

**CORPORATE
GOVERNANCE REPORT**

2012



**BAWAG
PSK**

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PREFACE BY THE CHAIRMAN OF THE MANAGING BOARD



Dear Ladies and Gentlemen,

BAWAG P.S.K. has prepared its Corporate Governance Report for the fourth year in a row.

In 2006, BAWAG P.S.K. made a voluntary commitment to apply the Austrian Code of Corporate Governance (“Code”). The Code is mainly geared towards listed companies. It contains rules based on compulsory legal requirements (L rules); rules that should be complied with, where deviations must be explained and justified in order for the company’s conduct to conform with the Code (C rules, comply or explain); and rules that are recommendations, where non-compliance must not be disclosed or justified (R rules). In addition, there are certain legal provisions that only apply to companies that are listed on the Austrian stock exchange. For non-listed companies, these are to be interpreted as C rules.

This Corporate Governance Report was prepared in accordance with Annex 2 of the Austrian Code of Corporate Governance.

The amendments of the Austrian Code of Corporate Governance in January and July 2012 were incorporated into BAWAG P.S.K.’s declaration of commitment. The focus of the amendments in January 2012 was the refinement of the diversity rule, new rules to improve cooperation between the Supervisory Board and the External Auditor, and a revised framework in fighting corruption. The second set of amendments in July, which resulted from changes to several provisions of the Austrian Stock Corporation Act (*Aktiengesetz*) and the Austrian Commercial Code (*Unternehmensgesetzbuch*), were aimed at strengthening the requirements for transparency in the remuneration of Managing Board members, placing further limitations on changing from the Managing Board to the Supervisory Board and increasing diversity in Supervisory Boards.

Compliance with the Austrian Code of Corporate Governance is verified in an external evaluation performed by Deloitte Audit Wirtschaftsprüfungs GmbH and by Fellner, Wratzfeld & Partner Rechtsanwälte GmbH (regarding questions relating to the auditor). The evaluation is performed using the questionnaire prepared by the Austrian Working Group for Corporate Governance.

The majority of the rules were observed in financial year 2012 to the extent that they were included in BAWAG P.S.K.’s declaration of commitment. Individual exceptions are due to the Bank’s closed shareholder structure and are explained in greater detail (comply or explain principle).

Through this voluntary self-regulatory measure, the Bank aims to strengthen the confidence of its customers and its employees.

Sincerely,
Byron Haynes m.p.

1. MANDATORY INFORMATION IN THE CORPORATE GOVERNANCE REPORT

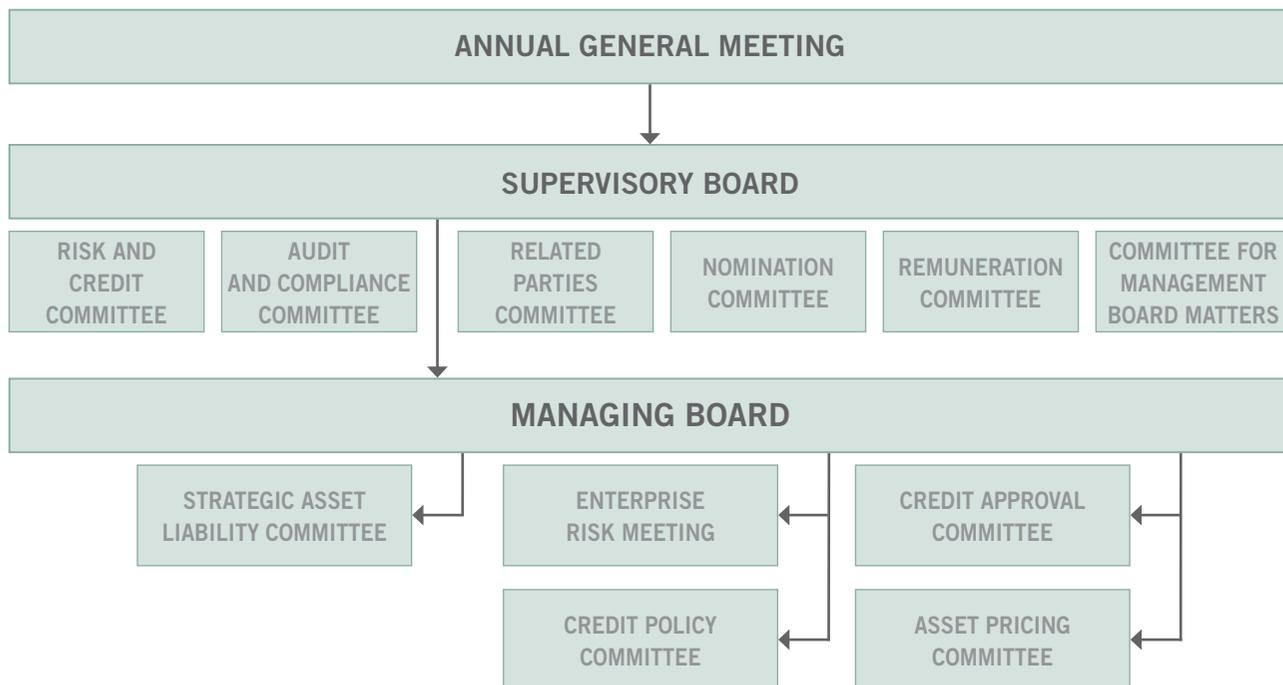
1.1. BAWAG P.S.K.'s Declaration of Commitment

Although BAWAG P.S.K. shares are not listed on a stock exchange, the Bank's Managing Board and Supervisory Board have decided to adopt and adhere to the rules contained in the Austrian Code of Corporate Governance (as amended).

BAWAG P.S.K.'s declaration of commitment can be viewed on the Bank's web site (www.bawagpsk.com) under "About us"/"Our bank" or "Investor relations". In this declaration all deviations from the Austrian Code of Corporate Governance (www.corporate-governance.at), along with explanations as to why these deviations occurred, are shown.

