

**BAWAG P.S.K. 2009 – Significantly improved operating performance despite difficult market conditions**

Pre-Tax Operating Profit of EUR 46 million

The business year 2009 was marked by a very weak economic development, low interest rates, strong competition for customer deposits, weak asset demand from customers and rising risk costs for Austrian banks.

Despite this difficult market environment, BAWAG P.S.K. was able to significantly improve its operating performance and generated a profit before tax of EUR 46 million compared to a loss of EUR 615 million the year before. One key focus of our business was our core Austrian retail and commercial customer franchise, which developed well in 2009.

(Vienna – March 18, 2010) - BAWAG P.S.K. recorded **operating income of EUR 888 million** for 2009 compared to EUR 404 million for 2008. **Net interest income** decreased by EUR 88 million **to EUR 564 million** as the result of significant saving deposit margin compression due to the strong competition for customer deposits. This decrease was more than compensated by **net commission income of EUR 155 million**, an 8 per cent increase compared to 2008 driven by increased sales of security products and a significantly **improved result from financial assets of EUR 139 million**. Due to **decreased operating expenses** the bank records an **operating profit of EUR 290 Million** compared to a loss of EUR 301 million last year.

**Our key priorities in 2009 – Improvement of the operating performance**

Throughout 2009 the Bank's core strategic priorities was **to significantly improve its operational performance and financial strength**. The specific priorities were:

- ✓ Developing and investing in our core Austrian retail and commercial customer franchises to build further sustainable profitability over the medium term;
- ✓ Continuing to build the liquidity position of the Bank and redeploy to support households, small and medium enterprises and commercial customers and companies;
- ✓ Strengthening the capital position of the Bank;
- ✓ Improving productivity and stringent cost optimisation with focus on non-personnel costs; and
- ✓ Pro-active risk management due to the challenging market environment

**2009 key priorities successfully executed**

Our core Austrian retail and commercial franchises developed well due to several new initiatives. With our “Unternehmen Österreich” initiative the Bank combined tailor-made savings and investment products for customers with a clear focus on Austria. In addition, BAWAG P.S.K. started an initiative called “BAWAG P.S.K. Gemeindemilliarde” (“BAWAG P.S.K. Billion for Municipalities”) offering attractive financing solutions for infrastructure projects to municipalities. The “BAWAG P.S.K. Gemeindemilliarde” found very positive response by Austrian federal states, cities and municipalities. Moreover, our retail customer franchises focused in 2009 on providing products and advisory services meeting our changing customers’ needs. The commercial businesses were reorganised by implementing industry specialists and regional focused account managers.

All these activities and initiatives **reflect in improved results, including:**

- New commercial loans amounted to EUR 3.9 billion, a 10 per cent increase compared to 2008 and higher than the overall market despite the weak demand.
- With new volumes of more than EUR 1 billion, an increase of over 100 per cent compared to 2008, BAWAG P.S.K. enhanced its position as one of the market leaders in financing the Public Sector.
- The bank was lead manager for six new Corporate Bonds issuances in Austria and participating co-lead manager in 60 per cent of all new issuances.
- Continued support of the Social Housing sector with an 11 per cent market share.
- The Bank successfully renewed savings of EUR 5.1 billion following the maturity of capital savings books (Kapitalsparbücher).
- Sales of securities to private customers increased significantly by EUR 550 million to EUR 1,5 billion, a 60 per cent increase;
- BAWAG P.S.K. Wohnbaubank sold bonds in the amount of EUR 348 million and is therefore the market leader in new issues in 2009, with a market share of 28 per cent.
- BAWAG P.S.K.’s direct bank easybank increased its balance sheet by 84 per cent to EUR 1.5 billion, with an increase of accounts by 45,000 to 290,000.
- BAWAG P.S.K. Invest increased its funds under management by EUR 517 million, a 17 per cent increase.
- BAWAG P.S.K. Leasing grew its market share in Austria by 2.3 per cent to over 7 per cent with new business volumes in excess of EUR 400 million.

**Liquidity further improved – EUR 8.6 billion**

Liquidity has become a key factor for the successful development of banks, ever since the outbreak of the financial global crisis in autumn 2008. BAWAG P.S.K. was able to improve the Bank's already **strong liquidity position**, which amounted to **EUR 8,6 billion (+ 39%)** compared to EUR 6,2 billion at 31 December 2008. The Bank has continued to focus on strong pro-active management of its cash and unutilised collateral resources helping steer the Bank through the global financial crisis. Due to this strong liquidity position BAWAG P.S.K. continued to finance its Austrian retail and commercial customers.

