CONSOLIDATED SEMI-ANNUAL REPORT

2013

BAWAG PSK

CONTENTS

PREFACE BY THE CHAIRMAN OF THE MANAGING BOARD

The First Half of 2013

Over the last five years, the banking sector in Austria and around the globe has been continuously confronted with challenging economic conditions. The European banking industry has been operating in an environment characterised by low growth, exceptionally low interest rates, excess liquidity, persistently falling asset margins and the ongoing implementation of more stringent regulatory and capital frameworks.

Given the macro-economic and regulatory headwinds, the Bank has taken decisive actions in all of its businesses to position itself to be able to operate more profitably and efficiently in the future despite challenges to the industry. This was undertaken as part of an overall strategic repositioning of the Bank focused on enhancing the customer experience, creating the capacity for future growth and simplifying our business focusing on the assets, liabilities, products, and services that are most valuable to both our customers and our other stakeholders.

BAWAG P.S.K.'s strategy has been focused on four key pillars:
1) Investing in our core Retail franchise as well as our domestic and international Corporate lending operations;
2) repositioning the balance sheet to focus on our customers in core markets (Austria, Germany and Western Europe) while de-risking from non-core assets, products and certain geographic locations;
3) improving our cost base through accelerating the bank-wide efficiency and productivity programme focused on driving process-product simplification and productivity; and
4) significantly strengthening our capital base and maintaining strong liquidity to address the changing regulatory environment while at the same time providing us with sufficient capacity for further growth of our core businesses.

1. Investing in Our Core Businesses

BAWAG P.S.K. consistently invests in its core businesses which support our business model and strategy as well as preparing for the structural changes in the banking sector. Our goal is to provide the products and services which our retail and commercial customers value while also positioning the Bank to benefit from any future positive macroeconomic conditions.

In spite of the challenging macroeconomic environment and intense competition, the Bank is successfully attracting new retail customers with our box concept. This concept combines standard banking products with a simple and easy to understand approach. At the end of 2012, the Bank introduced the “SparBox”, a great addition to our “box product” family which established itself very successfully in the first half of 2013. As of June 2013, customers had already invested EUR 400 million in this new savings vehicle. In addition, the Bank achieved a strong increase of its market share in new consumer loans to 12.7 per cent in the first half 2013 (compared to 8.4 per cent as of 30 June 2012) despite the general downwards trend on the retail market. The Bank is committed to offering our customers clear, fair and intuitive banking products.

In addition to our unique and simplified product offering, the Bank is in the final stages of completing the build-out of our branch initiative. Further, our online and direct banking strategy continues to gain strong results, a very positive response from our customers, and represents strong growth prospects in our multichannel strategy over the coming years. BAWAG P.S.K.'s online banking capability is consistently recognised as a market leader in Austria. Our direct banking subsidiary, easybank, was able to consolidate its position as the main bank for private customers with a significant growth in current accounts, credit cards and deposit business. The balance sheet total increased in the first half of 2013 by EUR 417.7 million or 18.5 per cent.

With 500 branches throughout Austria, 93 per cent of which are already operated together with our partner Österreichische Post AG, as well as our e-banking platform and easybank, BAWAG P.S.K. Group offers attractive banking products throughout Austria at any time.

Understandable, fair, anytime and anywhere.

Complementing our Retail franchise, BAWAG P.S.K. remains a strong partner for our key corporate customers in Austria and internationally. Although the business segment is confronted with high margin pressure, again in 2013, BAWAG P.S.K. has maintained stable operating income for its defined core client business, which the Bank continues to grow and invest in where returns are adequate. New financings continue to fulfil clearly defined economic and risk criteria which have been introduced during 2012. With the established Business Solution Partner concept and a wide range of standard as well as customer tailored financing and service products, BAWAG P.S.K. continues to remain a reliable business partner for its corporate customers.

The Bank's international business strategy focuses primarily on Germany, the UK and selected areas of the rest of Western Europe. The international platform has been a key driver of earnings growth and diversification and is focused on lending through commercial real estate transactions and with corporations that are within our core regions and primarily focused on the investment grade products. Despite high redemptions over the past twelve months as a result of low interest rates, the corporate portfolio has remained stable, while business volume increased considerably in the International Commercial Real Estate segment.

2. Repositioning our Balance Sheet

As part of the strategic repositioning of the Bank, the decision to dispose of its non-core assets was further intensified in the first half 2013. BAWAG P.S.K. started to withdraw from CEE countries back in 2008, and its last CEE banking subsidiary in Slovenia was merged into BAWAG P.S.K. at the end of 2012. In the past year, BAWAG P.S.K. has further reduced its total CEE exposure by 35 per cent which currently amounts to approximately 3 per cent of the total assets.

The Bank is currently concentrating on the restructuring of its domestic leasing business. BAWAG P.S.K. successfully sold its Polish leasing subsidiary, BAWAG Leasing & Fleet Sp. z o.o., in February 2013, and has also agreed on the sale of its Austrian fleet management subsidiary in early July 2013, subject to regulatory approval. The Bank also has agreed to dispose of our remaining shares in MKB, a Hungarian bank. This sale is subject to regulatory approval by the Hungarian authorities which is expected in the second half of 2013. The Bank will continue to look for opportunities to dispose of non-core assets.

Market valuations in the legacy Structured Credit Book improved significantly during first half year 2013. This allowed the Bank to close and sell certain existing legacy collateralised debt obligation (CDO) positions carrying high capital requirements at favourable results. These actions de-risked the balance sheet credit exposure substantially and lowered capital requirements resulting in a favourable reduction of risk-weighted assets on the Bank's balance sheet. The Bank will continue to evaluate opportunities to further reduce the remaining legacy Structured Credit Book.

The combination of our actions on the legacy Structured Credit Book and the closing of the proprietary trading activities support BAWAG P.S.K.'s commitment to focus the Bank's capital primarily in our customer businesses and further reduce our non-core investments.

3. Efficiency and Productivity Programme

Over the last months, Austrian and international banks have announced cost reduction initiatives in response to the prevailing adverse economic conditions and increased regulatory costs. BAWAG P.S.K. instituted an accelerated restructuring programme from the second half of 2012 that is targeted to be finalised by year-end 2013. This program follows on the significant investments the Bank made since 2010 in its branch network, e-banking capabilities and IT systems as well as boosting productivity by introducing measures aimed at enhancing processes and end-to-end capabilities. With the investments in the Bank's infrastructure, BAWAG P.S.K. is positioned to benefit from the efficiency and productivity programme that is leading to a reduction in the overall cost base in 2013 and, more importantly, significant cost improvements that will materialise in 2014.

The restructuring programme has been challenging for the Bank and its employees, however, the Managing Board of BAWAG P.S.K. is convinced that this decision was critical in order to successfully position the Bank to remain profitable in any challenging economic environment and to continue meeting our customers' needs.

4. Strong Capital and Liquidity Base

The Bank has a strong capital base, thanks in large part to its early and proactive measures as well as anticipation of the upcoming regulatory requirements. In March 2012, the Bank bought back the majority of the hybrid preference shares from the holders of these securities. This capital was replaced by an additional shareholders' contribution in the amount of EUR 200 million at the end of December 2012. The risk-weighted asset optimisation programme also contributed a further EUR 3.4 billion reduction over the course of 2012 and first half of 2013 related to exiting proprietary trading and deleveraging of non-core assets such as the Structured Credit Book and reducing CEE exposure.

Additionally, the Bank was granted regulatory approval to use the Internal Ratings-Based ("IRB") Approach for its core business areas of Retail and Corporates. This allows the Bank to use a market standard risk measurement method not only for internal controlling purposes but also as the basis for its capital requirements. By applying the IRB approach, the Bank was able to significantly reduce its risk-weighted assets; thus improving its capital ratios and freeing up additional capital for future investments in our core businesses.

BAWAG P.S.K. redeemed a portion of the participation capital issued in 2009 with a nominal value of EUR 50 million in the first half of 2013. Further redemptions of participation capital are already being planned for in the future.

As a result of the various capital measures, the Bank is pleased to report as of 30 June 2013 a core equity Tier I ratio ("CET I"; breakdown according to CET 1, RWAs Basel 2.5) of 12.3 per cent (31 December 2012: 11.0 per cent), a Tier I capital ratio of 13.1 per cent (31 December 2012: 11.7 per cent) and an own funds ratio of 15.1 per cent (31 December 2012: 13.8 per cent). Since 31 December 2011, the CET I ratio has improved by 4.5 percentage points.

CET I ratio improved by 4.5 percentage points over the past 18 months.

Additionally, our liquidity position continues to be a source of strength for the Bank. The total surplus liquidity situation remains solid and strong at EUR 6.0 billion as of 30 June 2013 having allowed the Bank to fully pay back the ECB funding received under the long-term refinancing operations programme (LTRO) during the first half of 2013 at the first available opportunity.

5. Operating Performance of BAWAG P.S.K.

BAWAG P.S.K. has delivered satisfactory results for the first half year 2013 as
- investments in the core businesses have been successfully implemented;
- our capital position has been further strengthened;
- the Bank has a very strong liquidity position and structure;
- the result of the efficiency and productivity programme is ahead of schedule and has largely been delivered; and
- our operating results are significantly better than in the first half 2012.

The overall profit before tax and bank levy (before restructuring costs) is EUR 120.3 million. This compares to EUR 82.4 million of the first half year 2012, a 46 per cent increase.

- Total operating income for the first half of 2013 amounts to EUR 474.4 million compared to EUR 461.6 million for the first half of 2012.
- Core revenues (comprising net interest income of EUR 259.5 million and net commission income of EUR 98.1 million) amount to EUR 357.6 million for the first half of 2013.
- The Bank's efficiency and productivity programme continues to deliver satisfactory results with total operating expenses (without restructuring and sundry personnel provisions) of EUR 288.9 million, a reduction of EUR 13.5 million; a 4.5 per cent reduction compared to the first half of 2012.
- The cost-income ratio (excluding the restructuring and sundry personnel provisions) has further improved to 60.9 per cent compared to 65.5 per cent for the first half of 2012.
- Provisions and impairment losses amount to EUR 63.8 million, which is 17.7 per cent lower than the amount in the first half of the previous year (EUR 77.5 million). This includes a conservative provisioning of our exposure to the construction industry.
- Net profit (excluding minorities) for the first half of 2013 of EUR 93.8 million (including additional restructuring and sundry personnel provisions of EUR 11.4 million) compares favourably with the net profit for the first six months of 2012 of EUR 96.6 million (including additional restructuring and sundry personnel provisions of EUR 3.5 million).
- Net profit without restructuring and sundry personnel provisions of EUR 105.2 million for the first half 2013 is 5 per cent higher compared to EUR 100.1 million for first half 2012.

Satisfactory results – profit before tax and bank levy of EUR 120.3 million.

Outlook

Many of the initiatives mentioned above are still works in progress, and additional efforts have to be made. Clearly, the Bank's focus remains on the high quality of service provided to our customers and the strengthening of our capital base in order to meet upcoming requirements that may be imposed by the ECB under the Single Supervisory Mechanism, which is expected to be implemented next year. With regard to the legal case that is currently pending with the Commercial Court of Vienna, the Bank is well prepared for the upcoming court proceedings with its strong legal position remaining unchanged.

For the second half 2013, BAWAG P.S.K. will continue to follow its business strategy: offering attractive, fair and innovative products to our customers through a modern multi-channel capability, improving productivity and efficiency by enhancing end-to-end processes as well as flexible operating models and maximising our capital and liquidity position under the changing regulatory environment.

All our achievements in the past and the fulfilment of our goals for the second half 2013 and beyond would not have been possible without the constant support of our customers and employees, who I would like to thank sincerely.

Byron Haynes m.p.
Chairman of the Managing Board and CEO
Vienna, August 2013

GROUP MANAGEMENT REPORT

BAWAG P.S.K. GROUP MANAGEMENT REPORT

The Economy in the First Half of 2013

There were increasing signs that the Eurozone economy is stabilising in the middle of 2013. After the real gross domestic product contracted six times in a row, a slight plus of 0.3 per cent was reported for the second quarter. Positive impetus came above all from Germany and France, while the rate at which production is contracting in Italy and Spain slowed considerably. The recession in the Eurozone was primarily characterised by a pronounced lack of investment activity on the part of companies, which also had a marked impact on import demand over the first six months of the year. However, the slowdown of the global economy also led to a decline in exports. The consumer spending of private households dropped considerably in the final quarter of 2012, but stabilised in the spring.

While European industry had a good second quarter, the most recent leading indicators suggest only a gradual improvement of the economy. The uncertainty regarding the smouldering debt crisis is still being reflected in the business climate surveys. In addition, the high unemployment in many Eurozone countries, which has increased again recently, is severely weighing on the confidence of private households.

Due to the weak economic conditions, unemployment also rose further in Austria in the first half of 2013. The unemployment rate (according to Eurostat's statistics) came in at 4.8 per cent on average in the first half of the year, half a percentage point higher than in 2012. However, it must be noted that employment increased at the same time, although at a slower pace than a year ago. This apparent contradiction can be attributed to an increase in the workforce.

The Austrian economy is currently characterised by weak export demand from European trading partners as well as the low investment activity on the part of companies. Although private consumption has largely stagnated over the last year and a half, it is still supporting the economy because, in contrast, consumer demand in the Eurozone has declined considerably at times. Overall, total economic demand in Austria only rose slightly in the first half of the year, though a slight acceleration in growth was seen in the second quarter.

Consumer price inflation has slowed significantly so far this year. After totalling 2.8 per cent at the end of 2012, primarily due to increased food prices and disproportionate inflation in some service sectors, the inflation rate fell to 2.2 per cent through the middle of the year. Consumer price inflation is expected to weaken further over the course of the rest of the year.

The deposit-taking and lending business of Austrian banks with domestic private households and companies remained extremely subdued in light of the economic environment: On average, the outstanding volume of loans to private households and companies stagnated compared to the previous year in the period from January to June 2013. In private lending, the slight increase in mortgages was largely offset by the continued decline in consumer loans, while the demand for financing on the part of companies weakened substantially due to the low investment activity and the increased level of equity financing. Over the first six months of the year, the deposits of retail and commercial banking customers were only 0.6 per cent higher than the level recorded in the previous year.

Conditions on the financial markets continued to ease during the first half of 2013. The risk premiums on government bonds from crisis countries declined further overall, although a countermovement was seen in June: Particularly the government crisis in Portugal drove risk premiums on Portuguese government bonds up again around the middle of the year. The yields for German government bonds, which are considered the benchmark for the Eurozone, fell below 0 per cent in the one- to two-year maturity segment at times during the first half of the year. At the beginning of May, the ten-year yield was once again listed at its historical low of 1.20 per cent (after also hitting this mark in 2012). However, the marked increase in US Treasury yields that was triggered by expectations of an imminent end to the US Federal Reserve Bank's expansive monetary policy also led to a sustained correction on the European capital market. At the middle of the year, ten-year German government bonds were listed at roughly 1.70 per cent. Corresponding Austrian government bonds were trading with a premium of roughly 45 basis points.

There was very little movement on the money market over the first six months of the year. In reaction to the opportunity offered to commercial banks for the early repayment of funds borrowed from the ECB in the two three-year tenders, the Euribor rates rose by a few basis points in January and February. However, the political deadlock in Italy, the rescue measures for Cyprus and the renewed deterioration of the economy counteracted a further increase in money market rates. The ECB's cut in the key interest rate by 25 basis points to 0.50 per cent in May and the possibility of further easing ultimately confirmed the expectations of persistently low Euribor rates.

Key Events during the First Half of 2013

Changes in the Managing Board

Wolfgang Klein was appointed Deputy Chairman of the Managing Board of BAWAG P.S.K. effective from 1 January 2013. Wolfgang Klein has been responsible for Retail Banking and Small Business since November 2010. This appointment underscores the strategic importance of retail business for the further growth and development of BAWAG P.S.K.

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

The Chief Operating Officer ("COO") duties were taken over by the divisions of Wolfgang Klein and Corey Pinkston according to their responsibilities.

Changes in the Supervisory Board

In the course of a rearrangement of the capital structure at the holding level and the capital injection at the end of 2012, the decision was made to expand the Bank's Supervisory Board from nine members to twelve, which was implemented effective from 12 March 2013.

The controlling shareholder, Cerberus Capital Management L.P., appoints the chairman pursuant to section 88 of the Austrian Stock Corporation Act (AktG). Franklin W. Hobbs became the chairman of the Bank's Supervisory Board on 12 March 2013. He succeeded the previous Supervisory Board chairman, Cees Maas, who had performed this function since October 2009 and will serve as deputy chairman of the Supervisory Board in the future. The new shareholder, GoldenTree Asset Management LP, which owns a significant minority stake in the Bank, appointed Frederick S. Haddad to the Supervisory Board pursuant to section 88 AktG.

Christopher Brody resigned from the Supervisory Board effective 12 March 2013. He was succeeded by André Weiss, who was appointed to the Supervisory Board until the end of the Annual General Meeting deciding on the 2014 Annual Financial Statements.

Due to the increase in the number of shareholder representatives, the Works Council will also appoint an additional member of the Supervisory Board in the future. Konstantin Latsunas was appointed as the fourth Works Council delegate on BAWAG P.S.K.'s Supervisory Board.

Partial Redemption of Participation Capital

A capital injection of EUR 200 million was made into BAWAG P.S.K. effective 31 December 2012. This capital injection and the adjustment of the holding structure in 2012 in order to meet the requirements of Basel III substantially improved the Bank's already very solid capital structure. Due to this strong equity capital base, BAWAG P.S.K. redeemed a portion of the participation capital issued in 2009 with a nominal value of EUR 50 million by way of a motion passed by the Annual General Meeting on 7 June 2013. The transaction had already been approved by the Republic of Austria and FIMBAG at the time the motion was passed.

Important Sales Initiatives in the First Half of 2013

Continuation of Initiatives for the Expansion of BAWAG P.S.K.'s Retail Business

The clear strategic focus for 2013 is the ongoing implementation of the retail strategy of BAWAG P.S.K., whose goal is to be the pioneer of intuitive banking in Austria.

All of the related measures are based on the following pillars:
1. a strong brand,
2. an orientation towards clear, fair and intuitive banking that is available anytime and anywhere, and
3. the advertising slogan "Mitten im Leben", which serves as an overarching brand concept for all activities.

The optimisation of the existing branch network by combining the BAWAG and P.S.K. outlets and the expansion of the services offered in rural areas remain the key component of the Bank's retail strategy. A total of 467 locations have been reopened under the new concept through the middle of 2013.

In its efforts to become a multi-channel bank, BAWAG P.S.K. is also focusing on implementing initiatives aimed at expanding its direct distribution channels in order to provide customers with an enhanced range of services outside the branches as well.

The simplification of the products and services represents another key aspect of the orientation towards clear, fair and intuitive banking: BAWAG P.S.K. is the only Austrian bank that sells financial services in "tactile form", i.e. in boxes. Following the KontoBox (2011) and the KreditBox (2012), BAWAG P.S.K. is rounding out its offerings with boxes for investment and insurance products. This concept is being received well in both the branches and the digital channels.

In the current account segment, the Bank acquired 21,200 new customers for the KontoBox in the first half of 2013. A total of 43,800 retail customers opened new accounts with BAWAG P.S.K. The cooperation with one of Austria's largest retailers (Tchibo) also helped to boost sales.