1.2. Corporate Governance Structure

The Corporate Governance structure of BAWAG P.S.K. is as follows:



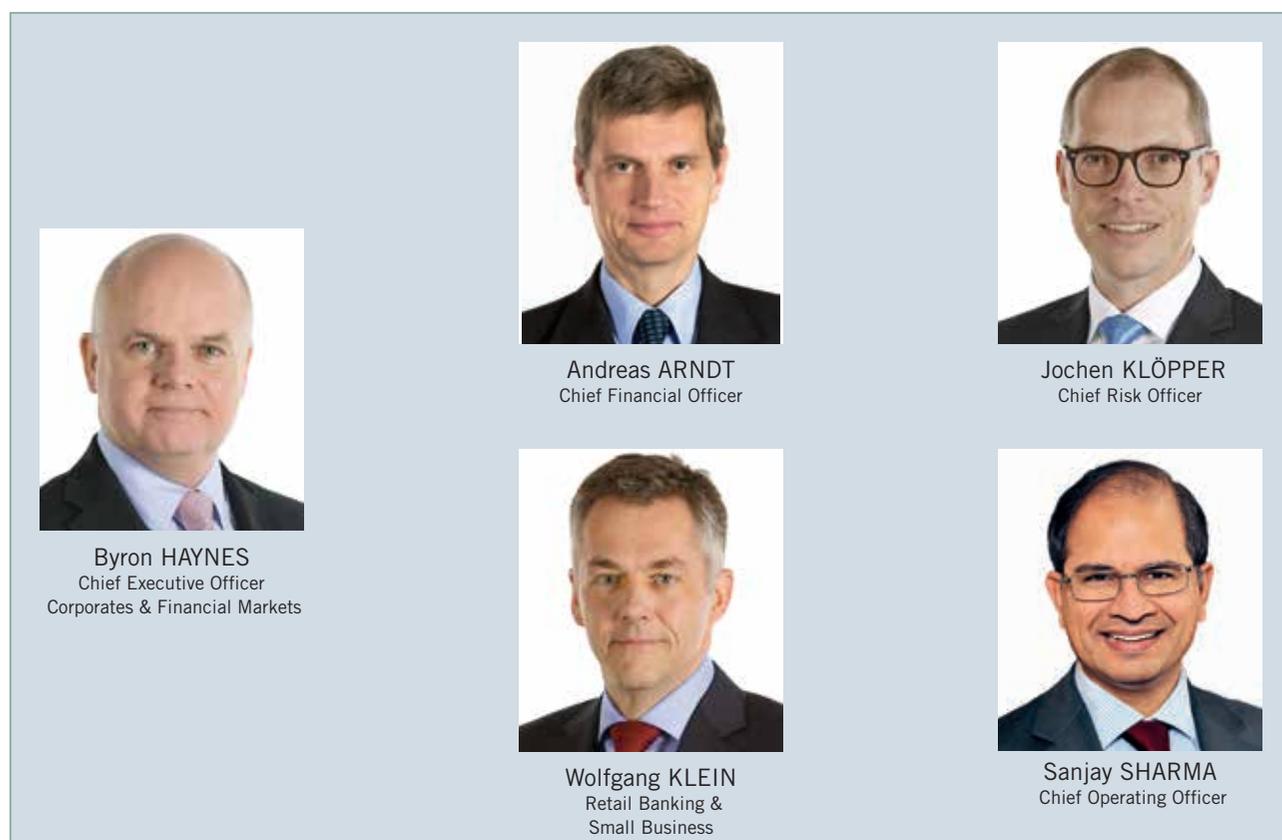
2. MANAGING BOARD

2.1. Composition

C 16

2.1.1. Managing Board Members

As of 31 December 2012, the Bank's Managing Board was composed of the following five members:



Byron Haynes is the Chairman of the Managing Board. The Supervisory Board appointed Jochen Klöpper as Chief Risk Officer of BAWAG P.S.K. effective 1 April 2012. Prior to this, he was the head of BAWAG P.S.K.'s Credit Risk Retail & SME division for more than three years. Christoph Raninger, the Managing Board member responsible for Corporates & Financial Markets at BAWAG P.S.K., resigned from the Managing Board as of 31 October 2012. His duties were performed by Byron Haynes until the end of the year. In December, Sanjay Sharma announced his resignation from the Managing Board as of 31 December 2012.

MANAGING BOARD of BAWAG P.S.K. as of 31 December 2012

Name	Function	Year of birth	Date of first appointment	End of current tenure
Byron HAYNES	Chairman	1966	01.08.2008	31.03.2016
Andreas ARNDT	Member	1958	01.10.2010	01.10.2014
Wolfgang KLEIN	Member	1964	01.11.2010	01.11.2014
Jochen KLÖPPER	Member	1970	01.04.2012	01.04.2015
Sanjay SHARMA	Member	1966	01.01.2010	31.12.2012

The following Managing Board members left the Bank in 2012:

Members who left the Managing Board in 2012

Name	Function	End of tenure
Christoph RANINGER	Member	31.10.2012
Sanjay SHARMA	Member	31.12.2012

2.1.2. Allocation of Responsibilities on the Managing Board

As of the end of December 2012, duties were allocated as follows on the Managing Board:

Byron HAYNES Chief Executive Officer	Byron HAYNES Corporate & Financial Markets
Corporate Office	Corporates & Market Sales
Communications & Sponsoring	Corporates & Market Solutions
Human Resources	Corporates & Markets Business Development
Strategy & Economics	Financial Markets Trading & Investments
International Business	Corporates Marketing
Legal & Compliance	
Andreas ARNDT Chief Financial Officer	Wolfgang KLEIN Retail Banking & Small Business
Accounting & Participations	Retail Sales
Controlling & Investor Relations	Sales Steering & Support
ALM & Capital Management	Marketing & Products
	E-Commerce
Jochen KLÖPPER Chief Risk Officer	Sanjay SHARMA Chief Operating Officer
Corporate & Institutional Risk	Payments
Credit Risk Retail & SME	Information Technology
Market Risk	Operations
Risk Reporting	Procurement, Real Estate & Facility Management
	Customer Care
Gesamtvorstand	
	Compliance
	Internal Audit

In December 2012, Corey Pinkston, Head of Strategy and Economics of BAWAG P.S.K., was approved and appointed as a member of the Managing Board responsible for Corporates and Financial Markets (including International Business and Leasing) with effect from 1 January 2013.

