

A Successful Financial Year 2011 for BAWAG P.S.K.

Profit before tax and bank levy EUR 156 million (+ 13%)

Continuation of the Bank's projected growth

BAWAG P.S.K. looks back on a successful financial year 2011, during which the bank was able to continue its positive business development despite ongoing turbulence on the capital markets. All business units have been profitable and contributed **to a favourable overall profit** by increasing core revenues (+6%), stable operating costs and a further decrease of total risk costs (-23%). The Bank's **overall profit before tax and bank levy amounted to EUR 156 million and improved by EUR 18 million or 13%** compared to last year. The continuation of our growth strategy and investing in business segments mainly focusing on Austria and Western Europe made this success possible despite the difficult market environment, increasing competition in the banking sector and significant increase in regulatory burden.

Thanks to its prudent risk policy, the Bank's sovereign exposure to European high-deficit countries remains limited (fair value: EUR 23 million). Total risk costs decreased once more. The Bank maintains a sound liquidity position of EUR 5.2 billion, improved its capital ratio (Tier I ratio: 9.6%) and already meets the Basel III criteria.

Continuation of our business growth strategy

- **Single brand-strategy:** In 2011 BAWAG P.S.K. has united the two sales brands BAWAG and PSK BANK to one strong brand BAWAG P.S.K. presenting itself with a new brand image, a new slogan and new positioning. Under the motto "Mitten im Leben" for retail customers and "Mitten im Business" for our corporate and financial customers, a range of products and services was launched respectively improving meeting the demand of being "understandable, fair, anytime and anywhere".
- **New product lines:** Parallel to the single-brand-strategy the different range of products was merged. These harmonized product lines distinguish themselves by uniformed fees and conditions, same descriptive product names and the same level of availability throughout Austria. The "KontoBox" was the first example of a successful product line harmonisation. It is an account package of three product variants, offering specific supplementary services. It can be combined with a saving capability feature at attractive interest rates. 60,000 newly opened "KontoBox" accounts in 2011 shows that we have created an important anchor product.
- **Branch Offensive:** Part of our growth strategy is delivered through the expansion of our branch network. Within the framework of this project a total of EUR 100 million will be invested in expanding the branch network to more than 500 bank locations. Our

branch campaign is proceeding very well: By the end of 2011 330 new branches, now also offering the full range of bank services, have been opened. This new branch concept has received positive feedback from our clients with its extended opening hours and a modern and wide range of self-service options.

- **BAWAG P.S.K. as Multi-channel Bank:** In 2011 we established the new e-commerce sales channel in order to become the number one multi-channel bank on the Austrian market by operating a dense branch network, mobile advisors and a customer service centre for meeting requirements by telephone. The e-banking system was completely revamped and expanded with many attractive new features. The end of 2011 saw a further innovation, the launch of a functional and trend-setting smart phone app for BAWAG P.S.K. operated in up to 7 languages and enabling our customers to complete their banking business conveniently on their smart phones.
- **New service concept for corporate customers:** The “Business Solution Partner”-Concept offers consolidated know-how and customized products and solutions from a single source. This new service concept is well received by our corporate clients. The range of services for our clients includes the provision of attractive working capital loans, structured finance and capital market solutions, leasing as well as financial analyses, consultations and professional payment solutions, - in particular through a newly developed and innovative finance management tool that significantly simplifies managing cash, liquidity interest rates and currencies (“Finance Cockpit”).
- **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 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 EUR 2.9 billion at the end 2011 (2010: EUR 1.8 billion). Both units performed well in the reporting period. No risk costs were incurred in 2011.

Apart from focusing on investments for core business growth in 2011, the focus was laid on the continuation of the **efficiency and productivity program** started in 2010. The projected cost savings are to be realised by the end of 2013. By year end 2011, the Bank was well on track to meet its targets. By simplifying processes and improvement of technology an important goal of this initiative should to be reached: the reduction of processing time (“time-to-market”) and the improvement of our customer service.