The SparBox, which was introduced in December 2012, established itself very well in the first half of 2013. In contrast to conventional passbook savings accounts, this savings account can be accessed via e-banking, allows for the transfer of funds using a BAWAG P.S.K. reference account and differentiates between variable-rate and fixed-rate investment. As of June 2013, our customers had already invested EUR 400 million in this new investment vehicle.

Consumer loan business has developed exceptionally well for BAWAG P.S.K. so far this year. In contrast to the market, which is largely trending sideways, BAWAG P.S.K. saw a marked increase in new loans compared with the previous year. This can be attributed to the newly launched KreditBox and a number of other successful sales activities (for example, the special programme 0 per cent financing for cars). In addition, BAWAG P.S.K. started offering loans online at the beginning of June.

BAWAG P.S.K. is expanding its core competence in key business segments with a series of additional product initiatives such as the introduction of its own credit cards (gold, white) and is working together with specialised partners in other areas: In May 2013, for example, the Bank joined up with Wüstenrot to introduce the ability to conclude building association savings agreements directly online.

In the investment segment, BAWAG P.S.K. is pursuing a strategic improvement of advisory quality in the interest of long-term, needs-oriented customer advice.

Customers are confirming that the Bank is on the right path with the consistent implementation of its strategy: The APA/OGM trust index for the banking sector conducted in March 2013 shows that 49 per cent of the respondents trust BAWAG P.S.K., which is the best result of any of the centrally managed Austrian banks.

Long-Term Financing and Product Relationships in BAWAG P.S.K.'s Commercial Banking Operations

BAWAG P.S.K. concentrates on long-term financing and product relationships in its domestic commercial banking operations. Despite the significant margin pressure and strong competition in this segment, the Bank achieved stable operating income among its core customers. With the established Business Solution Partner concept and a wide range of standardised, needs-oriented financing and service products, BAWAG P.S.K. is a reliable business partner.

The Bank is clearly focused on Austria and Western Europe, and continued to scale back its activities in Eastern Europe in the first half of 2013. The margin pressure continues to be substantial, particularly in international business. Due to the high liquidity on the market, there was an increased level of repayments by customers, particularly in the first half of the year. Nevertheless, the corporate portfolio remained stable in annual comparison, while business volume has increased considerably in the International Real Estate segment.

Financial Markets as a Service Centre

The realignment of the business model of the Financial Markets division that was launched in the final quarter of 2012 in order to transform the unit into a service centre for the Bank's customers, subsidiaries and partners was successfully implemented. This allows the activities in the Financial Markets division to be optimally tailored to the needs of the customers and the Bank. Positive fair value changes in the structured credit book allowed the Bank to substantially reduce legacy positions that had very high capital requirements and higher risks. Further, the Bank has selectively reinvested in higher quality, new CLO investments.

IRB Approval

On 29 April 2013, BAWAG P.S.K. received a positive IRB decision for its core business areas of Retail and Corporates from the Austrian Financial Market Authority (FMA).

With the approval of the Internal Ratings-Based Approach (IRB), BAWAG P.S.K. can use its modern risk measurement methods not only for internal controlling purposes but also as the basis for its credit requirements as of April 2013. This allowed the Bank's risk-weighted assets to be reduced significantly, which together with further capital strengthening measures has clearly improved the capital ratios of the Group.

In the future, the Bank will also pursue IRB approval for other portfolios and expects this to result in further improvements in terms of both risk management and profitability.

Moody's Rating for BAWAG P.S.K.

In March 2013, Moody's confirmed all of its ratings for BAWAG P.S.K. with no changes. The bank financial strength rating (BFSR) remains at D, and the rating for long-term debt (deposits and bonds) was affirmed at Baa2 based on the three notches of systemic support provided by the Republic of Austria. The outlook is seen as stable.

In its current statement, Moody's praised a number of factors, including the Bank's extensive sales network in cooperation with Austrian Post, the adequate liquidity position with a balanced ratio of outstanding loans to deposits and the improvement in capital quality achieved through the capital injection in the amount of EUR 200 million completed in December 2012.

The rating for subordinated liabilities is one notch below the BFSR rating at Ba3 based on the rating practice that Moody's is applying throughout Europe, which specifies that systemic risk can no longer be assumed for this type of debt.

Government-guaranteed old emissions by the former P.S.K. have carried a negative outlook since February 2012 as a result of the change in the outlook for the Republic of Austria's Aaa rating to "negative".

Basel III (CRD IV/CRR I)

With the publication of the final texts on CRD IV and CRR I in the *Official Journal of the European Union*, one of the most important reform packages for financial regulations is now in its final phase; Basel III will now come into force on 1 January 2014. Along with the strengthening of the capital adequacy requirements, the introduction of a leverage ratio and the adoption of stricter requirements for counterparty credit risk, banks also plan to implement new liquidity rules. The new regulations will primarily be aimed at making the financial sector, and banks in particular, more resistant to crises by strengthening the key parameters of a bank, such as capitalisation.

BAWAG P.S.K. has monitored the developments regarding CRD IV/CRR I very closely and developed appropriate implementation steps in the course of its planning process in order to integrate these regulations into the overall management of the Bank's operations. The Bank has developed measures that have largely already been implemented on the technical side and that will also shape its business model in the medium term. BAWAG P.S.K. has identified the challenges that are to be expected; the implementation of those regulations effective from 1 January 2014 will be completed by the end of the year.

Legal Aspects

City of Linz

On 12 February 2007, the City of Linz and BAWAG P.S.K. concluded a forward financial transaction.

The swap transaction with a nominal volume of CHF 195 million served the City of Linz to optimise a CHF loan in the same amount it had taken out with another bank. The transaction was approved by the Linz City Council and the City of Linz had at least one additional offer of the same sort by another credit institution at the date of conclusion.

Because of the then prevailing exchange rate between the Swiss franc and the Euro, the City of Linz received payments from BAWAG P.S.K. in the first years, which it regularly accepted without objection. In autumn 2009, as the Swiss franc strengthened considerably, the situation changed and the City of Linz was obligated to make payments to BAWAG P.S.K. because the exchange rate fell below 1.54 Swiss francs per Euro.

BAWAG P.S.K. has regularly informed the city administration of the value of the position since 2007, already approached the administration in the middle of 2007 and has discussed winding down or restructuring the position several times. The City of Linz would have been able to exit the position with a profit until approximately the middle of 2008. After this point, BAWAG P.S.K. also regularly urged that the position be hedged or wound down as the development of the financial markets began having a detrimental effect on the City of Linz's position. The city administration never accepted these suggestions.

The Linz City Council decided on 13 October 2011 that it would make no more payments in connection with the swap. Because of this breach of a contractual obligation by the City of Linz, BAWAG P.S.K. was entitled for the first time to close out the swap transaction before its agreed maturity. BAWAG P.S.K. immediately exercised its right to close out the swap transaction. This step by BAWAG P.S.K. reduced the risks to which the City of Linz is exposed because of continued market volatility, and limited the associated costs.

The City of Linz filed a lawsuit against BAWAG P.S.K. at the Commercial Court of Vienna in November 2011 seeking payment of CHF 30.6 million (equalling EUR 24.2 million). BAWAG P.S.K. filed a (counter)suit against the City of Linz for the fulfilment of its contractual entitlements from the same transaction in the amount of EUR 417.7 million.

The mediation proceedings recommended by the Commercial Court of Vienna were declared ended by the mediators in February 2013. The court combined the two suits, and the first verbal hearings were held on 24 May 2013. There have been no changes in BAWAG P.S.K.'s assessment at this time. BAWAG P.S.K.'s strong legal position remains unchanged and the bank is well prepared for the upcoming challenges.

Changes in the Group's Holdings

Leasing CEE

Based on the Bank's stronger focus on its activities in the core markets of Austria and Western Europe, the decision was made in 2011 to reduce the leasing activities in Central and Eastern Europe. The Bank is pursuing this strategy through the sale of company shareholdings as well as through ongoing natural attrition. Corresponding provisions were formed where necessary. The efforts to rapidly reduce exposure in this segment are proceeding as planned. The sale of the Polish leasing subsidiary BAWAG Leasing & Fleet Sp. z o.o. was completed in February 2013.

MKB Bank Zrt.

MKB plans to spin off the part of the bank containing the run-off portfolio into a separate company ("special credit unit"). The spin-off is scheduled to be completed in the fourth quarter of 2013 after approval is granted by the Hungarian banking authority and the court of registry. The shareholders approved the spin-off at an extraordinary general meeting on 21 June 2013. BAWAG P.S.K. Group will avail itself of the legal options in Hungary and withdraw as a shareholder of MKB in the course of the spin-off. The Bank will not take on shares in the special credit unit, but will instead receive compensation from MKB. The shareholding in MKB was written down in full in 2012.

PayLife Bank GmbH

The spin-off of the Debt Issuing Support and ATM Acquiring activities of PayLife Bank GmbH into Payment Services Austria GmbH was completed once the separation of the IT systems was finalised. This separation was a condition for the sale of PayLife Bank GmbH to SIX Group. The FMA has already approved the sale, which all previous shareholders will participate in. The negotiations with the antitrust authorities are still under way. The closing of the transaction is expected to occur in the second half of 2013.

Paysafecard.com Wertkarten AG

The sale of all shares in paysafecard.com Wertkarten AG to the Skrill group was completed in February 2013 after all of the conditions were met. BAWAG P.S.K.'s stake totalled 11.24 per cent.

Vindobona Finance Beta S.A.

Upon conclusion of the sales agreement on 22 April 2013, the company sold its portfolio of mortgages in Great Britain to an entity outside of the Group.

Österreichische Verkehrskreditbank AG

BAWAG P.S.K. is planning a merger with Österreichische Verkehrskreditbank AG (ÖVKB) in 2013. BAWAG P.S.K. will take over the rail cargo operations and payment services for Austrian Railways (ÖBB), which were previously handled by ÖVKB. The application for approval of the merger was submitted to the FMA.

Other Changes in the Group's Holdings

The liquidation of CARNI Industrie-Immobiliengesellschaft m.b.H. in Liqu. was completed on 22 June 2013 when the company was stricken from the register of companies.

Explanations about the Financial Statements for the First Half of 2013

The Group's reports were prepared in accordance with the International Financial Reporting Standards (IFRS).

Aside from BAWAG P.S.K., the other banks and financial institutions in the Group are easybank, Österreichische Verkehrskreditbank, BAWAG P.S.K. Wohnbaubank, BAWAG P.S.K. Invest and BAWAG Malta Bank. Material non credit institutions are aggregated in the leasing group and also include four companies to which parts of the structured credit portfolio have been transferred, as well as a company which is solely invested in debt instruments. The BAWAG P.S.K. real estate sub-group, which is parented by BAWAG P.S.K. Immobilien GmbH (BPI), is responsible for the management of properties of BAWAG P.S.K. Group remaining after the sale of non-strategic real estate. BAWAG P.S.K. Versicherung is accounted for using the equity method.

Profit or Loss Statement (adjusted for valuation results attributable to non-controlling interests and the bank levy)

in millions of Euros	1–6/2013	1–6/2012	Change	
Interest income	535.9	685.5	-149.6	-21.8%
Interest expense	-283.6	-383.4	99.8	+26.0%
Dividend income	7.2	8.3	-1.1	-13.3%
Net interest income	**259.5**	**310.4**	**-50.9**	**-16.4%**
Fee and commission income	151.6	156.8	-5.2	-3.3%
Fee and commission expenses	-53.5	-55.9	2.4	+4.3%
Net fee and commission income	**98.1**	**100.9**	**-2.8**	**-2.8%**
Core revenues	**357.6**	**411.3**	**-53.7**	**-13.1%**
Gains and losses on financial assets and liabilities adjusted for non-controlling interests[1)]	113.4	45.2	68.2	>+100%
Other operating income and expenses[2)]	3.4	5.1	-1.7	-33.3%
Operating income	**474.4**	**461.6**	**12.8**	**+2.8%**
Personnel expenses	-167.6	-172.2	4.6	+2.7%
Other administrative expenses	-94.0	-103.2	9.2	+8.9%
Depreciation and amortisation on tangible and intangible non-current assets	-27.4	-27.0	-0.4	-1.5%
Operating expenses (without restructuring expenses)	**-288.9**	**-302.4**	**13.5**	**+4.5%**
Restructuring expenses and sundry items	-11.4	-3.5	-7.9	>-100%
Operating profit before bank levy	**174.1**	**155.6**	**18.5**	**+11.9%**
Bank levy	-12.7	-12.7	–	–
Operating profit before risk costs	**161.4**	**142.9**	**18.5**	**+12.9%**
Provisions and impairment losses	-63.8	-77.5	13.7	+17.7%
Share of the profit or loss of associates accounted for using the equity method	-1.4	0.8	-2.2	–
Profit before tax adjusted for non-controlling interests[1)]	**96.2**	**66.2**	**30.0**	**+45.3%**
Income taxes	-1.8	32.3	-34.1	–
Profit after tax (without gains and losses on financial assets attributable to non-controlling interests)	**94.4**	**98.5**	**-4.1**	**-4.2%**
Profit after tax without restructuring expenses and sundry items	*105.8*	*102.0*	*3.8*	*+3.7%*
Profit after tax (without gains and losses on financial assets attributable to non-controlling interests)	**94.4**	**98.5**	**-4.1**	**-4.2%**
Gains and losses on financial assets attributable to non-controlling interests[1)]	–	12.8	-12.8	-100%
Profit after tax	**94.4**	**111.3**	**-16.9**	**-15.2%**
Thereof attributable to non-controlling interests	0.6	14.7	-14.1	-95.9%
Thereof attributable to owners of the parent	**93.8**	**96.6**	**-2.8**	**-2.9%**

1) In the previous year under IFRS, the item Gains and losses on financial assets and liabilities also included the valuation of securities whose risk was borne by owners of non-controlling interests. These securities were subject to substantial fair value fluctuations. In order to improve the comparability of the results, the valuation results attributable to owners of non-controlling interests was shown in a separate line. Compared to the Profit or Loss Statement presented in the Consolidated Financial Report according to IFRS, the item Gains and losses on financial assets and liabilities was EUR 12.8 million lower. Accordingly, the item Profit before tax presented above was EUR 12.8 million lower than the Profit before tax presented in the Consolidated Financial Report according to IFRS.

2) In accordance with IFRS, the item Other operating income (expenses) also includes the bank levy in the amount of EUR 12.7 million. However, the Bank's management sees the bank levy as part of the operating expenses. Accordingly, it is shown in the expense line and is not included in the Bank's operating income in the management report.

Net interest income came to EUR 259.5 million in the first half of 2013, declining by EUR 50.9 million or 16.4 per cent compared with the previous year. This can especially be attributed to the low interest rate level, the continued margin pressure in deposit-taking business and a lower balance sheet volume.

The net fee and commission income in the amount of EUR 98.1 million (minus EUR 2.8 million or 2.8 per cent) was largely stable in annual comparison, with revenue increasing especially in retail securities and custodial business.

Overall, **core revenues** of EUR 357.6 million, which comprise net interest income and net fee and commission income, decreased by EUR 53.7 million compared with the previous year.

The item **gains and losses on financial assets and liabilities** was influenced primarily by the valuation of our investments, issued securities and derivatives, as well as proceeds from sales.

Positive valuation results from the reduction of the risk premiums on the capital market and pull-to-par effects as well as disposal gains led to a result of EUR 26 million in the structured credit portfolio in the first half of 2013.

The other valuation results and proceeds from securities, own issues and derivatives led to a positive net profit contribution of EUR 88 million. This included profits from the recognition of own issues measured at fair value through profit or loss in the amount of EUR 11 million and realised gains from the sale of an NPL portfolio and from equity interests in the total amount of EUR 37 million.

Other operating income and expenses decreased by EUR 1.7 million to EUR 3.4 million. This result is primarily made up of profits from other income from leasing and real estate transactions and reimbursed personnel and material costs.

The **operating expenses (without restructuring expenses)** of EUR 288.9 million in the first half of 2013 were lower than in the previous year (EUR 13.5 million or 4.5 per cent). This confirms the effects of the Bank's stringent cost management. Further provisions for future **restructuring expenses** including other personnel reserves in the amount of EUR 11.4 million make an important contribution to the future development of BAWAG P.S.K. and are aimed at ensuring sustainable profits in the years to come.

The **operating profit before bank levy** rose by EUR 18.5 million in annual comparison to EUR 174.1 million, primarily due to the increase in **gains and losses on financial assets and liabilities** and the spending cuts discussed above.

The **operating profit before risk costs** is produced by deducting the bank levy, which reduced the operating result by approximately EUR 12.7 million.

Despite the difficult economic conditions, expenses for **provisions and impairment losses** declined by EUR 13.7 million to EUR 63.8 million in the first half of 2013. This reflects the conservative risk profile of our loans and investments. As in the prior year, no write-downs were recorded for the structured credit portfolio in the first half of 2013.

The **profit before taxes** amounts to EUR 96.2 million, which is EUR 30.0 million more than the profit for the first half of 2012.

The **tax expenses** of EUR 1.8 million were primarily caused by changes in deferred taxes resulting from differences in values according to Austrian tax law and IFRS.

The **gains on financial assets attributable to non-controlling interests** pertain to fair value fluctuations that are borne by owners of non-controlling interests. The IFRS Profit or Loss Statement in the Notes shows these fair value fluctuations under the item Gains and losses on financial assets and liabilities.

The net profit attributable to the **owners** of the parent company totals EUR 93.8 million for the first half of 2013, compared with EUR 96.6 million in the first half of 2012.

The **Bank's consolidated assets** as of 30 June 2013 totalled EUR 38,197 million, and were EUR 3,068 million or 7.4 per cent lower than at the end of 2012, primarily due to decreases in receivables from customers and credit institutions. Furthermore, financial assets fell by EUR 1,021 million to EUR 9,029 million (–10.2 per cent).

Assets

in millions of Euros	30.06.2013	31.12.2012	Change	
Cash reserves	1,047	481	566	>+100%
Financial assets	**9,029**	**10,050**	**-1,021**	**-10.2%**
Fair value through profit or loss	1,123	1,401	-278	-19.8%
Available for sale	5,740	6,810	-1,070	-15.7%
Held to maturity	817	–	817	–
Assets held for trading	1,349	1,839	-490	-26.6%
Loans and receivables	**27,001**	**29,744**	**-2,743**	**-9.2%**
Debt instruments	2,812	2,283	529	+23.2%
Customers	21,275	22,275	-1,000	-4.5%
Credit institutions	2,914	5,186	-2,272	-43.8%
Hedging derivatives	124	192	-68	-35.4%
Tangible non-current assets	170	181	-11	-6.1%
Intangible non-current assets	166	173	-7	-4.0%
Tax assets for current taxes	6	3	3	+100.0%
Tax assets for deferred taxes	237	218	19	+8.7%
Other assets	299	223	76	+34.1%
Assets held for sale	118	–	118	–
Total assets	**38,197**	**41,265**	**-3,068**	**-7.4%**

The item **recognised at fair value through profit or loss** contains the securities and loans for which changes in fair value are recognised in the Profit or Loss Statement. The financial instruments in this category decreased by EUR 278 million (–19.8 per cent) to EUR 1,123 million in the first half of 2012, primarily as a result of redemptions and disposals.

The **available-for-sale financial assets** fell by EUR 1,070 million (–15.7 per cent) from EUR 6,810 million to EUR 5,740 million. The decrease is primarily due to scheduled redemptions and disposals. Securities with a carrying value of EUR 250 million were also transferred from the category of "available for sale" to the category of "held to maturity" in the first half of 2013.