In December 2012, Wolfgang Klein was appointed Deputy CEO reflecting the continued strategic importance of retail banking to BAWAG P.S.K. with effect from 1 January 2013. Wolfgang Klein also took over the Chief Operating Officer (COO) duties on an interim basis, also with effect from 1 January 2013.

C 16

2.1.3. Supervisory Board Mandates and Comparable Functions

C 26

The following describes the Supervisory Board mandates and comparable functions of Managing Board members as of 31 December 2012 at other Austrian and foreign companies which are not fully consolidated in the consolidated financial statements. Members not listed in the following do not have any functions at other Austrian or foreign companies which are not fully consolidated in the consolidated financial statements.

Wolfgang KLEIN	
Name of the company	Function
Comma Soft AG, Germany	Supervisory Board Chairman
BAWAG P.S.K. Versicherung AG	Supervisory Board Chairman
BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft	Supervisory Board member
Bausparkasse Wüstenrot AG	Supervisory Board member
media.at GmbH	Supervisory Board Chairman
PayLife Bank GmbH	Supervisory Board member

Sanjay SHARMA	
Name of the company	Function
Eurogiro A/S	Supervisory Board member

Members of the Managing Board shall not hold more than four Supervisory Board mandates (chairperson counts double) in stock corporations that do not belong to the Group. Companies that are included in the consolidated financial statements or in which the Company has an investment with a business interest shall be considered as Group-related companies. Regarding the assessment of compliance with C 26, BAWAG P.S.K. Versicherung AG is assessed as a Group-related company.

2.1.4. Managing Board Committees

The rules of procedure of the Managing Board define the responsibilities and tasks of this board. According to these rules of procedure, the Managing Board has the right to form committees and to issue statutes for these committees. The following executive committees have been formed:

- ▶ the Enterprise Risk Meeting for managing risk for the entire Bank,
- ▶ the Credit Policy Committee, which focuses on credit guidelines and strategies,
- ▶ the Credit Approval Committee, which decides on financing agreements above a certain amount,
- ▶ the Asset Pricing Committee, which concentrates on pricing in lending, and
- ▶ the Strategic Asset Liability Committee, which deals with strategic capital and liquidity planning issues as well as operational aspects of asset and liability management.

3. SUPERVISORY BOARD

3.1. Composition of the Supervisory Board

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3.1.1. Supervisory Board Members

As of 31 December 2012, the following individuals were members of BAWAG P.S.K.'s Supervisory Board:

SUPERVISORY BOARD of BAWAG P.S.K. as at 31.12.2012

Name	Function	Year of birth	Date of first appointment	End of current tenure
Cees MAAS	Chairman	1947	since 15.10.2009, Supervisory Board member since 27.07.2009	¹⁾
Pieter KORTEWEG	Deputy Chairman	1941	since 15.12.2009, Supervisory Board member since 27.08.2007	¹⁾
Christopher BRODY	Member	1968	01.01.2012	¹⁾
Marius JONKHART	Member	1950	18.07.2007	¹⁾
Walter OBLIN	Member	1969	15.03.2012	¹⁾
Keith TIETJEN	Member	1971	05.10.2010	¹⁾
Ingrid STREIBEL-ZARFL	Delegated by the Works Council	1959	01.10.2005	
Brigitte JAKUBOVITS	Delegated by the Works Council	1957	01.10.2005	
Beatrix PRÖLL	Delegated by the Works Council	1958	01.10.2005	
Beate SCHAFFER	State Commissioner	1959	since 01.08.2009, Deputy State Commissioner from 01.03.2007 to 31.07.2009	
Markus CHMELIK	Deputy State Commissioner	1973	01.03.2010	

¹⁾ Until the end of the Annual General Meeting deciding on the 2014 annual financial statements.

Members who left the Supervisory Board in 2012

Name	Function	End of tenure
Rudolf JETTMAR	Member	15.03.2012

The term of Rudolf Jettmar ended on 15 March 2012. The Annual General Meeting appointed Walter Oblin as his successor.

L 55

3.1.2. Limitations on Changing from the Managing Board to the Supervisory Board

This provision was integrated from the Austrian Stock Corporation Act into the Austrian Code of Corporate Governance: “An individual who has been a Managing Board member at a listed company in the last two years may not be a member of that company’s Supervisory Board unless the appointment is the result of a proposal by shareholders who hold more than 25 per cent of voting rights in the company. However, the Supervisory Board may not contain more than one former Managing Board member whose two-year time limit has not yet expired. A member of the Supervisory Board who has been a Managing Board member at the company in the last two years may not be appointed as Chairperson of the Supervisory Board.”

By resolution of the Annual General Meeting, this clause was incorporated into BAWAG P.S.K.’s Articles of Association.

