

BAWAG P.S.K. delivers sustainable results and invests in further growth

Profit before Tax (excl. Bank Levy) EUR 91.6 million

Despite the difficult macroeconomic environment, BAWAG P.S.K. maintained positive momentum in the first half of 2011 and **has realised an operating performance, which was better than plan as well as for 2010**. The Bank achieved sound results with **profit before tax (without Bank Levy) for the first half of 2011 of EUR 91.6 million**, being two thirds of the profit before tax for the full year 2010 of EUR 138.1 million. **An increase of the net interest and net commission income (core revenues)** by nearly 5 per cent, **stable operating costs** and a **further decrease of total risk costs** contribute to this satisfactory result. At the same time, BAWAG P.S.K. made **specific and significant investments of EUR 44 million to date** (out of a total budget of EUR 100 million) during the first half year, **including investments in building sustainable profitability across our businesses**, continuation of our investment in the productivity and efficiency programme as well as investing in meeting new regulatory requirements.

Targeted investments generating sustainable growth

- **Single brand-strategy:** Since early March BAWAG P.S.K. has been gradually uniting the two previous strong sales brands BAWAG and PSK BANK. BAWAG P.S.K. has been presenting itself as a single strong brand with a new brand image and the new slogan (“Mitten im Leben”) positioning our brand with our retail customers. Under the motto “Mitten im Business” a similar advertising campaign for our commercial and financial market customers will be launched in the second half of this year.
- **Branch Offensive:** BAWAG P.S.K. will invest a total of EUR 100 million in expanding the branch network by approximately 300 to 520 bank locations by the end of 2012. By the end of July 2011 over 130 new branches have been opened. BAWAG P.S.K. receives very positive feedback from our customers on this new, unique branch concept.
- **Harmonisation of the product lines:** With the introduction of the single brand-strategy BAWAG P.S.K. simultaneously launched the harmonisation of the product lines. This harmonized product lines distinguishes itself by uniformed fees and conditions, same descriptive product names and the same level of availability and service for all products throughout Austria. The “KontoBox” is the first example for a successful harmonisation of products with a completely new concept. It is an account package of three product variants combining a current account with a saving capability feature at attractive interest rates and additional services designed for different customer segments.
- **Multi-channel Bank by improved e-banking:** To be readily accessible anywhere and any time, the bank operates a dense branch network as well as a online based network, which meets all customers’ needs. Since mid-July BAWAG P.S.K. and our direct bank easybank offer significantly improved e-banking software that is characterized by improved usability and a modern and straightforward surface design with a wide range of features for an enhanced security performance. BAWAG P.S.K. sends a clear signal

as a Multi-Channel Bank by combining the services of the individual customer advisors in the stationary distribution network, mobile advisors, the customer service center for meeting requirements by telephone and the new e-banking software.

- **Business Solution Partner:** In the first half of 2011 BAWAG P.S.K. continued its offensive, the so called “Business Solution Partner”-concept, for commercial customers. Under the motto “One Face to the Customer”, our corporate business customers now have a single point of contact who serves as a competent advisor for the development of comprehensive and individualised financial solutions. Through the business solution partners, BAWAG P.S.K. incorporates all of the banking expertise and knowledge relevant for corporate customers into its service and advisory capabilities in order to meet customers’ needs. There has also been a focus on enhancing our product offerings, including investments in our new and innovative finance management tool (BAWAG P.S.K. “Finance Cockpit”) and in the enhancement of our project finance capabilities.
- **International Business:** Furthermore, BAWAG P.S.K. focused on the selective expansion of its international business, which includes two units, International Corporates and International Commercial Real Estate. In the first half of 2011, investment was aimed in expanding the business and further increasing our skills and market knowledge in this area. This portfolio had a value of approximately EUR 2.0 billion on a committed basis at the end of June 2011. Both units performed well in the reporting period.
- **Continuation of the Efficiency and Productivity Programme:** In the first half of 2011 BAWAG P.S.K. has also continued its investment to increase the productivity and the efficiency of our end-to-end processes resulting in improvements of our processing time (“time to market”) and our customer service.
- **Implementation of regulatory requirements:** A number of regulatory projects and investments, deriving from changes of the legal framework, have also been completed during the reporting period including preparation of our systems for the capital gains tax introduction and finalizing SEPA.