The **held to maturity financial assets** include new investments in this category and the transfer of financial assets from the category of "available for sale" to the category of "held to maturity".

Held for trading covers not only the positions in the trading book, but also all positive fair values of derivative financial instruments, including those held to hedge positions in the banking book but for which hedge accounting is not applied. The decrease of EUR 490 million (–26.6 per cent) to EUR 1,349 million can be attributed primarily to lower volumes of interest rate derivatives in the banking book and the trading book. A similar trend was seen on the liabilities side for the interest rate derivatives.

The **item loans and receivables** contains the loans to customers and credit institutions that are recognised at amortised cost. The decrease of EUR 2,743 million can be attributed to the reduction in the Bank's **loans to and receivables from credit institutions** of EUR 2,272 million, which was partially offset by an increase of not actively traded **debt instruments** in the amount of EUR 529 million. **Receivables from customers** decreased during the first half of 2013 by EUR 1,000 million to EUR 21,275 million.

Liabilities

in millions of Euros	30.06.2013	31.12.2012	Change	
Financial liabilities	**33,606**	**37,195**	**-3,589**	**-9.6%**
Fair value through profit or loss	3,138	4,324	-1,186	-27.4%
Customers	42	43	-1	-2.3%
Issued securities	3,096	4,281	-1,185	-27.7%
Liabilities held for trading	1,670	2,269	-599	-26.4%
At amortised cost	28,798	30,602	-1,804	-5.9%
Customers	22,020	21,999	21	+0.1%
Credit institutions	1,846	3,748	-1,902	-50.7%
Issued securities	4,842	4,769	73	+1.5%
Financial liabilities associated with transferred assets	90	86	4	+4.7%
Hedging derivatives	110	164	-54	-32.9%
Provisions	520	484	36	+7.4%
Tax liabilities for current taxes	2	2	–	–
Tax liabilities for deferred taxes	15	17	-2	-11.8%
Other obligations	1,167	565	602	>+100%
Obligations in disposal groups held for sale	14	–	14	–
Total equity	**2,763**	**2,838**	**-75**	**-2.6%**
Equity attributable to the owners of the parent	**2,369**	**2,445**	**-76**	**-3.1%**
Non-controlling interests	394	393	1	+0.3%
Total equity and liabilities	**38,197**	**41,265**	**-3,068**	**-7.4%**

The item **fair value through profit or loss** under financial liabilities comprises the Bank's issued securities and deposits that are reported at fair value and that are not assigned to the category held for trading. These liabilities totalled EUR 3,138 million on 30 June 2013, a decrease of EUR 1,186 million or 27.4 per cent compared with the end of the prior year. Securities issued by the Bank decreased by EUR 1,185 million mainly due to redemptions and repurchases.

The item **held for trading** decreased by EUR 599 million to EUR 1,670 million in the first half of 2013. Of this increase, EUR 512 million can be attributed to reduced volumes of the interest rate derivatives in the banking book and the trading book, with a similar development having occurred for the fair values of the interest rate derivatives in the banking book on the asset side.

Payables to customers rose slightly by EUR 21 million or 0.1 per cent to EUR 22,020 million. Savings deposits decreased by EUR 1,018 million, but this was more than offset by a EUR 1,039 million increase in other deposits (including savings card accounts). Together with the investment products measured at their fair values mentioned above, savings and investment deposits totalled EUR 10,014 million as of 30 June 2013, or approximately 26 per cent of the Bank's consolidated assets.

Payables to credit institutions decreased by EUR 1,902 million or 50.7 per cent to EUR 1,846 million. This can be attributed mainly to the full repayment of the tender facility offered by the European Central Bank (ECB).

The **issued securities** recognised at amortised cost rose slightly by EUR 73 million or 1.5 per cent to EUR 4,842 million.

The **financial liabilities from asset transfers** pertain to genuine repurchase agreements under which BAWAG P.S.K. has transferred financial assets in exchange for payment and under which it was agreed that the financial assets would be repurchased by BAWAG P.S.K. at a later date for an agreed amount. These liabilities totalled EUR 90 million on 30 June 2013, an increase of EUR 4 million or 4.7 per cent compared with the end of the prior year.

The EUR 36 million increase in **provisions** to EUR 520 million includes EUR 25 million in social capital reserves, primarily in connection with the adjustment of the discount rate to the current long-term interest level.

The increase in **other obligations** can primarily be attributed to suspense accounts from payment services.

The EUR 76 million reduction in IFRS **equity attributable to the owners of the parent** to EUR 2,369 million is due primarily to the redemption of participation capital in the amount of EUR 50.0 million and the dividend payment of EUR 51.2 million made for the government participation capital for the 2012 financial year. Total comprehensive income for the first half of 2013 came to EUR 25.2 million (which includes the profit for the shareholders of EUR 93.8 million and the other comprehensive income in the amount of minus EUR 68.6 million). The latter is the result of unrealised fair value changes and changes in the discount rate for social capital.

Non-controlling interests increased by EUR 1 million to EUR 394 million, primarily due to positive valuation results from securities whose risk is borne by owners of non-controlling interests.

Consolidated own funds of the BAWAG P.S.K. bank group pursuant to the Austrian Banking Act (BWG)

in millions of Euros	30.06.2013	31.12.2012
Share and participation capital	750	800
Reserves (including fund for general banking risks) after deduction of intangible assets and losses of subsidiaries	1,109	1,102
Less shareholdings held for investment purposes, shortfalls IRB risk provisions*)	-46	-39
Minorities	404	404
Hybrid capital	142	142
Tier I (core capital including minorities and hybrids)	**2,359**	**2,409**
Reserve under § 57 BWG, revaluation reserve	45	44
Supplementary and subordinated debt	346	405
Additional items (Tier II)	**391**	**449**
Less shareholdings held for investment purposes, shortfalls IRB risk provisions*)	-46	-39
Eligible own funds	**2,704**	**2,819**
Tier III	11	16
Own funds	**2,715**	**2,835**

*) as of 30 June 2013

Own funds requirement

in millions of Euros	30.06.2013	31.12.2012
Credit risk	1,301	1,503
Market risk	11	16
Operational risk	129	130
Capital requirements	**1,441**	**1,649**

The Tier I capital ratio based on total risk of 13.1 per cent (2012: 11.7 per cent based on total risk) and an Own funds ratio of 15.1 per cent (2012: 13.8 per cent based on total risk) are well above the minimum legal standards, which amount to 4 per cent and 8 per cent, respectively.

The core equity Tier I ratio (breakdown according to CET 1, RWAs Basel 2.5) increased from 11.0 per cent to 12.3 per cent.

The significant improvements in the capital ratios that were achieved despite the repayment of the participation capital and the redemption of a Tier II issue can primarily be attributed to the consistent application of RWA measures and the switch to the internal ratings-based approach (IRB).

Non-Financial Performance Indicators

Corporate Governance

Supervisory Board

As of 30 June 2013, BAWAG P.S.K.'s Supervisory Board consisted of twelve members. Two members, including the chairman of the Supervisory Board, were appointed by the shareholders pursuant to section 88 AktG. The Works Council appoints four representatives to the Supervisory Board.

The Rules of Procedure of the Supervisory Board comprise the rights and obligations of this board and also define the individual committees of the Supervisory Board and their responsibilities.

Risk and Credit Committee

Under the ultimate responsibility of the full Supervisory Board, the approval of loans and credit (as well as other forms of financing) to individual borrowers or groups of connected customers for the purposes of section 27 of the Banking Act (exposures that equal 10 per cent or more of the Bank's eligible own funds) has been delegated to the Risk and Credit Committee. A report about the large exposures approved by the Risk and Credit Committee is submitted to the Supervisory Board at least once per year. The Risk and Credit Committee also approves transactions with the Bank's affiliated parties (except for transactions with members of the Supervisory Board or Managing Board that are delegated to the Committee for Management Board Matters) and material credit policies. It also advises the Supervisory Board on the current and future risk-bearing ability and risk strategy of the Bank and monitors the effectiveness and efficiency of the risk management systems.

Audit and Compliance Committee

The Audit and Compliance Committee reviews the Bank's accounts and the annual financial statements, and monitors the Bank's internal control systems. This committee is also in regular contact with the external auditor, the head of the Internal Audit division and the compliance officer. The annual audit plans and reports about the activities of the Internal Audit division and the Bank's Compliance Office are also submitted to the Audit and Compliance Committee.

Nomination Committee

The Nomination Committee deals with succession planning and selecting suitable candidates for Managing Board posts, as well as preparations for the annual Supervisory Board meeting about its own performance and efficiency. This committee also approves the appointment of Managing Board members to boards in companies outside of BAWAG P.S.K. Group. In the future, the Nomination Committee will perform the suitability assessment of the Managing Board members and Supervisory Board members (Fit and Proper).

Committee for Management Board Matters

The Committee for Management Board Matters deals mainly with the content of Managing Board contracts and transactions between the Bank and members of the Managing Board and Supervisory Board pursuant to section 28 of the Austrian Banking Act.

Remuneration Committee

The Remuneration Committee, which was established in March 2012, deals with the general principles of the Bank's remuneration policy and with monitoring the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to section 39c BWG, except for those pertaining to Managing Board members.

Related Parties Special Audit Committee

The Related Parties Special Audit Committee reviews financing commitments and transactions above a certain amount involving related companies as defined in IAS 24. This committee is intended to ensure transparency in transactions involving the Bank's shareholders and meets when needed.

Managing Board

At the end of the first half of 2013, the Managing Board consisted of five members.

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 Credit Approval Committee, which decides on financing transactions above a certain threshold;
- The Asset Pricing Committee, which concentrates on pricing in lending;
- The Strategic Asset Liability Committee, which deals with strategic capital and liquidity planning issues as well as operational aspects of asset and liability management;
- The Credit Policy Committee, which focuses on credit guidelines and strategies; and
- The Enterprise Risk Meeting for steering the total bank risk.

Suitability Assessment (Fit and Proper)

The EBA guidelines on the assessment of the suitability of the management body and key function holders (EBA/GL/2012/06) stipulate that credit institutions must adopt a suitability assessment policy that defines a strategy for the selection and the process of assessing the suitability of the members of the managing board, supervisory board and staff in key positions. In May, the Austrian Financial Market Authority issued a circular on this subject. The Managing Board of BAWAG P.S.K. adopted a Group-wide Fit and Proper policy on 21 May 2013.

Code of Corporate Governance

In 2006, BAWAG P.S.K. made a voluntary commitment to apply the Austrian Code of Corporate Governance for listed Austrian companies. The amendments to the Code that were adopted in January 2012 and July 2012 have been integrated into BAWAG P.S.K.'s declaration of commitment. Significant amendments were made to the Code in January 2012, including the refinement of the diversity rule, new rules to improve cooperation between the supervisory board and the financial auditor, and a revised framework for fighting corruption. The second set of amendments in July 2012, which resulted from changes to several provisions of the Austrian Stock Corporation Act (Aktiengesetz) and the Uniform Commercial Code (Unternehmensgesetzbuch), strengthened the requirements for transparency in the remuneration of managing board members, placing further limitations on switching from the managing board to the supervisory board and increasing diversity in supervisory boards.

The Bank prepared and published annual Corporate Governance Reports for the financial years 2009 to 2012. Compliance with the Corporate Governance Code was audited by independent third parties in 2012 and revealed that all key provisions of the Code were fulfilled. Grounds were provided for rules that are not followed because of the Bank's closed shareholder structure *(comply or explain principle)*.

Compliance

The Compliance Office reports directly to the Managing Board, and 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 not-for-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.

Personnel Development

Training

Following the launch of the Retail Camp introductory training programme last year, structured training programmes for the functions of "high-frequency customer management" and "existing customer management" were introduced for the restructured branch sales organisation this year along with the training plan for the function of "existing customer management/commercial customer service".

The learning objectives and seminars for the qualified banker apprentice training programme were also adapted to meet the new job profile for customer advisors in BAWAG P.S.K.'s branch sales organisation.

The self-learning programmes for disseminating basic bank knowledge were rounded off through a considerable expansion of the e-learning offerings (topics: credit, securities, bank cards, payments, accounts, saving).

The method of the webinar was used for the first time in the spring of 2013. As a remote learning medium, webinars primarily support participants in putting the knowledge they have learned in the training modules into practice.

Management Development

In 2013, the offerings of the LEAD Toolbox, a type of "open" training for experienced managers, deal with the topics of "Inner Resilience" and "Clear and Authentic Communication in Times of Change".

The LEAD – Neue Führungskräfte programme is in its 14^{th} run and well received among young managers.

In branch sales, an intensive on-site guidance programme for branch managers was launched in the form of the Branch Sales Coaching and Training group, which is initially aimed at solidifying the role and tasks of the managers in the new branch concept.

Talent Development and Succession and Career Planning

In April 2013, the two training programmes for future managers, TOP Team Vertrieb (for retail sales) and forTalents (for the operational units of the Corporate Office), went through their fourth and second runs, respectively.

The Sales Talent Management process, the annual computer-assisted review of skills, potential and succession scenarios for all retail sales employees and managers, was further refined into a comprehensive employee development tool for the 2013 session. There is currently a process for comparing an employee's self-image and other people's perceptions; the manager and employee can select from an extensive range of on-the-job training measures in order to facilitate individual development.

MBO Process

For the 2013 MBO process, all of the supporting forms and materials (manuals, self-learning programme) were simplified considerably in the interest of BAWAG P.S.K.'s brand positioning as the pioneer of intuitive banking in Austria. The 2013 financial year marks the first time that there is a Bank-wide MBO objective for all employees and managers related to intuitive banking.

BAWAG P.S.K. Women's Mentoring

The BAWAG P.S.K. Women's Initiative was launched in 2009 with the goal of creating a working environment in which especially female employees can optimally realise their potential. Key focuses in this are ensuring equal treatment with regard to salary issues and training opportunities, as well as the promotion of women to specialist and management positions. The BAWAG P.S.K. Women's Initiative is intended to raise awareness for the issue of "women in the workplace" among female and male employees on a long-term basis. With the yearlong, Bank-wide Women's Mentoring programme that was launched in June 2013, BAWAG P.S.K. is taking another clear step in supporting the advancement of qualified women in the Bank.

The goal of the programme is to support the 19 female participants (employees, specialists and managers) in their professional and personal development. In addition, the participants benefit from networking with experienced mentors from the Bank and exchanging experience and knowledge with their fellow participants in the programme.

Corporate Social Responsibility

In the analysis performed by the rating agency oekom research in 2012, BAWAG P.S.K. once again received a rating of C – (not prime) in the category of Public and Regional Banks, which according to the information of the rating agency represents an overall improvement of the result from 2010 due to revised policies.

The agency particularly highlighted positive factors such as the discrimination-free access to financial services provided through the "New Chance" Account, measures aimed at improving the work-life balance and the comprehensive Code of Conduct, which contains the most important aspects of business ethics.

New Chance Account

With the "New Chance" Account, the Bank has been actively combating social exclusion since 2009. Some 20,023 "New Chance" Accounts (as of June 2013) provide access to banking services for people who would otherwise be excluded from public electronic payment transactions. The "New Chance" Account works just like the conventional KontoBox Basis, except that it is offered as a current account with no credit facility. Neither the account number nor the bank sort code contain any indications that it is a non-credit account. This prevents customers from being directly or indirectly stigmatised when executing their financial transactions. The "New Chance" Account package has also included a debit card since the autumn of 2012, thus closing another important gap compared with the conventional account products.

150 Days of Corporate Volunteering

Austria is a country of volunteers. Since June 2011, BAWAG P.S.K. has been supporting this commitment with a total contingent of 150 volunteer days every year. Every employee has the opportunity to spend up to two working days per year out of this allotment volunteering for charitable organisations and projects without having to use any of his or her entitlement to paid holiday leave.

In the first half of 2013, numerous employees once again supported projects such as the Gruft homeless shelter, social markets and Kinderfreunde facilities, and volunteered at nursing homes.

Sponsoring

The Bank's sponsoring activities are aimed at supporting the positioning of the BAWAG P.S.K. brand as a bank that is close to its customers – that is "in the midst of life".

In the arts, the Bank is actively involved in a wide range of activities in the provinces in order to support the national branch offensive. For several years, BAWAG P.S.K. has been the main sponsor of the internationally renowned jazz club Porgy & Bess in Vienna, which is celebrating its 20th anniversary this year. The Bank is also a cooperation partner of the Volkstheater, the Diagonale film festival in Graz and the Haag Summer Theatre in Lower Austria and funds music and acting awards such as the *Dorothea Neff prize* and the *Austrian Cabaret Prize*. In addition, our Bank provides support to the *espressofilm* short film festival and the *o-töne* literature festival in the MuseumsQuartier. In Vienna, the Bank also operates the WAGNER:WERK Museum, which is housed in the Austrian Postal Savings Bank building designed by Otto Wagner and holds special exhibitions dealing with aspects of architecture, design and art history.

The *BAWAG P.S.K. MITTEN IM LEBEN Award for Outstanding Humanitarian Services* was presented for the third time. This year, the award went to the Austrian Mauthausen Committee for the project Zivilcourage TRAINIEREN (Civil Courage TRAINING).

The focus of this year's sponsoring activities is on the area of education. For example, BAWAG P.S.K. is introducing a new emphasis this year aimed at supporting highly talented youth musicians with the first-ever presentation of the *Next Generation Jazz Award*. BAWAG P.S.K. also collaborates with numerous schools and educational institutions and sponsors the Vienna's English Theatre's *School Tours* programme and the *ÖGB Job Application Training* programme, which is aimed at easing young people's transition into professional life.

In the area of social issues, the Bank's focus is on supporting NGOs and charitable organisations. In the first half of the year, BAWAG P.S.K. provided a donation to support flood victims and waived the fees for cash payments made to all donation accounts. BAWAG P.S.K. has sponsored CARITAS's *August Donation Drive* and the Mission Hoffnung association for years. Our Bank has also been a sponsor of the *Diversity Ball* in recent years and in this way has taken a stand for equal treatment and against discrimination. As part of this year's *Licht ins Dunkel* campaign, BAWAG P.S.K. supported a number of projects, including a coffee house established by the Styrian branch of Jugend am Werk which is run by people with disabilities.

An overview of BAWAG P.S.K.'s sponsoring activities can be found at **www.bawagpsk.com/sponsoring**.

Events after the Reporting Date

Changes in Equity Participations

BAWAG P.S.K. Fuhrparkleasing GmbH

On 1 July 2013, BAWAG P.S.K. Leasing GmbH as seller and LeasePlan Corporation N.V. as purchaser signed a share purchase agreement for all the shares in BAWAG P.S.K. Fukrparkleasing GmbH. The closing depends, among other things, on non-prohibition by the anti-trust authorities.

Outlook

After only small growth in the first half of 2013, the Austrian economy is expected to gain additional momentum in the autumn. Stimulus for growth will come from overseas and also from Europe, where the increasing output of Austria's main trading partner, Germany, is providing hope for a rise in export demand. The reversal of the trend in the industrial sector should bolster investment activity, while private consumption will benefit from a moderate expansion of real disposable household income. The EU Commission expects economic growth of 0.6 per cent for 2013 – which is low, but significantly better than the forecast for the Eurozone as a whole (–0.4 per cent).

