

1st Half-Year Results – BAWAG P.S.K. Successfully Gathering Momentum Profit after tax of EUR 97 million

The first half of 2010 for Austrian and international banks and financial institutions has been marked by a weak economic environment, uncertainties on the international financial markets in the course of the sovereign debt crisis as well as by discussions around pending regulatory changes and possible future banking tax concepts.

Despite these difficult market conditions BAWAG P.S.K. was successfully gathering momentum. The net consolidated profit significantly improved: The bank generated a profit after tax of EUR 96.8 million compared to EUR 13.3 million in the first half of 2009, a EUR 83.5 million increase. This encouraging result was achieved by a significant rise of the operating performance of the Bank supported by several sale initiatives.

BAWAG P.S.K. shows an **overall total operating income of EUR 532.8 million, a EUR 26.4 million or 5.2 % growth** compared to same period 2009. Total operating income includes **net interest income of EUR 309 million (+2.3 % growth), net commission income of EUR 84 million (+13.1 % growth) and gains and losses on financial assets of EUR 130 million**. Due to this **further increased operating income** combined with **stable operating costs** the bank managed to record a significantly **improved operating profit of EUR 222.6 million**, an increase of EUR 22.6 million or 11.3% compared to the first half of 2009.

Bank's strategy 2010 continued unchanged

Significant improvement of its operational performance and financial strength was again a top priority in the first half year:

- ✓ Clear value proposition on the Austrian retail market: good-value products distributed via our multi-channel network, combined with strong customer service
- ✓ Continued growth strategy by developing and delivering customized products in the segments Commercial Business and Financial Markets focused on project and acquisition financing
- ✓ Simplification of products, processes and the organisation in order to be more responsive to our customers' needs
- ✓ Further strengthening the bank's capital and liquidity position especially in line with any future regulatory and supervisory changes

2010 key priorities successfully executed

- ✓ Growth in current accounts and building society saving contracts: 43,000 new current accounts and 25,000 new building society saving contracts were opened
- ✓ Successful renewal of savings of EUR 2.2 billion following the maturity of capital savings books (Kapitalsparbücher)
- ✓ Growth of saving cards by 50% to EUR 750 million
- ✓ Increase in sales of securities to customers by 28% to more than EUR 1 billion
- ✓ BAWAG P.S.K. Wohnbaubank successfully placed bonds in the amount of nearly EUR 300 million; bank remains market leader in Austria
- ✓ Market share of 15.3% in the public sector market
- ✓ Market share of 4.9% in commercial customer loans maintained despite weak investment activities of the Austrian economy
- ✓ Participation in issuing 9 out of 12 corporate bonds in Austria (70% of all new issuances)
- ✓ Improvement of the cost/income ratio from 67.3% to 57.8%
- ✓ easybank: increase of its balance sheet to EUR 1.6 billion accompanied by sound, positive operating results: Increase in the number of accounts to more than 300,000
- ✓ BAWAG P.S.K. INVEST: Increase in its funds under management by EUR 360 million or 10%
- ✓ BAWAG P.S.K. Versicherung: successful sale of insurance contracts – Increase of paid premiums by 31% to more than EUR 220 million
- ✓ BAWAG P.S.K. Leasing: market share expansion from 7.2 % to 7.6 %

Capital and Liquidity Position - EU Commission Approval

BAWAG P.S.K. shows a continued strong capital and liquidity position in the first half of 2010.

The issuance of participation capital in the amount of EUR 550 million to the Republic of Austria together with the shareholder contribution of EUR 205 million last year support our sound capital position going forward. The Group Tier I credit risk ratios at the end of June 2010 increased to 9 % compared to 6.7% in the first half of 2009.

The Bank's liquidity position also remains sound with EUR 4.6 billion of regulatory liquidity at 30 June 2010. With respect to funding the Bank continues to have a deposit to loan ratio in excess of 100 % and is therefore not reliant on capital markets' funding.

BAWAG P.S.K. will look to further strengthen its capital and liquidity position in line with any future regulatory and supervisory changes

As of 22 June 2010, the bank cancelled its entitlement to the asset guarantee provided by the Republic of Austria of EUR 400 million covering certain assets on the Bank's balance sheet.

On 30 June 2010, the European Commission approved the subscription of participation capital by the Republic of Austria. This approval included certain conditions and compensatory measures that the Bank has to fulfill in the upcoming years.