C 53

3.1.3. Independence of Supervisory Board Members

According to Annex 1 of the Austrian Code of Corporate Governance, “Guidelines for Independence”, a member of the Supervisory Board shall be deemed as independent if said member does not have any business or personal relations with the Company or its Managing Board that constitute a material conflict of interests and are therefore suited to influence the behaviour of the member. The Supervisory Board shall also follow the guidelines below when defining the criteria for the assessment of the independence of a member of the Supervisory Board:

- ▶ The Supervisory Board member shall not have served as a member of the Managing Board or as a management-level employee of the Company or one of its subsidiaries in the past five years.
- ▶ The Supervisory Board member shall not maintain or have maintained in the past year any business relations with the Company or one of its subsidiaries to an extent of significance for the member of the Supervisory Board. This shall also apply to relationships with companies in which a member of the Supervisory Board has a considerable economic interest, but it shall not apply to serving on boards in the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 does not automatically mean the person is qualified as not independent.
- ▶ The Supervisory Board member shall not have acted as auditor of the Company or have owned a share in the auditing company or have worked there as an employee in the past three years.
- ▶ The Supervisory Board member shall not be a member of the Managing Board of another company in which a member of the Managing Board of the Company is a Supervisory Board member.
- ▶ The Supervisory Board member may not remain on the Supervisory Board for more than 15 years. This shall not apply to Supervisory Board members who are shareholders with a direct investment in the Company or who represent the interests of such a shareholder.
- ▶ The Supervisory Board member shall not be a close relative (direct offspring, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the Managing Board or of persons who hold one of the aforementioned positions.

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According to their own accounts, the following members are regarded as independent:

Independence of Supervisory Board members	
Name	Independent
Cees MAAS	YES
Pieter KORTEWEG	YES
Christopher BRODY	NO
Marius JONKHART	YES
Walter OBLIN	YES
Keith TIETJEN	NO

C 54

3.1.4. Independent Members at Companies with Shares in Free Float

Since none of BAWAG P.S.K.'s shares are in free float, this rule does not apply.

C 58

3.1.5. Supervisory Board Mandates and Comparable Functions

The following describes the Supervisory Board mandates and comparable functions of Supervisory Board members at listed companies in Austria and abroad. Members not listed in the following do not have any functions at listed companies.

Cees MAAS	
Name of the listed company	Function
Aozora Bank, Ltd. Tokyo	Non-executive director

Marius JONKHART	
Name of the listed company	Function
AerCap Holdings NV	Non-executive director
Aozora Bank, Ltd. Tokyo	Non-executive director

Pieter KORTEWEG	
Name of the listed company	Function
AerCap Holdings NV	Non-executive director & Chairman

3.1.6. Supervisory Board Activity Report

The Supervisory Board convened for five meetings and one conference call in 2012, and all members attended nearly all of the meetings in person.

The meeting in March 2012 focused on the financial statements for 2011. Among other things, the Supervisory Board discussed the risk strategy of BAWAG P.S.K., the payment transactions agreement with the Republic of Austria and the cooperation agreements with Generali and Wüstenrot. A focus of discussions in 2012 was the future business model and the Bank's capital and cost structure. In December 2012, the new Managing Board and shareholder structure was presented. Subject to the approval of the FMA and other authorities, GoldenTree Asset Management LP (GoldenTree) would acquire an indirect stake of approximately 39 per cent in BAWAG P.S.K. as part of the restructuring of the shareholder group. The new shareholder structure and restructuring of the shareholder group was subsequently approved by all the regulatory authorities by the end of December 2012. Companies related to GoldenTree and Cerberus each acquired one registered share in BAWAG P.S.K. with restricted transfer rights so that they can exercise various shareholder rights. Among other things, GoldenTree is to be granted the right to appoint one member to the Supervisory Board pursuant to section 88 of the Austrian Stock Corporation Act. The Articles of Association, the Rules of Procedure for the Supervisory Board and the Rules of Procedure for the Management Board were amended to implement these rights. In future, the Supervisory Board of the Bank will consist of twelve members.

The amendments to the Austrian Code of Corporate Governance that were published in January and July 2012 were incorporated into BAWAG P.S.K.'s declaration of commitment.

Another key focus of the Supervisory Board during the reporting period was the risk profile of BAWAG P.S.K. The agenda of each meeting included the discussion of the business and capital situation, among other things. As every year, the Board discussed the management letter of the financial auditor. Reports were given regularly about the Bank's market position, relevant legal issues and personnel and Managing Board matters.

The focus of the individual meetings also included the discussion of key subsidiaries of BAWAG P.S.K., the strategy for Austrian and international corporates, the public sector and financial markets, and the efficiency-boosting programme. Another issue of extensive discussion was the development of the derivative transaction concluded with the City of Linz in 2007 and the associated legal and mediation proceedings.

3.1.7. Supervisory Board Committees

At the beginning of 2012, BAWAG P.S.K.'s Supervisory Board had formed five committees. In March 2012, a new **Remuneration Committee** was created pursuant to section 39c of the Austrian Banking Act (*Bankwesengesetz*), and the previous Remuneration Committee was renamed the **Committee for Management Board Matters**.

As a result of Basel III, the CRD IV draft and the draft of the Austrian Banking Act, the following committees were adapted and renamed in October 2012:

- ▶ The Audit Committee is named **Audit and Compliance Committee**: The committee already dealt with compliance issues. The new name makes the strong focus of this committee clearer. The update on legal issues is also to be dealt with by the Audit and Compliance Committee in the future.
- ▶ The Credit Committee is named **Risk and Credit Committee**: The risk report (from the Audit and Compliance Committee) and the preparations for decisions by the full Supervisory Board regarding the risk strategy will be dealt with in the Risk and Credit Committee in the future.
- ▶ Additional responsibilities of the **Nomination Committee**: The tasks of the Nomination Committee were adapted to reflect the draft amendments to the Austrian Banking Act.

In urgent cases, the Supervisory Board convenes conference calls at short notice. In general, all Supervisory Board members make themselves available.

The following section describes the composition and the activities of the individual committees.