The financial markets saw significant price movements around the middle of the year, which were largely fuelled by expectations regarding the future monetary policy of the G7 countries and, as is so often the case, seemed to be exaggerated. As a result, a correction will likely set in in the coming weeks and months, although the upward trend in capital market yields is well justified from a fundamental perspective. In contrast, we expect the very low money market rates to persist. In this environment, it remains very difficult to offer attractive terms for customer deposits, and lending is being impacted by the relatively low demand for credit and the ongoing reduction of risks.

The legal dispute with the City of Linz which started in 2011 continues in the current year. BAWAG P.S.K. is well prepared for these proceedings due to its strong legal position.

BAWAG P.S.K. believes itself to be in an excellent position to master the coming challenges thanks to its comfortable capital level, liquidity position and more efficient cost base. The focus on our core areas of business and products which most greatly address the needs of our customers in all regards set an excellent base which will help us to continue our strong momentum in the remainder of 2013.

Vienna, 20 August 2013

Byron Haynes m.p.
Chairman of the Managing Board and CEO

Wolfgang Klein m.p.
Deputy Chairman of the Managing Board

Andreas Arndt m.p.
Member of the Managing Board

Jochen Klöpper m.p.
Member of the Managing Board

Corey Pinkston m.p.
Member of the Managing Board

CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS

Consolidated Accounts

Consolidated Statement of Financial Position as of 30 June 2013

Assets

in millions of Euros	(Notes)	30.06.2013	31.12.2012
Cash reserves	(1)	1,047	481
Financial assets designated at fair value through profit or loss	(2)	1,123	1,401
Available-for-sale financial assets	(3)	5,740	6,810
Held-to-maturity investments	(4)	817	–
Assets held for trading	(5)	1,349	1,839
Loans and receivables	(6)	27,001	29,744
Securities		2,812	2,283
Customers		21,275	22,275
Credit institutions		2,914	5,186
Hedging derivatives	(17)	124	192
Tangible non-current assets		170	181
Intangible non-current assets		166	173
Tax assets for current taxes	(8)	6	3
Tax assets for deferred taxes	(8)	237	218
Associates recognised at equity		18	20
Other assets	(9)	281	203
Assets held for sale	(31)	118	–
Total assets		**38,197**	**41,265**

Equity and liabilities

in millions of Euros	(Notes)	30.06.2013	31.12.2012
Financial liabilities designated at fair value through profit or loss	(10)	3,138	4,324
Liabilities held for trading	(11)	1,670	2,269
Financial liabilities at amortised cost	(12)	28,798	30,602
Customers		22,020	21,999
Credit institutions		1,846	3,748
Issued bonds, subordinated and supplementary capital		4,842	4,769
Financial liabilities associated with transferred assets		90	86
Hedging derivatives	(17)	110	164
Provisions	(14)	520	484
Tax liabilities for current taxes	(15)	2	2
Tax liabilities for deferred taxes	(15)	15	17
Other obligations	(16)	1,167	565
Obligations in disposal groups held for sale	(31)	14	–
Total equity		2,763	2,838
Equity attributable to the owners of the parent		2,369	2,445
Non-controlling interests		394	393
Total equity and liabilities		**38,197**	**41,265**

Consolidated Profit or Loss Statement for the Period 1 January to 30 June 2013

in millions of Euros	**(Notes)**	**1–6/2013**	**1–6/2012**
Interest income		535.9	685.5
Interest expense		-283.6	-383.4
Dividend income		7.2	8.3
Net interest income	(18)	**259.5**	**310.4**
Fee and commission income		151.6	156.8
Fee and commission expenses		-53.5	-55.9
Net fee and commission income	(19)	**98.1**	**100.9**
Gains and losses on financial assets and liabilities	(20)	113.4	58.0
Other operating income and expenses	(21)	-9.3	-7.6
Administrative expenses	(22)	-272.9	-279.0
Depreciation and amortisation on tangible and intangible non-current assets	(23)	-27.4	-27.0
Provisions and impairment losses	(24)	-63.8	-77.5
Share of the profit or loss of associates accounted for using the equity method		-1.4	0.8
Profit before tax		**96.2**	**79.0**
Income taxes	(25)	-1.8	32.3
Profit after tax		**94.4**	**111.3**
Thereof attributable to non-controlling interests		0.6	14.7
Thereof attributable to owners of the parent		**93.8**	**96.6**

In 2012, the item Gains and losses on financial assets and liabilities also included fair value gains of financial instruments whose risk is borne by shareholders of non-controlling interests. In the first half of 2012, valuation gains in the amount of EUR 12.8 million had been included in the item Gains and losses on financial assets and liabilities.

In accordance with IFRS, the item Other operating income (expenses) also includes the bank levy in the amount of EUR 12.7 million. However, the Bank's management sees the bank levy as part of the operating expenses. Accordingly, it is shown in a seperate expense line and is not included in the Bank's operating income in the Group Management Report.

Consolidated Statement of Comprehensive Income for the Period 1 January to 30 June 2013

in millions of Euros	1–6/2013	1–6/2012
Profit after tax	**94.4**	**111.3**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial losses on defined benefit plans	-23.4	-36.4
Income tax on items that will not be reclassified	5.9	9.1
Total items that will not be reclassified to profit or loss	**-17.6**	**-27.3**
Items that may be reclassified subsequently to profit or loss		
Foreign exchange differences	-0.1	0.2
Available for sale reserve	-66.0	160.2
Share of other comprehensive income of associates accounted for using the equity method	-0.3	–
Income tax relating to items that may be reclassified	16.3	-39.2
Total items that may be reclassified subsequently to profit or loss	**-50.2**	**121.2**
Total comprehensive income, net of tax	**26.7**	**205.2**
Thereof attributable to non-controlling interests	1.5	15.5
Thereof attributable to owners of the parent	**25.2**	**189.7**

Consolidated Statements of Changes in Equity

in millions of Euros	Subscribed capital	Partici-pation capital[1)]	Capital reserves	Retained reserves	AFS reserve	Foreign exchange differences	Actuarial gains / losses	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 1.1.2012	**250.0**	**550.0**	**1,247.4**	**-6.1**	**-100.0**	**0.3**	**20.7**	**1,962.3**	**366.0**	**2,328.3**
Transactions with owners	–	–	–	–	–	–	–	–	-2.2	-2.2
Dividends non-controlling interests	–	–	–	–	–	–	–	–	-2.2	-2.2
Dividend on participation capital	–	–	–	-51.2	–	–	–	-51.2	–	-51.2
Total comprehensive income	–	–	–	96.6	120.1	0.3	-27.3	189.7	15.5	205.2
Balance as of 30.06.2012	**250.0**	**550.0**	**1,247.4**	**39.3**	**20.1**	**0.6**	**-6.6**	**2,100.8**	**379.3**	**2,480.1**
Balance as of 1.1.2013	**250.0**	**550.0**	**1,447.4**	**50.1**	**171.6**	**0.5**	**-24.6**	**2,445.0**	**393.4**	**2,838.4**
Transactions with owners	–	–	–	–	–	–	–	–	-0.5	-0.5
Dividends non-controlling interests	–	–	–		–	–	–	–	-0.5	-0.5
Redemption of participation capital	–	-50.0	–	–	–	–	–	-50.0	–	-50.0
Dividend on participation capital	–		–	-51.2	–	–	–	-51.2	–	-51.2
Total comprehensive income	–	–	–	93.8	-51.0	-0.1	-17.5	25.2	1.5	26.7
Balance as of 30.06.2013	**250.0**	**500.0**	**1,447.4**	**92.7**	**120.6**	**0.4**	**-42.1**	**2,369.0**	**394.4**	**2,763.4**

1) Participation capital according to section 23 (4) BWG.

Cash Flow Statement

in millions of Euros	01–06/2013	01–06/2012
Cash and cash equivalents at end of previous period	**481**	**616**
Net cash from operating activities	587	-39
Net cash used in investing activities	159	507
Net cash from financing activities	-180	-162
Cash and cash equivalents at end of period	**1,047**	**922**

Notes to the Semi-Annual Financial Statements 2013

The consolidated interim financial statements of BAWAG P.S.K. Group were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB), and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC). All standards contained in the International Financial Reporting Standards published by the IASB and adopted by the EU and therefore mandatory with respect to the consolidated interim financial statements as of 30 June 2013 were applied.

These unaudited interim financial statements for the first half of 2013 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in preparing this interim financial report are the same as those used for the preparation of the consolidated financial statements as of 31 December 2012, except for the new IAS 1 *Presentation of Financial Statements* which is applicable to reporting periods beginning on or after 1 July 2012 and which resulted in an amended presentation of other comprehensive income and the new IFRS 13 *Fair Value Measurement* which is applicable to reporting periods beginning on or after 1 January 2013 and which resulted primarily in additional disclosures. Due to the fact that the amendments to IAS 19 *Employee Benefits* do not have a material impact on BAWAG P.S.K., prior year figures were not adjusted. BAWAG P.S.K. has already recognised actuarial gains and losses in other comprehensive income in the past and the impact from expected returns on plan assets is immaterial. The valuation principles as of 31 December 2012 were applied again. The discount rate underlying the actuarial calculations of social capital provisions was adjusted from 3.75 per cent to 3.25 per cent.

Since February 2013, BAWAG P.S.K. has again held securities of the held-to-maturity category in its portfolio. This category includes all financial instruments with fixed or determinable payments which are intended to be held to maturity. If securities are assigned to this category, BAWAG P.S.K. has the positive intention and the ability to hold the instruments to maturity.

The Group consists of 48 fully consolidated entities (31 December 2012: 49) and 1 entity that is accounted for using the equity method (31 December 2012: 1) in Austria and abroad. In the first half of 2013, CARNI Industrie Immobiliengesellschaft m.b.H. in Liqu. was deconsolidated due to its liquidation. The effects were immaterial.

The semi-annual financial statements for the first half of 2013 were not audited or reviewed by an external auditor.

The tables in this report may contain rounding differences.

Claim against the City of Linz

The City of Linz filed a lawsuit against BAWAG P.S.K. at the Commercial Court of Vienna in November 2011 seeking payment of CHF 30.6 million (equalling EUR 24.2 million). BAWAG P.S.K. filed a (counter)suit against the City of Linz for the fulfilment of its contractual entitlements from the same transaction in the amount of EUR 417.7 million. The mediation proceedings recommended by the Commercial Court of Vienna were declared ended by the mediators in February 2013. The court combined the two lawsuits, and the first verbal hearing was held on 24 May 2013. There have been no changes in BAWAG P.S.K.'s assessment at this time.

With no material changes having occurred since year-end 2012, we refer to the Notes to the consolidated financial statements 2011 and 2012.

Events after the Reporting Date

Changes in Equity Participations

BAWAG P.S.K. Fuhrparkleasing GmbH

On 1 July 2013, BAWAG P.S.K. Leasing GmbH as seller and LeasePlan Corporation N.V. as purchaser signed a share purchase agreement for all the shares in BAWAG P.S.K. Fukrparkleasing GmbH. The closing depends, among other things, on non-prohibition by the anti-trust authorities.

Details of the Consolidated Statement of Financial Position

1 | Cash reserves

in millions of Euros	30.06.2013	31.12.2012
Cash on hand	313	267
Balances at central banks	734	214
Cash reserves	**1,047**	**481**

2 | Financial assets designated at fair value through profit or loss

in millions of Euros	30.06.2013	31.12.2012
Bonds and other fixed income securities	**544**	**686**
Bonds of other issuers	544	686
Shares and other variable rate securities	**62**	**77**
Investment certificates	55	71
Other	7	6
Loans and advances to customers	**517**	**638**
Customers	517	638
Designated at fair value through profit or loss	**1,123**	**1,401**

3 | Available-for-sale financial assets

in millions of Euros	30.06.2013	31.12.2012
Debt instruments	**5,621**	**6,687**
Bonds and other fixed income securities	5,621	6,687
Public sector debt instruments	919	1,022
Bonds of other issuers	4,702	5,665
Equity investments	**119**	**123**
Recognised at cost		
Investments in non-consolidated subsidiaries	23	23
Interests in associates	60	63
Other shareholdings	36	37
Available-for-sale financial assets	**5,740**	**6,810**

4 | Held-to-maturity financial investments

in millions of Euros	30.06.2013	31.12.2012
Debt instruments	**817**	**–**
Bonds and other fixed income securities	817	–
Public sector debt instruments	404	–
Bonds of other issuers	413	–
Held-to-maturity financial investments	**817**	**–**

In the first half of 2013, BAWAG P.S.K. reclassified a part of its available-for-sale financial assets as held-to-maturity investments. The other additions are due to new investments.

The effects of reclassification from available-for-sale to held-to-maturity in April 2013 are shown in the following table:

in millions of Euros	Carrying amount	Fair value
Available-for-sale financial assets	-250	-250
Held-to-maturity investments	+250	+250

5 | Assets held for trading

in millions of Euros	30.06.2013	31.12.2012
Bonds and other fixed income securities	**–**	**1**
Bonds of other issuers	–	1
Positive fair values of derivative financial instruments	**1,349**	**1,838**
Derivatives in trading book	**430**	**630**
Foreign currency derivatives	80	88
Interest rate derivatives	350	542
Derivatives in banking book	**919**	**1,208**
Foreign currency derivatives	139	122
Interest rate derivatives	774	1,069
Credit related derivatives	6	17
Assets held for trading	**1,349**	**1,839**

6 | Loans and receivables

30.06.2013 in millions of Euros	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Securities	**2,812**	**–**	**–**	**–**	**2,812**
Public sector debt instruments	205	–	–	–	205
Debt instruments of other issuers	2,607	–	–	–	2,607
Receivables from credit institutions	**2,913**	**7**	**-6**	**–**	**2,914**
Receivables from customers	**20,825**	**917**	**-356**	**-111**	**21,275**
Central governments	100	–	–	–	100
Corporates and other customers	14,026	554	-173	-11	14,396
Retail	6,699	363	-183	-66	6,813
Portfolio impairment provision[1)]	–	–	–	-34	-34
Total	**26,550**	**924**	**-362**	**-111**	**27,001**

1) Allowance for incurred but not reported losses.

31.12.2012 in millions of Euros	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Securities	**2,283**	**–**	**–**	**–**	**2,283**
Public sector debt instruments	203	–	–	–	203
Debt instruments of other issuers	2,080	–	–	–	2,080
Receivables from credit institutions	**5,179**	**24**	**-17**	**–**	**5,186**
Receivables from customers	**21,793**	**1,131**	**-546**	**-103**	**22,275**
Central governments	102	–	–	–	102
Corporates and other customers	14,911	583	-186	-3	15,305
Retail	6,780	548	-360	-69	6,899
Portfolio impairment provision[1)]	–	–	–	-31	-31
Total	**29,255**	**1,155**	**-563**	**-103**	**29,744**

1) Allowance for incurred but not reported losses.

On 7 June 2013, the Bank sold a portfolio of non-performing loans (NPLs) in the amount of EUR 194.2 million. This portfolio was made up of customers of BAWAG P.S.K. (EUR 193.6 million) and easybank AG (EUR 0.6 million).

7 | Receivables from credit institutions and customers

Receivables from credit institutions – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Austria	**–**	**–**	**946**	**2,560**	**946**	**2,560**
Abroad	**–**	**–**	**1,968**	**2,626**	**1,968**	**2,626**
Western Europe	–	–	1,812	2,446	1,812	2,446
Central and Eastern Europe	–	–	28	55	28	55
North America	–	–	26	28	26	28
Asia/Pacific	–	–	100	83	100	83
Rest of the world	–	–	2	14	2	14
Receivables from credit institutions	**–**	**–**	**2,914**	**5,186**	**2,914**	**5,186**

Receivables from customers – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Austria	**517**	**638**	**16,707**	**17,501**	**17,224**	**18,139**
Abroad	**–**	**–**	**4,568**	**4,774**	**4,568**	**4,774**
Western Europe	–	–	3,068	3,010	3,068	3,010
Central and Eastern Europe	–	–	872	1,080	872	1,080
North America	–	–	211	277	211	277
Asia/Pacific	–	–	5	6	5	6
Rest of the world	–	–	412	401	412	401
Receivables from customers	**517**	**638**	**21,275**	**22,275**	**21,792**	**22,913**

Receivables from credit institutions – Breakdown by credit type

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Demand deposits	–	–	40	102	40	102
Time deposits	–	–	2,720	4,902	2,720	4,902
Loans	–	–	144	173	144	173
Other	–	–	10	9	10	9
Receivables from credit institutions	**–**	**–**	**2,914**	**5,186**	**2,914**	**5,186**

Receivables from customers – Breakdown by credit type

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Current accounts	**–**	**–**	**1,281**	**1,390**	**1,281**	**1,390**
Cash advances	**–**	**–**	**1,283**	**1,460**	**1,283**	**1,460**
Loans	**517**	**638**	**17,886**	**18,415**	**18,403**	**19,053**
One-off loans	517	638	17,767	18,330	18,284	18,968
Current account loans	–	–	3	3	3	3
Other	–	–	116	82	116	82
Finance leases	**–**	**–**	**825**	**1,010**	**825**	**1,010**
Receivables from customers	**517**	**638**	**21,275**	**22,275**	**21,792**	**22,913**

8 | Tax assets

in millions of Euros	30.06.2013	31.12.2012
Tax assets	243	221
Thereof for current taxes	6	3
Thereof for deferred taxes	237	218
Tax assets	**243**	**221**

9 | Other assets

in millions of Euros	30.06.2013	31.12.2012
Accruals	21	37
Leasing objects not in operation yet	21	21
Other items	239	145
Other assets	**281**	**203**

10 | Financial liabilities designated at fair value through profit or loss

in millions of Euros	30.06.2013	31.12.2012
Payables to customers	**42**	**43**
Investment products	42	43
Issued bonds, subordinated and supplementary capital	**3,096**	**4,281**
Issued bonds (own issues)	1,429	2,244
Subordinated capital	422	492
Supplementary capital	28	29
Other obligations evidenced by paper	1,217	1,516
Financial liabilities designated at fair value through profit or loss	**3,138**	**4,324**

The change in issued bonds (own issues) can primarily be attributed to the redemption of a bond with a nominal value of EUR 741 million. The change in subordinated capital is mainly due to a redemption in the amount of EUR 50 million.

11 | Liabilities held for trading

in millions of Euros	30.06.2013	31.12.2012
Negative fair values of derivative financial instruments	**1,670**	**2,269**
Derivatives trading book	**503**	**791**
Foreign currency derivatives	287	316
Interest rate derivatives	216	475
Derivatives banking book	**1,167**	**1,478**
Foreign currency derivatives	573	620
Interest rate derivatives	585	837
Credit related derivatives	9	21
Liabilities held for trading	**1,670**	**2,269**

12 | Financial liabilities measured at amortised cost

in millions of Euros	30.06.2013	31.12.2012
Payables to credit institutions	**1,846**	**3,748**
Payables to customers	**22,020**	**21,999**
Savings deposits[1)]	9,972	10,990
Other deposits	12,048	11,009
Issued bonds, subordinated and supplementary capital	**4,842**	**4,769**
Issued bonds	2,716	2,773
Subordinated capital	185	186
Supplementary capital	130	128
Other obligations evidenced by paper	1,811	1,682
Financial liabilities associated with transferred assets	**90**	**86**
Financial liabilities at amortised cost	**28,798**	**30,602**

1) Excluding investment products recognised at fair value which are disclosed in Note 10 (Financial liabilities designated at fair value through profit or loss).