These compensatory measures include:

- Sale of Stiefelkönig and minority stakes in MKB Bank
- Early redemption of own bonds issued by the former P.S.K. (guaranteed by the Republic of Austria)
- Acquisition restrictions (but no impact on mid-term planning of BAWAG P.S.K.)
- Temporary ban of dividend payments to its shareholders in 2010 and 2011.
- Limitations of international investments in line with our business plan

Further improvement of customer service - Efficiency and Productivity program launched

In the first half of 2010 an efficiency and productivity program for optimizing products and workflows of the bank was launched. The full benefit of this project should be realized by year end 2013.

The main purpose of this program is

- to further improve customer service
 - incremental investment of EUR 40 million in new systems respectively in enhancing existing processes in order to achieve a higher degree of automation
 - standardization of products and acceleration of improved processes
 - free up of personal resources to better serve our customers
- to ensure sustainable profitability
 - reduction of operating expenses by EUR 60 million
 - staff reduction by 500 full-time equivalent employees mainly by natural attrition
- to launch a new organization which
 - eliminates duplication
 - provides more accountability and responsibility ensuring a faster decision making in a streamlined organization

Profit after tax of EUR 97 million - Continued decrease in risk costs

Despite increased competition in the market, BAWAG P.S.K. was able to **increase its business volume**. Due to its sound liquidity and capital position the bank successfully offered attractive products to its clients resulting in a positive impact on the development of net interest and commission income.

In the reporting period **net interest** income was EUR 309 million, EUR 7 million or 2.3% higher than in the same period 2009. **Commission income** improved significantly by EUR 10 million or 13.1% and came to EUR 84 million.

The item **gains and losses on financial assets** were primarily influenced by narrowed risk spreads on the capital market, which led to a comparable **valuation result of EUR 130.4 million**, EUR 2.7 million or 2% lower than 2009.

In the first half 2010 BAWAG P.S.K. carefully continued to 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) it was reduced further in 2010. The current book value pursuant to IFRS totaled EUR 947 million compared to EUR 1.16 billion at year end 2009. Due to redemptions (nominal EUR 227 million) and sales, book gains of EUR 6 million were achieved.

Overall **total operating costs** of EUR 310 million for 2010 rose by EUR 3.8 million or 1.2 % and are slightly higher than 2009. However, operating costs include restructuring provisions for the recently started efficiency and productivity initiative.

Despite the difficult economic environment, BAWAG P.S.K was again able to **reduce loan loss provisions and impairments in the first six months 2010**. The **total risk costs** were EUR 110 million, a **reduction by EUR 15.5 million or 12.3%** compared to the first half 2009. This included loan loss provisions of EUR 86 million and reflects the rather conservative risk profile of the Bank's loan portfolio. Unlike 2009 no impairments were required for the structured credit portfolio in the first half of 2010.

Due to higher operating income and stable expenses the Bank could improve **operating profit of EUR 222.6 million** by EUR 22.6 million or 11.3% compared to EUR 200 million last year.

After deducting the above mentioned risk costs and taxes the Group achieved a **net profit of EUR 97 million** for the period, a considerable **increase** by EUR 83.5 million compared to EUR 13.3 million last year.

Income Statement in millions of Euros	1-6/2010	1-6/2009	Change	
Net interest income	309.3	302.4	+6.9	+2.3%
Net fee and commission income	84.4	74.6	+9.8	+13.1%
Gains and losses on financial assets and liabilities adjusted for minority interests	130.4	133.1	-2.7	-2.0%
Other operating income and expenses	8.7	-3.7	+12.4	-
Operating income	532.8	506.4	+26.4	+5.2%
Administrative expenses	-276.0	-265.9	-10.1	-3.8%
Depreciation and amortization on tangible and intangible non-current assets	-34.2	-40.5	+6.3	+15.6%
Operating expenses	-310.2	-306.4	-3.8	-1.2%
Operating profit	222.6	200.0	+22.6	+11.3%
Provisions and impairment losses	-110.3	-125.8	+15.5	+12.3%
Share of the profit or loss of associates accounted for using the equity method	-4.9	-8.3	+3.4	+41.0%
Profit before tax	107.4	65.9	+41.5	+63.0%
Income and deferred taxes	-9.0	-43.3	+34.3	+79.2%
Net-gains and losses on financial assets attributable to minorities	-3.8	165.0	-168.8	-
Profit after tax	94.6	187.6	-93.0	-49.6%
Thereof attributable to minority interests	-2.2	174.3	-176.5	-
Net profit	96.8	13.3	+83.5	>+100%

ASSETS

The **Bank's consolidated assets** as of 30 June 2010 amounted to EUR 42.8 billion, EUR 1.6 billion or 3.8 % higher than at the end of 2009, thus reflecting the encouraging growth of our customers business.

