

**BAWAG P.S.K. successful in 2010 – Net profit of EUR 125.4 Mio**

In 2010 banks and financial institutions faced enormous challenges: External market factors like the ongoing sovereign debt crisis, increased liquidity costs and higher capital requirements as a consequence of the global financial crisis formed the general framework for the whole banking industry.

Despite these difficult market conditions, the Bank realised strong results in 2010, delivering an annual overall **net profit of EUR 125.4 million** for the first time in four years. This encouraging result was achieved through a significant increase in the Bank's operating performance, improved net interest income and slightly higher net commission income. Thanks to its prudent risk policy, the Bank's sovereign exposure to European high-deficit countries remains limited (EUR 53 million), and the total risk costs decreased once more. The Bank maintains a sound liquidity position of EUR 5.3 billion and already meets the Basel III criteria.

BAWAG P.S.K. generated **total operating income of EUR 960.8 million**, which represents **an increase of EUR 72.9 million or 8.2 per cent** compared to the same period of 2009. The total operating income includes **net interest income of EUR 649.9 million (+15.2 per cent)**, **net commission income of EUR 159.4 million (+3.0 per cent)** and **gains and losses on financial assets of EUR 155.9 million**. Due to this **further increase in operating income** combined with **stable operating costs** and significantly lower **provisions and impairment losses of EUR 199.7 million**, the Bank managed to record a significantly **improved operating profit of EUR 342.5 million**, an increase of EUR 62.7 million or 22.4 per cent compared to 2009.

**Net Profit for the year 2010** amounted to **EUR 125.4 million** compared to EUR – 21.5 million in 2009.

**Investments for growth – Focus on Customer Service**

In 2010 BAWAG P.S.K. launched a number of initiatives with the focus on customer service to continue to be rolled out in 2011:

**✓ Branch Offensive:**

With 1.6 million customers, the Bank has traditionally had a strong position in the retail market and the largest branch network in Austria. Due to the intensified cooperation with our partner, Österreichische Post AG, BAWAG P.S.K. launched a branch offensive in October 2010. BAWAG P.S.K. branches will offer the full spectrum of BAWAG and PSK BANK services at approximately 520 branches throughout Austria in the future. Post AG will continue its services in these branches.

BAWAG P.S.K. will invest a total of EUR 100 million in expanding the branch network. The first branches are already operating successfully, and the project is scheduled to be completed by 2012. The branch offensive will be supported by a new brand image, as the Bank will now operate on the Austrian market as a single strong brand – BAWAG P.S.K.

✓ **Customer Service Centre**

In 2010 the Bank's Customer Service Centre went into full operation. The Customer Service Centre now offers extended hours and allows our customers to contact the Bank by telephone to meet their on-going needs and requirements. With the expansion of the Customer Service Centre's operations, our multichannel distribution concept (branches, mobile advisors, broker channel, e-Banking, telephone banking) now rests on a broader foundation.

✓ **Business Solution Partner Concept**

After the successful merging the Austrian Corporates and Financial Markets under one board member, BAWAG P.S.K. launched a new concept for servicing its corporate customers which focuses on a solution-oriented approach. In the future, Business Solution Partners will be the single point of contact for our business customers who will be able to react more quickly to each customer's needs by creating comprehensive, individualised financial solutions.

✓ **Efficiency and Productivity Programme**

A project was launched in the first half of 2010 to increase the efficiency and productivity of the Bank. The full benefit of this project should be realised by the end of 2013. The project will focus on improving processes and workflows within the Bank and on streamlining the Bank's organisational structure. A large share of the projected cost savings of EUR 60 million will result from natural staff fluctuation and retirements and will reduce the net number of full-time staff by 500. The Bank also plans to invest approximately EUR 40 million in additional technology over the next three years to support this programme.