**Strengthening the capital position of the Bank**

During the year 2009 the capital position of the Bank strengthened due to new regulatory requirements for financial institutions in response to the global financial crisis.

Actions taken:

- In the second half of the year, BAWAG P.S.K. successfully raised **EUR 80 million Tier II capital**.
- The Republic of Austria subscribed **EUR 550 million participation capital**.
- The **shareholders contributed capital of EUR 205 million**.
- In addition, the Republic of Austria provided an **asset guarantee** of EUR 400 million covering certain assets on the Bank's balance sheet until 30 June 2014.

The agreement with the Republic of Austria on the subscription of participation capital and asset guarantee was concluded in 2009, following EU Commission preliminary approval. Final EU Commission approval is expected before 30 June 2010.

At year end 2009 the capital ratios of the Bank significantly improved with a **Group Tier I ratio of 10.0%** (year end 2008: 6.6%) and an **own funds ratio of 13.6%** (year end 2008: 9.8%). Both ratios are well above the legally stipulated minimum requirements.

**Further de-risking of the legacy structured credit portfolio**

The structured credit portfolio was gradually built up during the years 2003 – 2005. In 2009, BAWAG P.S.K. executed significant actions in further de-risking the structured credit portfolio. These actions include the sale of certain securities and the restructuring of assets as

well as adjusting the hedging strategy. Additionally, those investments which matured in 2009 were fully redeemed at par.

These actions as well as successful redemptions have led to a **significant reduction in the book value** and underlying risk of the structured credit portfolio **by 34 per cent or EUR 590 million to EUR 1.16 billion** (book value 2008: EUR 1.75 billion). The total cost of the risk mitigation actions 2009 amounted to EUR 128 million (2008: EUR 145 million).

The Bank will continue to mitigate risk in the legacy structured credit portfolio. However the Bank does not expect significant defaults in the structured credit portfolio going forward, although BAWAG P.S.K. might continue to be impacted by valuation changes.

#### **Pre-Tax Operating Profit of EUR 45,5 million – risk costs reduced**

**Net interest income** fell by EUR 88.2 million or 13.5 per cent to EUR 564.3 million in 2009, primarily due to lower interest rates, a significant saving deposit margin compression as well as the sale of banking subsidiaries in the previous year.

**Net commission income** increased by significant 7.6 per cent compared to the prior year, coming in at EUR 154.8 million. This is primarily due to increased commission income from payment transactions as well as increase in income from the conclusion of insurance policies and building association savings agreements. The commission income from the Bank's securities and custody business also increased in 2009.

The item **gains and losses on financial assets and liabilities** was influenced primarily by the narrowing of credit spreads, and by the ongoing restructuring of our investments, causing a **positive valuation result for financial assets of EUR 138,9 million**. As part of the further de-risking of the structured credit portfolio, high-risk securities were sold in 2009 realising - unlike last year - profits compared to book value of EUR 45.9 million. In addition the Bank's remaining structured credit portfolio generated fair value gains in the amount of EUR 145.4 million due to the recovery of the performance of the financial markets.

**Administrative expenses were reduced** by EUR 100.1 million or 16.2 per cent to EUR 517,3 million. The decrease can be attributed in large part to reductions in material costs.

Despite the worsening economic conditions loan loss provisions and impairments were lower than 2008. **Total risk costs** for 2009 were **EUR 236,7 million compared to EUR 281,4 million for 2008, a reduction by EUR 44,7 million or approximately 16 per cent** due to an improved pro-active risk management. Loan loss provisions of EUR 175 million were in line

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with 2008 EUR 166 million, confirming the overall relatively conservative risk profile of the loan portfolio. In addition the Bank successfully reduced the impairment of the structured credit portfolio to EUR 48 million, which is 41.2 per cent lower than 2008.

Due to higher operating income and lower operating expenses the business year ended with a **significantly positive operating profit of EUR 290,2 million** compared to a loss of EUR 300,7 million last year.

Considering the above risk costs our bank reports 2009 a **pre-tax operating profit of EUR 45,5 million** compared to a loss of EUR 614,6 million in the same period of the last year.

