Press release

Vienna, August 28th, 2012

Sound operating performance of BAWAG P.S.K. in first half year 2012

- **Stable core revenues**
- **CET I significantly increased to 8.8%, Group own funds ratio 12.2%**
- **Improvement of net profit by 23.1% to EUR 96.6 million**
- **Profit before tax and bank levy of EUR 78.9 million (-13.9%) affected by lower gains and losses**
- **Significantly stronger headwinds in 2nd half year 2012 is expected to result in a weaker operating performance**

The first half year of 2012 was marked by a further deterioration of the Euro zone economy, exceptionally low interest rates, the continued ongoing sovereign debt crisis and volatile financial markets. The demand of private households and companies for deposits and loans remained relatively subdued in the light of the economic environment.

In this context BAWAG P.S.K. has successfully steered through these difficult economic times while maintaining a focus on the needs of its customers and further improving its tight management of cost and strengthening of the capital base.

The core revenues remained largely stable, the operating expenses were further successfully reduced (EUR -3.2 million) despite continuing cost pressure. Risk costs once more were below last year's level (EUR -1.4 million). The bank levy increased by EUR 2.5 million (+25%).

All in all the bank achieved a satisfactory **profit before tax and bank levy** of EUR 78.9 million which reflects the stable operative performance as well the lower gains and losses compared to 1st half year 2011. **Net profit** of EUR 96.6 million compares favourably with the net profit for the first six months of 2011 and shows an increase by EUR 18.1 million or 23.1% mainly due to temporary positive deferred tax effects.

A proactive capital management contributed to an improvement of the **EBA capital ratio** (Core Equity Tier "CET" I) to 8.8% (from 7.8% at the year-end 2011).

The **Group's Tier I capital ratio** (including total risk-weighted assets) of 9.4% and **Group Own funds ratio** of 12.2% are in line with year-end 2011. As of today the Bank already is Basel III-compliant.

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Continued and consistent execution of our business strategy

- **Retail Business**:
  The focus of our strategy remained on the expansion of the multi-channel offerings and on the continuous improvement of BAWAG P.S.K.'s products and services.
  - **Branch offensive**: In the first half of 2012 the number of branches increased from 330 to 376 locations. By the end of 2012, BAWAG P.S.K. and Post will be operating approximately 500 modernized and newly designed branches. They will offer extended opening hours and a wide range of self-service options. These services are highly appreciated by our customers.
  - **eCommerce**: Our mobile banking application ("App") introduced by the end of 2011 performed extremely well and was well received by customers.
  - **KontoBox as key product**: More than half of all new current accounts are opened as a KontoBox. The number of ATM cards and credit cards for these giro accounts is continuously increasing. About one third of all KontoBox owners are making use of the associated savings card account at attractive interest rates.

Our achievements at one glance

- 44,900 new current accounts
- 22,800 new building society accounts
- Successful market launch of our mobile eBanking App: about 89,000 persons are already user of this APP within 6 months; positive customer feed-back in the download stores
- Increase of savings card deposits and deposits on online saving accounts (especially "KontoBox-Anlagekonto") by 35% to EUR 2.0 billion
- Encouraging sales figures for securities:
  - Main driver of sales: BAWAG P.S.K. Kassenobligation with monthly coupon payments
  - Sales of funds increased by 80%
  - Higher demand for BAWAG P.S.K. Wohnbaubank-Anleihen (+50% compared to first half of 2011)

- BAWAG P.S.K. Versicherung:
  - Encouraging development of paid premiums for new life insurance products: +21%
  - Increase of all paid premiums by 4.7% compared to last year proves again to be significantly higher than market (decrease by 7.6%)
- BAWAG P.S.K. INVEST:
  - Pleasing sales figures of security-oriented sales as well as of return-oriented funds
- easybank:
  - Continued strong growth
  - Servicing of nearly 390,000 accounts (+6.8%)
  - Increase of balance sheet total from EUR 1.9 billion to EUR 2.2 billion as of 30 June 2012 (+14.2%)
  - Again honoured with the Recommender Award for "excellent customer orientation".

➢ **Corporate Business and Financial Markets:**

- The product expertise, developed over the past years, also improved the Bank's performance indicators and expanded our collaboration with the customers. Loans to domestic corporates and financial institutions continued to increase slightly.
- Payment Services: The cooperation with the Republic of Austria, one of our key customers, was further strengthened by the signing of a new agreement providing services for a modern payment transaction system.
- Financial Markets: Trading as well as the valuation results of the investment books were able to benefit from the market development.

