	81,050	72,640	11.6
Alpenländische Garantie-GmbH	960	643	49.3
Drei-Banken Versicherungs-AG	3,912	3,683	6.2
Investments in entities accounted for using the equity method	**258,325**	**231,907**	**11.4**

(19) INTANGIBLE ASSETS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Goodwill	12,196	12,181	0.1
Other intangible assets	2,689	2,549	5.5
Intangible assets	**14,885**	**14,730**	**1.1**

The line item *Goodwill* contains goodwill resulting from the first-time consolidation of *BKS Bank d.d.* in the amount of €8.9 million and goodwill resulting from the first-time consolidation of *BKS-Leasing a.s.* in the amount of €3.3 million. According to the results of annual impairment tests, both companies have sufficient enterprise value to cover their recognized goodwill. There have been no impairments since these companies' first-time consolidation. During the financial year, the Group acquired a further 0.21 per cent stake in *BKS Bank d.d.*, increasing recognized goodwill by €15 thousand to €12,196 thousand.

(20) PROPERTY AND EQUIPMENT

€k	31/12/2009	31/12/2008	+/(-) Change, %
Land	2,720	2,364	15.1
Buildings	47,977	48,375	(0.8)
Other	26,457	22,404	18.1
Property and equipment	**77,154**	**73,143**	**5.5**

(21) INVESTMENT PROPERTY

€k	31/12/2009	31/12/2008	+/(-) Change, %
Land	8,247	8,508	(3.1)
Buildings	8,545	9,081	(5.9)
Investment property	**16,792**	**17,589**	**(4.5)**

At 31 December 2009, the fair value of our investment property totalled €24,693 thousand (2008: €25,031 thousand).

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

€k	EQUIPMENT	INTANGIBLE ASSETS[1]	PROPERTY[2]	TOTAL
Cost as 1 January 2009	147,105	4,545	29,952	181,602
Added	19,395	1,196	81	20,672
Disposals	12,895	3	553	13,451
Cost at 31 December 2009	**153,605**	**5,738**	**29,480**	**188,823**
Accumulated depreciation/amortization	76,451	3,049	12,688	92,188
Carrying amount at 31 December 2009	**77,154**	**2,689**	**16,792**	**96,635**
Carrying amount at 31 December 2008	73,143	2,549	17,589	93,281
Depreciation/amortization in 2009	4,724	1,047	506	6,277

[1] Intangible (non-current) assets. [2] Investment property.
Additions included exchange differences in the amount of €38 thousand.

(22) DEFERRED TAX ASSETS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Receivables from customers	580	479	21.1
Trading assets and liabilities	249	195	27.7
Impairment allowances	2,018	759	>100
Available-for-sale financial assets	156	1,273	(87.7)
Held-to-maturity financial assets	283	150	88.7
Property and equipment	446	286	55.9
Other assets and liabilities	5,230	5,470	(4.4)
Provisions (for post-employment and termination benefits, other provisions)	5,004	5,671	(11.8)
Other balance sheet items	10	28	(64.3)
Deferred tax assets	**13,976**	**14,311**	**(2.3)**

(23) OTHER ASSETS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Positive fair values of derivative financial instruments	10,864	5,570	95.0
Other items	14,729	15,984	(7.9)
Deferred items	2,105	2,147	(2.0)
Other assets	**27,698**	**23,701**	**16.9**

(24) PAYABLES TO OTHER BANKS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Payables to Austrian banks	1,264,074	1,010,716	25.1
Payables to foreign banks	426,021	405,259	5.1
Payables to other banks	**1,690,095**	**1,415,975**	**19.4**

PAYABLES TO OTHER BANKS, BY TERM TO MATURITY

€k	31/12/2009	31/12/2008	+/(-) Change, %
Due on demand	57,371	136,879	(58.1)
Up to 3 months	929,840	1,064,834	(12.7)
From 3 months to 1 year	685,859	191,914	>100
From 1 year to 5 years	16,425	21,460	(23.5)
From 5 years and over	600	888	(32.4)
Payables to other banks	**1,690,095**	**1,415,975**	**19.4**

(25) PAYABLES TO CUSTOMERS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Savings deposit balances	**1,804,628**	**1,677,549**	**7.6**
Corporate and business banking customers	370,293	270,876	36.7
Retail banking customers	1,434,335	1,406,673	2.0
Other payables	**1,538,583**	**1,815,572**	**(15.3)**
Corporate and business banking customers	1,096,852	1,336,443	(17.9)
Retail banking customers	441,731	479,129	(7.8)
Payables to customers	**3,343,211**	**3,493,121**	**(4.3)**

PAYABLES TO CUSTOMERS, BY TERM TO MATURITY

€k	31/12/2009	31/12/2008	+/(-) Change, %
Due on demand	1,039,643	918,445	13.2
Up to 3 months	804,134	1,231,160	(34.7)
From 3 months to 1 year	1,103,500	1,333,570	(17.3)
From 1 year to 5 years	375,823	7,248	>100
From 5 years and over	20,111	2,698	>100
Payables to customers	**3,343,211**	**3,493,121**	**(4.3)**

(26) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2009	31/12/2008	+/(-) Change, %
Issued bonds	235,440	125,929	87.0
Other liabilities evidenced by paper	86,105	85,754	0.4
Liabilities evidenced by paper	**321,545**	**211,683**	**51.9**

Other liabilities evidenced by paper includes €85.8 million (2008: €85.5 million) of liabilities measured at fair value (fair value option).

LIABILITIES EVIDENCED BY PAPER, BY TERM TO MATURITY

€k	31/12/2009	31/12/2008	+/(-) Change, %
Up to 3 months	23,276	15,641	48.8
From 3 months to 1 year	0	15,849	(100.0)
From 1 year to 5 years	247,032	156,509	57.8
From 5 years and over	51,237	23,684	>100
Liabilities evidenced by paper	**321,545**	**211,683**	**51.9**

(27) TRADING LIABILITIES

€k	31/12/2009	31/12/2008	+/(-) Change, %
Interest rate contracts	2,119	1,658	27.8
Trading liabilities	**2,119**	**1,658**	**27.8**

(28) PROVISIONS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	69,372	71,093	(2.4)
Provisions for taxes (current tax)	741	196	>100
Other provisions	8,497	11,449	(25.8)
Provisions	**78,610**	**82,738**	**(5.0)**

During the year under review, the calculation of so-called “social” capital was based on an interest rate of 4.75 per cent (2008: 4.75 per cent).

PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Provision balance at 1 January	71,093	68,356	4.0
+ Interest cost	2,926	2,860	2.3
+ Service cost	1,469	516	35.0
– Payments during the year under review	(5,382)	(4,535)	18.7
± Actuarial gain/(loss)	(734)	3,324	>100
+ Mortality table adjustment	—	572	(100)
Provision balance at 31 December	**69,372**	**71,093**	**(2.4)**

BREAKDOWN OF PROVISIONS

€k	POST-EMP. BENEFITS & SIMILAR OBLIGATIONS	TAXES AND OTHER	TOTAL 2009	TOTAL 2008	+/(-) Change, %
Provision balance at 1 January	71,093	11,645	82,738	80,512	2.8
+ Changes in scope of consolidation		72	72	3	>100
+ Added	2,086	3,591	5,677	7,852	(27.7)
– Used	1,319	5,036	6,355	4,608	37.9
– Reversed	2,488	1,034	3,522	1,021	>100
Provision balance at 31 December	**69,372**	**9,238**	**78,610**	**82,738**	**(5.0)**

(29) DEFERRED TAX LIABILITIES

€k	31/12/2009	31/12/2008	+/(-) Change, %
Receivables from customers	879	0	100.0
Trading assets and liabilities	249	103	>100
Financial assets and liabilities designated as at fair value through profit or loss	1,967	1,597	23.2
Available-for-sale financial assets and liabilities	3,663	1,563	>100
Held-to-maturity financial assets and liabilities	550	685	(19.7)
Property and equipment	66	58	13.8
Other assets and liabilities	1,281	786	63.0
Liabilities evidenced by paper	1,005	2,353	(57.3)
Provisions (for post-employment and termination benefits, other provisions)	165	262	(37.0)
Deferred tax liabilities	**9,825**	**7,407**	**32.6**

Deferred taxes in the amount of €4,425 thousand were taken directly to equity (*AfS Reserve*) (31 December 2008: €2,546 thousand).