After deducting taxes and net-minority interest shares, losses attributable to owners of the parent significantly were reduced from EUR 547.5 million to EUR 22.2 million.

| <b>Income Statement</b><br>in millions of Euros                                      | <b>2009</b>   | <b>2008</b>   | <b>Change</b> |                  |
|--|---------------|---------------|---------------|------------------|
| Net interest income  | 564.3         | 652.5         | -88.2         | -13.5%           |
| Net fee and commission income  | 154.8         | 143.9         | +10.9         | +7.6%            |
| Gains and losses on financial assets and liabilities adjusted for minority interests | 138.9         | -406.3        | +545.2        | -                |
| Other operating income and expenses  | 29.9          | 14.1          | +15.8         | >+100%           |
| <b>Operating income</b>  | <b>887.9</b>  | <b>404.2</b>  | <b>+483.7</b> | <b>&gt;+100%</b> |
| Administrative expenses  | -517.3        | -617.4        | +100.1        | +16.2%           |
| Depreciation and amortisation on tangible and intangible non-current assets          | -80.4         | -87.5         | +7.1          | +8.1%            |
| <b>Operating expenses</b>  | <b>-597.7</b> | <b>-704.9</b> | <b>+107.2</b> | <b>+15,2%</b>    |
| <b>Operating profit</b>  | <b>290.2</b>  | <b>-300.7</b> | <b>+590.9</b> | <b>&gt;+100%</b> |
| Provisions and impairment losses   | -236.7        | -281.4        | +44.7         | +15.9%           |
| Share of the profit or loss of associates accounted for using the equity method      | -8.0          | -32.5         | +24.5         | +75.4%           |
| <b>Profit (Loss) before tax adjusted for minority interests</b>                      | <b>45.5</b>   | <b>-614.6</b> | <b>+660.1</b> | <b>-</b>         |
| Deferred taxes   | -59.2         | 89.3          | -148.5        | -                |
| Net-gains and losses on financial assets attributable to minorities                  | - 8.5         | - 22.2        | + 13.7        | + 61.7%          |
| Thereof attributable to owners of the parent   | -22.2         | -547.5        | +525.3        | +95.9%           |

## ASSETS

Despite of structural changes in 2009 BAWAG P.S.K.'s **consolidated assets** of EUR 41.2 billion remained at the same level as at the end of the prior financial year.

The reduction in the **cash reserve** by EUR 102 million (-14.2 per cent) to EUR 615 million is due to lower OeNB minimum reserve requirements on the reporting date.

**Financial assets** increased by EUR 176 million or 1.2 per cent to EUR 14.5 billion. This change was due to scheduled redemptions and the planned disposal of assets in the structured credit portfolio as well as due to a shift to a longer-term investment strategy like investments in Austrian Corporate Bonds and liquid international bank bonds

The item **loans and receivables** contains the loans to customers and credit institutions that are valued at cost. Despite an overall weak demand 2009 **receivables from customers** grew by EUR 369 million or approximately 2 per cent to EUR 21.1 billion. The majority of this growth can be attributed to the approximately EUR 680 million net-increase in loans to corporate and other large customers.

**Receivables from credit institutions** fell from EUR 4,5 billion in 2008 to EUR 3.8 billion at the end of 2009. This contraction was the result of changes made in the investment policy by investing a greater share of its liquidity in asset classes with medium-term maturities.

**Tangible non-current assets** totalled EUR 287 million on 31, December 2009, down from EUR 379 million at the end of 2008. This can be attributed to scheduled depreciation and to the sale of properties no longer used by the Group.

| <b>ASSETS</b><br>in millions of Euros | <b>2009</b>   | <b>2008</b>   | <b>Change</b> |              |
|---------------------------------------|---------------|---------------|---------------|--------------|
| Cash reserves                         | 615           | 717           | -102          | -14.2%       |
| <b>Financial assets</b>               | <b>14,543</b> | <b>14,367</b> | <b>+176</b>   | <b>+1.2%</b> |
| <b>Loans and receivables</b>          | <b>24,879</b> | <b>25,246</b> | <b>-367</b>   | <b>-1.5%</b> |
| thereof: Customers                    | 21,066        | 20,697        | +369          | +1.8%        |
| thereof: Credit institutions          | 3,813         | 4,549         | -736          | -16.2%       |
| Tangible non-current assets           | 287           | 379           | -92           | -24.3%       |
| Intangible non-current assets         | 266           | 295           | -29           | -9.8%        |
| Other assets                          | 602           | 547           | +55           | +10.1%       |
| <b>Total assets</b>                   | <b>41,225</b> | <b>41,578</b> | <b>-353</b>   | <b>-0.8%</b> |