During 2011 the Bank also continued to execute and deliver a number of regulatory projects including Basel 2.5 and the implementation of a state-of-the-art Anti Money Laundering detection software as well as new Asset Liability Management-Tool.

Our Achievements in 2011 at a Glance:

- Retail and Small Business:
 - More than 65,000 new customers.
 - Growth in private accounts and in building society accounts: 74,200 new current accounts
49,600 new building society accounts.
 - Successful renewal of EUR 2.6 billion in savings following the maturity of capital savings accounts.
 - Increase of savings card deposits and deposits on online-saving-accounts by 50% to EUR 1.5 billion
 - Increase of new private loans by 5.4%.
 - BAWAG P.S.K. Versicherung:
 - Encouraging development of life insurance contracts: increase of paid premiums by 3.4% compared to a weak market increase of 1.6%.
 - easybank:
 - Servicing of more than 365,000 customer accounts;
 - Increase of balance sheet total from EUR 1.8 billion to approximately EUR 1.9 billion (+6.1%)
 - Honoured with the Recommender Award for „excellent customer orientation“ in the category of regional and specialist banks

- Corporates & Financial Markets:
 - Market share of 13% in the Public Sector
 - Increase in new corporate loans by 15% in 2011 compared to a reduction of the market (decrease by 1%).
 - Increase in market share of overall new loans in Austria from 4% to 5%
 - Corporate Bonds: Participation in 50% of all corporate bonds issued in Austria in 2011
 - BAWAG P.S.K. Leasing:
 - Significant increase of new Business in motor vehicle leasing by 8% and fleet management by 22.5%

Improvement of Capital and Liquidity Position - Buy Back of Hybrid Instruments successful

During 2011 BAWAG P.S.K. has continued to focus on **further improving its capital and liquidity position**. The Bank's capital position has been strengthened through disciplined capital management and realisation of risk-weighted asset reductions while at the same time enhancing profitability.

BAWAG P.S.K. continued preparing for the introduction of Basel III and CRD IV / CRR I throughout 2011. Basel III provides for mandatory higher capital and liquidity ratios for banks. BAWAG P.S.K. already complies with the Basel III criteria, and is confident to meet these criteria at the time of its introduction in 2013.

The **Group's Tier I capital ratio** (based on total risk) of **9.6%** has improved from 8.9% in December 2010. The **Group Own funds ratio** of **12.3%** has also significantly improved from 11.8% at year end 2010.

Despite higher business volumes on an annual average base and increased regulatory burden, BAWAG P.S.K. was able to optimize the risk weighted assets thus contributing significantly to an improvement of the Capital Tier I ratio.

Successful Buy Back of Hybrid Instruments in 2012

In order to optimise its capital position further BAWAG P.S.K. launched a public offer to tender for purchase of two outstanding Preference Share issues between February 20, and March 2, 2012 at a purchase price of 70. These hybrid instruments have been issued by BAWAG Capital Finance entities (BCF and BCF II), Jersey, in a total amount of EUR 300 million. This tender enjoyed a very positive feedback by the holders of both Preference Share issues: As per March 6, 2012 (settlement day) BAWAG P.S.K. bought back Preference Shares with a total nominal value of EUR 158 million whereby a pleasing participation of 53% has been achieved.

In addition a private placement of outstanding JPY 14 billion of Preference Shares was in its entirety bought back successfully by BAWAG P.S.K. The buy back of these hybrid instruments was made as part of BAWAG P.S.K.'s ongoing capital management strategy with the aim of further strengthening BAWAG P.S.K.'s core tier I capital position. After effecting of all the buy-backs (including private placements) BAWAG P.S.K. Group has achieved to buy back 65% of the hybrid capital as of 8 March 2012. As of 8 March 2012 the outstanding hybrid capital of the BAWAG P.S.K. Group after execution of all the buy-backs amounts to EUR 142 million.