(30) OTHER LIABILITIES

€k	31/12/2009	31/12/2008	+/(-) Change, %
Negative fair values of derivative financial instruments	29,752	37,922	(21.5)
Other items	18,582	18,962	(2.0)
Deferred items	1,457	1,257	15.9
Other liabilities	**49,791**	**58,141**	**(14.4)**

(31) SUBORDINATED DEBT CAPITAL

€k	31/12/2009	31/12/2008	+/(-) Change, %
Supplementary capital	223,190	220,301	1.3
Hybrid capital	20,000	20,000	0.0
Subordinated debt capital	**243,190**	**240,301**	**1.2**

SUBORDINATED DEBT CAPITAL, BY TERM TO MATURITY

€k	31/12/2009	31/12/2008	+/(-) Change, %
From 3 months to 1 year	25,788	18,376	40.3
From 1 year to 5 years	111,074	90,155	23.2
From 5 years and over	106,328	131,770	(19.3)
Subordinated debt capital	**243,190**	**240,301**	**1.2**

Additional Disclosures Required by IFRSs

(32) FAIR VALUES

€k	31/12/2009				
	FAIR VALUES MARKET VALUES	FAIR VALUES OTHER	FAIR VALUES TOTAL	CARRYING AMOUNTS	DIFFERENCE 2009
Assets					
Receivables from other banks	—	396,532	396,532	396,350	182
Receivables from customers	—	4,502,427	4,502,427	4,463,574	38,854
Financial assets designated as at fair value through profit or loss	83,582	39,795	123,377	123,377	—
Available-for-sale financial assets	294,551	16,682	311,233	311,233	—
Held-to-maturity financial assets	609,597	—	609,597	592,047	17,550
Investments in entities accounted for using the equity method	273,216	4,872	278,087	258,325	19,762
Equity and liabilities					
Payables to other banks	—	1,691,084	1,691,084	1,690,095	(988)
Payables to customers	—	3,344,233	3,344,233	3,343,211	(1,022)
Liabilities evidenced by paper	234,661	86,105	320,766	321,545	779
Subordinated debt capital	237,913	2,350	240,263	243,190	2,927

€k	31/12/2008				
	FAIR VALUES MARKET VALUES	FAIR VALUES OTHER	FAIR VALUES TOTAL	CARRYING AMOUNTS	DIFFERENCE 2008
Assets					
Receivables from other banks	—	408,880	408,880	406,073	2,807
Receivables from customers	—	4,381,241	4,381,241	4,282,276	98,965
Financial assets designated as at fair value through profit or loss	82,044	45,418	127,462	127,462	—
Available-for-sale financial assets	328,188	15,833	344,021	344,021	—
Held-to-maturity financial assets	473,205	—	473,205	460,115	13,090
Investments in entities accounted for using the equity method	273,740	4,325	278,065	231,907	46,158
Equity and liabilities					
Payables to other banks	—	1,418,173	1,418,173	1,415,975	(2,198)
Payables to customers	—	3,507,665	3,507,665	3,493,121	(14,544)
Liabilities evidenced by paper	125,188	85,477	210,665	211,683	1,018
Subordinated debt capital	236,193	6,000	242,193	240,301	(1,892)

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, fair values shown in the "Other" column were determined using input factors observable for the respective assets and liabilities (e.g. the yield curve). In addition, the "Other" columns includes assets in the amount of €21,554 thousand (2008: €20,159 thousand) in the categories *Available-for-sale financial assets* and *Investments in entities accounted for using the equity method*, their value having been determined on the basis of internal valuation methods. In general, other items were measured using present value techniques. The "Difference" column shows the respective differences between total fair values and carrying amounts.

(33) INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2009

	METHOD*	PERCENTAGE HELD	ASSETS	PROFIT/(LOSS) FOR THE YEAR
Alpenländische Garantie-GmbH	E	25.00	199,948	86
Oberbank AG	E	16.95	15,725,426	64,889
Bank für Tirol und Vorarlberg AG	E	13.59	8,307,551	26,645
Drei-Banken Versicherungs-AG	E	20.00	193,653	1,000
DREI-BANKEN-EDV Gesellschaft mbH	N	30.00	17,059	(2)

INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2008

	METHOD*	PERCENTAGE HELD	ASSETS	PROFIT/(LOSS) FOR THE YEAR
Alpenländische Garantie-GmbH	E	25.00	165,468	0
Oberbank AG	E	16.95	14,877,569	49,963
Bank für Tirol und Vorarlberg AG	E	13.59	8,371,113	42,018
Drei-Banken Versicherungs-AG	E	20.00	201,420	1,367
M 2000 Liegenschaftsverwertungs GmbH	N	50.00	175	(20)
DREI-BANKEN-EDV Gesellschaft mbH	N	30.00	18,752	128

*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 connection with the equity investment 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 connection with the equity investment in BTV AG.

At year-end, the market value of *BKS Bank AG*'s listed equity investments in *Oberbank AG* and *BTV AG* was €273.2 million (31 December 2008: €273.7 million). In turn, *Oberbank AG* and *BTV AG* held a total of 12,150,922 shares in *BKS Bank AG* (31 December 2008: 10,401,036), the original total of 1,733,506 having been restated after the six-for-one stock split on 5 June 2009. In October 2009, BKS Bank carried out a seven-for-six raising of share capital. Its sister banks participated in proportion to their stakes.

(34) TRANSACTIONS WITH ASSOCIATES

€k	31/12/2009	31/12/2008	+/(-) Change, %
Assets			
Receivables from other banks	787	823	(4.4)
Receivables from customers	10,697	954	>100
Liabilities			
Payables to other banks	211,776	248,005	(14.6)
Payables to customers	14,963	74,678	(80.0)

(35) TRANSACTIONS WITH SUBSIDIARIES

€k	31/12/2009	31/12/2008	+/(-) Change, %
Assets			
Receivables from customers	16,565	14,922	11.0
Other assets	247	1,049	(76.5)
Liabilities			
Payables to customers	879	852	3.2

(36) 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. Structural income was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was measured applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income.* The performance of each business segment was gauged in terms of the profit before tax recorded by that segment. Alongside the cost:income ratio, return on equity was also one of the principal benchmarks for managing business segments. Segmental reporting is based on internal management processes.