**Our Achievements in 2010 at a Glance:**

- ✓ Growth in private current accounts and building association savings agreements: 78,000 new current accounts were opened and 50,000 new building association savings agreements concluded
- ✓ Successful renewal of EUR 3.4 billion in savings following the maturity of capital savings accounts
- ✓ Savings card deposits and on online-saving-account-deposits doubled to EUR 960 million

- ✓ Increase in sales of securities to customers by 30 per cent to more than EUR 1.8 billion
- ✓ BAWAG P.S.K. WohnbauBank successfully placed bonds in the amount of more than EUR 370 million; Bank remains undisputable market leader in Austria
- ✓ New commercial loans of EUR 2.7 billion
- ✓ Market share of 13.1 per cent in the public sector market
- ✓ Increase of market share to 5.1 per cent in commercial customer loans despite weak investment activities in the Austrian economy
- ✓ Participation in the issue of 14 out of 19 corporate bonds in Austria (74 per cent of all new issues)
- ✓ easybank: Increase in the number of accounts to more than 300,000; customer deposits of EUR 1.5 billion
- ✓ BAWAG P.S.K. INVEST: Funds under management increased by 10 per cent to more than EUR 4 billion
- ✓ BAWAG P.S.K. Versicherung: Successful sale of insurance contracts – increase of paid premiums by 14 per cent to EUR 400 million – well above growth in the market
- ✓ BAWAG P.S.K. Leasing: Increase in the market share in Austria from 4.9 per cent to 6.8 per cent due to increases in new business
- ✓ Improvement of the cost/income ratio from 68.5 per cent to 64.4 per cent

### **Capital and Liquidity Position**

Despite the significant investments made and continued support for growth for all our businesses, the Bank maintained a strong capital and liquidity position throughout 2010.

At the end of June 2010, EU-commission approved the participation capital of EUR 550 million further strengthening our sound capital position. BAWAG P.S.K. will pay a coupon of EUR 51.2 million to the Republic of Austria for the business year 2010. Effective 22 June 2010, the Bank cancelled its entitlement to the asset guarantee provided by the Republic of Austria in the amount of EUR 400 million covering certain assets on the Bank's balance sheet.

The **Group Tier I credit risk ratio** as of the end of 2010 amounted to **10.2 per cent** in line with the same level as last year. The **own funds ratio amounted to 12.4 per cent** (2009: 13.6 per cent). The Bank is well prepared for the capital regulations of Basel III and already met the Basel III criteria in 2010. We are confident that we will continue to be Basel III-compliant at the time of its implementation in 2013.

The Bank's **liquidity position also remains sound, with over EUR 5.3 billion** of regulatory liquidity. The Bank maintains a strong loan to deposit ratio of approximately 100 per cent. For the first time since 2004, BAWAG P.S.K. re-entered the international capital markets raising

new funds in the amount of EUR 1.2 billion further securing its long-term liquidity position. All four covered bonds issued by BAWAG P.S.K. were well received by the capital markets.

**Profit After Tax of EUR 125.4 million – Growth of revenues by 8.2 per cent**

Despite increased competition on the market, BAWAG P.S.K. **increased its business volume in 2010 and revenues.** Revenue increase was driven mainly by an increase of net interest income as we successfully deployed our excess liquidity in servicing our customers' needs.

**Net interest income** advanced by EUR 85.6 million or 15.2 per cent to EUR 649.9 million in 2010 thanks to consistent improvements in the profitability of our business areas. **Net commission income** increased by EUR 4.6 million or 3.0 per cent to EUR 159.4 million.

The item **gains and losses on financial assets** amounted to EUR 155.9 million. This position includes sales within the investment books and realised profits from the sale of associate investments, net of valuation movements of own issues and hedging costs.

**Total operating costs** increased by EUR 10.2 million or 1.7 per cent to EUR 618.3 million in 2010, which is slightly higher than in 2009. However, the operating costs include restructuring provisions for the recently launched efficiency and productivity initiative. Without these one-off effects, the total operating costs were reduced by EUR 15.6 million thanks to continued tight cost management.

In 2010 BAWAG P.S.K. continued to carefully monitor the level of risk in the legacy **structured credit portfolio** deriving from 2003–2005. After significantly de-risking the portfolio in 2009 (sales, restructuring and hedging), the level of risk was reduced further in 2010. As of 31 December 2010, the book value pursuant to IFRS totalled EUR 842 million compared to EUR 1.16 billion at year-end 2009. Due to redemptions and sales, book gains of EUR 10 million were achieved. Positive fair value changes led to positive valuation results in the structured credit portfolio of EUR 29 million.