13 | Payables to credit institutions and customers

Payables to credit institutions – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Austria	**–**	**–**	**637**	**2,712**	**637**	**2,712**
Abroad	**–**	**–**	**1,209**	**1,036**	**1,209**	**1,036**
Western Europe	–	–	673	521	673	521
Central and Eastern Europe	–	–	8	4	8	4
North America	–	–	2	14	2	14
Rest of the world	–	–	526	497	526	497
Payables to credit institutions	**–**	**–**	**1,846**	**3,748**	**1,846**	**3,748**

Payables to customers – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Austria	**42**	**43**	**21,683**	**21,626**	**21,725**	**21,669**
Abroad	**–**	**–**	**337**	**373**	**337**	**373**
Western Europe	–	–	202	231	202	231
Central and Eastern Europe	–	–	89	93	89	93
North America	–	–	15	17	15	17
Asia/Pacific	–	–	9	8	9	8
Rest of the world	–	–	22	24	22	24
Payables to customers	**42**	**43**	**22,020**	**21,999**	**22,062**	**22,042**

Payables to customers – Breakdown by sector

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Savings deposits	**–**	**–**	**9,972**	**10,990**	**9,972**	**10,990**
Savings accounts	–	–	4,106	4,527	4,106	4,527
Savings associations	–	–	321	309	321	309
Fixed-term investment savings accounts	–	–	5,545	6,154	5,545	6,154
Investment accounts	**42**	**43**	**–**	**–**	**42**	**43**
Other deposits	**–**	**–**	**12,048**	**11,009**	**12,048**	**11,009**
Central governments	–	–	321	278	321	278
Non credit institutions	–	–	462	497	462	497
Corporates	–	–	3,805	3,235	3,805	3,235
Retail	–	–	7,460	6,999	7,460	6,999
Payables to customers	**42**	**43**	**22,020**	**21,999**	**22,062**	**22,042**

14 | Provisions

in millions of Euros	30.06.2013	31.12.2012
Provisions for social capital	458	433
Thereof for severance payments	107	104
Thereof for pension provisions	315	295
Thereof for jubilee benefits	36	34
Anticipated losses on pending business	25	14
Credit promises and guarantees	25	14
Other items	37	37
Provisions for pending litigation	37	37
Provisions	**520**	**484**

15 | Tax liabilities

in millions of Euros	30.06.2013	31.12.2012
Tax liabilities	17	19
Thereof for current taxes	2	2
Thereof for deferred taxes	15	17
Tax liabilities	**17**	**19**

16 | Other obligations

in millions of Euros	30.06.2013	31.12.2012
Other liabilities	1,160	545
Accruals	7	20
Other obligations	**1,167**	**565**

Other liabilities include liabilities to employees resulting from additional restructuring and sundry items for the first half of 2013.

17 | Hedging derivatives

in millions of Euros	30.06.2013	31.12.2012
Hedging derivatives in fair value hedges		
Positive market values	124	192
Negative market values	110	164

Details of the Consolidated Profit or Loss Statement

18 | Net interest income

in millions of Euros	1–6/2013	1–6/2012
Interest income	**535.9**	**685.5**
Cash reserves	0.7	1.1
Financial assets held for trading	97.4	77.5
Financial assets designated at fair value through profit or loss	25.0	37.0
Available-for-sale financial assets	93.2	106.4
Loans and receivables	319.6	463.5
Interest expense	**-283.6**	**-383.4**
Financial liabilities held for trading	-86.3	-71.6
Financial liabilities designated at fair value through profit or loss	-78.3	-91.6
Financial liabilities measured at amortised cost	-119.0	-220.2
Dividend income	**7.2**	**8.3**
Available-for-sale financial assets	7.2	8.3
Net interest income	**259.5**	**310.4**

The change in net interest income can especially be attributed to the low interest rate level, the continued margin pressure in deposit-taking business and a lower balance sheet volume.

19 | Net fee and commission income

in millions of Euros	1–6/2013	1–6/2012
Fee and commission income	**148.7**	**153.8**
Payment transfers	84.3	85.5
Lending	12.9	19.8
Securities and custody business	30.8	30.6
Foreign business, currency and notes-and-coin business	0.1	0.1
Other services	20.6	17.8
Fee and commission expenses	**-50.6**	**-52.9**
Payment transfers	-14.0	-12.8
Lending	-2.6	-0.4
Securities and custody business	-5.7	-10.7
Foreign business, currency and notes-and-coin business	-0.1	-0.3
Payments to Österreichische Post AG	-28.2	-28.7
Net fee and commission income	**98.1**	**100.9**

20 | Gains and losses on financial assets and liabilities

in millions of Euros	1–6/2013	1–6/2012
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**83.0**	**96.5**
Available-for-sale financial assets	53.1	43.4
Loans and receivables (including finance leases)	30.1	33.1
Financial liabilities measured at amortised cost	-0.2	20.0
Gains (losses) on financial assets and liabilities held for trading, net	**-83.0**	**23.9**
Interest rate instruments and related derivatives	-85.0	20.1
Foreign exchange trading	1.9	3.9
Credit risk instruments and related derivatives	0.1	-0.1
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	**97.6**	**-68.8**
Gains (losses) from fair value hedge accounting	**9.5**	**5.3**
Exchange differences revaluations, net	**6.3**	**1.1**
Gains and losses on financial assets and liabilities	**113.4**	**58.0**

In 2012, the item Gains and losses on financial assets and liabilities also included fair value gains of financial instruments whose risk is borne by shareholders of non-controlling interests. In the first half of 2012, valuation gains in the amount of EUR 12.8 million were included in the item Gains and losses on financial assets and liabilities.

21 | Other operating income and expenses

in millions of Euros	1–6/2013	1–6/2012
Net income from investment properties	0.1	0.3
Net income from the sale of tangible and intangible non-current assets	0.8	1.2
Bank levy	-12.7	-12.7
Other income and expenses	2.5	3.6
Other operating income and expenses	**-9.3**	**-7.6**

22 | Administrative expenses

in millions of Euros	1–6/2013	1–6/2012
Staff costs	**-179.0**	**-175.7**
Wages and salaries	-121.7	-123.5
Restructuring and sundry personnel expenses	-11.4	-3.5
Statutory social security contributions	-32.0	-32.2
Voluntary fringe benefits	-2.1	-2.0
Post-employment benefit costs	-10.1	-10.4
Decrease of pension provision	2.0	0.5
Increase of provision for severance payments	-2.1	-1.7
Increase of provision for jubilee benefits	-0.9	-2.2
Staff benefit fund costs	-0.7	-0.7
Other administrative expenses	**-93.9**	**-103.3**
Administrative expenses	**-272.9**	**-279.0**

23 | Depreciation and amortisation on tangible and intangible non-current assets

in millions of Euros	1–6/2013	1–6/2012
Depreciation and amortisation		
Intangible non-current assets	-18.0	-17.1
Tangible non-current assets	-9.4	-9.9
Depreciation and amortisation	**-27.4**	**-27.0**

24 | Provisions and impairment losses

in millions of Euros	1–6/2013	1–6/2012
Changes in provisions for credit risk	-11.3	-5.5
Impairment losses on financial assets	-52.5	-71.9
Impairment losses on non-financial assets	–	-0.1
Provisions and impairment losses	**-63.8**	**-77.5**

25 | Income taxes

in millions of Euros	1–6/2013	1–6/2012
Current tax expense	-0.2	-0.9
Deferred tax income/expense	-1.6	33.2
Income taxes	**-1.8**	**32.3**

Other Information

26 | Contingent assets, contingent liabilities and commitments

in millions of Euros	30.06.2013	31.12.2012
Contingent assets	**–**	**1**
Contingent liabilities	**773**	**798**
Arising from guarantees	772	797
Other contingent liabilities	1	1
Unused customer credit lines	**5,406**	**5,815**
thereof terminable at any time and without notice	3,607	3,989
thereof not terminable at any time	1,799	1,826

27 | Human resources

Headcount	30.06.2013	31.12.2012
Number of employees on reporting date	4,335	4,480
Average number of employees	4,416	4,509

Full-time equivalents	30.06.2013	31.12.2012
Number of employees on reporting date	3,840	4,003
Average number of employees	3,923	4,043

28 | Segment reporting

The segment reporting presents the results of the operating business segments of BAWAG P.S.K. Group. The following segment information is based on IFRS 8 Operating Segments, which follows the so-called management approach. In this, the segment information is prepared on the basis of the internal reports used by the Managing Board (Chief Operating Decision Maker) to assess the performance of the segments and to make decisions on allocating resources to the segments. The key internal results KPI is profit before tax under consideration of the cost of capital (EVA).

The breakdown of the net interest income and its allocation to the segments in the management report is based on the principles of the market interest rate method, also taking into account allocated liquidity costs and premiums. According to this method, it is assumed that asset and liability items are refinanced by means of money and capital market transactions with corresponding maturities, and therefore are not subject to interest rate risk. The interest rate risk is managed actively through asset and liability management, and the results are presented in the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective units of the Company where they are incurred. The overhead costs are assigned to the individual segments according to an allocation factor. The bank levy that was imposed for the first time in 2011 is also allocated to the segments according to an allocation factor.

As in the previous periods, remuneration for the sales services of Österreichische Post AG in the Retail and Small Business segment is reported as commission expenses.

Unlike in the previous periods, the net interest income from the conclusion of leasing agreements through the branch network (EUR 1.2 million) is reported in the Retail and Small Business segment. Due to immateriality, the previous period has not been adapted (below EUR 1 million). Proceeds from the sale of own issues in the Retail and Small Business segment (EUR 1.7 million) and the Corporates segment (EUR 0.5 million) are reported as commission income instead of as net interest income.

Restructuring expenses and sundry items (EUR 11.4 million) were allocated to the Corporate Center/ALM segment; the bank levy (EUR 12.7 million) was allocated to the segments on a proportionate basis (the figures for the previous period were adjusted accordingly).

The segment structure is based on the corporate structure as of the reporting date.

The operations are broken down into the following five segments, with the named subsidiaries being assigned as follows:
- **Retail and Small Business**, including easybank and BAWAG P.S.K. Invest
- **Corporates**, including the leasing sub-group, BV Holding GmbH and ÖVKB
- **International Business**
- **Financial Markets**, including BV Vermögensverwaltung GmbH
- **Corporate Center/ALM**, including equity investments which are not directly business field-related

The segments in detail:

in millions of Euros		Retail and Small Business	Corporates	International Business	Financial Markets	*Core activities*	Corporate Center/ ALM	Total
Net interest income	HY 2013	143.3	61.8	40.3	11.0	256.5	2.9	**259.5**
	HY 2012	160.9	81.4	46.3	9.0	297.7	12.7	**310.4**
Net fee and commission income	HY 2013	90.4	31.5	6.4	4.6	133.0	-34.9	**98.1**
	HY 2012	78.8	41.0	11.4	1.3	132.6	-31.6	**100.9**
Core revenues	HY 2013	**233.8**	**93.4**	**46.7**	**15.7**	**389.5**	**-31.9**	**357.6**
	HY 2012	**239.8**	**122.4**	**57.7**	**10.4**	**430.2**	**-18.9**	**411.3**
Gains and losses on financial assets and liabilities	HY 2013	25.8	16.0	2.5	21.7	66.1	47.3	**113.4**
	HY 2012	15.8	9.8	-2.1	35.9	59.3	-14.1	**45.2**
Other operating income (expenses)	HY 2013	0.7	0.5	–	–	1.2	2.2	**3.4**
	HY 2012	–	1.4	–	–	1.5	3.6	**5.1**
Operating income	HY 2013	**260.3**	**109.9**	**49.2**	**37.4**	**456.8**	**17.6**	**474.4**
	HY 2012	**255.6**	**133.6**	**55.6**	**46.2**	**491.0**	**-29.5**	**461.6**
Administrative expenses	HY 2013	-180.5	-43.9	-10.5	-17.3	-252.3	-9.3	**-261.6**
	HY 2012	-186.9	-46.8	-8.6	-20.2	-262.4	-13.0	**-275.4**
Depreciation and amortisation on tangible and intangible non-current assets	HY 2013	-14.6	-3.6	-0.9	-1.5	-20.5	-6.9	**-27.4**
	HY 2012	-14.2	-3.8	-0.7	-1.6	-20.3	-6.7	**-27.0**
Operating expenses	HY 2013	**-195.2**	**-47.5**	**-11.4**	**-18.8**	**-272.8**	**-16.1**	**-288.9**
	HY 2012	**-201.1**	**-50.6**	**-9.3**	**-21.7**	**-282.7**	**-19.7**	**-302.4**
Restructuring expenses and sundry items	HY 2013	–	–	–	–	–	-11.4	**-11.4**
	HY 2012	–	–	–	–	–	-3.5	**-3.5**
Operating profit before bank levy	HY 2013	**65.2**	**62.4**	**37.8**	**18.6**	**184.0**	**-9.9**	**174.1**
	HY 2012	**54.5**	**83.0**	**46.3**	**24.5**	**208.3**	**-52.7**	**155.6**
Bank levy	HY 2013	-1.5	-2.7	-0.9	-7.5	-12.7	–	**-12.7**
	HY 2012	-1.4	-3.2	-0.6	-7.5	-12.7	–	**-12.7**
Operating profit before risk costs	HY 2013	**63.7**	**59.7**	**36.9**	**11.1**	**171.3**	**-9.9**	**161.4**
	HY 2012	**53.1**	**79.8**	**45.6**	**17.0**	**195.6**	**-52.7**	**142.9**
Provisions and impairment losses	HY 2013	-15.1	-33.4	-10.5	–	-58.9	-4.9	**-63.8**
	HY 2012	-27.1	-24.3	–	–	-51.4	-26.1	**-77.5**
Share of the profit or loss of associates accounted for using the equity method	HY 2013	–	–	–	–	–	-1.4	**-1.4**
	HY 2012	–	–	–	–	–	0.8	**0.8**
Profit (loss) before tax	**HY 2013**	**48.6**	**26.4**	**26.4**	**11.1**	**112.4**	**-16.2**	**96.2**
	HY 2012	**26.0**	**55.5**	**45.6**	**17.0**	**144.2**	**-78.0**	**66.2**
Risk-weighted assets (total RWA)	HY 2013	2,078.0	5,727.0	3,426.0	1,412.7	12,643.7	5,366.9	**18,010.6**
	HY 2012	3,845.0	8,804.7	3,140.2	2,011.5	17,801.4	5,020.2	**22,821.6**

The **Retail and Small Business** segment covers banking services provided through the branches, including alternative sales channels, the business service, the Small Business unit, the customer service center as well as the new eCommerce sales line.

It also covers the subsidiaries easybank and BAWAG P.S.K. Invest.

BAWAG P.S.K. is striving to be the pioneer of intuitive banking in Austria, and is consistently implementing the associated retail strategy. The cornerstones of this strategy are a strong brand, the slogan “Mitten im Leben” and the orientation towards clear, fair and intuitive banking that is available for our customers anytime and anywhere.

The customer-oriented initiatives focused in the first half of 2013 on the optimisation of the branch network, the expansion of the sales channels under the multi-channel strategy and an attractive product range, especially in the area of consumer financing.

The measures that were taken and the profits realised from the sale of an NPL portfolio had a positive effect on the segment result. Despite the difficult market conditions, operating income rose by 1.9 per cent to EUR 260.3 million, offsetting the negative impact of low market interest rate levels.

Despite substantial investments in the further expansion of the business segment, strict cost management allowed the operating expenses to be cut by 3.0 per cent to EUR 195.2 million. In addition, the risk costs fell by a substantial 44.4 per cent to 15.1 million during the reporting period. Overall, the Retail and Small Business segment achieved a profit before tax of EUR 48.6 million, a marked increase of 86.6 per cent compared with the first half of 2012 (EUR 26.0 million).

In the **Corporates** segment, BAWAG P.S.K. concentrates on sustainable financing and product relationships. Corporate activities include the leasing sub-group, BV Holding GmbH and ÖVKB.

Due to the weak economic growth, high margin pressure and strong competition in this segment operating income fell in total. Nevertheless, the Bank achieved sustainable operating income among its core customers. New lending agreements also continue to meet the risk/return requirements introduced across the business in 2012.

The established Business Solution Partner concept and a wide range of standardised, needs-oriented financing and service products set BAWAG P.S.K. apart as a highly reliable business partner.

Operating income fell by 17.8 per cent in semi-annual comparison to EUR 109.9 million, while operating expenses improved by 6.2 per cent to EUR 47.5 million. The changes compared with the previous half-year can in part be attributed to the merger of selected business sub-segments into other segments. Taking the 37.3 per cent increase in the risk costs to EUR 33.4 million into account, the profit before tax came to EUR 26.4 million, a decline of 52.5 per cent compared with the first half of 2012 (EUR 55.5 million).

In the **International Business** segment, the bank further reduced its exposure in Eastern Europe in the first half of the year. Strong market conditions and excess liquidity on the market caused an increase in the level of repayments by certain existing customers. Despite these effects, the International Corporates portfolio remained stable in annual comparison at EUR 2.3 billion while business volume in the international commercial real estate segment was expanded to EUR 1.2 billion.

In compliance with the Bank’s internal guidelines, International Corporates invests in corporate bonds and loans, primarily denominated in euros, and in investment grade instruments; investment grade exposures made up 76 per cent of the portfolio as of the reporting date.

Operating income fell by 11.5 per cent in semi-annual comparison to EUR 49.2 million in 2013, while operating expenses rose by 22.9 per cent to EUR 11.4 million. This is primarily due to the margin impact from redemptions and increased funding costs allocated to the business. In the first half of 2013, risk costs in the amount of EUR 10.5 million had to be accounted for for the first time in this portfolio. Therefore, the profit before tax for the period came to EUR 26.4 million, a decline of 42.2 per cent from the EUR 45.6 million achieved in the first half of 2012.

The **Financial Markets** segment manages the portfolios of BAWAG P.S.K. and BV Vermögensverwaltung GmbH as an investment firm.

Financial Markets is also responsible for trading with financial instruments for customers and for the completion of all hedging activities and the strategic positioning of the bank on the interest rate and currency markets in close collaboration with the asset/liability management team.

In the course of the Bank's investment strategy and capital optimisation, greater emphasis was placed on the optimisation of the return on risk-weighted assets (RoRWA), in part in anticipation of the negative margin effects from the Basel III liquidity indicators, during the first half of the year.

Due to concentration on the core business areas, including the suspension of proprietary trading, operating income fell by 19.1 per cent in semi-annual comparison to EUR 37.4 million, while operating expenses could be reduced by 13.5 per cent to EUR 18.8 million. Taking the proportionate bank levy of EUR 7.5 million into account, the segment achieved a profit before tax of EUR 11.1 million, a decline of 34.8 per cent compared with the EUR 17.0 million achieved in the comparison period.

The **Corporate Center/ALM** segment primarily covers asset and liability management, funding portfolios, equity capital investments, further central items and the structured credit portfolio.

Following the internal segmentation, this segment includes equity holdings that do not directly support the Bank's segments as well as consolidation effects and translation items to compensate for valuation and reporting differences between the segment accounts and the Profit or Loss Statement.

The segment's administrative expenses include outlay for the subsidiaries assigned to it as well as central items such as from overall Bank projects. Restructuring costs are also allocated to this segment.