Our Achievements in the first half 2011 at a Glance:

- Retail und Small Business:
 - Growth in private accounts and in building society accounts: 36,300 new current accounts
23,600 new building society accounts
 - Successful renewal of EUR 1.2 billion in savings following the maturity of capital savings accounts
 - Increase of savings card deposits and deposits on online-saving-accounts by 30 per cent to EUR 1.3 billion.
 - Increase of new private loans by 5.7 per cent

- BAWAG P.S.K. Versicherung:
 - Encouraging sales numbers of life insurance contracts with ongoing premium payments: Increase of paid premiums by 3.8 per cent compared to last year proves again to be significantly higher than market growth (+2.7 per cent).
 - Especially high demand for savings plans for private pension coverage
- easybank:
 - Servicing 350,000 customer accounts;
 - Increase of balance sheet total from EUR 1.7 billion to approximately EUR 2.0 billion as of 30 June 2011 (+17 per cent)
 - Honoured with the Recommender Award for „excellent customer orientation“ in the category of regional and specialist banks
- Corporates & Financial Markets:
 - Market share of 12.7 per cent in the Public Sector
 - Increase of corporate loans by 8 per cent significantly higher than market growth (1.6 per cent)
 - Similar increase in new corporate loans by 17 per cent in the first half year 2011 compared to a significant reduction of the market (decrease by 7 per cent).
 - Corporate Bonds: Participation as Co-Lead-Manager in all issues of corporate bonds in Austria in first half of 2011
 - BAWAG P.S.K. Leasing:
 - Increase of number of contracts by nearly 5 per cent
 - Improvement of market share (in relation to number of contracts) to 9 per cent
 - New business driven by vehicle leasing by an increase of new contracts of 11.8 per cent

Strengthened Capital and Liquidity

BAWAG P.S.K. was able to further strengthen its capital and liquidity position through disciplined capital management and the realisation of risk weighted asset reductions. This was achieved despite the significant investments in support of our business. At the same time BAWAG P.S.K. was able to increase its profitability.

Credit Risk Tier 1 ratio of 10.9 per cent has improved in comparison to 9.0 per cent as of June 2010. **Group Tier 1 ratio (including total risk weighted assets) of 9.5 per cent** has also significantly improved from 8.0 per cent at the half year 2010. Both capital ratios are well above the minimum legal standards. The Bank is well prepared for the capital regulations of Basel III and has already met the Basel III criteria in 2011. We are confident that we will continue to be Basel III-compliant at the time of its implementation in 2013.

Total regulatory liquidity of EUR 5.8 billion as of June 30th 2011 remains strong (30th of June 2010: EUR 4.6 billion). In 2011, the Bank continues to be fully funded without the need for additional funding measures and meets all of the regulatory requirements

During the reporting period, BAWAG P.S.K. has participated in the annual stress tests of the Austrian National Bank, which BAWAG P.S.K. passed comfortably. These stress tests were very similar to the ones of European Banking Authority (“EBA”) carried out at the same time.

Sustainably improved Operating Performance – Net Profit of EUR 79 m

Despite the difficult macroeconomic conditions, BAWAG P.S.K. was successful in building sustainable profitability across its businesses and was thus able to generate a sound foundation of our operating performance.