Despite the difficult economic environment, BAWAG P.S.K. was once again able to **reduce loan loss provisions and impairments** in 2010. The **total risk costs** came in at **EUR 199.7 million**, a **reduction of EUR 37 million or 15.6 per cent** compared to 2009. This included loan loss provisions of EUR 135.6 million and reflects the rather conservative risk profile of the Bank's loan portfolio. No impairments were required for the structured credit portfolio in 2010.

Due to higher operating income and stable expenses, the Bank was able to improve its **operating profit** from EUR 279.8 million **to EUR 342.5 million**, an increase of EUR 62.7 million or 22.4 per cent.

After deducting the risk costs mentioned above and taxes, the Group achieved a **net profit of EUR 125.4 million** for 2010 (2009: EUR -21.5 million), thus being profitable for the first time in four years. This demonstrates the Bank's continued successful efforts to increase profitability and efficiency.

<b>Income Statement</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	
in millions of Euros				
Net interest income	649.9	564.3	+85.6	+15.2%
Net fee and commission income	159.4	154.8	+4.6	+3.0%
Gains and losses on financial assets and liabilities adjusted for minority interests	155.9	138.9	+17.0	+12.2%
Other operating income and expenses	-4.4	29.9	-34.3	-
<b>Operating income</b>	<b>960.8</b>	<b>887.9</b>	<b>+72.9</b>	<b>+8.2%</b>
Administrative expenses	-544.5	-527.7	-16.8	-3.2%
Depreciation and amortisation on tangible and intangible non-current assets	-73.8	-80.4	+6.6	+8.2%
<b>Operating expenses</b>	<b>-618.3</b>	<b>-608.1</b>	<b>-10.2</b>	<b>-1.7%</b>
<b>Operating profit</b>	<b>342.5</b>	<b>279.8</b>	<b>+62.7</b>	<b>+22.4%</b>
Provisions and impairment losses	-199.7	-236.7	+37.0	+15.6
Share of the profit or loss of associates accounted for using the equity method	-4.7	-8.0	+3.3	+41.3%
<b>Profit (loss) before tax adjusted for minority interests</b>	<b>138.1</b>	<b>35.1</b>	<b>+103.0</b>	<b>&gt;+100%</b>
Income taxes	-12.7	-56.6	+43.9	+77.6%
<b>Net Profit (loss)</b>	<b>125.4</b>	<b>-21.5</b>	<b>+146.9</b>	<b>&gt;100%</b>

**ASSETS**

The **Bank's consolidated assets** as of 31 December 2010 amounted to EUR 38.6 billion, EUR 2.7 billion or 6.5 per cent lower than at the end of 2009. The reason for this decrease was the Bank's strategy of reducing its holdings of low-return financial investments.

Because of the Bank's changed investment concept, the financial assets were reduced by EUR 3.7 billion or 25.4 per cent to EUR 10.9 billion through sales. Our securities portfolio consists primarily of investments in liquid bank, corporate and government bonds.

The item **loans and receivables** contains the loans to customers and credit institutions that are valued at cost. **Receivables from customers** showed an encouraging increase of EUR 1.2 billion or 5.8 per cent to EUR 22.3 billion in 2010. This can be attributed to increased business with corporate customers.

The Bank's exposure to high-deficit EU-countries remains low at EUR 53 million. BAWAG P.S.K. expects the further development of the sovereign debt crisis to have a limited impact on the Bank's capital position.

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	
in millions of Euros				
Cash reserves	511	615	-104	-16.9%
<b>Financial assets</b>	<b>10,855</b>	<b>14,543</b>	<b>-3,688</b>	<b>-25.4%</b>
<b>Loans and receivables</b>	<b>26,173</b>	<b>24,879</b>	<b>1,294</b>	<b>5.2%</b>
<i>thereof:</i> Customers	22,288	21,066	1,222	5.8%
<i>thereof:</i> Credit institutions	1,527	3,813	-2,286	-60.0%
Tangible non-current assets	219	287	-68	-23.7%
Intangible non-current assets	229	266	-37	-13.9
Other assets	478	602	-124	-20.6%
<b>Assets</b>	<b>38,556</b>	<b>41,225</b>	<b>-2,669</b>	<b>-6.5%</b>

**LIABILITIES**

**Payables to customers** fell by EUR 0.9 billion or 4.2 per cent to EUR 21.7 billion. The Bank successfully renewed savings of EUR 3.4 billion following the maturity of capital savings accounts. Overall, the decrease in the Bank's savings deposits of EUR 1.2 billion was partially offset by an increase in savings cards of EUR 477 million. Together with the savings products recognised at fair value, savings deposits totalled EUR 13 billion as of 31 December 2010. This represents one third of the balance sheet total and therefore continues to significantly contribute to the Bank's stable funding.