3.1.7.1. Audit and Compliance Committee

C 39

3.1.7.1.1. Composition

This committee has the following members:

Audit and Compliance Committee	Function
Marius JONKHART	Chairman
Keith TIETJEN	Deputy Chairman
Cees MAAS	Member
Walter OBLIN	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Brigitte JAKUBOVITS	Delegated by the Works Council

C 34

3.1.7.1.2. Decision-Making Powers

The most important functions of the Audit and Compliance Committee are the review of and preparations for the formal approval of the annual financial statements (consolidated financial statements) of BAWAG P.S.K., the proposal for the appropriation of profits, the management report and the Corporate Governance Report as well as the evaluation of the effectiveness of the Bank's internal control system. The committee is also responsible for ensuring compliance with the official public disclosure requirements. In addition, the Audit and Compliance Committee recommends the appointment of the External Auditor. The audit programme, the annual audit schedule and reports on the activities of the Internal Audit division and Compliance Office are all submitted to the Audit and Compliance Committee. The head of the Internal Audit division and the Chief Compliance Officer have direct access to the Chairman and members of the Audit and Compliance Committee. The Audit and Compliance Committee is authorised to obtain external legal advice or to call on consultants or other advisors for support in fulfilling its responsibilities, and BAWAG P.S.K. must provide sufficient funds for this purpose.

C 39

3.1.7.1.3. Activity Report 2012

The Audit and Compliance Committee (called the Audit Committee until 30 October 2012) held six meetings in 2012. The meetings in February and March focused on reviewing the Bank's financial statements for 2011 and the Corporate Governance Report for 2011, as well as on the reports from Internal Audit and the Compliance Office and the risk report pursuant to section 21 of the Securities Supervision Act (*Wertpapieraufsichtsgesetz*) for 2011. In February 2012, the annual auditing plans of Internal Audit and the Compliance Office were presented and approved, and in July, an overview of the most important stress tests at the Bank was presented, among other things. In October, the Audit and Compliance Committee discussed the recommendation for the appointment of the External Auditor. A preview of the extensive regulatory changes was also on the agenda. Internal Audit and the Compliance Office submitted quarterly reports.

Reports on audits and enquiries by the regulatory authorities were also provided on a regular basis by the Audit and Compliance Committee, focusing in 2012 on ICAAP and IRB. The risk report for the Bank, which includes the calculation of the Bank's risk-bearing capacity and reports on corporate, retail and market risk, was a regular item on the Audit and Compliance Committee's agenda. This will be handled by the Risk and Credit Committee in the future.

The External Auditors were present at all of the meetings. Additionally, the Audit and Compliance Committee met with the External Auditor and the heads of the Compliance Office and Internal Audit in the absence of the members of the Managing Board.

3.1.7.2. Risk and Credit Committee

C 39

3.1.7.2.1. Composition

This committee has the following members:

Risk and Credit Committee	Function
Cees MAAS	Chairman
Marius JONKHART	Deputy Chairman
Christopher BRODY	Member
Walter OBLIN	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

C 34

3.1.7.2.2. Decision-Making Powers

The Risk and Credit Committee is responsible for the approval of loans and other forms of financing and credit to individual borrowers or groups of associated customers in the case of exposures that equal 10 per cent or more of the Bank's eligible own funds. A report is submitted to the Supervisory Board at least once a year about the large exposure investments that are approved.

The Risk and Credit Committee is also responsible for making decisions regarding affiliated parties transactions, with the exception of approving transactions with Managing Board and Supervisory Board members. The approval for certain transactions or types of transactions can be granted in advance for a period of one year. A report about each of these affiliated parties transactions and each of these loans and advances must be made to the Supervisory Board at least once a year.

The Risk and Credit Committee is also responsible for approving material credit policies (e.g. new business segments), for advising the Managing Board on basic credit risk policy issues according to an arrangement made with the board and for advising the Supervisory Board on the current and future risk-bearing ability and risk strategy of the Bank and monitoring the implementation of this risk strategy in connection with the control, monitoring and limitation of risks, own funds and liquidity. The committee also regularly monitors the effectiveness and efficiency of the risk management system (including risk control, risk principles, risk reports, risk strategies and risk orientation) and compliance with the legal provisions and regulatory requirements.

C 39

3.1.7.2.3. Activity Report 2012

The Risk and Credit Committee (called the Credit Committee until 30 October 2012) held five meetings in 2012. Various credit applications were also decided upon by way of circular resolution. In addition to the approval of loans, the Risk and Credit Committee also dealt with general credit risk topics. Reports on the Bank's most important equity holdings were presented in June. The focus in December was the risk strategy, the summary of the risk report and a review of exposures in the construction industry.

3.1.7.3. Related Parties Special Audit Committee

C 39

3.1.7.3.1. Composition

The following individuals are members of this committee:

Related Parties Special Audit Committee	Function
Marius JONKHART	Chairman
Cees MAAS	Deputy Chairman
Pieter KORTEWEG	Member
Walter OBLIN	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Brigitte JAKUBOVITS	Delegated by the Works Council

C 34

3.1.7.3.2. Decision-Making Powers

The Related Parties Special Audit Committee reviews all financing commitments and transactions above a certain threshold involving companies related to the shareholders. The Related Parties Special Audit Committee is intended to ensure transparency in all transactions involving the Bank's shareholders.

C 39

3.1.7.3.3. Activity Report 2012

The Related Parties Special Audit Committee generally only meets as needed. The Supervisory Board decided in October 2012 to lower the approval limit for transactions with related parties from EUR 50 million to EUR 10 million. No meetings were held in 2012 and no circular resolutions were passed.

3.1.7.4. Nomination Committee

C 39

3.1.7.4.1. Composition

This committee has the following members:

Nomination Committee	Function
Cees MAAS	Chairman
Pieter KORTEWEG	Deputy Chairman
Christopher BRODY	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Brigitte JAKUBOVITS	Delegated by the Works Council

C 34

3.1.7.4.2. Decision-Making Powers

The Nomination Committee deals with Managing Board succession planning, the regular evaluation of the personal and professional suitability of Managing Board members and individual Supervisory Board members, and the efficiency of the Managing Board.

C 39

3.1.7.4.3. Activity Report 2012

The Nomination Committee held two meetings in 2012 and also made decisions by way of circular resolution. The most important topics of discussion were the mandates of the Managing Board members and changes in the Managing Board at the end of the year. In December 2012, the Nomination Committee completed the preparations for the Supervisory Board's annual discussion about its own performance and efficiency. The entire Supervisory Board will examine this in detail in March 2013.