SEGMENTAL BREAKDOWN

€k	RETAIL BANKING		CORPORATE AND BUSINESS BANKING		FINANCIAL MARKETS	
	2009	2008	2009	2008	2009	2008
Net interest income	33,317	32,273	82,523	55,254	17,452	43,167
Impairment charge on loans and advances	(2,201)	(1,570)	(35,233)	(18,426)	0	0
Net fee and commission income	16,521	16,955	22,234	23,066	551	1,446
Net trading income	0	0	0	0	1,433	1,408
General administrative expenses	(46,772)	(47,574)	(32,906)	(32,263)	(6,461)	(6,990)
Other operating income net of other operating expenses	1,066	1,204	2,433	1,551	(7)	(31)
Profit/(loss) from financial assets	0	0	0	0	(4,511)	(23,052)
Profit for the year before tax	**1,931**	**1,288**	**39,051**	**29,182**	**8,457**	**15,948**
Average risk-weighted assets	473,499	572,350	3,020,706	2,752,979	630,612	593,820
Average allocated equity	37,880	45,788	241,657	220,238	235,385	175,294
Segment liabilities	2,532,103	2,475,808	1,660,023	1,724,589	1,978,672	1,621,546
ROE based on profit for the year	**5.1%**	**2.8%**	**16.2%**	**13.3%**	**3.6%**	**9.1%**
Cost:income ratio	**91.9%**	**94.3%**	**30.7%**	**40.4 %**	**33.3%**	**15.2%**

€k	OTHER		TOTAL	
	2009	2008	2009	2008
Net interest income	(981)	(487)	132,311	130,207
Impairment charge on loans and advances	0	0	(37,434)	(19,996)
Net fee and commission income	397	(660)	39,703	40,807
Net trading income	0	0	1,433	1,408
General administrative expenses	(2,078)	(1,036)	(88,217)	(87,863)
Other operating income net of other operating expenses	(233)	206	3,259	2,930
Profit/(loss) from financial assets	0	0	(4,511)	(23,052)
Profit for the year before tax	**(2,895)**	**(1,977)**	**46,544**	**44,441**
Average risk-weighted assets	49,379	144,298	4,174,196	4,063,447
Average allocated equity	6,168	16,264	521,090	457,584
Segment liabilities	145,100	153,752	6,315,898	5,975,695
ROE based on profit for the year	**—**	**—**	**8.9%**	**9.7%**
Cost:income ratio	**—**	**—**	**49.9%**	**50.1%**

(37) NON-INTEREST ASSETS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Non-interest assets	**131,121**	**124,037**	**5.7**

Non-interest receivables from customers less impairment came to €56.4 million (31December 2008: €44.3 million).

(38) SUBORDINATED ASSETS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Receivables from customers	17,570	1,809	>100
Bonds and other fixed-interest securities	4,808	9,795	(50.9)
Shares and other variable-yield securities	9,351	9,302	0.5

(39) BALANCES IN FOREIGN CURRENCIES

€k	31/12/2009	31/12/2008	+/(-) Change, %
Assets	936,254	1,151,316	(18.7)
Liabilities	316,428	268,604	17.8

(40) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2009	31/12/2008	+/(-) Change, %
Guarantees	366,019	371,404	(1.4)
Letters of credit	2,058	2,211	(6.9)
Contingent liabilities	**368,077**	**373,615**	**(1.5)**
"Non-genuine" or "pseudo" repos (*unechtes Pensionsgeschäft*)	0	5,537	(100.0)
Other commitments	760,723	767,480	(0.9)
Commitments	**760,723**	**773,017**	**(1.6)**

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

(41) INVESTMENTS IN SUBSIDIARIES AND SELECTED OTHER INVESTMENTS

	M[1]	EQUITY, €m		PERCENTAGE HELD BY BKS BANK		PROFIT/(LOSS) FOR THE YEAR, €m	
		31/12/2009	31/12/2008	DIRECT	INDIRECT	2009	2008
BKS-Leasing Gesellschaft mbH, Klagenfurt	C	0.49	0.49	100.00		0.20	0.23
BKS-Immobilienleasing Gesellschaft mbH, Klagenfurt	C	4.03	3.41		100.00	0.62	0.37
Immobilien Errichtungs- u. Vermietungs-gesellschaft mbH & Co. KG, Klagenfurt	C	1.32	1.26	100.00		0.06	(0.07)
BKS Zentrale-Errichtungs- u. Vermietungs-gesellschaft mbH, Klagenfurt[2]	C	1.37	1.09		100.00	0.28	0.26
BKS Immobilien-Service Gesellschaft mbH, Klagenfurt	N	0.22	0.22	100.00		0.25	0.05
BKS 2000-Beteiligungsverwaltungsgesell-schaft mbH, Klagenfurt	N	19.31	19.16	100.00		0.31	1.44
Oberbank AG, Linz	E	854.79	744.40	16.95		64.89	49.96
Bank für Tirol und Vorarlberg AG, Innsbruck	E	449.99	430.80	13.59		26.65	42.02
Alpenländische Garantie-Gesellschaft mbH, Linz	E	3.92	2.57	25.00		0.09	0.00
DREI-BANKEN-EDV Gesellschaft mbH, Linz	N	3.49	3.49	30.00		0.00	0.13
3-Banken Beteiligung Gesellschaft mbH, Linz	N	23.74	27.58		30.00	0.00	2.38
Drei-Banken Versicherungs-Aktiengesellschaft, Linz	E	18.96	18.41	20.00		1.00	1.37
BKS-leasing d.o.o., Ljubljana	C	2.63	2.51	100.00		0.13	(0.07)
BKS-leasing Croatia d.o.o., Zagreb	C	0.44	0.54	100.00		(0.10)	(0.25)
E 2000 Liegenschaftsverwertungs-GmbH, Klagenfurt	N	0.02	0.01	99.00	1.00	0.01	0.01
M 2000 Liegenschaftsverwertungs-gesellschaft mbH, Mattersburg[3]	N	—	0.17	—		—	(0.02)
VBG Verwaltungs- und Beteiligungs-gesellschaft mbH, Klagenfurt	N	0.20	0.29	100.00		(0.27)	0.01
BKS Bank d.d., Rijeka	C	10.16	9.99	100.00		0.09	(0.17)
BKS-Leasing a.s., Bratislava	C	17.76	17.44	100.00		0.49	0.58
IEV Immobilien GmbH, Klagenfurt	C	0.04	0.04	100.00		0.00	0.00
BKS Hybrid alpha GmbH, Klagenfurt	C	0.04	0.03	100.00		0.01	0.00
VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt	C	91.23	0.03	100.00		0.52	0.00
LVM Beteiligungs Gesellschaft m.b.H., Vienna	C	91.22	0.02		100.00	0.52	(0.01)

[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.

[3] The stake in *M 2000 Liegenschaftsverwertungsgesellschaft mbH* was sold during the 2009 financial year.

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 carried at cost less any impairment charges. We did not record any material gains or losses on the disposal of equity investments during the 2009 financial year.

(42) 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 Auditors.

(43) ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES

LIABILITIES	ASSETS	31/12/2009	31/12/2008
Money held in trust pursuant to § 230 *a ABGB*	Securities	10,001	10,000
Arrangement deposit for stock exchange trading	Securities	1,594	1,588
Deposit for EUREX trading	Securities	0	287
Xetra collateral	Securities	1,201	956
Euro-Clear pledge	Securities	4,998	4,824
SEPA collateral for the Slovenia branch	Securities	289	60
Collateral for *OeNB* loans	Securities	138,434	191,514
Collateral for *OeNB* loans	Loans	162,411	179,121
Collateral for funds provided to *Banka Slovenije*	Loans	33,000	10,600

Disclosures Required by Austrian Law

(44) EMPLOYEES, BOARDS AND OFFICERS

	BKS BANK: 2009	BKS BANK: 2008
Average number of salaried (white-collar) staff:		
Salaried staff working for BKS Bank	763	758
Salaried staff working at BKS Bank for entities considered to be related parties	37	39
Salaried staff working at entities considered to be related parties	99	93
Salaried staff of the BKS Bank Group	899	890
– Salaried staff working for entities considered to be related parties from the Group's standpoint	27	30
Average number of non-salaried (blue-collar) staff	32	32
Emoluments of the Management Board including retirement pensions paid to former members of the Management Board and their surviving dependents, €k	1,595	1,685
Expenditure on termination and post-employment benefits for members of the Management Board (including former members and their surviving dependents), €k	266	1,201
Expenditure on termination and post-employment benefits for employees (including former employees and their surviving dependents), €k	4,289	6,627
Remuneration paid to members of the Supervisory Board, €k	113	112
Advances and loans granted to members of the Management Board and Supervisory Board (insofar as such were granted, repayments were taking place and they were granted on normal commercial terms and conditions), €k	0	0

Risk Report

(45) MANAGEMENT OF OVERALL BANK RISK

The goal of BKS Bank's risk policy is to detect banking risks early and to actively manage and limit them using effective risk management procedures. Making as efficient as possible use of available capital in the light of medium-term and long-term strategic goals is at the centre of such risk management activities. The root idea is to define, measure and actively maintain an ideal equilibrium between individual risk propensities and expectations regarding returns.