<b>LIABILITIES</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>	
in millions of Euros				
<b>Financial liabilities</b>	<b>35,194</b>	<b>38,054</b>	<b>-2,860</b>	<b>-7.5%</b>
<i>thereof:</i> At amortised cost	28,023	29,485	-1,462	-5.0%
<i>thereof:</i> Customers	21,733	22,674	-941	-4.2%
<i>thereof:</i> Credit institutions	2,205	3,468	-1,263	-36.4%
<i>thereof:</i> Issued securities	4,085	3,343	742	22.2%
Provisions	417	441	-24	-5.4%
Other obligations	481	378	103	27.2%
Equity	2,016	1,919	97	5.1%
Minorities	370	373	-3	-0.8%
<b>Liabilities</b>	<b>38,556</b>	<b>41,225</b>	<b>-2,669</b>	<b>-6.5%</b>

**Other deposits** (including savings cards) grew by EUR 278 million to EUR 8.7 billion.

The change in customers' investment behaviour is reflected in an **increase of security savings products** in 2010, which shows encouraging growth of **EUR 450 million or 31 per cent to more than EUR 1.8 billion**. Customer demand especially increased for our **mutual funds** and **other own issues** such as bank bonds, which accounted for 35 per cent and 23 per cent of the total securities sales respectively. BAWAG P.S.K. is the undisputed market leader in new "Wohnbaubank" (home construction bank) bonds, with a market share of 34 per cent of issued bonds.

The **loans and receivables to credit institutions** declined by EUR 1.3 billion or 36.4 per cent to EUR 2.2 billion.

After an absence of more than five years, BAWAG P.S.K. re-entered the international capital markets and issued a total of **four own issues** with an issuing volume of EUR 1.2 billion in 2010. The successful placement of these four covered bonds demonstrates that international investors have confidence in our Bank, which will strengthen our banking activities on the domestic market. Net of scheduled redemptions, the Bank's **issued securities** increased from EUR 3.3 billion to EUR 4.1 billion.

### **Outlook – Investment for Growth**

Due to continued volatility on the financial markets, negative impacts on the financial results as a result of fair value changes cannot be ruled out.

As the majority of the Bank's loan portfolio is composed of domestic customers, BAWAG P.S.K.'s performance is dependent on the development of the Austrian economy. Current forecasts for economic growth are cautiously optimistic. There will be strong competition in the banking sector in 2011, which will result in a tight margin situation on both the credit and the deposit side. Furthermore, new regulations and additional financial burdens (e.g. the bank levy) will make for a difficult business environment.

Nevertheless, BAWAG P.S.K. will rely on its solid financial base thanks to the good results in 2010 to successfully overcome the difficult conditions in 2011. In addition, the Bank will continue to work hard on the implementation of its initiatives and projects aimed at further improving its customer service and growth of the bank. Thanks to its financial strength, the performance of its core banking business and its strong liquidity position, BAWAG P.S.K. is well prepared for financial year 2011.

### **Our major initiatives 2011 – Supporting further Growth:**

- **Continued Roll-out of our Branch-Offensive**

In the course of our branch-offensive we are targeting to open over 300 BAWAG P.S.K. branches by the end of 2011. A total of EUR 100 million will be invested by the end of 2012.

- **New Brand Positioning - New advertising campaign BAWAG P.S.K.**

The current branch-offensive and the Business Solution Partner-concept will be accompanied by the new brand positioning and a new advertising campaign. The brand was launched on March 7, 2011 combining both distribution channels and both brands, BAWAG and PSK BANK. Our new retail advertising campaign "In the middle of life" was launched on the same day.

**■ Product harmonisation**

The combination of both brands BAWAG and PSK BANK will also mean a harmonised range of bank products. Instead offering different BAWAG and PSK BANK-services there will exist only one range of bank products. Our customers will be able to benefit from the same strong product offer all over Austria starting with BAWAG P.S.K. KontoBox-new.

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