Although the reporting period saw continued fierce competition and sustained margin pressure, the Bank was able to increase its **core revenues** from EUR 393.7 million by nearly 5 per cent to EUR 411.8 million. **Net interest income** was EUR 322.4 million and therefore EUR 13.1 million or 4.2 per cent higher than in the same period 2010. This improvement was achieved thanks to the further increase in the profitability of our Austria businesses as well as the selective expansion of our international activities. **Net Commission income** has improved by 5.9 per cent and came to EUR 89 million.

Operating Income amounted to **EUR 479.5 million** as of June 2011.

The Bank’s tight cost management continues to show satisfactory results. Despite the significant investments made in the first half of 2011, **total operating expenses** (without Bank Levy) of EUR 309.2 million are in line with the costs in the first half of the previous year. This development shows the positive effects of our efficiency improvement programme, which was launched in 2010 and is being implemented on an ongoing basis in the current year.

The **Bank Levy** amounted to EUR 10.2 million for the first six months of the current year. Further more, BAWAG P.S.K. pays a coupon of EUR 51.2 million for the government’s participation capital for the full year.

The **cost-income ratio** remains stable at 64.5% since December 2010.

Income Statement in millions of Euros	1-6/2011	1-6/2010	Change	
Net interest income	322.4	309.3	13.1	4.2%
Net fee and commission income	89.4	84.4	5.0	5.9%
Core revenues	411.8	393.7	18.1	4.6%
Gains and losses	58.6	130.4	-71.8	-55.1%
Other income	9.1	8.7	0.4	4.6%
Operating income	479.5	532.8	-53.3	-10.0%
Administrative expenses	278.7	276.0	2.7	1.0%
Depreciation and amortisation	30.5	34.2	-3.7	-10.8%
Operating expenses	309.2	310.2	-1.0	-0.3%
Operating profit before Bank levy	170.3	222.6	-52.3	-23.5%
Risk costs	-78.9	-110.3	31.4	-28.5%
Valuation results of associates at equity	0.2	-4.9	5.1	>+100%
Profit before tax and Bank levy	91.6	107.4	-15.8	14.7% %
Bank levy	-10.2	0.0	-10.2	n/a
Profit before tax	81.4	107.4	-26.0	-24.2%
Income taxes	-0.9	-9.0	8.1	90.0%
Minorities	-2,0	-1,6	-0,4	-25,0%
Net Profit	78.5	96.8	-18.3	-18.9%

In the first half of 2011 BAWAG P.S.K. continued to carefully monitor the level of risk in the legacy **structured credit portfolio** deriving from 2003 to 2005. After significantly de-risking the portfolio in the last two and a half years (sales, restructuring and hedging), the level of risk was further reduced in 2011. As of June 2011, the book value pursuant to IFRS totalled EUR 697 million compared to EUR 842 million at year-end 2010. Due to redemptions and sales, book gains of EUR 19 million were realized. Positive fair value changes led to positive valuation results in the structured credit portfolio of EUR 9 million.

BAWAG P.S.K. has been able to reduce **loan loss provisions and impairments** for the fourth consecutive year. The **total risk costs** came in at EUR 78.9 million, a reduction of 28 per cent compared to the first half of 2010 (EUR 110.3 million). This decrease reflects the rather conservative risk profile of the Bank's loan portfolio. No impairments were required for the structured credit portfolio in the first half 2011.

Profit before tax (without Bank Levy) for the first half 2011 of **EUR 91.6 million** compares very favorably with the profit before tax for the full year 2010 of EUR 138.1 million. Within the first six months of 2011, BAWAG P.S.K. was already able to achieve two thirds of last year's profit.

Net Profit for the first half of 2011 of **EUR 78.5 million** (including the Bank Levy) also compares favorably with the net profit for the full year 2010 of EUR 121.8 million (no Bank Levy charges were made in 2010) and confirms our bank's business model.

ASSETS

The **Bank's consolidated assets** as of 30 June 2011 totalled EUR 40.0 billion, and were EUR 1.5 billion or 3.8 per cent higher than at the end of 2010. This was primarily due to increases in debt instruments and receivables from credit institutions by EUR 941 million or 61.6%.