Total **regulatory liquidity of EUR 5.2 billion** as of year end 2011 remains strong (2010: EUR 5.3 billion). Also in 2011, BAWAG P.S.K. was thereby able to continue to refinance its receivables from customers without making substantial use of the capital markets. The loan-to-deposit ratio increased to 105%.

In 2011 BAWAG P.S.K. passed the annual stress tests of the Austrian National Bank. These stress tests were similar to the European Banking Authority (EBA) stress tests performed at the same time.

**Overall improved Operating Performance – Net profit of EUR 123 million –
Significant increase on a comparable basis to 2010**

Despite the difficult market environment, increasing competition in the banking sector and rising margin pressure, BAWAG P.S.K. was successful in building sustainable profitability across its businesses and was able to create a sound operating performance foundation. All key profit figures improved compared to last year.

Despite falling interest rates and rising margin pressure mainly in the deposit business, BAWAG P.S.K. was able to increase its net interest income further. The selective expansion of our international business also played a major role in the growth of net interest income in the period. **Net interest income** rose by EUR 28 million or 4.3% to EUR 677.9 million in 2011. **Net commission income** increased by EUR 16.5 million or 10.4% compared with the prior year, coming in at EUR 175.9 million.

Income statement in millions of Euros	2011	2010	Change	
Net interest income	677.9	649.9	28.0	4.3%
Net fee and commission income	175.9	159.4	16.5	10.4%
Core revenues	853.8	809.3	44.5	5.5%
Gains and losses	31.5	155.9	-124.4	-79.8%
Other income	38.4	-4.4	42.8	-
Operating income	923.7	960.8	-37.1	-3.9%
Personnel expenses	-356.1	-371.7	15.6	4.2%
Other administrative expenses	-192.5	-172.8	-19.7	-11.4%
Depreciation and amortisation	-64.6	-73.8	9.2	12.5%
Operating expenses	-613.2	-618.3	5.1	0.8%
Operating profit before bank levy	310.5	342.5	-32.0	-9.3%
Risk costs	-154.8	-199.7	44.9	22.5%
Valuation results of associates at equity	0.3	-4.7	5.0	-
Profit before tax and Bank Levy	156.0	138.1	17.9	13.0%
Bank levy	-20.2	0.0	-20.2	-
Profit before tax	135.8	138.1	-2.3	-1.7%
Income taxes	-8.6	-12.7	4.1	32.3%
Minorities	-4.7	-3.6	-1.1	-30.6%
Net profit	122.5	121.8	0.7	0.6%

The item **“Gains and losses”** totalled EUR 31.5 million, shows a decrease of EUR 124.4 million compared with the prior year. The decline in this item can primarily be attributed to one-off income generated through the sale of securities in the first half of 2010 of EUR 76 million and impairment of Greek bonds of EUR 32 million. To reduce risk and volatility of the valuation results the bank deliberately increased its measures in hedge accounting.

Core revenues of EUR 853.8 million, comprising net interest income and net commission income, increased compared to the 2010 by EUR 44.5 million or 5.5%.

The Bank’s tight cost management continues to show satisfactory results. Despite the significant investments made in 2011, **total operating expenses** (without Bank Levy) of **EUR 613.2 million** are slightly below the level of the previous year. Within this item **personnel expenses** fell by EUR 15.6 million (-4.2%) and depreciation on tangible assets decreased by EUR 9.2 million (-12.5%). This was offset by an increase of administrative expenses by EUR 19.7 million (+11.4%) caused by significantly higher expenses recognized in the income statement 2011 for the new positioning of our brand and our retail business. All in all, the moderately lower operating expenses show the continued positive effects of our efficiency and productivity enhancement programme, which was launched in 2010 and is being implemented on an ongoing basis in the current year. Nevertheless, significant investments were made in 2011 including modernization and the opening of 330 new BAWAG P.S.K. branches together with Österreichische Post AG, which now offer bank and post services under one roof.

The **Bank Levy** which was introduced in 2011 for the first time amounted to **EUR 20.2 million**. Furthermore, BAWAG P.S.K. will pay a **coupon of EUR 51.2 million** for the government’s participation capital for the full year. The remainder of the profit is deferred in order to further strengthen the capital.