The improvement in the profit before tax to EUR –16.2 million after the EUR –78.1 million reported in the first half of 2012 (an improvement of 79.3 per cent) can primarily be attributed to the increase in the item gains and losses on financial assets and liabilities, which was driven by strategic positions and valuation effects from the structured credit portfolio. The impairment provisions and carrying value write-downs that were allocated to this segment also declined considerably compared with the previous half-year.

The segment result is reconciled with the consolidated Profit or Loss Statement as follows:

in millions of Euros	**1–6/2013**	**1–6/2012**
Gains and losses on financial assets and liabilities according to segment report	113.4	45.2
Gains and losses on financial assets attributable to non-controlling interests	–	12.8
Gains and losses on financial assets and liabilities according to consolidated Profit or Loss Statement	**113.4**	**58.0**

in millions of Euros	**1–6/2013**	**1–6/2012**
Other operating income and expenses according to segment report	3.4	5.1
Bank levy	-12.7	-12.7
Other operating income and expenses according to consolidated Profit or Loss Statement	**-9.3**	**-7.7**

in millions of Euros	**1–6/2013**	**1–6/2012**
Profit before tax according to segment report	96.2	66.2
Gains and losses on financial assets attributable to non-controlling interests	–	12.8
Profit before tax according to consolidated Profit or Loss Statement	**96.2**	**79.0**

29 | Capital management

The Austrian Banking Act (BWG) requires the Bank, in accordance with the recommendations of the Basel Committee and the applicable EU directive (2006/48/EC), to maintain a minimum amount of own funds that is calculated on the basis of its risk-weighted assets. The capital management system employed by BAWAG P.S.K. is based on own funds as defined in section 23 BWG and the Internal Capital Adequacy Assessment Process (ICAAP) capital management approach.

The ICAAP of BAWAG P.S.K. is modelled taking into account the Bank's business and risk profile and is an integral part of the planning and the control system. In the course of the ICAAP, the risk-bearing capacity of the Bank is ensured and the efficient use of capital for risk coverage monitored. Semi-annual stress tests based on regulatory and economic criteria round out the steering process. As part of the JRAD (Joint Risk Assessment and Decision) process, the overall bank risk management process of BAWAG P.S.K. Group was reviewed in detail on the basis of the ICAAP questionnaire. The results of the analysis are expected for the fourth quarter of 2013. It will also include the specification of a SREP (Supervisory Review and Evaluation Process) ratio, which requires the maintenance of a minimum overall capital ratio in pillar 1 to meet the requirements for pillar 2. The supervisory own funds are broken down into the three categories, Tier I to III, in accordance with their quality, with recognition limits applying for Tier II and III.

BAWAG P.S.K. continually monitors its compliance with the stipulated own funds ratios on the basis of the notifications sent to Oesterreichische Nationalbank (the Austrian national bank) at the end of every month and on the basis of current business developments.

The budgeted business volumes are also compared with the expected changes in the eligible own funds at the beginning of every financial year. In addition to the risk-weighted assets, the calculation also includes the own funds requirement for the securities trading book (using an internal value-at-risk model including stress) and the own funds requirement to cover operational risk. Besides regulatory capital management, capital limits are assigned to the business segments based on their planning as part of the ICAAP process.

The Bank employs a centralised capital management system. The main responsibilities of this function are to continuously monitor the development of the Bank's business, to analyse changes in its risk-weighted assets and to reconcile those with the available regulatory own funds or the ICAAP limit and utilisations for each segment. In addition to adding FX and downgrade sensitivity analyses to the monthly reporting, an increased level of benchmark analyses is also being used. Another focus is the implementation of the CRR I (Capital Requirements Regulation) rules. CRR I is an EU regulation that defines new regulatory requirements and enters into force on 1 January 2014 after it was published in the EU Official Journal on 27 June 2013. It is directly legally binding without transposition into national law and therefore harmonised throughout the EU. In particular, CRR I includes rules regarding the components of the regulatory capital, capital requirements, large exposures, liquidity reporting, leverage, disclosure and transitional provisions. BAWAG P.S.K. has already included essential parts of the CRR I criteria in its capital management. Additionally, the amendments to the BWG due to the implementation of the CRD IV (Capital Requirements Directive) are constantly monitored. The Capital Management Team gives recommendations to the Managing Board for increasing the own funds coverage when necessary and reports to the Enterprise Risk Meeting once a month. A structured process in the Bank ensures the continued proactive optimisation of capital adequacy. In particular, this includes a cross-division programme for the efficient utilisation of capital through RWA. This promotes systematic technical improvements and closely coordinates possible optimisation measures with the responsible operational units. The newly established RWA Desk also supports the business units in technical issues and provides well-founded individual analyses for large-scale credit applications.

The following table shows the breakdown of the Group's own funds and its own funds requirement pursuant to BWG:

in millions of Euros	**30.06.2013**	**31.12.2012**
Share capital, participation capital	**750**	**800**
Reserves (including fund for general banking risks) after deduction of intangible assets and losses of subsidiaries	1,109	1,102
Less shareholdings held for investment purposes, shortfalls IRB risk provisions*)	-46	-39
Minorities	404	404
Hybrid capital	142	142
Tier I (Tier I capital including minorities and hybrids)	**2,359**	**2,409**
Reserve under § 57 BWG, revaluation reserve	45	44
Supplementary and subordinated debt capital	346	405
Additional items (Tier II)	**391**	**449**
Less shareholdings held for investment purposes, shortfalls IRB risk provisions*)	-46	-39
Eligible own funds	**2,704**	**2,819**
Tier III	**11**	**16**
Own funds	**2,715**	**2,835**

*) as of 30 June 2013

Our own funds compared with the following own funds requirement:

Credit risk	1,301	1,503
Market risk	11	16
Operational risk	129	130
Capital requirements	**1,441**	**1,649**

The Tier I capital ratio based on total risk of 13.1 per cent (2012: 11.7 per cent based on total risk) and an Own funds ratio of 15.1 per cent (2012: 13.8 per cent based on total risk) are well above the minimum legal standards, which amount to 4 per cent and 8 per cent, respectively.

The significant improvements in the capital ratios that were achieved despite the partial repayment of the participation capital and the redemption of a Tier II issue can primarily be attributed to the consistent application of RAW measures and the switch to the internal ratings-based approach (IRB).

30 | Fair value

The following table depicts the fair values of the Statement of Financial Position items. These are the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. If market prices were available on a stock exchange or other functioning market, they were used.

If no current, liquid market values were available, generally accepted, standard state-of-the-art methods of measurement were used. This applies to the category liabilities evidenced by paper (issued by BAWAG P.S.K.), structured credit transactions for which there are no active markets, and, in individual cases, other current financial assets in the Bank's trading portfolio where the valuation of plain vanilla securities was performed on the basis of the yield curve plus the current credit spread.

The measurement to fair value of customer business was carried out by applying credit spreads for each customer category. The blanket credit spreads are applied for the following customer categories: credit institutions, commercial customers, public sector and private customers, for which mortgage loans and other loans are considered separately. The credit spreads in customer business are derived by analysing both external data (market developments and OeNB statistics) and internal default statistics.

Linear derivative financial instruments containing no optional components (such as interest rate swaps, currency forwards and futures) were also recognised using a present value technique (discounting of future cash flows applying the current swap curve).

Optional instruments were measured using option price models such as Black-Scholes (swaptions, caps, floors), Garman-Kohlhagen (currency options) or the Hull-White model (swaps with multiple cancellation rights), which were implemented and applied consistently in the front office systems.

The basic parameters on which the models are based (yield curves, volatilities and exchange rates) are input into the system by the Market Risk unit independently of the Treasury division, which ensures the separation of front office functions from back office processing and control.

For more complex derivatives that are held for hedging purposes and that are concluded back to back, external valuations are obtained by the Market Risk unit in isolated cases and input into the systems for correct processing.

Standard providers such as Reuters are used to evaluate the spreads of issued securities recognised at fair value through profit or loss; for this, a BAWAG P.S.K. Senior unsecured spread curve is derived from a defined pool of bank bonds, additionaly taking into account a liquidity and rating premium. For covered issues, the spread curve is derived from the quotations of BAWAG P.S.K. benchmark bonds. The securities prices for BAWAG P.S.K. issues are then calculated by discounting the swap curve adapted by the spread.

The bonds issued by P.S.K. are backed by a guarantee of the Republic of Austria, which is reflected in the calculation of the prices in so far as the current credit spread of BAWAG P.S.K. is not taken into account in the discount curve.

In the first half of 2013, the portion of change in fair values of securities issued by BAWAG P.S.K. accounted for solely by changes in our credit spreads was EUR –1 million (EUR –132 million as of 31 December 2012). As of 30 June 2013, the cumulative fair value change resulting from changes in our credit rating amounted to EUR 85 million (EUR 86 million as of 31 December 2012).

A one basis point narrowing of the credit spread is expected to change their valuation by EUR –0.5 million.

The cumulative fair value change of receivables recognised at fair value through profit or loss that was recognised due to changes in our credit rating amounted to EUR +0.5 million as of 30 June 2013 (EUR +4 million as of 31 December 2012).

A one basis point narrowing of the credit spread is expected to change their valuation by EUR +0.2 million.

Fair values of selected items on the Statement of Financial Position

The following table depicts a comparison of the carrying amounts and fair values for selected items on the Statement of Financial Position.

in millions of Euros	Carrying amount 06/2013	Fair value 06/2013	Carrying amount 12/2012	Fair value 12/2012
Assets				
Cash reserves	1,047	1,047	481	481
Financial assets designated at fair value through profit or loss	1,123	1,123	1,401	1,401
Available-for-sale financial assets	5,740	5,740	6,810	6,810
Held-to-maturity investments	817	797	–	–
Assets held for trading	1,349	1,349	1,839	1,839
Loans and receivables	27,001	27,050	29,744	29,872
Hedging derivatives	124	124	192	192
Tangible non-current assets	170	n/a	181	n/a
Thereof investment properties	4	8	6	8
Intangible non-current assets	166	n/a	173	n/a
Other assets	542	n/a	444	n/a
Non-current assets in disposal groups held for sale	118	n/a	–	–
Total assets	**38,197**		**41,265**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	3,138	3,138	4,324	4,324
Liabilities held for trading	1,670	1,670	2,269	2,269
Financial liabilities designated at amortised cost	28,798	29,006	30,602	30,774
Hedging derivatives	110	110	164	164
Provisions	520	n/a	484	n/a
Other obligations	1,184	n/a	584	n/a
Obligations in disposal groups held for sale	14	n/a	–	–
Equity	2,369	n/a	2,445	n/a
Non-controlling interests	394	n/a	393	n/a
Total equity and liabilities	**38,197**		**41,265**	

The Available-for-sale financial assets include equity investments in the amount of EUR 119 million (2013: EUR 123 million). The carrying amount was used as the fair value because a market value cannot be determined reliably.

The carrying value of the claim against the City of Linz is included under Loans and receivables in the table above and corresponds to the fair value.

Fair value hierarchy

The following table depicts an analysis of the financial instruments recognised at their fair values on the basis of the fair value hierarchy in IFRS 13. The breakdown consists of the following groups:

- Level 1: The value of financial instruments is measured using a quoted price without adjustment. This includes government bonds, bonds with quoted prices and exchange-traded derivatives;
- Level 2: The value is measured by using input factors (default rates, costs, liquidity, volatility, interest rates etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices. This category includes a large share of the structured credit portfolio. It also includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognised at their fair values;
- Level 3: The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid structured securitisation instruments whose value is determined by unobservable assumptions (the outcome of litigation, investor decisions, trigger events, etc.) as well as own issues of BAWAG P.S.K. Wohnbaubank;
- Other: This pertains to stakes in non-consolidated subsidiaries that are classified as "available for sale".

in millions of Euros	Level 1 06/2013	Level 2 06/2013	Level 3 06/2013	Others[1] 06/2013	Total 06/2013
Assets					
Financial assets designated at fair value through profit or loss	104	946	73	–	**1,123**
Available-for-sale financial assets	5,560	62	–	118	**5,740**
Assets held for trading	2	1,347	–	–	**1,349**
Hedging derivatives	–	124	–	–	**124**
Total fair value assets	**5,666**	**2,479**	**73**	**118**	**8,336**
Liabilities					
Financial liabilities designated at fair value through profit or loss	46	2,535	556	–	**3,137**
Liabilities held for trading	–	1,670	–	–	**1,670**
Hedging derivatives	–	110	–	–	**110**
Total fair value liabilities	**46**	**4,315**	**556**	**–**	**4,917**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80-81 because their fair value cannot be measured reliably.

in millions of Euros	Level 1 12/2012	Level 2 12/2012	Level 3 12/2012	Other[1] 12/2012	Total 12/2012
Assets					
Financial assets designated at fair value through profit or loss	149	1,152	100	–	**1,401**
Available-for-sale financial assets	6,656	31	–	123	**6,810**
Assets held for trading	1	1,838	–	–	**1,839**
Hedging derivatives	–	191	–	–	**191**
Total fair value assets	**6,806**	**3,212**	**100**	**123**	**10,241**
Liabilities					
Financial liabilities designated at fair value through profit or loss	46	3,657	621	–	**4,324**
Liabilities held for trading	–	2,268	–	–	**2,268**
Hedging derivatives	–	164	–	–	**164**
Total fair value liabilities	**46**	**6,089**	**621**	**–**	**6,756**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80-81 because their fair value cannot be measured reliably.

BAWAG P.S.K. recognises transfers between levels as of the end of the reporting period during which the transfer has occurred.

Movements between Level 1 and Level 2

There were no transfers between Level 1 and Level 2 in the first half of 2013.

The changes in financial instruments in the Level 3 category were as follows:

in millions of Euros	Financial assets	Financial liabilities
Opening balance as of 1.1.2013	**100**	**621**
Valuation gains (losses) in profit or loss		
for assets held at the end of the period	10	-20
for assets no longer held at the end of the period	5	–
In other comprehensive income	–	–
Redemptions/sales	-43	-45
Foreign exchange differences	1	–
Transfers into or out of Level 3	–	–
Closing balance as of 30.06.2013	**73**	**556**

in millions of Euros	Financial assets	Financial liabilities
Opening balance as of 1.1.2012	**90**	**-81**
Valuation gains (losses) in profit and loss		
for assets held at the end of the period	16	–
for assets no longer held at the end of the period	1	–
In other comprehensive income	–	–
Redemptions/sales	-17	81
Foreign exchange differences	-5	–
Transfers into or out of Level 3	15	621
Closing balance as of 31.12.2012	**100**	**621**

Valuation (including the parameterisation of observable input factors) is done by a market-independent back office department within the Risk division on a monthly basis. Changes that have occurred are verified, as far as possible, by comparing them to references observable on the market.

Movements in Level 3 financial instruments measured at fair value

Holdings in the amount of EUR 43 million that were reported as Level 3 financial instruments on 31 December 2012 were disposed of in the first half of 2013. In the first half of 2013, the financial liabilities reported under Level 3 were disposed of in the amount of EUR 45 million.

Quantitative and qualitative information regarding the valuation of Level 3 financial instruments

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The spread premium is currently 55 basis points for maturities up to 8 years (mid) and 75 basis points for maturities from 9 years on (mid).

In general, the mentioned input parameter is dependent on the general market development of credit spreads within the banking sector; in detail on the credit rating development of the housing banks, whereby spread increases have positive effects.

Sensitivity analysis of unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the level for these parameters could be drawn from a range of reasonably possible alternatives. If these unobservable parameters are moved to the outer range as of 30 June 2013, fair value could have increased by EUR +30 million (31 December 2012: EUR +35 million) or decreased by EUR –9 million (31 December 2012 EUR –12 million). The main factors that were varied in estimating these impacts were the probabilities of default and, in the prior year, also the expected redemption dates of own issues.

31 | Disclosures in compliance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

According to IFRS 5, disposal groups consisting of assets and liabilities are to be classified as held for sale when the associated carrying amount stems primarily from a sale transaction and not from continued usage, and the sale is expected to be effected within twelve months. For this reason, the carrying amounts of the assets and liabilities of BAWAG P.S.K. Fuhrparkleasing GmbH are reported on the consolidated Statement of Financial Position under the item Non-current assets and disposal groups classified as held for sale or in the item Obligations in disposal groups held for sale.
The following table shows a breakdown of this item.

Non-current assets and liabilities in disposal groups classified as held for sale

in millions of Euros	30.06.2013
Assets in disposal groups classified as held for sale	**118**
Available-for-sale financial assets	–
Loans and receivables	107
Leasing customers	107
Credit institutions	–
Tangible non-current assets	–
Other assets	11
Obligations in disposal groups classified as held for sale	**14**
Financial liabilities	–
Valued at amortised cost	–
Customers	–
Credit institutions	–
Issued bonds, subordinated and supplementary capital	–
Provisions	–
Other obligations	14

Semi-Annual Risk Report

Introduction and Overview

Risk Management and the corresponding committees of BAWAG P.S.K. identify, measure, monitor and manage all risks to which BAWAG P.S.K. Group is exposed. At all organisational levels of the Bank, Market and Risk are strictly separated.

On the basis of a regular risk inventory, stringent monitoring and controlling is ensured for the following risk types as well as others:

- Credit risk
- Market risk
- Liquidity risk
- Participation risk
- Operational risk

This risk report provides information on the Group's positioning with regard to each of the risks listed above.

Risk Management – Risk Organisation

BAWAG P.S.K.'s Managing Board defines the Bank's risk strategy, and the principles of risk management, limits for all material risks and procedures for monitoring these risks are documented in risk manuals and work guidelines. The Managing Board is informed of the overall risk situation and the situation regarding specific risks on a monthly basis, and quarterly risk reports are submitted to the Supervisory Board's monitoring and control committees.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the products and services offered. BAWAG P.S.K. Group's risk management organisation consists of the following five units:

- Strategic Risk (includes operational risk)
- Market Risk (market-specific risks and liquidity risks)
- Corporate & Institutional Risk
- Credit Risk Retail & SME
- Legal Collection

Specific Risks of BAWAG P.S.K. Group

32 | Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation For risk management purposes, BAWAG P.S.K. considers and consolidates all elements of credit risk exposures, such as individual obligor or obligor group default risk, country risk and business segment risk. Risk concentrations such as a large number of loans denominated in foreign currencies and risk concentration in pledged collateral are also taken into account.

Operations in the divisions that are responsible for credit risk are set up to include a functional risk management specialisation for the Corporates segment (includes our institutional customers) and the Retail and Small Business segment. The aggregation of the individual risk indicators and periodic reporting are completed using a uniform process under the responsibility of the Strategic Risk division.

In the Retail and Small Business segment, the creditworthiness of private and small business customers is assessed by means of an automated scoring method. This consists of initial application scoring on the basis of proven and recognised mathematical and statistical models, and behavioural scoring on the basis of the customer's account use that updates the customer's credit rating every month.

No ratings are available from external agencies for the majority of BAWAG P.S.K.'s commercial customers. Before new commitments are made (or when existing commitments are to be expanded or risk assessments need to be updated), the borrower's credit rating is assessed using an internal rating method for the customer's specific business segment. The rating methods that have been developed by BAWAG P.S.K. for this are based on a broad spectrum of quantitative and qualitative factors. The specific risk categories from the uniform BAWAG P.S.K. master scale are assigned to the customer on this basis and represent its individual estimated probability of default.

All small-scale non-consumer exposure components that exist in BAWAG P.S.K. Group are aggregated at the customer and customer group level using a specific software application. Duties requiring that exposures be reported to the Managing Board and Supervisory Board are defined for customers/groups of affiliated customers by extent of unsecured limits and risk-weighted assets to identify the concentration of risk exposure.