Our achievements at one glance

- Market share corporates: increase from 5.1% to 5.2%
- Corporate Bonds: Participation in nearly 75% of all corporate bonds issued in Austria in first half of 2012

➢ **International business:**

- The primary focus of international business remains on investment-grade customers of European and multi-national corporates. In accordance with our strict risk framework, the portfolio of this segment business segment was expanded from EUR 2.3 billion to EUR 3.2 billion. No risk costs were incurred in the first half of 2012.

Continued improvement of capital and liquidity

BAWAG P.S.K. continued to monitor the developments of the finalisation of the Basel-III-framework on an ongoing basis and took implementation measures to actively enhance the Bank's capital and liquidity base by following a disciplined capital management strategy. As of today the Bank is Basel III-compliant but will look to further improve its capital ratios during the second half year of 2012.

Part of this strategy was the Bank's **successful buyback of the majority of hybrid capital** from the holders in the first half of 2012 (EUR 262 million; 65% of issuance). From a regulatory point of view, an improvement of the Bank's Core Equity ("CET I") by EUR 110 million – approximately 50 basis points – was achieved by this measure. This transaction had no financial impact on the IFRS financial statements. The buyback of these hybrid instruments was executed after the approval of the Financial Market Authority (FMA) which requested the issuance of Basel III-compliant replacement capital in accordance with regulatory requirements.

In addition, a further risk weighted asset optimization programme was launched in the first half year 2012. Although the credit RWAs remained unchanged, total RWAs were reduced by EUR 401 million (-1.7%) compared to December 31, 2011.

Due to allocated profits and the mentioned RWA optimization programme the CET I-ratio was improved by further 50 basis points.

All these actions have increased the **EBA capital ratio** (Core Equity Tier "CET" I) to 8.8% in the first six months (2011: 7.8%).

The **Group's Tier I capital ratio** based on total risk amounted to 9.4% (2011: 9.6%) and **Group Own funds ratio** to 12.2% (2011: 12.3%). Both ratios are well above the minimum legal standards, which amount to 4% and 8%, respectively.

Total regulatory liquidity has improved and remains very strong at EUR 6.7 billion (year-end 2011: EUR 5.2 billion). The loan-to-deposit-ratio amounted to 103%.

BAWAG P.S.K. participated as one of the top five Austrian banks in the **stress test** conducted by Oesterreichische Nationalbank in the spring of 2012, which the bank passed comfortably.

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Sound operative performance – increased bank levy – lower valuation results – tight cost and risk management successfully continued

Despite continued challenging economic times for the banking industry, exceptionally low interest rates accompanied by reduced margins and increasing regulatory requirements, BAWAG P.S.K. records a sound operating profit.

Income statement in millions of Euros	**1-6/2012**	**1-6/2011**	**Change**	
Net interest income	310.4	322.4	-12.0	-3.7%
Net fee and commission income	100.9	89.4	11.5	12.9%
Core revenues	**411.3**	**411.8**	**-0.5**	**-0.1%**
Gains and losses	45.2	58.6	-13.4	-22.9%
Other income	5.1	9.1	-4.0	-44.0%
Operating income	**461.6**	**479.5**	**-17.9**	**-3.7%**
Administrative expenses	-279.0	-278.7	-0.3	-0.1%
Depreciation and amortisation	-27.0	-30.5	3.5	11.5%
Operating expenses	**-306.0**	**-309.2**	**3.2**	**1.0%**
Operating profit before bank levy	**155.6**	**170.3**	**-14.7**	**-8.6%**
Risk costs	-77.5	-78.9	1.4	1.8%
Valuation results of associates at equity	0.8	0.2	0.6	>100%
Profit before tax and Bank levy	**78.9**	**91.6**	**-12.7**	**-13.9%**
Bank levy	-12.7	-10.2	2.5	24.5%
Profit before tax	**66.2**	**81.4**	**-15.2**	**-18.7%**
Income taxes	32.3	-0.9	33.2	--
Minorities	-1.9	-2.0	0.1	5.0%
Net profit	**96.6**	**78.5**	**18.1**	**23.1%**

Net interest income of EUR 310.4 million in the first half of 2012 fell by EUR -12.0 million or -3.7% compared to the prior year. This can primarily be attributed to the current low interest rates and rising margin pressure on the deposit side. **Net fee and commission income** came to EUR 100.9 million (plus EUR 11.5 million or +12.9%) and improved considerably compared to the prior year.

Core revenues (net interest income and net fee and commission income) therefore remained stable at EUR 411.3 million compared to the first half 2011 (EUR 411.8 million).