The **financial assets** decreased by EUR 247 million or 8.3 % to EUR 2.7 billion in the first half of 2010, primarily as a result of redemptions and disposals.

The item **loans and receivables** contains the loans to customers and credit institutions that are valued at cost. **Receivables from customers** increased by EUR 1.0 billion or 4.7 % to EUR 22.1 billion in the first half of 2010. This can be attributed primarily to increased business with corporate customers.

The Bank's exposure to high-deficit countries (including Portugal Ireland, Italy, Greece, Spain and UK) is less than EUR 75 million. BAWAG P.S.K expects the further development of the sovereign debt crisis and the development in the CEE-regions to have limited impact on the capital position of BAWAG P.S.K.

ASSETS in millions of Euros	30.06.2010	31.12.2009	Change	
Cash reserves	516	615	-99	-16.1%
Financial assets	11,914	14,543	-2,629	-18.1%
Loans and receivables	29,284	24,879	+4,405	+17.7%
Thereof: Customers	22,051	21,066	+985	+4,.%
Thereof: Credit institutions	4,952	3,813	+1,139	+29.9%
Tangible non-current assets	250	287	-37	-12.9%
Intangible non-current assets	242	266	-24	-9.0%
Other assets	471	602	-131	-21.8%
Total assets	42,780	41,225	+1,555	+3.8%

LIABILITIES

Payables to customers fell marginally by EUR 468 million or 2.1 % to EUR 22.2 billion. Despite rather conservative conditions being offered by BAWAG P.S.K. over the past months as well as the shift of investments in securities and other bank deposits, the Bank successfully renewed savings of EUR 2.2 billion following the maturity of capital savings books (Kapitalsparbücher). Overall the decrease of the bank's savings deposits of EUR 843 million was partially offset by an increase in savings cards of EUR 245 million or 50%. Together with the savings products recognised at fair value, savings deposits totalled EUR 13.7 billion as of 30 June 2010, or one third of the Bank's consolidated assets. Other deposits (including savings cards) grew by EUR 375 million to EUR 8.8 billion.

The change in customers' investment behaviour is reflected in an **increase of security savings products** in the first half of 2010, which shows an encouraging growth by EUR 200 million or 27% to more than EUR 1 billion. Customer demand especially increased in our **“Wohnbaubank” bonds** as well as **mutual funds**. BAWAG P.S.K. was the market leader in new “Wohnbaubank”-issues with a market share of nearly 40% in first half of 2010.

The Bank's **issued securities** totalled EUR 2.8 billion, EUR 561 million less than at the end of the prior year as a result of redemptions.

LIABILITIES in millions of Euros	30.06.2010	31.12.2009	Change	
Financial liabilities	39,375	38,054	+1,321	+3.5%
thereof: At amortised cost	28,942	29,485	-543	-1.8%
thereof: Customers	22,206	22,674	-468	-2.1%
thereof: Credit institutions	3,954	3,468	+486	+14.0%
thereof: Issued securities	2,782	3,343	-561	-16.8%
Provisions	455	441	+14	+3.2%
Other obligations	538	378	+160	+42.3%
Equity	2,025	1,919	+106	+5.5%
Minorities	354	373	-19	-5.1%
Total equity and liabilities	42,780	41,225	+1,555	+3.8%

OUTLOOK

The European banking sector continues to face a large number of challenges as we enter the second half of 2010. Capital markets are expected to remain volatile, **bank funding costs are expected to increase, investor demand** as well as the demand for new loans will continue to be weak as corporate and consumer confidence **remains fragile**. Banks have to continue to focus on building their capital base and strengthening regulatory liquidity positions in preparation of the implementation of the new Basel III rules and possible future bank taxes.

BAWAG P.S.K cannot fully avoid being impacted by the negative market trends in the second half of the year. However, with its good first half year results, the Bank is confident **to successfully manage** these difficult macro economic conditions and **to remain profitable for the full year 2010**.

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