BKS Bank's risk management strategy stresses the conservative handling of banking risks. Risks at BKS Bank are analyzed, 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 monitoring procedures so as to adapt them to changing market conditions as required. Based on official regulatory recommendations, a Management Board member who is not involved in front-office operations has central responsibility for risk management. The Management Board sets risk policy guidelines within the framework of the risk strategy that it lays down and revises on an annual basis, approves risk management principles and specifies limits for all the relevant risks as well as risk monitoring procedures.

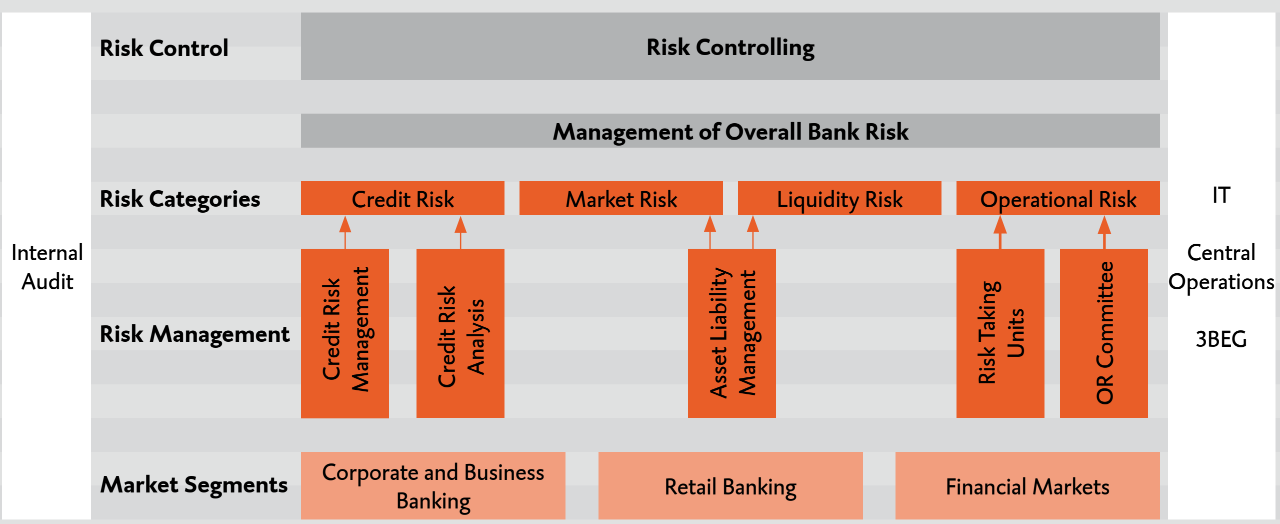
Risk Controlling — a central, autonomous controlling unit — supports the Management Board in the performance of these tasks. This department reports regularly to the Management Board, assessing the Bank's current risk position in the light of its risk-bearing capacity and the corresponding risk limits. 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 monitors all operational and business processes, the appropriateness and effectiveness of measures taken by Credit Risk Management and Risk Controlling and the Bank's internal control systems.

Credit risk analysis at the single customer level takes place in the Loan Back Office Department. A vote is taken independently of front office personnel based on this analysis and the valid internal lending guidelines. However, responsibility for problem loans (troubled exposures, cases entrusted to a lawyer, insolvencies) lies with the Credit Risk Management Department, which is also responsible for managing credit risk at the portfolio level.

BKS Bank meets the regulatory qualitative risk management requirements created by the *second pillar* (supervisory review) under *Basel II* and by ICAAP (the Internal Capital Adequacy Assessment Process) by way of its risk-bearing capacity measurement

THE ORGANIZATIONAL FOUNDATIONS OF RISK MANAGEMENT



mechanism. Based on the concept of risk-bearing capacity, the goal of the overall bank risk management process must be to ensure the Bank's ability to continue as a going concern.

We assess and analyze all quantifiable risks using statistical methods. They are aggregated to obtain a figure for overall bank risk. This aggregated total potential loss is compared with the assets available to cover such a potential loss. At BKS Bank, this is done within the framework of the risk-bearing capacity analysis process. The purpose of the comparison is to ascertain whether the Bank is in a position to detect and cover any unexpected losses without suffering serious detriment to its business operations and without outside help. The Bank's risk ceiling (overall risk limit) is set on the basis of this periodic risk-bearing capacity analysis. *Economic capital* is the risk yardstick used to compute the Bank's overall risk limit. We define it as the smallest amount of capital needed to cover unexpected losses.

In contrast, *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) and must be recouped through the terms and conditions imposed on customers. The *unexpected loss* is the maximum actual loss that could exceed this expected loss in a given period and with a previously defined probability (confidence interval). Sufficient capital must be available to cover it. 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.

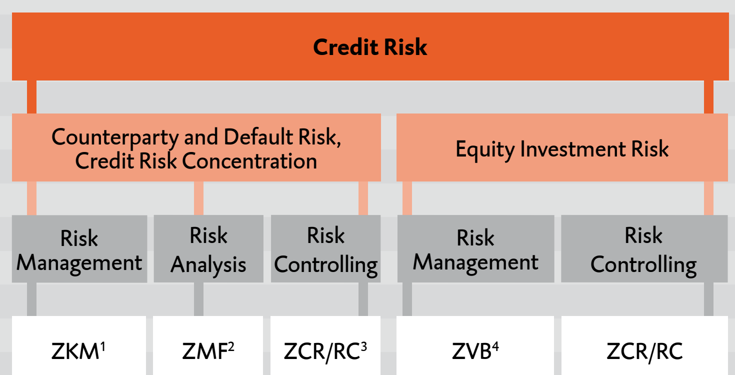
When assessing capital adequacy on a going-concern basis, potential losses and risk-bearing capacity must be matched to one another in such a way that the Bank is in a position to absorb an adverse burden while continuing to conduct business in an orderly manner. The assessment of capital adequacy on a liquidation basis is a regulatory approach that serves to protect creditors. Furthermore, stress scenarios are defined to quantify the losses that could result from extreme events. Stress test scenarios provide supplementary information in addition to the results of VaR analyses, improving estimates of the possible effects of extreme market movements. The financial crisis made it particularly clear how important stress testing is if one is to implement effective risk management.

The results of risk-bearing capacity analysis procedures together with the development of risks and covering asset balances, the utilization of the risk limit and stress test evaluations are reported to the Management Board and risk management units on a quarterly basis.

Credit risk

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.

Sweeping organizational changes took place in the credit risk field during 2009. During an extensive project, the management of corporate and business loans was transferred from regional head offices to the newly created Loan Back Office Department. This centralization process was undertaken to enhance efficiency; to improve risk analysis and further mitigate operational risk; to create an even clearer separation between front-office and back-office activities; to enhance data quality; to strengthen sales by separating roles when providing account managers with support in areas close to the customer; and to streamline loan management processes in general.



[1] Central Credit Risk Management Department.
[2] Central Loan Back Office Department.
[3] Central Controlling Department (Risk Controlling).
[4] Central Office of the Management Board.