The item **gains and losses on financial assets and liabilities** shows a decrease of EUR 13.4 million or 23% to EUR 45.2 million compared with the prior reporting period. The decline in this item can primary attributed to valuation losses of the own issues designated at fair value in the first quarter of 2012.

Overall, the **operating income** amounted to EUR 461.6 million as of 30 June 2012.

The Bank's **tight cost management** delivered the intended results despite continued cost pressure: Due to continued cost reduction measures and considering the further expanding of our branch network, the **total operating expenses** (without bank levy) amounted to EUR 306.0 million, a reduction of EUR 3.2 million compared to the first half of the previous year.

Risk costs (provisions and impairment losses) amounted to EUR 77.5 million, which once more is EUR 1.4 million or 1.8% lower than the amount in the first half of the previous year (EUR 78.9 million). At the same time loan loss provisions and defaults remained stable despite the difficult economic environment, an indication of the continued relatively conservative risk profile of the Bank's loan portfolio.

The **cost-income ratio** remains almost stable compared to December 2011 at 66.3%.

In the first half of the year, the Bank achieved a satisfactory result, with an overall **profit before tax and bank levy** of EUR 78.9 million. This equals approximately 50% of the profit before tax and bank levy for 2011 as a whole. The decline by EUR 12.7 million or 13.9% compared to the reporting period of last year, can primary attributed to lower valuation results (own issues designated at fair value). These effects were partly mitigated by higher commission income.

The **net profit** was improved by positive deferred tax effects and amounts to EUR 96.6 million for the first half of 2012. This compares favourably with the net profit for the first six months of 2011 of EUR 78.5 million (+ EUR 18.1 million or 23.1%).

ASSETS

The Bank's **consolidated assets** as of 30 June 2012 totalled EUR 43.4 billion, and were EUR 2.4 billion or +5.8% higher than at the end of 2011, primarily due to increases in receivables from customers and credit institutions.

ASSETS in millions of Euros	**30.06.2012**	**31.12.2011**	**Change**	
Cash reserves	922	616	306	49.7%
Financial assets	**10,664**	**10,574**	**90**	**0.9%**
Loans and receivables	**30,853**	**28,887**	**1,966**	**6.8%**
thereof: Debt instruments	2,538	3,250	-712	-21.9%
thereof: Customers	23,755	23,223	532	2.3%
thereof: Credit institutions	4,560	2,414	2,146	88.9%
Hedging derivatives	154	127	27	21.3%
Tangible non-current assets	178	191	-13	-6.8%
Intangible non-current assets	183	193	-10	-5.2%
Tax assets	290	283	7	2.5%
Other assets	205	206	-1	-0.5%
Total assets	**43,449**	**41,077**	**2,372**	**5.8%**

The item **loans and receivables**, which contains the loans to customers and credit institutions that are recognised at amortised cost, shows an increase of nearly EUR 2 billion or 6.8% and amounted to EUR 30.8 billion.

The largest share of this increase was attributed to **receivables to credit institutions** due to higher investments in other banks which reflect the excellent liquidity position of BAWAG P.S.K. This item amounts at EUR 4.6 billion and shows an increase by EUR 1.2 billion.

Receivables from customers also reported an increase by EUR 532 million or 2.3% to EUR 23.8 billion. This can primarily be attributed to higher business volumes with corporate customers. BAWAG P.S.K. once again proved to deploy its continued strong liquidity base in support of the business development of our primary customers even in such difficult times for the real economy.

In the new lending business with retail customers (+4.8%) consumer loans ("Superschnell-Kredit") as well as housing loans enjoyed a stronger demand than last year. Due to attractive interest rates the sale figures for new Wohnbaubank-housing loans were increased by one third.

BAWAG P.S.K. has also significantly reduced its **credit exposure towards sovereigns and banks in high-deficit countries**: The sovereign and bank exposure in Spain and Italy as of 30 June 2012 is 22% lower than year-end 2011. The Bank's sovereign exposure in Spain and Italy now stands at EUR 50 million. Greek sovereign bonds are no more part of the portfolio of BAWAG P.S.K., there are also no Portugal or Irish sovereign bonds on BAWAG P.S.K.'s balance sheet.