**LIABILITIES**

Despite a strong competition for customers' deposit, **payables to customers of EUR 22.7 billion** were slightly higher than last year. Some shifts of assets into securities by customers resulted in a decrease in savings deposits by EUR 776 million or 5.0 per cent to EUR 14.7 billion. However, the Bank was successful in renewing savings of EUR 5.1 billion following the maturity of capital savings books (Kapitalsparbücher). This reduction of saving deposits was more than compensated by a EUR 954 million increase in other deposits, including current accounts, commercial and retail deposits.

Furthermore **security savings products increased by 60 per cent** or EUR 550 million to approx. **EUR 1.5 billion**. Especially our **“Wohnbaubank” bonds** as well as mutual funds (share of 25 per cent each) enjoyed strong customer demand. BAWAG P.S.K. was the market leader in new “Wohnbaubank”-issues with a market share of 28 per cent in 2009.

Due to the growth in customer deposits, **payables to credit institutions** were reduced by EUR 200 million or 5.5 per cent to EUR 3.5 billion in 2009.

The Bank's **issued securities** totalled EUR 3.3 billion, EUR 360 million less than at the end of the prior year as a result of redemptions.

**Equity** increased by EUR 781 million to EUR 1.9 billion due to the mentioned subscription of participation capital and the shareholders' contribution.

| <b>LIABILITIES</b>                  | <b>2009</b>   | <b>2008</b>   | <b>Change</b> |              |
|-------------------------------------|---------------|---------------|---------------|--------------|
| in millions of Euros                |               |               |               |              |
| <b>Financial liabilities</b>        | <b>38,054</b> | <b>39,336</b> | <b>-1,282</b> | <b>-3.3%</b> |
| thereof: At amortised cost          | 29,485        | 29,956        | -471          | -1.6%        |
| thereof: Customers                  | 22,674        | 22,585        | +89           | +0.4%        |
| thereof: Credit institutions        | 3,468         | 3,668         | -200          | -5.5%        |
| thereof: Issued securities          | 3,343         | 3,703         | -360          | -9.7%        |
| Provisions                          | 441           | 462           | -21           | -4.5%        |
| Other obligations                   | 378           | 404           | -26           | -6.4%        |
| Equity                              | 1,919         | 1,138         | +781          | +68.6%       |
| Minorities                          | 373           | 188           | +185          | +98.4%       |
| <b>Total equity and liabilities</b> | <b>41,225</b> | <b>41,578</b> | <b>-353</b>   | <b>-0.8%</b> |

## Outlook

In 2010, we will most likely see a further increase in private bankruptcies and business failures as a consequence of the economic downturn. We might also experience negative impacts from changes in market values. Due to its financial position, the development of its core businesses and the strong level of liquidity, BAWAG P.S.K. however, is well positioned to deal with those potential challenges. The majority of our credit portfolio is focused on loans to domestic customers; therefore the Bank's ongoing performance will partly depend on the development of the Austrian economy.

Following the successful strengthening of raising capital in 2009 our key priorities in 2010 include:

- **Deployment of our liquidity generating profit in the medium term**  
Identification of investment opportunities offering attractive margins and being in line with the Bank's risk strategy.
- **Further expansion of Austrian core business**  
Upgrading of our market share in retail and commercial banking by continuing our successful campaigns and initiatives as well as by further fostering our activities to improve and standardise our back-office processes
- **Continued focus on stringent cost management**  
for remaining competitive.
- **Switch to an IRB approach for determining credit risk**  
to strengthen the risk management within the Bank; no significant negative effects on the risk-weighted assets or the expected loss calculations expected.

Overall, we expect to see continued weak credit demand and high pressure on margins for savings products in 2010 as interest rates remain very low. However, the Bank has made all necessary preparations for the new financial year. Thanks to its strong liquidity and capital position BAWAG P.S.K. is financially strong and well positioned to manage ongoing potential macro-economic difficulties.

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