Portfolio Development in the First Half of 2013

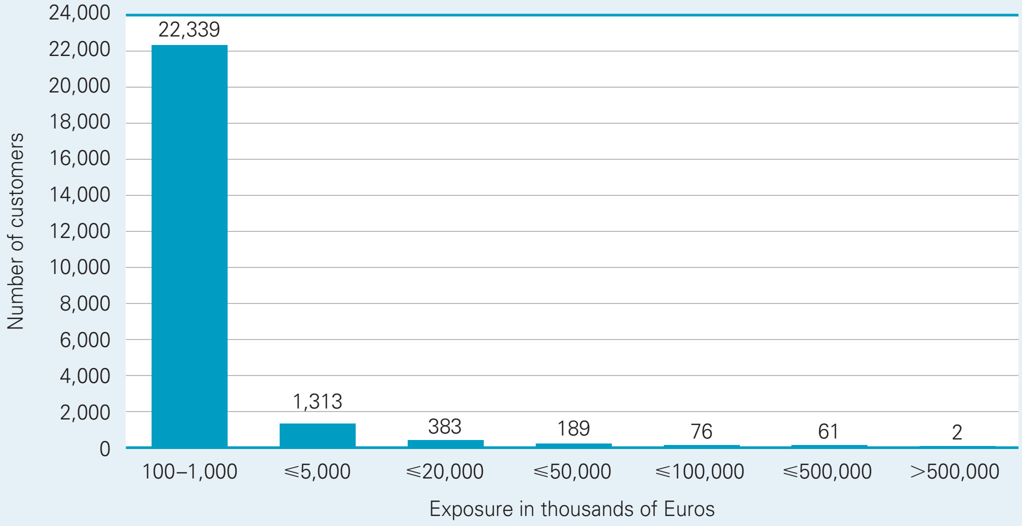
As a result of consistent portfolio optimisation and the still difficult market environment, the overall volume of the portfolio decreased in the first half of 2013. Decreases were recorded especially in loans to credit institutions, public sector lending, corporate receivables and small business receivables. In retail business, the focus on mortgage and consumer loans resulted in an increase in credit volumes.

Credit risk by customer segment, in millions of Euros[1)]

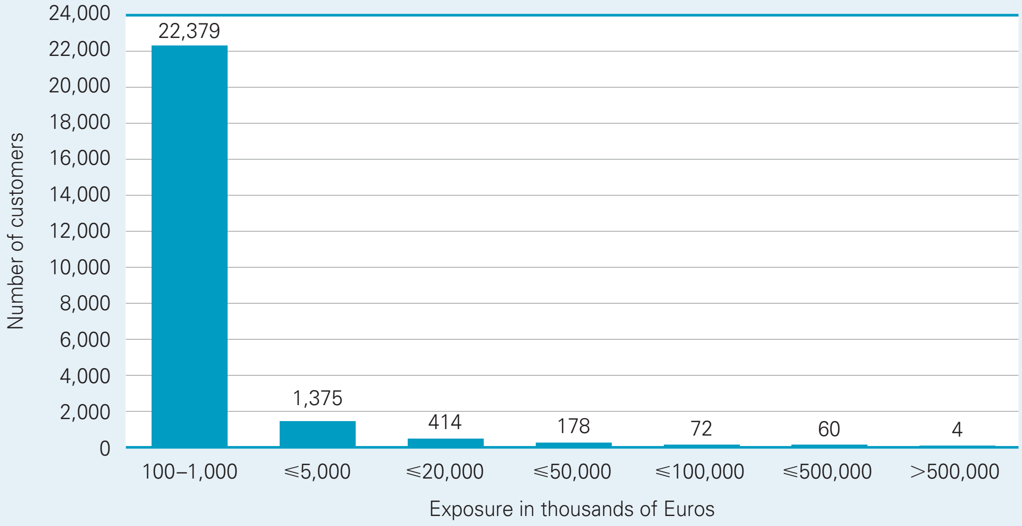
Segment	Book value credits[2)]		Bonds		Off-balance business		Total risk	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Banks	2,920	3,445	3,969	4,318	969	491	7,858	8,254
Public sector	5,333	7,532	1,528	1,225	511	568	7,372	9,325
Corporates	9,641	10,254	4,288	4,102	1,922	2,062	15,851	16,418
Small business	1,048	1,164	–	12	88	94	1,136	1,270
Retail private customers	5,764	5,704	–	–	184	145	5,948	5,849
Others	–	–	11	–	–	–	11	–
Total	**24,706**	**28,099**	**9,796**	**9,657**	**3,674**	**3,360**	**38,176**	**41,116**

1) Total risk includes book values and off-balance-sheet items like guarantees and committed but currently unutilised limits.
2) Including fair value assets.

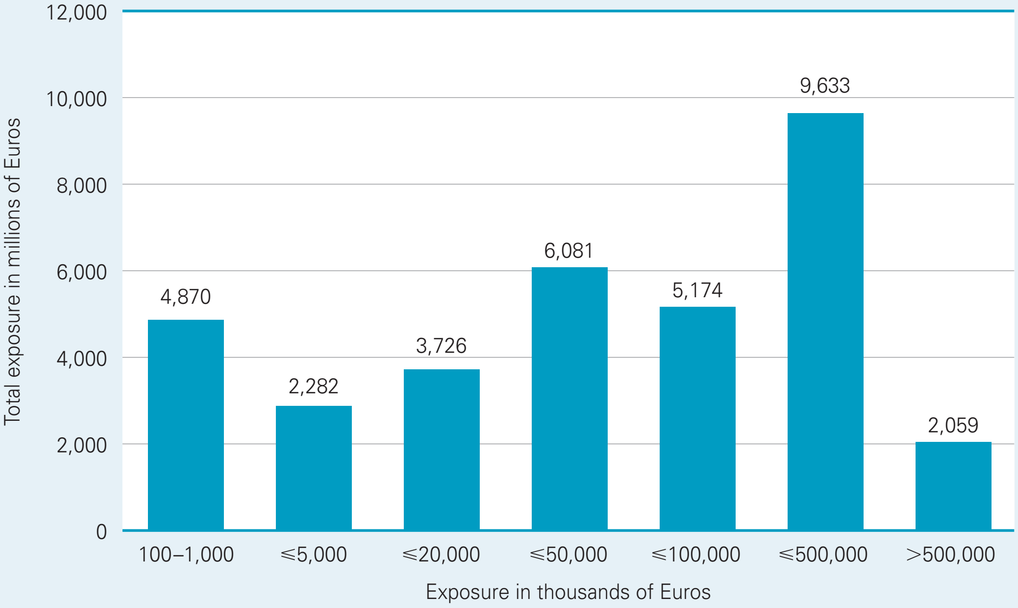
Number of customers by size as of 30 June 2013



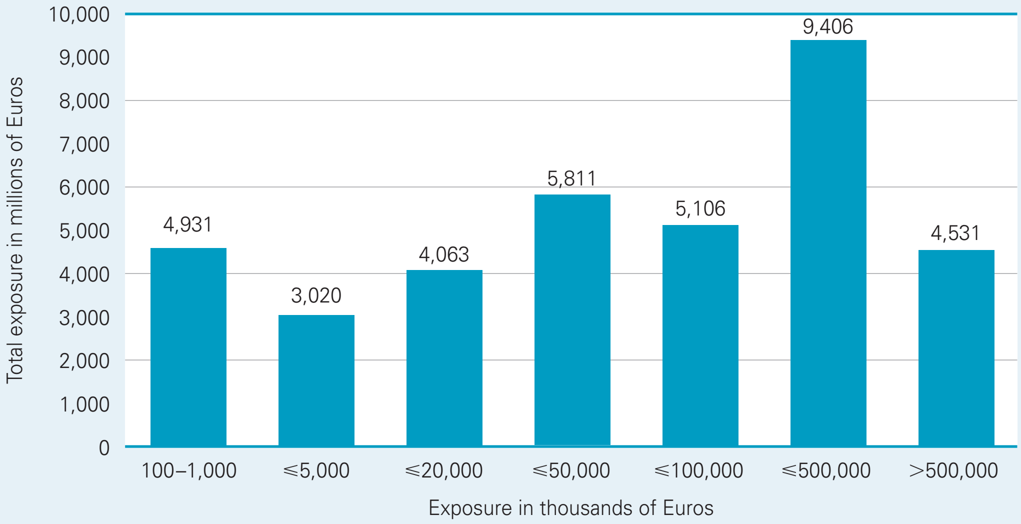
Number of customers by size as of 31 December 2012



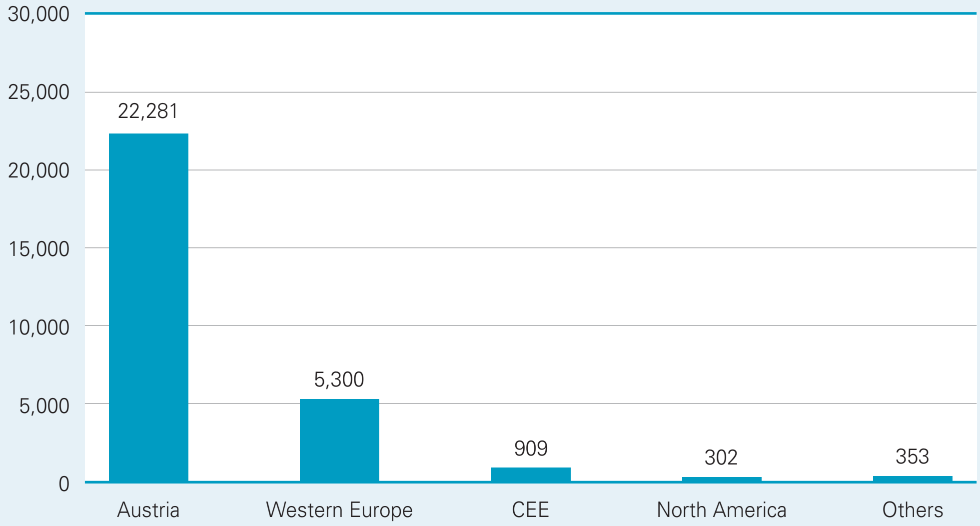
Exposure total by size as of 30 June 2013



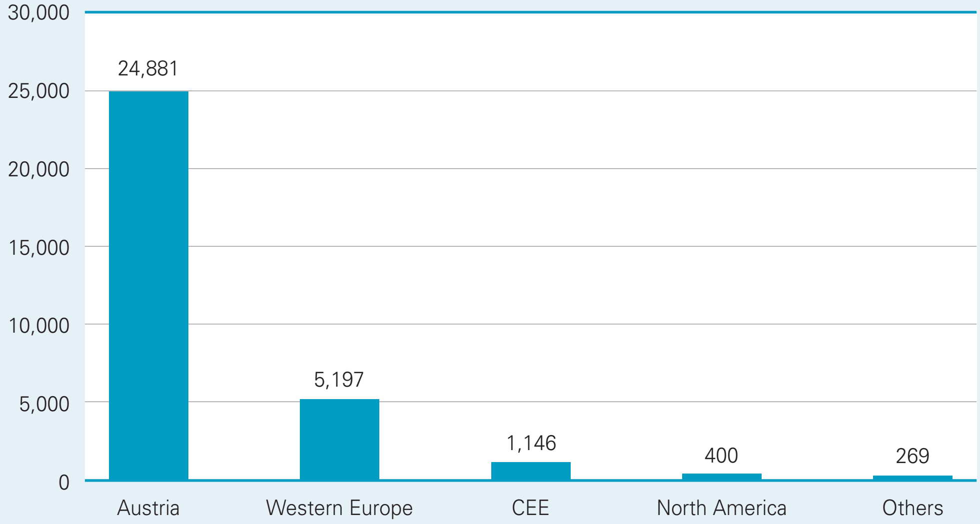
Exposure total by size as of 31 December 2012



Geographical distribution of the loan portfolio as of 30 June 2013, in millions of Euros



Geographical distribution of the loan portfolio as of 31 December 2012, in millions of Euros



The overview shows the net exposure in each region by ultimate risk. The outstanding volumes are assigned to the actual country of risk (e.g. an export promotion loan that is guaranteed by the Republic of Austria is allocated to Austria).

The majority of BAWAG P.S.K. Group's outstanding loans can be attributed to Austrian customers, followed by outstanding loans to Western European borrowers. Included within these are a small number of loans to borrowers in European countries with high budget deficits, which are shown in the following overview.

Credit portfolio in states with high budget deficits and substantial risk

in millions of Euros	Net exposure		Bank		Non-bank		Sovereign	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Greece	–	–	–	–	–	–	–	–
Ireland	270	141	8	10	227	132	35	–
Italy	588	445	303	334	63	94	222	17
Portugal	62	–	50	–	–	–	13	–
Spain	572	467	228	220	160	235	184	13

The increase in volume in these countries is primarily attributed to liquid government bonds and secured receivables.

The credit portfolio in Central and Eastern Europe is not a focus of BAWAG P.S.K. Groups's business operations.

Impaired Loans

Loan loss provisions are formed for loans for which it can be assumed that the open claims will not be entirely fulfilled. These correspond to the estimated incurred losses in the credit portfolio. The primary components are:

- specific loan loss provisions that are formed manually after detailed analysis based on the estimates of the Credit Risk and the Corporate & Institutional Risk units together with the Workout Group and Legal Collection, and
- loan loss provisions that are formed automatically by the core banking system in the case of more than two unpaid instalments, when limits are continuously exceeded on current accounts, as well as when legal action is initiated.

Non Performing Loans (NPLs)

Exposures relating to all customers in default risk class "8" are categorised as non performing loans, regardless of whether a limit has been exceeded or a payment missed on an individual account or not. Once a customer exposure is more than 90 days past due or a customer-related criterion of default applies, the customer and all products with exposure are set to default and are assigned to default risk class "8".

The volume of NPLs was reduced in the first half of 2013, with the major part of the reduction being due to the successful sale of an NPL sub-portfolio.

Development of and impairment provisions for NPLs

in millions of Euros	Book value loan book before provisions		Provisions		Collateral		Net position		Coverage[1]		NPL ratio	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Banks	10	24	6	17	–	–	5	6	55.0%	73.0%	0.1%	0.3%
Corporates and other customers	805	807	209	189	102	117	493	501	38.7%	37.9%	3.5%	3.1%
Retail SME	138	208	62	125	57	58	19	25	86.2%	88.1%	12.2%	16.4%
Retail private customers	284	439	183	303	80	91	21	46	92.4%	89.6%	4.8%	7.5%
Not related / portfolio allowance	–	–	33	31	–	–	-33	-31	–	–	–	–
Total	**1,237**	**1,478**	**493**	**666**	**239**	**266**	**505**	**547**	**59.1%**	**63.0%**	**3.2%**	**3.6%**

1) (Provisions+Collateral)/Exposure

IFRS Portfolio Impairments pursuant to IAS 39 AG 89

A general impairment provision is formed on a portfolio basis for incurred but not reported losses in the Group's credit portfolio as of the reporting date. For this, it is assumed that a certain percentage of customers that have not been identified as being in default are in fact in default on the reporting date.

To calculate these loss provisions, the receivables are grouped into homogeneous portfolios with comparable risk characteristics. The provisions are quantified on the basis of the expected loss, taking into account the loss identification period. This is determined individually for each customer segment on the basis of the average time until the next expected payment. As of 30 June 2013, the IFRS portfolio impairment amounted to EUR 33.7 million, compared with EUR 31.3 million on 31 December 2012.

Structured Credit Portfolio

BAWAG P.S.K.'s securities portfolio includes a portfolio of structured credit instruments with a nominal value of EUR 1.27 billion (31 December 2012: EUR 997 million) and a current book value pursuant to IFRS of EUR 924 million (31 December 2012: EUR 610 million). The resulting risk position is detailed in the following tables by rating, maturity and origin. Individual transactions have once again been restructured or sold in the first half of 2013 in order to further reduce the remaining risk. At the same time, new investments (asset-based investments/CLO) have been made since the beginning of 2013 in asset classes that have proven to be resilient even during the crisis.

The carrying amount decreased as a result of scheduled and early repayments as well as sales, while also increasing as a result of the new investments. Despite these new investments, the respective risk-weighted assets decreased by approximately EUR 425 million or 32.3 per cent.

Structured credit portfolio as of 30 June 2013 – Breakdown by rating (IFRS book value)

in millions of Euros	AAA	AA	A	BBB	BB and below	Not rated	Total
CDO-of-ABS	–	4	2	1	6	–	**12**
CDO-of-ABS w/ Subprime	–	–	–	–	22	–	**22**
CLO	304	199	159	4	–	–	**666**
CMBS	–	–	–	9	–	–	**9**
Corporate CDO	–	–	13	33	1	45	**91**
Corporate CPDO	–	–	20	36	–	30	**86**
European RMBS	17	4	3	–	2	–	**26**
US RMBS	–	–	–	–	12	–	**12**
Total	**321**	**207**	**197**	**82**	**42**	**75**	**924**

Structured credit portfolio as of 31 December 2012 – Breakdown by rating (IFRS book value)

in millions of Euros	AAA	AA	A	BBB	BB and below	Not rated	Total
CDO-of-ABS	–	4	4	1	4	–	**13**
CDO-of-ABS w/ subprime	–	12	–	–	40	–	**52**
CLO	112	59	119	4	–	–	**293**
CMBS	–	–	–	9	23	–	**32**
Corporate CDO	–	–	13	31	1	44	**88**
Corporate CPDO	–	–	35	–	–	59	**94**
European RMBS	17	4	3	–	1	–	**26**
US RMBS	–	–	–	–	12	–	**12**
Total	**129**	**79**	**174**	**45**	**80**	**103**	**610**

Structured credit portfolio as of 30 June 2013 – Breakdown by economic maturity (IFRS book value)

in millions of Euros	until end of 2013	2014–2016	2017–2019	2020 and later	Total
CDO-of-ABS	–	12	–	–	**12**
CDO-of-ABS w/ Subprime	–	17	3	2	**22**
CLO	–	215	443	8	**666**
CMBS	–	9	–	–	**9**
Corporate CDO	–	35	56	–	**91**
Corporate CPDO	–	86	–	–	**86**
European RMBS	–	1	9	16	**26**
US RMBS	–	3	5	4	**12**
Total	**–**	**378**	**515**	**31**	**924**

Structured credit portfolio as of 31 December 2012 – Breakdown by economic maturity (IFRS book value)

in millions of Euros	until end of 2013	2014–2016	2017–2019	2020 and later	Total
CDO-of-ABS	2	10	–	–	**13**
CDO-of-ABS w/ subprime	1	16	18	16	**52**
CLO	1	159	133	–	**293**
CMBS	–	32	–	–	**32**
Corporate CDO	–	34	54	–	**88**
Corporate CPDO	–	94	–	–	**94**
European RMBS	–	9	3	15	**26**
US RMBS	–	3	5	4	**12**
Total	**5**	**357**	**213**	**35**	**610**

Structured credit portfolio as of 30 June 2013 – Breakdown by origin (IFRS book value)

in millions of Euros	USA	Continental Europe	UK	Total
CDO-of-ABS	–	9	3	**12**
CDO-of-ABS w/ Subprime	6	3	13	**22**
CLO	113	412	142	**666**
CMBS	–	9	–	**9**
Corporate CDO	38	47	7	**91**
Corporate CPDO	40	40	6	**86**
European RMBS	–	21	5	**26**
US RMBS	12	–	–	**12**
Total	**209**	**540**	**175**	**924**

Structured credit portfolio as of 31 December 2012 – Breakdown by origin (IFRS book value)

in millions of Euros	USA	Continental Europe	UK	Total
CDO-of-ABS	–	10	3	**13**
CDO-of-ABS w/ subprime	36	1	14	**52**
CLO	85	130	78	**293**
CMBS	23	9	–	**32**
Corporate CDO	37	45	7	**88**
Corporate CPDO	44	45	5	**94**
European RMBS	–	21	5	**26**
US RMBS	12	–	–	**12**
Total	**238**	**260**	**112**	**610**

Abbreviations:

ABS	Asset backed security
CDO	Collateralised debt obligation
CLO	Collateralised loan obligation
CMBS	Commercial mortgage backed security
CPDO	Constant proportion debt obligation
RMBS	Residential mortgage backed security

BAWAG P.S.K. uses internal valuation models to determine the fair values of transactions for which there is no active market. Such models are used for CDOs of ABS with subprime exposure, corporate CDOs, corporate CPDOs, CLOs, US RMBS and corresponding micro hedges. All of BAWAG P.S.K.'s models are calibrated to actively traded instruments such as ABX, tranched iTraxx and CDX, and tranched LCDX and use all available market data (such as yield curves, CDS spreads, loan prices, etc.) as inputs.