The measurement and management of credit risk are based on the following principles:

- We lend on a know-your-customer basis. In other words, loans are only granted after thorough personal and credit checks.
- Loans are generally approved on a "four-eyes" basis.
- All borrowers are rated using our internal rating and scoring systems taking account of both hard and soft facts.
- Credit scoring is also generally carried out on a dual-control or "four-eyes" basis. When granting loans, we differentiate according to rating class, collateralization and customer group.
- Our credit exposures are reviewed once a year, looking at the borrower's creditworthiness and checking collateral for impairment. Shorter monitoring intervals are mandatory if a borrower's creditworthiness deteriorates.
- Collateral requirements are based on the rating class and the products concerned.
- Standardized collateral valuation policies have been defined. In principle, they are based on average proceeds from liquidation achieved in the past.
- We do not grant loans for purely speculative purposes.
- Lending in markets outside Austria is subject to stricter guidelines depending on the specific features of the country concerned.
- Authority to grant loans is only given to employees who have the requisite qualifications, experience and training.
- The credit approval chain is clearly defined. The size of the loan, permissible collateral shortfall and terms and conditions will be based on the particular customer's credit rating.

Our rating model is the cornerstone of efficient risk management at BKS Bank and is embedded into every decision-making process carried out by Credit Risk Management. The Bank's internal rating model is subject to regular, annual quantitative and qualitative review to check whether it accurately captures the risks being measured. The primary goal of the rating validation process is to monitor the internal rating system's "selectivity."

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 totally as soon as an exposure is found to be at risk. Thereafter, the customer is serviced by Central Credit Risk Management.

Impairment losses are captured in a standardized process during which impairment charges are recognized on impaired receivables on the basis of 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 retail banking segment, 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 to be at risk of default but whose collateral shortfalls are smaller. 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).

Concentrations of credit risks are managed at the portfolio level. We aim for a balanced distribution of credit exposures by size, and we have set targets for this purpose. At least 30 per cent of our total exposure must be accounted for by loans of less than €400 thousand, and no more than 30 per cent may comprise loans exceeding €10 million. Limits have also been set for regional distributions, these being expressed in percentages of BKS Bank's assets. Our lending to individual sectors and industries is also closely monitored. To this end, regular evaluations are carried out, and we maintain a clear strategic focus.

We also differentiate between exposures according to loan duration. Longer durations are deemed to create additional risk. Special lending conditions apply in the case of loan durations of more than 15 years.

An organizational firewall is in place between Sales and Credit Risk Management. As a result, the primary responsibility for risk lies with the unit servicing the customer, whereas the secondary responsibility for risk from a certain loan amount — including, above all, responsibility for the second-line assessment of credit risk, the approval of loan applications and reporting at the single customer level — lies with the Loan Back Office Department. 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, allowing the continuous monitoring of risk and the formulation of appropriate management action.

Collateral management is another central pillar of risk management. It is the responsibility of the central Credit Risk Management Department. Extensive written valuation guidelines specify which forms of collateral are permitted. Standardized collateral valuation policies have been defined. In principle, they are based on the average proceeds from liquidation achieved in the past.

Equity investment risk

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

BKS Bank performs both strategic and operational equity investment management. Strategic equity investment management is handled by the Bank's Management, ensuring that, if necessary, suitable steps will be 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 (Risk Control Group) is responsible for risk control. To facilitate the management and control of individual financial risks, we prepare overall annual budgets for 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 operational subsidiaries are an integral part of our Group reporting system.

Market risk

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 risk category includes both trading book and banking book positions.

We differentiate between three kinds of market risk:

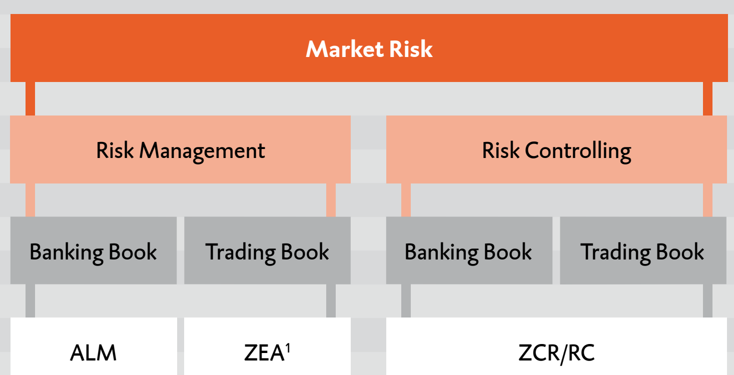
- interest rate risk;
- equity price risk;
- currency risk.

We manage market risks and set limits using a combination of different gauges of risk (value at risk, modified duration, volumes and economic capital stress testing).

The value-at-risk approach (variance-covariance model) is used to obtain a quantitative measure of market risk in the trading and banking books under given market conditions. Value at risk is an estimate of the maximum loss that will not be exceeded 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.

For the purposes of risk aggregation during the risk-bearing capacity analysis process, we calculate VAR 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.

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.



[1] Treasury and International Business Division.

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.

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 accordance with § 223 *SolvaV* (Austrian solvency directive). Equity price risk in the banking book is managed by the ALM Committee.

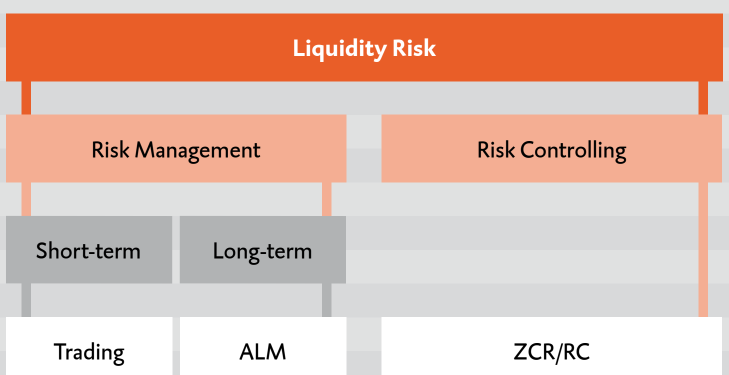
Liquidity risk
Liquidity risk is the risk that it may not be possible to meet current or future financial obligations in full or in time. It also includes the risk that, in the event of a liquidity crisis, it may only be possible to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk).

The management of liquidity risk is based on the following principles:

- The generation of so-called *primary deposits* is of especial strategic importance when it comes to safeguarding liquidity.
- BKS Bank must be as independent as possible from individual large deposits. We aim to diversify deposits as much as possible.
- BKS Bank is particularly careful when choosing providers of funds and maintains close and continuous relations with them. This is to make BKS Bank better able to raise funds even when circumstances are exceptional.
- It is part of our strategy to have mainly highly liquid securities in our proprietary portfolio. These serve as our liquidity reserve.
- Diversifying our funding profile to achieve a mix of investor categories, products and maturities is an important part of our liquidity risk management activities.
- Emergency plans are in place that lay down a strategy for managing liquidity risks and procedures for closing funding gaps in crisis situations.

Liquidity management on an intraday basis consists of the management of daily deposits and withdrawals. This process is based on information regarding transactions that affect liquidity. It includes information about payment instructions, advance information about upcoming customer transactions from Sales, information about proceeds from the Bank's own issuances provided by the Securities Back Office Department and information about securities transactions from the Treasury Division. Any liquidity spikes are evened out via *OeNB*.

The management of medium- and longer-term liquidity is carried out by the Asset Liability Management Committee. The Risk Controlling Unit is responsible for liquidity risk control, whose purpose is to ensure adherence to the principles, procedures and limits that have been laid down.



In general, weekly, monthly and quarterly reports are prepared. If anything unusual has occurred or certain early warning scores or limits have been reached, an appropriate *ad hoc* report will be prepared for the Management Board.

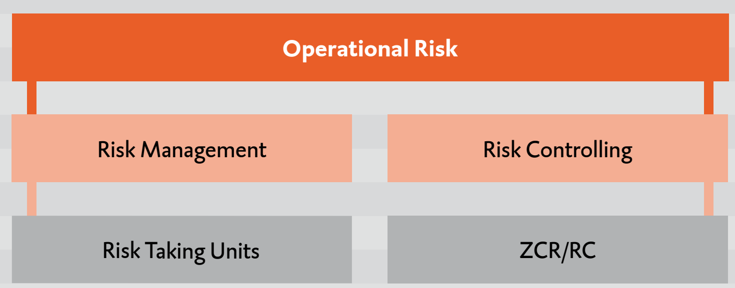
All the assets and liabilities of relevance to our funding profile are presented by maturity band in our liquidity flow chart. This flow chart presents the funding surplus or shortfall in each maturity band, enabling us to manage our unclosed liquidity positions.