3.1.7.5. Remuneration Committee

C 39

3.1.7.5.1. Composition

The following individuals are members of this committee:

Remuneration Committee	Function
Cees MAAS	Chairman
Pieter KORTEWEG	Deputy Chairman
Ingrid STREIBEL-ZARFL	Delegated by the Works Council

C 34

3.1.7.5.2. Decision-Making Powers

The Remuneration Committee deals with the general principles of the Bank's remuneration policy. It also monitors the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to section 39c of the Austrian Banking Act, except for those pertaining to Managing Board members.

C 39

3.1.7.5.3. Activity Report 2012

In March 2012, the Supervisory Board set up this new Remuneration Committee pursuant to section 39c of the Austrian Banking Act. Its duties include the approval of the general principles of the Bank's remuneration policy and monitoring the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to section 39c of the Austrian Banking Act, except for those pertaining to Managing Board members. One meeting was held in 2012, during which the Bank's remuneration guidelines were adopted and an overview of bonuses in 2011 was presented.

3.1.7.6. Committee for Management Board Matters

C 39

3.1.7.6.1. Composition

C 43

The following individuals are members of this committee:

Committee for Management Board Matters	Function
Cees MAAS	Chairman
Pieter KORTEWEG	Deputy Chairman
Keith TIETJEN	Member

C 34

3.1.7.6.2. Decision-Making Powers

C 43

The Committee for Management Board Matters deals with relationships between the Bank and the members of the Managing Board. For example, it decides about the provisions of employment and severance agreements with Managing Board members and about the remuneration paid to members of the Managing Board as well as performance targets. It also monitors the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to section 39c of the Banking Act pertaining to Managing Board members. In addition, the Committee for Management Board Matters is responsible for approving affiliated party transactions with members of the Supervisory Board and Managing Board.

C 39

3.1.7.6.3. Activity Report 2012

C 43

The Committee for Management Board Matters (called the Remuneration Committee until March 2012) held three meetings and one teleconference, in which it discussed and agreed on the compensation, MbO objectives and contracts of the Managing Board members. The Committee for Management Board Matters also decided on the Bank's remuneration guidelines, in particular the amendments to the Remuneration Policy of the Bank. The "Key Functions" and "Compensation and Benefits" projects were also discussed.

C 58 **3.1.8. Presence of Supervisory Board Members at Meetings**

The Chairman of the Supervisory Board, Cees Maas, was present in person at all Supervisory Board meetings and at all meetings of committees of which he is a member.

Four other Supervisory Board members were present in person at all Supervisory Board meetings and at all meetings of committees of which they are members. All other Supervisory Board members were present at more than half of the meetings.

The state commissioner or her deputy were present in person at all Supervisory Board meetings and committee meetings.

C 49 **3.1.9. Contracts Requiring Approval**

According to the declaration of commitment, this information is not included in the Corporate Governance Report because it is known to shareholders as a result of the Bank's closed shareholder structure.

4. INFORMATION ABOUT THE REMUNERATION OF THE MANAGING BOARD AND SUPERVISORY BOARD

L26a

At the meeting in December 2012, the Supervisory Board decided to follow the recommendation of the Managing Board and to publish only the aggregate figures for the remuneration paid to the Supervisory Board and Managing Board.

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C51

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Expenses for remuneration paid to active members of the Managing Board during the financial year amounted to EUR 7,546 thousand including retention payments to be paid out in future years in accordance with the Bank's Remuneration Policy. No bonuses were paid to Managing Board members for the year 2012.

Annex 2

Supervisory Board members do not receive variable remuneration. The remuneration scheme for Supervisory Board members approved at the Annual General Meeting stipulates that the Chairman of the Supervisory Board shall receive EUR 60,000 per calendar year, the Deputy Chairman shall receive EUR 40,000 per calendar year and the members of the Supervisory Board appointed at the Annual General Meeting shall each receive EUR 30,000 per calendar year. The Chairmen of the Risk and Credit as well as Audit and Compliance Committees each receive EUR 20,000 and all other members of the Credit and Audit Committees each receive EUR 10,000. (These additional remuneration rules do not apply to the Chairman of the Supervisory Board.) Remuneration of members of the Supervisory Board came to EUR 283 thousand. Works Council delegates to the Supervisory Board do not receive remuneration.

BAWAG P.S.K. does not have a stock option plan. It has a long-term remuneration plan.

The remuneration policy principles applied at BAWAG P.S.K are described in the Annual Report and the Disclosure Report.

The ratio of fixed to variable components of the total remuneration of the Managing Board is disclosed in the Disclosure Report pursuant to Basel II – Pillar 3.

The Committee for Management Board Matters, which was set up by the Supervisory Board of BAWAG P.S.K. pursuant to section 11 of the Supervisory Board's rules of procedure, is responsible for monitoring the proportionality of the total remuneration of the Managing Board members and will continue to monitor aspects of this in future.

At 31 December 2012, contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members.

The principles of the Company pension scheme applied for the Managing Board at BAWAG P.S.K. and its requirements are not disclosed to the public.

The principles for entitlements and claims by the Managing Board in the case of termination are not disclosed to the public.

BAWAG P.S.K. has D&O insurance.

5. PRINCIPLE OF ONE SHARE – ONE VOTE

C 2

Rule C 2 of the Austrian Code of Corporate Governance stipulates that shares are to be construed in accordance with the principle of one share – one vote.

In December 2012, GoldenTree Asset Management LP (GoldenTree) acquired an indirect stake of approximately 39 per cent in BAWAG P.S.K. as part of the restructuring of the shareholder group. A company related to GoldenTree and a company related to Cerberus each acquired one registered share in BAWAG P.S.K. with restricted transfer rights so that they can exercise various shareholder rights.