Stress Tests and Sensitivity Analysis of the Structured Credit Portfolio

Stress tests and sensitivity analyses for the structured credit portfolio are completed on a semi-annual basis. In this, the effects of various scenarios on the recovery value, fair value and risk-weighted assets (RWAs) are analysed. The results are reported to the Managing Board.

All assumptions apply in addition to the losses already incurred in the portfolio. Downgrades that have already occurred are also considered.

To assess the effects that the stress scenarios could have on the fair values, the current implied discount margins are increased depending on the level of risk in the scenario and the expected market reaction.

The following tables show the effects that the stress scenarios have on the IFRS value of the portfolio.

The depicted stress scenarios are defined as follows:

- Default scenario: The default and arrears rates are increased by 30 per cent (investment grade, retail) or 50 per cent (non investment grade).
- Combined scenario: the simultaneous worsening of the default, arrears, LGD and prepayment rates by 20 per cent (non investment grade default rates increased by 30 per cent) and a 20 per cent worsening of the correlation

Effects of the stress scenarios on the IFRS value of the structured credit portfolio as of 30 June 2013

in millions of Euros	Default scenario	Combined scenario
CDO-of-ABS	-2	-2
CDO-of-ABS w/ Subprime	-5	-5
CLO	-6	-6
CMBS	-2	-2
Corporate CDO	-4	-6
Corporate CPDO	-5	-7
European RMBS	–	-1
US RMBS	–	–
Total	**-23**	**-30**

Effects of the stress scenarios on the IFRS value of the structured credit portfolio as of 31 December 2012

in millions of Euros	Default scenario	Combined scenario
CDO-of-ABS	-1	-2
CDO-of-ABS w. Subprime	-11	-12
CLO	-5	-5
CMBS	-7	-10
Corporate CDO	-7	-10
Corporate CPDO	-7	-10
European RMBS	-2	-3
US RMBS	–	–
Total	**-41**	**-51**

33 | Market risk

Market risk is the risk of loss caused by open risk positions in the market and the adverse development of market risk factors (interest rates, foreign exchange rates, equity prices, volatilities). Market risk can arise in conjunction with trading and non-trading activities.

At BAWAG P.S.K., particular emphasis is placed upon market risk identification, measurement, analysis and management performed by the Market Risk division for all market risks in the Group.

Market risk is bounded by the BAWAG P.S.K. Managing Board's approved market risk limits which consist of value-at-risk, sensitivity, volume and worst-case limits.

For risk management purposes, the Managing Board is informed of the Bank's current market risk position, the utilisation of limits and the profit and loss situation. These reports are provided on a daily basis for BAWAG P.S.K. as an individual institution and on a monthly basis for the Group.

All strategies, organisational procedures, principles of risk management and monitoring as well as market risk limits approved by the Managing Board are documented in an internal Group Market Risk Manual and in a specific BAWAG P.S.K. Financial Markets Manual.

Market Risk in the Trading Book

BAWAG P.S.K. uses the value-at-risk (VaR) of an internal model that has been audited by Oesterreichische Nationalbank (the Austrian National Bank) and approved by the Federal Ministry of Finance to control and limit the market risk arising from trading activities. It includes the risk categories interest rate, equity market and foreign exchange risk and the linear and non-linear gamma and vega risks broken down by risk type.

Because of the uniform depiction of market risk, the VaR results are used for internal risk control purposes and are also included in the reports to the supervisory authorities.

The model is based on a variance-covariance approach in which the value-at-risk is calculated for all trading positions at a confidence level of 99 per cent taking into account the correlations for a holding period of one day and ten days. In order to test the reliability of the model, the trading book is also subjected to a Monte Carlo simulation, and the results of both analyses are compared.

On 30 June 2013, the value-at-risk (with gamma and vega risk included) was measured at EUR 0.503 million (31 December 2012: EUR –0.385 million), based on a confidence interval of 99 per cent and a holding period of one day.

The result of the aggregated VaR, which takes the diversification effect into consideration, differs from the sum of the individual VaR results of the risk categories as follows:

Value-at-risk (99 per cent, one-day holding period), first half of 2013, in millions of Euros

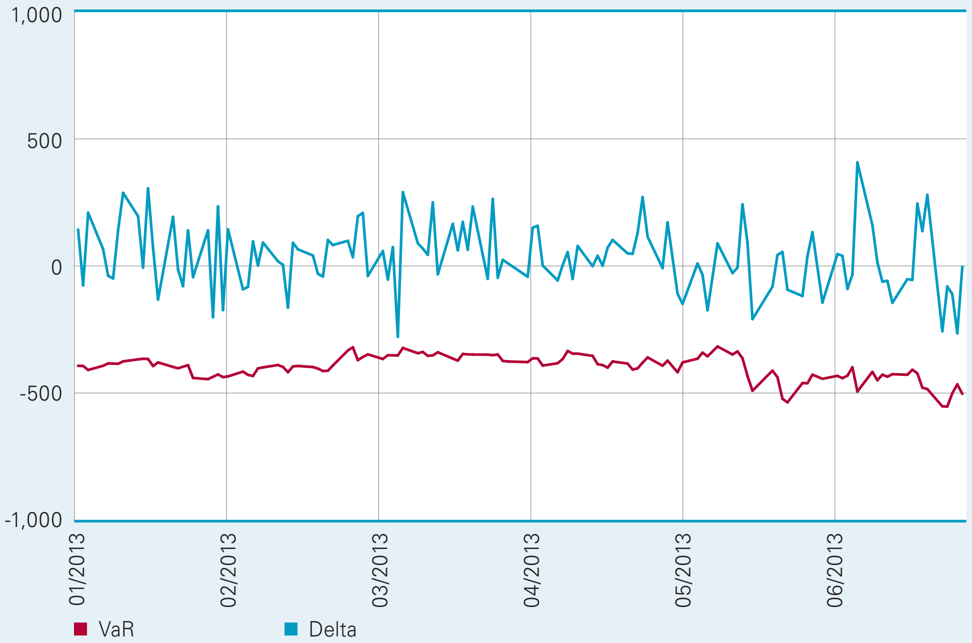
Risk class	Minimum	Maximum	Average	30.06.2013
FX risk	-0.03	-0.15	-0.15	-0.09
Interest rate risk	-0.28	-0.51	-0.36	-0.44
Total (without correlations)	-0.33	-0.58	-0.42	-0.53
Total (with correlations)	**-0.31**	**-0.56**	**-0.39**	**-0.50**
Diversification	n/a	n/a	0.03	0.03
Total sVaR (with correlations)	-0.57	-1.00	-0.74	-0.90

The accuracy and reliability of the model is verified by means of daily backtesting by comparing the hypothetically and actually realised gains and losses for two consecutive trading days with the value-at-risk of the first day. If a negative backtesting result is lower than the VaR, this is designated as an "exception".

No exceptions occurred at BAWAG P.S.K. in the reporting period from January to June 2013. There were no exceptions for a total period of 250 business days, which confirms the high quality of the model and which means that the best-possible multiplier of 3 for the calculation of own funds as specified by the Federal Ministry of Finance can be maintained.

The daily VaR values are compared with the hypothetical backtesting results (delta) for the reporting period from January to June 2013 in the following chart:

Value-at-risk (99 per cent, one-day holding period) compared with the back tests, first half of 2013, in thousands of Euros



As a measure of risk, the value-at-risk quantifies the potential loss under normal market conditions. VaR methodology is based on the assumption that the price data from the recent past can be used to predict future market events. If market conditions differ substantially from past market developments, then the risk predicted by value-at-risk may be too conservative or too liberal. It is not intended to assess losses in conjunction with unexpected market movements. The valuation is covered by additional stress tests.

In the course of such stress tests, the trading book is stressed by scenarios simulating extreme market conditions which are not covered by the confidence interval.

A distinction is made between time-based and event-based stress tests, with statistical methods (changes in correlations, higher confidence level, etc.) and extreme market movements of risk factors (equity and index prices, interest rates, exchange rates and volatilities) being assumed and applied. The results are reported to the Managing Board, the Asset Liability Committee (ALCO), trading management and the responsible group heads.

Market Risk in the Banking Book

The primary components of market risk for BAWAG P.S.K. Group result from interest rate risk, credit spread risk, foreign currency risk and liquidity risk.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

Asset Liability Management controls interest rate risk by transferring the interest rate risk, which is constantly monitored, to the Financial Markets divisions using risk transformation, thus making the transactions in the customer segments of the Bank risk-neutral.

The Strategic Asset Liability Committee (S-ALCO) has assigned interest rate risk limits to the Financial Markets division to manage the interest rate risk in terms of an optimal risk/return ratio at the Group level. The Market Risk division reports to the S-ALCO on a daily basis for some areas and monthly at the Group level on limit utilisation as well as on the distribution of risk. The Strategic ALCO meets once a month. In addition to the members of the Managing Board, the meetings are also attended by the heads of the divisions Financial Markets, Market Risk, Controlling, ALM and Accounting.

On the basis of the risk reports, the market risk and the results of various scenario analyses and stress tests are analysed and strategic steering measures are decided to reduce risk, optimise earnings and stabilise valuation results for the Bank as a whole.

The risks are also presented to the Managing Board as part of an overall risk report submitted to the Enterprise Risk Meeting on a monthly basis.

For the purpose of interest rate analysis, all interest-bearing instruments (with fixed and variable rates) are assigned to corresponding time buckets based upon their contractual repricing periods or assumptions regarding these in the case of accounts with undefined maturity profiles.

Interest rate risk is measured using the present value of a basis point (PVBP) concept. The PVBP is an absolute value that is derived from the duration of interest-bearing financial instruments. It indicates in monetary units the change in the net cash value due to a shift of the yield curve by one basis point (0.01 per cent).

The following table depicts the Group's interest rate risk as of 30 June 2013 on the basis of the PVBP concept. The net asset value changes of all financial positions in the Group's banking book due to a yield curve shift of one basis point are assigned to the corresponding time buckets as follows:

PVBP

in thousands of Euros	< 1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	> 10Y	Total
EUR	10	141	83	-124	153	-62	200
USD	5	18	-23	-21	-26	-16	-63
CHF	1	-4	4	-4	-6	-12	-22
JPY	2	-1	1	1	2	2	7
Other currencies	10	2	-10	5	3	-20	-10
Total 30.06.2013	**28**	**155**	**56**	**-143**	**125**	**-108**	**112**
Total 31.12.2012	-29	76	237	2	6	194	485

The PVBP of all positions whose fair value changes arising from interest rate changes impact the Profit or Loss Statement is calculated and monitored separately. The fair-value-relevant PVBPs of the Group by time bucket are as follows.

P&L and equity-relevant PVBP

in thousands of Euros	< 1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	> 10Y	Total
30.06.2013	**274**	**61**	**-81**	**-317**	**-422**	**244**	**-241**
31.12.2012	161	-32	393	-407	-750	216	-419

In addition to the traditional approaches to measuring interest rate risk, a value-at-risk calculation for the Group is conducted within the framework of the internal capital adequacy assessment process (ICAAP) on a monthly basis.

For a particular portfolio, the value-at-risk measures the worst expected future loss (in terms of market value) over a given time horizon with a specific confidence level. The calculation of value-at-risk is based on the variance-covariance approach and uses a confidence level of 99 per cent and a time horizon of ten days. As of 30 June 2013, the value-at-risk for interest rate risk in the Group's banking book amounted to EUR 4.8 million (compared with EUR 15.4 million as of 31 December 2012).

Net interest income is one of the key parameters in periodic income management and consists of the difference between interest income and interest expenses in a given period. To determine the net interest income for a specific future period, the average volume and average interest rates of all interest-bearing assets and liabilities that are subject to interest rate risk are compared. A software-based model for the dynamic interest rate simulation is used to determine the interest income and expense at the individual contract level using the interest rate characteristics extracted from the core banking system.

Additional inputs required for this model include expected future product margins as well as estimates concerning the volume of new contracts and the extension of existing contracts. The market yield curve is kept constant in the model for the entire simulation period, and plays a key role in determining future interest rates for the individual products. This base projection is known as the "stable rates scenario".

The possible effects of shifts in the yield curve (both standardised interest rate scenarios as well as forward rates and internal interest projections from the Restructuring & Strategy division) are calculated using this base projection. The results of these simulations are analysed and presented on a monthly basis to the Asset Liability Committee and to the Enterprise Risk Meeting as part of the overall risk report.

Credit Spread Risk in the Banking Book

The credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in the credit spreads. The volatility of credit spreads has increased significantly in recent years. At BAWAG P.S.K., the risk management models have been continuously refined to account for this. A majority of the credit spread risk arises from investments in Austrian government bonds and in bank bonds.

The credit spread risk is measured on the basis of the sensitivities (basis point value), taking all securities and credit derivatives in the Group into account. The risk indicators "value at risk" and "expected shortfall" are also calculated and scenario calculations run, both on a monthly basis. The results are included in a credit spread report broken down by portfolios, sectors, countries and ratings and presented to the ALCO.

The credit spread risk is also taken into account and limited for the Bank as a whole in the ICAAP process, and is part of the Bank-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and backtesting.

Alternative Investments

As of 30 June 2013, a residual amount showing a book value of roughly USD 9.65 million was still invested in alternative investments (31 December 2012: roughly USD 8.0 million). The increase is only due to valuation.

FX Risk in the Banking Book

The extent of the open foreign exchange positions in BAWAG P.S.K.'s banking book is constrained by conservative limits to ensure that only marginal FX risks are carried in the banking book.

Compliance with these limits is observed by means of a daily process. Another reconciliation routine compares the outstanding FX positions according to Treasury applications with the accounting positions and initiates analysis and clearing activities in the case of differences.

34 | Liquidity risk

In addition to the risk of not being able to fulfil payment obligations when they become due (dispositive liquidity risk), liquidity risk also includes the danger of increased refinancing costs, which can influence the Bank's earnings situation (structural liquidity risk). Liquidity risk also includes the risk that transactions cannot be closed or sold, or that they can only be closed or sold at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The Risk Manual for Liquidity Risks specifies how liquidity risks are to be handled and includes a contingency liquidity plan.

Asset Liability Management is responsible for daily liquidity management, liquidity planning as well as the measurement and control of the structural liquidity risk. Controlling is responsible for the liquidity forecast and for conducting stress test scenario analyses. The scenarios (e.g. the default of a funding measure or the reduction of deposits) are created based on the risk profile of the current business plan, and the data are updated continuously with current information from the market segments. Monthly reports on this are submitted to the Strategic Asset Liability Committee, which discusses the developments and takes appropriate measures when necessary. The refinancing structure is planned and controlled according to target values regarding the loan-to-deposit ratio, free available cash equivalent and other ratios.

ALM & Capital Management together with Controlling prepares a monthly liquidity gap report that includes scenario calculations for changes in the balance sheet structure and various assumptions about customer behaviour.

As of mid-2013, BAWAG P.S.K. boasts a solid liquidity position – in particular due to the stable level of primary funds[1)] as well as a long-term refinancing structure. Also in 2013, the Bank is in a position to refinance its current portfolio of assets on the capital markets without additional funding measures while meeting all of the regulatory requirements.

1) Primary funds comprise deposits from customers and debt certificates including bonds. Primary funds are generally made available to a bank by non-banks. The amount of primary funds is an indicator of the stability of the funding base.

35 | Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential impairments and low profitability of non-consolidated equity investments. Participation risk does not include operating Group subsidiaries because their risks are assessed separately according to the specific risk types and are already accounted for in this way.

Impairment tests are conducted every year to validate the values of the equity investments in the Bank's portfolio.

Shares in non-consolidated companies

in millions of Euros	30.06.2013	31.12.2012
Shares categorised as available-for-sale assets	**119**	**123**
Shares in credit institutions	36	36
Associates	21	21
Other shares	15	15
Shares in other companies	83	87
Subsidiaries	23	23
Associates	39	42
Other shares	21	22
Shares accounted for using the equity method	**18**	**20**
Associates	18	20
Total shares in non-consolidated companies	**137**	**143**

36 | Operational risk

BAWAG P.S.K. defines operational risk as the risk of loss resulting from insufficient or failed internal processes, external events, misconduct or staff errors. This definition of operational risk includes legal risks, but not strategic risks or risks to the Bank's reputation, which are assessed and managed directly by the Managing Board.

BAWAG P.S.K.'s Managing Board specifies Group-wide principles for managing operational risk in its Enterprise Risk Meeting. In order to ensure that measures and principles are applied uniformly throughout the Group, these activities are coordinated by the central Operational Risk department. The detailed management of operational risks in the individual business segments is completed locally in the respective units by the division heads and their operational risk agents.

Since 1 July 2011, BAWAG P.S.K. has been using the standardised approach pursuant to sections 185ff SolvaV to calculate its own funds requirements in connection with operational risk at the Group level and for itself as an individual institution.

Losses incurred in the business segments and divisions as a result of operational risks are continuously documented in a central loss database through an institutionalised loss reporting system to collect data for the internal management of operational risks. Subsequent central analysis allows the clustering of losses to be identified early and further losses to be prevented.

Additional information is collected through Risk Control Self Assessments (RCSAs). All units and subsidiaries assess their material operational risks and the effectiveness of their control measures on a yearly basis using a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks.

BAWAG P.S.K. has created an effective basis for limiting operational risks with a compartmentalised organisational structure, clear authorisation levels and working instructions. Additionally, consistent guidelines regarding authority levels and a risk-adequate internal control system including computer-assisted plausibility reviews is designed to allow the Bank to maintain a controlled risk situation.

Vienna, 20 August 2013

Byron Haynes m.p.
Chairman of the Managing Board and CEO

Wolfgang Klein m.p.
Deputy Chairman of the Managing Board

Andreas Arndt m.p.
Member of the Managing Board

Jochen Klöpper m.p.
Member of the Managing Board

Corey Pinkston m.p.
Member of the Managing Board

Statement of All Legal Representatives

“We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements and of the principal risks and uncertainties for the remaining six months of the financial year.”

Vienna, 20 August 2013

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