LIABILITIES

Payables to customers rose by EUR 1.1 billion or +4.9% to EUR 23.1 billion. Savings deposits decreased by EUR 339 million, but this was more than offset by a EUR 512 million increase in savings through savings card accounts. Together with the investment products measured at fair value mentioned above, savings and investment deposits totalled EUR 12.4 billion as of 30 June 2012 or approximately 30% of the Bank's consolidated assets. Other deposits (including savings card accounts) grew nicely by EUR 1.4 billion to reach EUR 10.8 billion. Especially the "KontoBox-Anlagekonto" enjoyed a higher demand: About one third of the KontoBox-owners have already chosen this investment product offered with this giro account.

LIABILITIES in millions of Euros	**30.06.2012**	**31.12.2011**	**Change**	
Financial liabilities	39,670	37,853	1,817	4.8%
thereof: At amortised cost	32,169	30,615	1,554	5.1%
thereof: Customers	23,087	22,016	1,071	4.9%
thereof: Credit institutions	4,629	3,399	1,230	36.2%
thereof: Issued securities	4,321	4,290	31	0.7%
thereof: Financial liabilities associated with transferred assets	132	910	-778	-85.5%
Hedging derivatives	112	64	48	75.0%
Provisions	460	413	47	11.4%
Equity	2,101	1,962	139	7.1%
Other liabilities	1,106	785	321	4.9%
Total equity and liabilities	**43,449**	**41,077**	**2,372**	**5.8%**

The **issued securities** (at amortized cost) rose slightly by EUR 31 million to EUR 4.3 billion. The BAWAG P.S.K. Kassenobligation with monthly coupon payments is a successful example for one of the new issues in the first half of 2012.

Payables to credit institutions increased by EUR 1.2 billion or +36.2% to EUR 4.6 billion. Thereof, approximately EUR 750 million can be attributed to a further use of the tender facility offered by the European Central Bank (ECB) in February 2012.

City of Linz

The legal disputes with the City of Linz which started in 2011 continued in 2012. The first hearing has not yet taken place because the composition of the three-member senate is still the subject of procedural steps. The mediation proceedings recommended by the Commercial Court of Vienna in spring 2012 supported by BAWAG P.S.K. have not yet started. BAWAG P.S.K. is well prepared for the upcoming legal proceedings due to its strong legal position. BAWAG P.S.K. is maintaining its previous assessment of the legal outlook and thus the accounting treatment of the claim. There was no reason to make any accounting adjustments in these 2012 half-year financial statements.

BAWAG P.S.K. existing ratings confirmed by Moody's

BAWAG P.S.K.'s efforts to further develop the Bank and improve efficiency were acknowledged by Moody's Investors Service. In contrast to the successive rating downgrades affecting a large number of European financial institutions, Moody's confirmed the major ratings of BAWAG P.S.K at the beginning of June.

The bank financial strength rating (BFSR) remains at D. The rating for long-term debt (deposits and bonds) was affirmed at Baa2 based on the three notches of systemic support provided by the Republic of Austria. The outlook is seen as stable.

In its accompanying statement, Moody's emphasises the Bank's improved earnings position and refined risk management capabilities. It also comments positively on the Bank's major strategic initiatives, in particular relating to our branch network. Thus it rewards all of the efforts taken over the past several years and confirms that the Bank is on the right path. BAWAG P.S.K. will continue to work hard to enhance BAWAG P.S.K.'s ratings in the future.

Outlook

In the Eurozone, over the next six months the economic environment is highly likely to remain poor while market uncertainty and volatility will continue. As a result, interest rates are expected to remain very low and GDP growth would be difficult to find.

The regulatory burden will increase further, and capital requirements will continue to be the primary focus for the banking industry.

Conditions remain unfavourable for the banking sector. While the European Central Bank is providing sufficient liquidity to commercial banks, refinancing via the interbank or bond market is difficult. Under these circumstances, the implementation of the new own funds and liquidity regulations (CRD IV and CRR) represents a particular challenge.

The situation is further aggravated by the continued low interest rates. Interest cuts on the liability side are much more difficult to be executed than on the asset side. The capital market based refinancing costs for banks were not reduced, but increased. The persistently flat yield curve leads to a rising margin pressure. We expect that all these facts will influence the operating performance well into the next year.

As a result, the operating performance of the Bank is expected to be weaker in the second half of this year. The Bank therefore will continue to invest in growing selected profitable business segments. The Efficiency and Productivity Programme initiated in early 2010 targeting an overall cost reduction (staff as well as administrative expenses) will be continued even more intensively and accompanied by an incremental technology investment. The Bank will continue to accelerate the execution of this programme and is on its way to fulfil its goals in lowering operating costs and creating a more flexible operating model going forward. Furthermore, we will consistently focus on a further improvement of our capital base through continued discipline of risk weighted asset allocation in support of our customers.

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