The applicable Articles of Association of BAWAG P.S.K. (passed in the Annual General Meeting on 14 December 2012) state in item 7 para 3 that shareholders are entitled to one vote for every ordinary share held. Furthermore, item 7 para 4 stipulates that the share certificates no. 1 and no. 2 are excluded from the right to receive dividends and liquidation proceeds, but afford to their respective holders the right to delegate members of the Supervisory Board in accordance with these Articles of Association (section 88 Stock Corporation Act). The share certificates no. 1 and no. 2 may only be transferred with the Annual General Meeting's prior approval, to be granted with the simple majority of votes cast by the shareholders present or represented.

6. REFINEMENT OF THE DIVERSITY RULES

C 42
L 52

Due to BAWAG P.S.K.'s closed shareholder structure, its Supervisory Board members are proposed directly by the owner and appointed at the Annual General Meeting.

Rule L 52, which was incorporated from section 87 para 2a of the Stock Corporation Act, requires that the aspects of diversity be appropriately taken into consideration in the Supervisory Board with regard to the representation of both genders and the age structure, and, at listed companies, also with regard to the internationality of its members.

According to the interpretation of the Austrian Working Group for Corporate Governance, the individual bodies to whom each rule is addressed are responsible for compliance with Corporate Governance principles pursuant to Rule 61. Although Rule 52 is not directly binding for shareholders, compliance with Corporate Governance principles should be strived for by the Company in general. To this end, the individual bodies (Managing Board, Supervisory Board) should encourage the shareholders to implement the rule, for example, by referring to it at the Annual General Meeting or in the published documents for the Annual General Meeting. Compliance with the rule is therefore achieved by making reference at the Annual General Meeting or in the documents for the Annual General Meeting to the principles for appointing members to the Supervisory Board including the importance of taking appropriate consideration of the aspects of diversity.

BAWAG P.S.K. takes into account the members' expert knowledge, internationality, age structure and professional reliability.

In the case of a new appointment and/or an extension, all of these aspects should be taken into consideration.

This report also contains a section dedicated to the topic of promoting women in management positions.

7. MEASURES TAKEN TO PROMOTE WOMEN ON THE MANAGING BOARD, ON THE SUPERVISORY BOARD AND IN MANAGEMENT POSITIONS

Preamble
L 60

The preamble of the Austrian Code of Corporate Governance governs companies' responsibility toward society and recommends that appropriate voluntary measures and initiatives be taken such as to reconcile work and family life. According to Rule L 60, the Corporate Governance Report must contain measures taken to promote women on the Managing Board, on the Supervisory Board and in management positions.

BAWAG P.S.K. makes efforts to implement initiatives and measures aimed, for example, at increasing the number of women in management positions.

BAWAG P.S.K.'s Women's Initiative was launched in May 2009. The goal of this initiative is to create a working environment in which especially female employees can achieve success. Key focuses in this are the harmonisation of salaries and training opportunities, as well as the promotion of women to key, specialist and management positions.

In coordination with the Works Council, BAWAG P.S.K. prepared a programme for promoting the advancement of women and agreed to its implementation in writing in 2011. With this, BAWAG P.S.K. has taken another important step towards equality between women and men.

When creating the women's promotion programme, the focus was on the following objectives in particular:

- ▶ Raising awareness for the promotion of women
- ▶ Providing information to employees before, during and after maternity leave
- ▶ Promoting financial equality between women and men
- ▶ Increasing the number of women in leadership and expert positions
- ▶ Promoting a better balance between career and family for women and men

The creation of the women's promotion programme does not mean that the Bank's work is done. This is an ongoing issue, and the measures and their implementation will be evaluated on a yearly basis.

In addition, BAWAG P.S.K. consciously promotes and is committed to equal opportunities – particularly the balanced hiring of men and women is an important part of the recruiting policy:

- ▶ The formulation of job postings must be gender-neutral and avoid keywords which seem discriminatory (e.g. flexibility)
- ▶ Selection must be based on predefined criteria that are objective, documented and directly related to the position
- ▶ The selection must be a coordinated decision made by multiple assessors
- ▶ In collaboration with personnel consultants, the aim must be to present an equal number of qualified women and men
- ▶ Division managers should aim to maintain an equal number of men and women within their divisions, both in management positions and staff positions, or to achieve an equal ratio at both levels

As a forward-looking business, BAWAG P.S.K. aims to continuously increase the number of women in management positions. In this way, the Bank wants to make an unequivocal statement about the role of women in the business world and at BAWAG P.S.K.

8. FIGHTING CORRUPTION

C 18a

The annual report submitted by the Managing Board to the Supervisory Board regarding arrangements for fighting corruption at the Bank, which is required by the Code of Corporate Governance, was last performed at BAWAG P.S.K. in October 2012 in the Audit and Compliance Committee.

The Compliance Office reports directly to the Managing Board. Regular reports are also submitted to the Bank's Audit and Compliance Committee.

The key responsibilities of the Compliance Office are preventing money laundering and combating terrorism, monitoring compliance with sanctions, securities compliance, and the prevention of insider trading, market abuse and conflicts of interest. A series of detailed guidelines have been put into place to ensure compliance with all legal requirements.

In addition to all relevant laws such as the Securities Supervision Act, all employees are also bound by a Code of Conduct that contains, among other things, guidelines for business conduct and customer service, for how conflicts of interest are to be handled, and for preventing market abuse and money laundering. A detailed anti-corruption guideline governs the acceptance and awarding of gifts and keeps employees and management abreast of the valid anti-corruption regulations.

BAWAG P.S.K. has also been a member of the Austrian chapter of Transparency International since the end of November 2012. This non-profit organisation seeks to increase general awareness of the need to combat corruption and increase transparency in Austria, and it works to facilitate the implementation of relevant measures and reforms.

9. COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE EXTERNAL AUDITOR

C 81a
C 82a

Close cooperation takes place between the Managing Board, the Supervisory Board, the Audit and Compliance Committee of BAWAG P.S.K. and the External Auditor.

BAWAG P.S.K. invited the External Auditor to all meetings of the Audit and Compliance Committee. Communication between the Audit and Compliance Committee and the External Auditor is ensured by the auditor's participation in meetings.