Operational risk
BKS Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. Consequently, failures of IT systems, material damages, processing errors and fraud are subjected to a more precise and, above all, consolidated risk measurement and management process that, among other things, is designed to serve as the basis for calculating of risk capital.

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

We use a variety of techniques to ensure the efficient management of operational risk:

Here are a few examples:
- We carry out self-assessments on a bottom-up basis. The result is a specific risk profile for each business segment that clearly highlights areas where the potential risks are high.
- We record operational risk losses in a loss database.
- All measures decided upon as a result of such self-assessments and the analysis of actual losses are recorded and their implementation is monitored
- A quarterly operational risk report is prepared for the Management Board, the heads of the risk taking units and Head Office divisions and departments.



(46) BALANCE OF DERIVATIVES OUTSTANDING (BANKING BOOK)

€k	NOMINAL, BY TERM TO MATURITY			NOMINAL		FAIR VALUE (POSITIVE)		FAIR VALUE (NEGATIVE)	
	TO 1 YEAR	1 – 5 YEARS	> 5 YEARS	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Interest rate contracts	**132,830**	**548,018**	**272,626**	**953,474**	**1,035,926**	**5,125**	**3,156**	**20,908**	**21,158**
OTC products	132,830	548,018	272,626	953,474	1,035,926	5,125	3,156	20,908	21,158
Interest rate swaps	132,830	548,018	272,626	953,474	1,035,926	5,125	3,156	20,908	21,158
– Calls	66,415	274,009	136,313	476,737	517,963	0	32	15,163	11,018
– Puts	66,415	274,009	136,313	476,737	517,963	5,125	3,124	5,745	10,140
Interest rate options	—	—	—	—	—	—	—	—	—
– Calls	—	—	—	—	—	—	—	—	—
– Puts	—	—	—	—	—	—	—	—	—
Currency contracts	**896,036**	**879,402**	**—**	**1,775,438**	**1,948,165**	**3,703**	**2,444**	**5,116**	**16,120**
OTC products	896,036	879,402	—	1,775,438	1,948,165	3,703	2,444	5,116	16,120
Currency futures	292,131	—	—	292,131	103,873	3,171	512	434	3,579
– Calls	147,432	—	—	147,432	50,400	3,167	229	428	3,255
– Puts	144,699	—	—	144,699	53,473	4	283	6	324
Capital market swaps	548,802	879,402	—	1,428,204	1,427,862	—	1,903	4,602	7,264
– Calls	273,893	437,908	—	711,801	711,251	—	1,903	—	—
– Puts	274,909	441,494	—	716,403	716,611	—	—	4,602	7,264
Money market swaps (currency swaps)	55,103	—	—	55,103	416,430	532	29	80	5,277
– Calls	27,778	—	—	27,778	205,753	161	29	0	70
– Puts	27,325	—	—	27,325	210,677	371	0	80	5,207
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Exchange traded products	—	—	—	—	—	—	—	—	—
Stock options	—	—	—	—	—	—	—	—	—
– Puts	—	—	—	—	—	—	—	—	—

BALANCE OF DERIVATIVES OUTSTANDING (TRADING BOOK)

€k	NOMINAL, BY TERM TO MATURITY			NOMINAL		FAIR VALUE (POSITIVE)		FAIR VALUE (NEGATIVE)	
	TO 1 YEAR	1 – 5 YEARS	> 5 YEARS	31/12/2009	31/12/2008	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Interest rate contracts	**120,480**	**36,408**	**4,560**	**161,448**	**244,440**	**1,026**	**471**	**999**	**523**
OTC products	120,480	36,408	4,560	161,448	244,440	1,026	471	999	523
Interest rate swaps	120,480	21,920	1,560	143,960	244,440	296	471	269	523
– Calls	60,240	10,960	780	71,980	122,220	37	30	269	492
– Puts	60,240	10,960	780	71,980	122,220	259	441	—	31
Interest rate options	—	14,488	3,000	17,488	—	730	—	730	—
– Calls	—	7,244	1,500	8,744	—	730	—	—	—
– Puts	—	7,244	1,500	8,744	—	—	—	730	—
Currency contracts	**—**	**—**	**—**	**—**	**1,000**	**—**	**16**	**—**	**—**
OTC products	—	—	—	—	1,000	—	16	—	—
Currency options	—	—	—	—	1,000	—	16	—	—
– Calls	—	—	—	—	1,000	—	16	—	—
– Puts	—	—	—	—	—	—	—	—	—

FINANCIAL INSTRUMENTS (TRADING BOOK)

€k	31/12/2009	31/12/2008
Interest-bearing securities	177	166
Equities and investment fund units	9,476	1,969
Repurchase agreements	0	5,537

Positions (securities and derivatives) entered into by Money, Foreign Exchange and Securities Trading to take advantage of market gains or 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.

Closing Remarks by the Management Board

Management Board's Statement Pursuant to § *82 Abs. 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) published 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 Group 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
19 February 2010

The Management Board

Heimo Penker

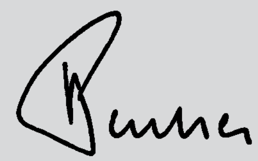
Herta Stockbauer

Profit Appropriation Proposal

BKS Bank AG's 2009 financial year closed with net profit of €8,223,376.29. We propose that a dividend of €0.25 per share be distributed out of reported net profit as at 31 December 2009. 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
19 February 2010

The Management Board



Heimo Penker

Herta Stockbauer

Auditor's Report

[Translation Provided by the Auditors]

(Independent Auditor's Report)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

BKS Bank AG, Klagenfurt,

as well as the accounts for the ***financial year from 1 January to 31 December 2009***. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2009, the consolidated income statement, the consolidated income statement/comprehensive income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year ended 31 December 2009 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 internal control 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 accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of the Type 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 procedures to obtain audit evidence about the amounts and 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 control. 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 2009 and its profit and cash flows for the financial year from 1 January 2009 to 31 December 2009 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 am Wörthersee
19 February 2010

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Signed:

Peter Fritzer — Wilhelm Kovsca
Wirtschaftsprüfer — *Wirtschaftsprüfer*
(Austrian Chartered Accountants)

ADDITIONAL NOTES

Keeping you Fully Informed.

Organizational Structure

MANAGEMENT BOARD

Heimo Penker
Herta Stockbauer

CENTRAL HEAD OFFICE DEPARTMENTS

Office of the Management Board
Herbert Titze

Controlling and Accounts
Hubert Cuder

Human Resources
Werner Laure

Internal Audit
Dieter Krassnitzer

HEAD OFFICE

Corporate and Business Banking
Viktor König

Retail Banking
Karl Mertel

Treasury and International Business
Josef Morak

Credit Risk 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
Bernhard Bauer
Günther Perner

ABROAD

Branches
Slovenia (Ljubljana, Maribor, Celje)

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)
Slovak Republic (Bratislava)

As in March 2010

Key Equity Investments

	PERCENTAGE OF EQUITY CAPITAL HELD			
	>50%	20%–50%	10%–20%	<10%
EQUITY INVESTMENTS IN BANKS AND OTHER FINANCIAL SERVICES PROVIDERS				
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-GmbH		25.00%		
Oberbank AG			16.95%	
3 Banken-Generali Investment-GmbH			15.43%	
Bank für Tirol und Vorarlberg AG			13.59%	
Oesterreichische Kontrollbank AG				3.06%
BWA Beteiligungs- und Verwaltungs AG				0.89%
PayLife Bank GmbH				1.44%
OTHER EQUITY INVESTMENTS (SUBSIDIARIES AND ASSOCIATES)				
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-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)				
DREI-BANKEN-EDV GmbH		30.00%		
Drei-Banken Versicherungs-AG		20.00%		
Einlagensicherung der Banken & Bankiers GmbH				3.10%
Wiener Börse AG				0.38%