The **cost-income ratio** slightly increased compared to the year end 2010 due to lower income from gains and losses on financial instruments and is at 66.4% (2010: 64.4%).

The legacy **structured credit portfolio** deriving from 2003 to 2005 was further reduced in 2011 by scheduled and early repayments as well as sales by EUR 165 million. The book value pursuant to IFRS totalled EUR 677 million at year’s end. Due to redemptions and sales, capital gains of EUR 19 million were realized. Almost no impairments were required for the structured credit portfolio in 2011.

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 154.8 million, a reduction of EUR 44.9 million or 22.5% compared to 2010 (EUR 199.7 million). This decrease reflects the rather conservative risk profile of the Bank’s loan portfolio as well as the successful efforts of pro-active managing and monitoring of risks. The carrying amount in MKB Bank Zrt., in

which BAWAG P.S.K. now holds a stake of only 4.61%, had to be **substantially impaired** in the financial statements 2011 by EUR 58 million.

Profit before tax and Bank levy amounted to **EUR 156.0 million and improved by EUR 17.9 million or 13.0%** compared to 2010. **Net profit** amounts to **EUR 122.5 million** compared to EUR 121.8 million in 2010. On a comparable basis 2010 this is a 17% increase.

This excellent result was made possible by an increase in the core revenues (net interest income and commission income), a significant reduction of risk costs and efficient cost management and reflects the consistent improvement of the profitability of our business as well as our efficiency and productivity enhancement programme.

ASSETS

The **Bank's consolidated assets** as at 31 December 2011 came to EUR 41.1 billion, EUR 2.5 billion or 6.5% more than at the end of the previous financial year. This growth was primarily the result of higher business volume with loans and advances to customers and credit institutions, as well as increased investments in not actively traded debt instruments.

As a result of scheduled redemptions and disposals the **financial assets** fell by EUR 281 million or 2.6% to EUR 10.6 billion.

ASSETS	2011	2010	Change	
in millions of Euros				
Cash reserves	616	511	105	20.5%
Financial assets	10,574	10,855	-281	-2.6%
Loans and receivables	28,887	26,173	2,714	10.4%
thereof: Debt instruments	3,250	2,358	892	37.8%
thereof: Customers	23,223	22,288	935	4.2%
thereof: Credit institutions	2,414	1,527	887	58.1%
Hedging derivatives	127	55	72	130.9%
Tangible non-current assets	191	219	-28	-12.8%
Intangible non-current assets	193	229	-36	-15.7%
Tax assets	283	277	6	2.2%
Other assets	206	237	-31	-13.1%
Total assets	41,077	38,556	2,521	6.5%

The item **loans and receivables**, which contains the loans to customers and credit institutions that are recognised at amortised cost, showed an increase of EUR 2.7 billion or 10.4% to EUR 28.9 billion.

As of 31 December 2011, the **receivables from customers** increased by EUR 935 million or 4.2% to EUR 23.2 billion. The new commercial loans experienced sales growth of 15% compared to the negative market trend (decrease of 1%). The new private loans increased by 5.4% compared to 2010.

The **Bank's exposure to high-deficit EU-countries** has been further reduced during the year to EUR 23 million. This includes Greek government debt (fair value: EUR 11 million; nominal value: EUR 53 million) and Spanish government debts (fair value: EUR 12 million; nominal value: EUR 15 million). BAWAG P.S.K. expects the further development of the sovereign debt crisis to have a insignificant impact on the Bank's capital position.

LIABILITIES

Payables to customers rose by EUR 283 million or 1.3% to EUR 22.0 billion. The Bank successfully renewed savings of EUR 2.6 billion following the maturity of capital savings accounts. According to the general trend, savings deposits decreased by EUR 283 million, but this was more than offset by a EUR 977 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 12.8 billion as of year end 2011 or approximately one third of the Bank's consolidated assets. Other deposits (including savings card accounts) grew nicely by EUR 565 million or 6.5% to reach EUR 9.3 billion.