ASSETS	30.06.2011	31.12.2010	Change	
in millions of Euros				
Cash reserves	710	511	199	38.9%
Financial assets	10,468	10,855	-387	-3.6%
Loans and receivables	27,877	26,173	1,704	6.5%
thereof: Debt instruments	3,014	2,358	656	27.8%
thereof: Customers	22,395	22,288	107	0.5%
thereof: Credit institutions	2,468	1,527	941	61.6%
Tangible non-current assets	200	219	-19	-8.7%
Intangible non-current assets	202	229	-27	-11.8%
Other assets	526	514	12	2.3%
Assets	40,007	38,556	1,451	3.8%

As a result of scheduled redemptions and disposals the **financial assets** fell by EUR 387 million or 3.6 per cent to EUR 10.5 billion.

The item **loans and receivables** contains the loans to customers and credit institutions that are recognised at amortised cost. This item showed an encouraging increase of EUR 1.7 billion or 6.5 per cent to EUR 27.9 billion in the first half of 2011.

Receivables from customers have slightly increased during the first half of 2011, increasing by EUR 107 million to EUR 22.4 billion. This can primarily be attributed to enhanced lending to non credit institutions, which show an increase by 8% well above market growth of 1.6%. The new commercial loans experienced sales growth of 17 per cent compared to the negative market trend (decrease of 7 per cent). The new private loans increased by 5.7% compared to the first half of 2010.

The **Bank's exposure to high-deficit EU-countries** remains very low and has declined from EUR 53 million to EUR 43 million as of 30 June 2011 due to an impairment provision for its exposure to Greek government debt. BAWAG P.S.K. expects the further development of the sovereign debt crisis to have a limited impact on the Bank's capital position.

LIABILITIES

Payables to customers rose by EUR 410 million or 1.9 per cent to EUR 22.1 billion. The Bank successfully renewed savings of EUR 1.2 billion following the maturity of capital savings accounts. According to the general trend, savings deposits decreased by EUR 245 million, but this was more than offset by a EUR 295 million increase in savings through savings card accounts. Together with the investment products measured at their fair values mentioned above, savings and investment deposits totalled EUR 12.9 billion as of 30 June 2011, or approximately one third of the Bank's consolidated assets. **Other deposits** (including savings card accounts) grew nicely by EUR 655 million to reach EUR 9.4 billion.

Payables to credit institutions increased by EUR 573 million or 26.0 per cent to EUR 2.8 billion.

The **issued securities** recognised at amortised cost rose by EUR 192 million or 4.7 per cent to EUR 4.3 billion, which can primarily be attributed to new bond issues in the retail segment.

LIABILITIES in millions of Euros	30.06.2011	31.12.2010	Change	
Financial liabilities	36,603	35,194	1,409	4.0%
At amortised cost	29,200	28,023	1,177	4.2%
thereof: Customers	22,143	21,733	410	1.9%
thereof: Credit institutions	2,778	2,205	573	26.0%
thereof: Issued securities	4,279	4,085	194	4.7%
Provisions	437	436	1	0.2%
Other obligations	513	500	13	2.6%
Equity	2,025	2,016	9	0.4%
Non-controlling interests	377	370	7	1.9%
Total equity and liabilities	40,007	38,556	1,451	3.8%

Outlook

For the second half of 2011, we expect that the Austrian economy will be impacted by the current market turbulences and the accelerated inflation. This might hinder the development of real disposable household income and may lead to a further reduction of the savings rate. Nevertheless the latest forecasts still believe in a very modest growth of the Austrian economy.

These developments have somewhat impacted business and consumer confidence which was at a high level in the first half of the year. The Austrian economy will further be subject to external market shocks like the continued sovereign debt crisis.

BAWAG P.S.K. will continue to focus on its Retail and Corporate businesses and the ongoing execution of our investment programmes in support of further growth of our customer franchises.

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