Branches and other Business Units

HEAD OFFICE

CITY	ADDRESS	DIALLING CODE	NUMBER
9020 Klagenfurt am Wörthersee	St. Veiter Ring 43	+43-463	5858-0

REGIONAL HEAD OFFICES AND AFFILIATED BRANCHES IN AUSTRIA

TOWN OR CITY	ADDRESS	DIALLING CODE	NUMBER
Carinthia			
9020 Klagenfurt am Wörthersee*	Dr.-Arthur-Lemisch-Platz 5	+43-463	5858-201
9020 Klagenfurt am Wörthersee	Fischlstrasse 5	+43-463	330 320-0
9020 Klagenfurt am Wörthersee	Maria-Platzer-Strasse 2	+43-463	218 090-0
9020 Klagenfurt am Wörthersee	St. Ruprechter Strasse 55	+43-463	320 120-0
9020 Klagenfurt am Wörthersee	St. Veiter Ring 43	+43-463	5858-516
9020 Klagenfurt am Wörthersee	Radetzkystrasse 42	+43-463	511 650-0
9020 Klagenfurt am Wörthersee	Völkermarkter Strasse 165	+43-463	320 100-0
9073 Klagenfurt-Vitkring	Siebenbürgengasse 3	+43-463	281 300-0
9100 Völkermarkt	Hauptplatz 11	+43-4232	3162-0
9210 Pörtschach am Wörthersee	Hauptstrasse 204	+43-4272	2741-0
9241 Wernberg	Industriestrasse 1	+43-4252	44 900-0
9300 St. Veit an der Glan	Kirchgasse 11	+43-4212	5901-0
9330 Althofen	10.-Oktober-Strasse 6	+43-4262	2027-0
9400 Wolfsberg	Am Weiher 9	+43-4352	3281-0
9400 Wolfsberg	Klagenfurter Strasse 35	+43-4352	4281-0
9462 Bad St. Leonhard	Hauptplatz 6	+43-4350	2394-0
9500 Villach *	Hauptplatz 18	+43-4242	2011-0
9500 Villach	August-von-Jaksch-Strasse 16	+43-4242	29 444-0
9500 Villach	Millesistrasse 29	+43-4242	56 222-0
9500 Villach	10.-Oktober-Strasse 18	+43-4242	29 700-0
9500 Villach	Ossiacher Zeile 50	+43-4242	29 333-0
9500 Villach	Karawankenweg 5	+43-4242	37 777-0
9546 Bad Kleinkirchheim	Thermenstrasse 2	+43-4240	405-0
9560 Feldkirchen	10.-Oktober-Strasse 10	+43-4276	3150-0
9620 Hermagor	10.-Oktober-Strasse 5	+43-4282	2409-0
9800 Spittal an der Drau *	Hauptplatz 6	+43-4762	2626-0
9800 Spittal an der Drau	Tiroler Strasse 20	+43-4762	4875-0
Styria			
8010 Graz *	Kaiserfeldgasse 15	+43-316	811 311-0
8010 Graz	Sparbersbachgasse 63	+43-316	328 000-0
8010 Graz	Petersgasse 116-118	+43-316	481 200-0
8010 Graz	Heinrichstrasse 47	+43-316	328 300-0
8054 Graz	Kärntner Strasse 287	+43-316	281 199-0
8054 Graz	Andritzer Reichsstrasse 42	+43-316	693 080-0
8160 Weiz	Birkfelder Strasse 22	+43-3172	30 350-0
8200 Gleisdorf	Ludwig-Binder-Strasse 24	+43-3112	36 944-0
8230 Hartberg	Wiesengasse 1	+43-3332	65 210-0
8330 Feldbach	Franz-Josef-Strasse 9/1	+43-3152	67 320-0
8430 Leibnitz	Kadagasse 1	+43-3452	71 710-0
8530 Deutschlandsberg	Frauentalerstrasse 21	+43-3462	30070
Burgenland			
7000 Eisenstadt	Ruster Strasse 85	+43-2682	75 980-0
7100 Neusiedl/See	Teichgasse 1a	+43-2167	40307
7122 Gols	Untere Hauptstrasse 1	+43-2173	3246-0
7210 Mattersburg*	Hauptplatz 11-12	+43-2626	611-0
7221 Marz	Hauptstrasse 49	+43-2626	64 611-0
7350 Oberpullendorf	Hauptplatz 1	+43-2612	42 356-0

TOWN OR CITY	ADDRESS	DIALLING CODE	NUMBER
Vienna			
1010 Wien*	Am Lugeck 7	+43-1	512 2607-0
1120 Wien	Am Euro Platz 2, Gebäude G	+43-1	810 6433-0
1210 Wien	Franz-Jonas-Platz 10	+43-1	294 8270-0
Lower Austria			
2380 Perchtoldsdorf	Marktplatz 17	+43-1	869 0700
2700 Wiener Neustadt	Grazer Strasse 104	+43-2622	64 400

* These premises house both a regional head office and a branch.

BRANCHES AND BUSINESS UNITS ABROAD

TOWN OR CITY	ADDRESS	DIALLING CODE	NUMBER
Slovenia			
SL-1102 Ljubljana *	Dunajska cesta 161	+386-1	58 909-00
SL-2113 Maribor	Ulica Vita Kraigherja 1	+386-2	29 095-00
SL-3101 Celje	Krekov trg 5	+386-3	42 571-45
Croatia			
HR-10000 Zagreb	Ivana Lučića 2a	+385-1	631 2730
HR-51000 Rijeka*	Mljekarski trg 3	+385-51	353 555

* These premises house our Head Office in that country.

BKS BANK'S REPRESENTATIVE OFFICES

TOWN OR CITY	ADDRESS	DIALLING CODE	NUMBER
SL-1102 Ljubljana	Dunajska cesta 161	+386-1	58 909-00
HR-10000 Zagreb	Ivana Lučića 2a	+385-1	631 2710
I-35131 Padova	Via Fistomba 11	+39-049	966 9066
H-9400 Sopron	Szent György utca 16	+369-9	508 960
SK-82109 Bratislava	Mlynské nivy 48	+421-0	258 239 660

BKS BANK IN THE INTERNET

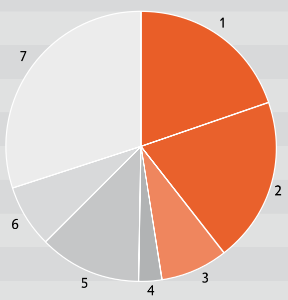
WEBSITE OF	INTERNET ADDRESS	LANGUAGE
BKS Bank AG	www.bks.at	German, English, Italian
BKS-Leasing GmbH	www.bks-leasing.at	German
BKS Bank in Slovenia	www.bksbank.si	Slovenian
BKS-leasing d.o.o.	www.bksleasing.si	Slovenian
BKS Bank d.d.	www.bks.hr	Croatian
BKS-leasing Croatia d.o.o.	www.bks-leasing.hr	Croatian
BKS-Leasing a.s.	www.bks-leasing.sk	Slovakian
BKS Representative Office in Bratislava	www.bksbank.sk	Slovakian
BKS Representative Office in Sopron	www.bks.hu	Hungarian
BKS Representative Office in Padova	www.bksbank.it	Italian

All addresses are current as of 28 February 2010.