LIABILITIES	2011	2010	Change	
in millions of Euros				
Financial liabilities	37,853	35,194	2,659	7.6%
thereof: At amortised cost	30,615	28,023	2,592	9.2%
thereof: Customers	22,016	21,733	283	1.3%
thereof: Credit institutions	3,399	2,205	1,194	54.1%
thereof: Issued securities	4,290	4,085	205	5.0%
thereof; Financial liabilities associated with transferred assets	910	-	910	-
Provisions	413	418	-5	-1.2%
Equity	1,962	2,016	-54	-2.7%
Other liabilities	849	928	-79	-8.5
Total equity and liabilities	41,077	38,556	2,521	6.5%

Payables to credit institutions increased by EUR 1.2 billion or 54.1% to EUR 3.4 billion over the reporting period mainly due to the use of the tender facility offered by the European Central Bank (ECB).

The issued securities increased by EUR 205 million or 5.0% to EUR 4.3 billion, which can primarily be attributed to new bond issues in the retail segment.

City of Linz

In 2007, the City of Linz concluded with BAWAG P.S.K. a forward financial transaction to optimise a CHF loan in the same amount it had taken out with another bank. This transaction was based on a valid municipal council resolution. After an initially positive development, during which the City of Linz received CHF-payment due to this swap transaction by BAWAG P.S.K.. The global financial crisis, together with an unfavourable development of the EUR /CHF exchange rate led to higher payment obligations by the City of Linz than expected by the client. BAWAG P.S.K. has regularly offered the city administration - although without any contractual obligation - to terminate the swap at moderate costs. The city administration never accepted these suggestions. The Linz city council decided in October 2011 that it would make no more payments in connection with the swap and filed a law suit against BAWAG P.S.K. Because of this breach of a contractual obligation by the city of Linz, BAWAG P.S.K. decided to close out the swap transaction and 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. It is expected that the two suits will be combined, and that the first hearings will be held in the first half year of 2012 at the Commercial Court of Vienna.

Appropriate valuation adjustments were applied for legal, litigation and other operational risks as well as for time differences for the receipt of payments in 2011. The recognition of this receivable and its measurement is supported by several expert opinions.

In order to ensure the bank's interest in the upcoming legal proceedings, no information will be provided on the current carrying value of the claim against the city of Linz or the applied valuation measures. Irrespective of the valid legal claim and consistent with the bank's cautious risk management approach the bank has taken sufficient care of potential bank and legal risks

Outlook

The year 2012 will be negatively influenced by the ongoing and unsolved debt crisis in Europe at least in the first half of 2012. However, the latest developments and the leading economic indicators give cause to hope that the economy will enter a recovery again in the second half of the year.

The Austrian economy is profiting from relatively robust domestic demand. Especially private consumption will support the economy because of the agreed wage increases and declining inflation. Corporate investment activity, on the other hand, will be substantially slower in year-on-year comparison; in particular the outlook for domestic exporters is also low.

All in all, the conditions are difficult for the banking sector. High competition is eroding margins in deposit-taking, with only a slight adjustment of the margins in the lending business. The extremely low market interest rate levels and urgent refinancing needs of some market participants are making it difficult to set up reasonable terms for customer deposits.

At the regulatory level, banks must prepare for the implementation of the new own funds and liquidity regulations (CRD IV and CRR) in 2012. The announcement by the Austrian Government to increase the bank levy by 25% in general will cause further costs. The deposit guarantee directive could also be finalised in 2012, and will impose an additional financial burden especially on major deposit banks like BAWAG P.S.K.

However, BAWAG P.S.K. feels in a good position to master the upcoming challenges thanks to its financial strength and strong liquidity position. Focusing on the core areas of business, expanding our multi-channel sales strategy focusing on the branch offensive and our push to be a bank that is in touch with its customers are a sound foundation on which to build a good financial year 2012.

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