The sharing of information between the Audit and Compliance Committee and the External Auditor without the Managing Board present takes place in private sessions that are held annually.

Starting in 2013 (for the year 2012), the Managing Board will provide the Supervisory Board with a list showing the total expenses of the financial auditor regarding the audits at all of the Group subsidiaries.

10. REPORT ABOUT THE EXTERNAL EVALUATION

Report on the evaluation of the public statement of BAWAG P.S.K. on compliance with the Austrian Code for Corporate Governance for the financial year 2012 (convenience translation)

Although shares of Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (thereafter “BAWAG P.S.K.”) are not listed on a stock exchange, the Bank’s Managing Board and Supervisory Board have decided to adopt and adhere voluntarily to the rules of the Austrian Code of Corporate Governance (“ÖCGK”) in the applicable version. In the preamble of the ÖCGK a voluntary external evaluation of the compliance with the rules of the ÖCGK is recommended.

BAWAG P.S.K. follows this recommendation and engaged us to evaluate BAWAG P.S.K.’s compliance with the ÖCGK rules for the financial year 2012, except for questions concerning the auditor (no. 77–83). The purpose of this evaluation is to provide an overview of BAWAG P.S.K.’s compliance with the Corporate Governance principles to the stakeholders.

Our evaluation of compliance with the ÖCGK rules is based on verbal information provided to us by representatives and employees of BAWAG P.S.K. as well as randomly checking the provided documents and certificates. Our evaluation is further based on the questionnaire prepared by the Austrian Working Group Governance (“ÖCGK-questionnaire”) for the voluntary external evaluation of compliance with the ÖCGK. As per the guidance in the ÖCGK, banking law supersedes the ÖCGK rules. Therefore, when evaluating the compliance with ÖCGK rules at a bank, banking laws prevail.

From our point of view, BAWAG P.S.K. complies with the rules of the ÖCGK in the financial year 2012 – as far as included in the declaration of commitment by BAWAG P.S.K. – under consideration of the exceptions due to the Bank’s closed direct and indirect shareholder structure as follows:

▶ **Question 2/1**

The principle of “one share – one vote” is not implemented as “golden shares” have been granted to the two indirect major shareholders.

▶ **Questions 27/4, 30/1 and 31/1**

No limitation regarding variable remuneration components has been made and no details regarding the variable remuneration of the Board are disclosed. Also, the fixed and variable remuneration for each member of the board are not made publicly available. This information is only provided to the major shareholders and shareholder representatives in the Supervisory Board of BAWAG P.S.K.

▶ **Question 49/1**

There is no disclosure about approval requirements for contracts between BAWAG P.S.K. and members of the Supervisory Board. This information is only provided to the major shareholders and shareholder representatives in the Supervisory Board of BAWAG P.S.K.

During the evaluation period, some of the rules (e.g. related to listed companies) are not applicable to BAWAG P.S.K.

This confirmation about the evaluation of the compliance with the rules of the ÖCGK is addressed solely to BAWAG P.S.K. and third parties are not to derive any rights from it. In particular, the result of our evaluation shall not be read as an investment advice and should not be considered when contracting with BAWAG P.S.K.

Vienna, 4 March 2013

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Erich Kandler m.p.
Wirtschaftsprüfer

Mag. Monika Dabrowska m.p.
Wirtschaftsprüfer

ZUSAMMENFASSENDE BEURTEILUNG

der Einhaltung des Corporate Governance Kodex durch die BAWAG P.S.K.

Wir wurden von der BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft („BAWAG P.S.K.“) beauftragt, die freiwillige Evaluierung der Einhaltung des Österreichischen Corporate Governance Kodex in der Fassung der Verpflichtungserklärung vom 14. Dezember 2012 bezüglich der Pflichten betreffend den Abschluss- und Bankprüfer (Regeln 77 bis 83), während des Wirtschaftsjahres 2012 durchzuführen. Im Einzelnen handelt es sich hierbei um die Regeln bezüglich

- ▶ der Prüfung des Jahresabschlusses;
- ▶ der wechselseitigen Kommunikation zwischen Abschlussprüfer und Prüfungsausschuss;
- ▶ der Aufwendungen für die Prüfungen in Konzerngesellschaften;
- ▶ der Evaluierung der Funktionsfähigkeit des Risikomanagements durch den Abschlussprüfer.

Grundlage für die Evaluierung war der „Fragebogen für die freiwillige externe Evaluierung der Einhaltung des österreichischen Corporate Governance Kodex“, herausgegeben vom Österreichischen Arbeitskreis für Corporate Governance. Abgefragt werden hierbei die C Regeln des Corporate Governance Kodex nach dem Prinzip „Comply or Explain“, demzufolge die Nichteinhaltung von Regeln keine Verletzung des Kodex darstellt, wenn die Abweichung zufrieden stellend begründet wird. Die Evaluierung erfolgte anhand von Unterlagen, die uns von der BAWAG P.S.K. zur Verfügung gestellt wurden.

Da es sich um eine freiwillige Evaluierung handelt, richten sich die Ergebnisse ausschließlich an die BAWAG P.S.K. Dritte können aus der Evaluierung keinerlei Rechte ableiten; insbesondere ist die Evaluierung nicht als Anlageempfehlung zu betrachten.

Unseres Erachtens entspricht die BAWAG P.S.K. den C-Regeln des Corporate Governance Kodex in der Fassung der Verpflichtungserklärung vom 14. Dezember 2012 bezüglich der Pflichten betreffend Abschluss- und Bankprüfer (Regeln 77 bis 83). Geringfügige Abweichungen von den Regeln ergeben sich aus den Besonderheiten des Bankbetriebes und werden entsprechend erläutert.

Wien, am 11. Februar 2013

Markus Fellner m.p.

Fellner Wratzfeld & Partner Rechtsanwälte GmbH

11. CONTACT INFORMATION

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