ANNUAL REPORT 2009 ADDITIONAL NOTES

The 3 Banken Group at a Glance

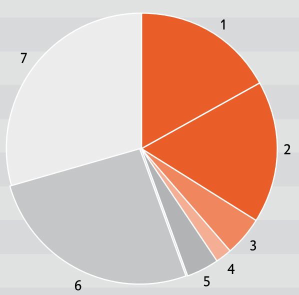
SHAREHOLDER STRUCTURE OF BKS BANK AG



	By Voting Interest	By Capital Share
[1] Oberbank AG	19.54%	18.52%
[2] Bank für Tirol und Vorarlberg AG	19.65%	18.57%
[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%	16.46%
[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

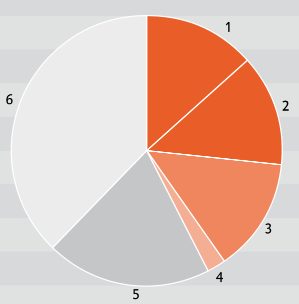
SHAREHOLDER STRUCTURE OF OBERBANK AG



	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	4.02%	3.73%
[6] Free float	19.08%	26.57%
[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 in red have signed syndicate agreements.

	BKS Bank Group		Oberbank Group		BTV Group	
	2009	2008	2009	2008	2009	2008
INCOME ACCOUNT, €m						
Net interest income	132.3	130.2	262.4	300.7	131.4	146.4
Impairment charges on loans and advances	(37.4)	(20.0)	(90.7)	(67.8)	(44.5)	(29.3)
Net fee and commission income	39.7	40.8	88.6	97.8	40.3	42.4
General administrative expenses	(88.2)	(87.9)	(208.2)	(199.8)	(94.5)	(93.3)
Profit for the year before tax	46.5	44.4	92.0	114.0	51.3	50.2
Consolidated net profit	40.4	41.9	77.3	105.0	47.8	50.3
BALANCE SHEET DATA, €m						
Assets	6,315.9	5,975.7	16,031.4	15,314.0	8,465.4	8,495.6
Receivables from customers after impairment allowances	4,350.2	4,186.1	9,594.0	9,248.6	5,384.9	5,750.4
Primary funds	3,907.9	3,945.1	10,916.4	10,016.7	6,259.7	6,352.8
Of which savings deposit balances	1,804.6	1,677.5	3,399.2	3,301.9	1,412.1	1,245.9
Of which liabilities evidenced by paper, including subordinated debt capital	564.7	452.0	2,040.2	1,897.4	1,275.4	1,289.7
Equity	577.5	464.7	1,035.6	894.1	612.4	553.6
Customer assets under management	9,343.5	8,739.3	18,686.8	17,039.1	10,309.1	10,258.4
Of which in customers' securities accounts	5,435.6	4,794.2	7,770.4	7,022.4	4,049.4	3,905.6
OWN FUNDS WITHIN THE MEANING OF BWG, €m						
Risk-weighted assets	4,258.4	4,087.7	9,970.5	9,970.2	5,476.1	5,613.7
Own funds	514.7	450.9	1,534.3	1,286.1	800.2	672.6
Of which Tier 1	369.5	281.9	955.4	824.7	514.6	429.2
Surplus own funds before operational risk	174.0	123.9	734.5	487.1	360.8	221.5
Surplus own funds after operational risk	150.8	102.7	679.5	436.5	339.5	201.0
Tier 1 ratio, %	8.68	6.90	9.58	8.27	9.40	7.61
Own funds ratio, %	12.09	11.03	15.39	12.90	14.61	11.93
PERFORMANCE, %						
Return on equity before tax	8.93	9.71	9.86	12.83	8.80	9.20
Return on equity after tax	7.76	9.16	8.28	11.82	8.20	9.22
Cost:income ratio	49.92	50.11	53.26	52.36	53.65	48.94
Risk:earnings ratio (credit risk in % of net interest income)	28.29	15.36	34.58	22.54	33.83	20.01
RESOURCES						
Average number of staff	872	860	1,990	1,983	862	879
Branches and other business units	55	54	133	134	41	44

Glossary

A–G

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 I** was the name of the first standard regulating the capital adequacy of banks, issued in 1988.

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.

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.

The **cost:income ratio** compares a bank's operating expenses with its operating income. It is calculated by dividing the bank's general administrative expenses during the financial year under review by its profit from operating activities. Profit from operating activities 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 profit from operating activities 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.

Delta is a risk indicator employed when measuring the performance of options. It is one of the sensitivity indicators used in the *Black-Scholes* option pricing model. It is a measure of the sensitivity of an option's price to changes in the price of the underlying asset.

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.

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 currency positions.

Entities accounted for using the equity method are entities 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 entity'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 relevant market prices exist on exchanges or other functioning markets, these are taken to be the fair value of an asset or liability.

The **Gini coefficient** is a measure of inequality of wealth or income distribution invented by the Italian statistician Corrado Gini. It is used to gauge the selectivity of a rating model in the risk management process.

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

H–O

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.

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 their coupon 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 they deem to be adequate to cover all the material banking and operational banking risks to which they are exposed.

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

Under *Basel II*, the **internal ratings based 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' creditworthiness. However, a bank's rating processes must meet stringent requirements, and their appropriateness will be continuously monitored 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 published by the International Accounting Standards Board (IASB). The purpose of annual financial statements prepared in accordance with IFRSs 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 association representing participants in the OTC derivatives market. It is based in New York.

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.

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 equity 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.

OTC (over the counter) derivatives are financial instruments traded directly between market participants rather than 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 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*.

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P – Z

The **P/E 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 share 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 funds 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** is profit (net profit for the year after minorities) expressed as a percentage of 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 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 is one expression of risk. It is the potential 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. These forecasts are estimates made by us on the basis of all the information available to us on the copy deadline of 28 February 2010. If the assumptions upon which such forecasts were based prove wrong or if risk events — such as those mentioned in the Risk Report — transpire, actual results may 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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Key Dates in BKS Bank's History

1922 A. v. Ehrfeld enters into a limited partnership with *Bayerische Hypotheken- und Wechselbank* called *Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co.* Initially, the bank only has corporate and business banking customers.

1928 The company is transformed into a joint-stock corporation called *Bank für Kärnten*.

1964 The bank adds small personal loans to its range.

1965 The bank enters into an alliance with the *Wüstenrot* building and loan association.

1970 The first joint *Drei-Banken* (3 Banks) bond is issued together with *Bank für Oberösterreich und Salzburg* and *Bank für Tirol und Vorarlberg*.

1983 Expansion into Styria begins with the opening of a branch in *Kaiserfeldgasse*. The bank's named is changed to *Bank für Kärnten und Steiermark Aktiengesellschaft* (BKS: Bank for Carinthia and Styria).

1986 Launch of the BKS ordinary share on the Vienna stock exchange.

1988 BKS enters the leasing market and sets up insurer *Drei-Banken Versicherungs-AG* together with *Bank für Oberösterreich und Salzburg* and *Bank für Tirol und Vorarlberg*.

1990 The first BKS branch in Vienna opens.

1991 BKS and its sister banks set up IT subsidiary *Drei-Banken-EDV GmbH*.

1998 The bank begins its international expansion, setting up a representative office in Zagreb and acquiring a leasing company based in Ljubljana now called *BKS-leasing d.o.o.*

2000 BKS and its sister banks make their first joint appearance as the *3 Banken Group*.

2002 Formation of *BKS-leasing Croatia d.o.o.* based in Zagreb.

2003 BKS acquires a majority stake in *Burgenländische Anlage & Kredit Bank AG* (BA*n*K).

2004 The first banking branch in Slovenia opens.

2005 *BAnK* is merged into BKS Bank. Representative offices are set up in Italy and Hungary. The company is renamed as *BKS Bank AG*.

2006 BKS Bank enters the Croatian banking market when it acquires *Kvarner banka d.d.*

2007 A representative office is set up in Bratislava, and soon after, BKS acquires *KOFIS Leasing* in the Slovak Republic. 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 BKS Bank defies the economic crisis. A six-for-one split of BKS Bank shares takes place in June, and 4.68 million new shares are successfully placed on the Vienna stock exchange during a raising of share capital in October.

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