

BAWAG P.S.K. delivers solid operating performance in 2012

- **Proactive management of the Bank's business model due to continued difficult market environment**
- **Significant strengthening of the equity position (CET 1 acc. to CRR/Basel 2.5) to 11.0% by capital increase of EUR 200 million and realisation of RWA-optimisation (2011: 7.8%; +3.2 points)**
- **Further investments in the core business**
- **Continued focus on initiatives to increase cost efficiency**
- **Continued regulatory liquidity surplus of EUR 4.1 billion**
- **Profit after tax (without restructuring expenses) of EUR 153.2 million slightly above last year's level**

Conditions remained unfavourable during the fourth year of the global financial crisis and have been marked by fundamental structural changes to the banking industry. The operating economic environment continued to deteriorate with little or no economic growth while interest rates fell to record low levels and costs of bank regulation increased.

In the light of these challenging times BAWAG P.S.K. delivered solid results for 2012. As in recent years, BAWAG P.S.K. proactively and successfully continued a disciplined capital and liquidity management, to ensure investment to and support for the sustainable growth of our core franchises in line with our business strategy.

The operating performance for the Bank shows a solid development in 2012:

- **Operating income** increased by EUR 8.1 million.
- Despite continued investments in our core business **operating expenses (without bank levy)** report a slight increase of only EUR 11.6 million.
- **Risk costs** again came below last year's level (EUR -4.7 million).
- **Profit after tax** (without restructuring expenses) of EUR 153.2 million is in line with last year's level and reflects BAWAG P.S.K.'s strength in realising sustainable profit despite the very difficult operating economic environment.

The **restructuring expenses** result from the continued efficiency and productivity program, which will be largely completed by the end of 2013 and represent an important contribution to the future development of BAWAG P.S.K., aimed at realising further sustainable profit in the years ahead.

The capital injection of EUR 200 million in December 2012 together with capital optimisation measures **significantly improved the equity position** of BAWAG P.S.K.:

- **Core Equity Tier I** (CET 1 acc. to CRR/Basel 2.5) **capital ratio** improved by 320bp or 24.6% to **11.0%** (from 7.8% at the year-end 2011).
- **Tier I capital ratio** significantly increased from 9.6% (2011) to **11.7%** as well as
- **Own funds ratio** from of 12.3% to **13.8%**.
These ratios are already Basel III-compliant.

This makes BAWAG P.S.K. well capitalised and able to continue to invest in support of our core franchises.

In contrast to the successive rating downgrades of a large number of European financial institutions, **Moody's confirmed the major ratings of BAWAG P.S.K at the beginning of June 2012**. 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.

Proactive management of the Bank's business model due to continued difficult market environment

Despite a difficult economic environment BAWAG P.S.K. continued to focus on a proactive extension of its core customer business. The Bank focuses on its Retail banking as its central pillar of its business model as well as on its core corporate business, which is supported by an appropriate suite of lending products. In 2012 BAWAG P.S.K. continued investing in the improvement of its products and services and well as in a diversified banking access for the customers.

Retail Banking (including Small Business):

- **Branch initiative:** At year-end 2012, BAWAG P.S.K. is already operating over 90% of the planned, uniformed and optimised branch network (461 out of 506) all over Austria – after a refurbishment/modernization due to our new concept and design (one-stop-shop: full range of banking and postal services under one roof, extended opening hours, a wide range of self-service options with 1,500 terminals). The branch offensive will be completed in the first half of 2013.
- **Enhancement of the multi-channel approach:** Following the trend of digitalization of financial products, BAWAG P.S.K. enhanced and developed its e-banking capabilities and its mobile banking channel. The mobile application (app), successfully launched in 2011, has been further improved and expanded to include a QR-feature for bank transfers via smart phone. Around 100,000 customers are already using the app, and the number is rapidly increasing.

- **Attractive product concept “Box”:** According to our principle to offer understandable, fair, emotionally appealing products and services anytime and anywhere in the business categories giro, investments and financing, our product concept “Box” was extended by two new products: the “SparBox” and the “KreditBox” in 2012.

Our achievements at one glance:

- 75,000 new customers
- Increase of private and building society accounts:
 - 82,000 new current accounts (+10.3%)
 - 50,400 new building society accounts – Continued successful cooperation with Wüstenrot
- Increase of savings card deposits and deposits on online saving accounts (primarily due to “KontoBox-Anlagekonto”) by two thirds to EUR 2.4 billion
- Strong continued interest in mobile eBanking App:
 - already 100,000 users and 7.5 million logins via app
 - very positive customer feed-back in the download stores
- New business of consumer and housing loans with an increase by +11.8% significantly above last year’s level
 - Successful market launch of “KreditBox” in September 2012; sale of 27,500 “KreditBoxes” within only 4 months
 - High demand for Wohnbaubank-loans (+35%)
- Encouraging sales figures for securities:
 - Sales of funds more than doubled compared to 2011
 - Higher demand for BAWAG P.S.K. Wohnbaubank-bonds (+53% compared to 2011)
- BAWAG P.S.K. Versicherung:
 - Continued successful cooperation with Generali
 - Increase of new contracts by 24% compared to last year
- BAWAG P.S.K. INVEST:
 - Increase of fund volume by about 10% to EUR 4.2 billion despite general low interest rate levels
 - Pleasing positive performance development of BAWAG P.S.K. funds across all asset classes
- easybank:
 - Continued strong growth
 - Servicing of 410,000 accounts (+12%)

Corporate Business and Financial Markets:

- **Successful repositioning of the business segment:** Corporate banking remains an integral part of the business of BAWAG P.S.K. The repositioning of the corporate banking operations allows the Bank to increase its focus on sustainable customer relationships. Thanks to its strong funding position and its strong capital position

BAWAG P.S.K. has all the resources to continue to fully invest in the corporate loan business.

- **Central advisory concept:** In 2012, the integration of the sales and product teams into one centralised organisation ensures a further improvement of the Bank's services, which are supported by the use of regional on-site advisors.
- **Treasury-activities:** The Bank's proprietary trading activities were substantially closed in 2012 due to incremental costs in the regulatory environment and material capital usage. However, the full trading support related to the Bank's core customer business and the Bank's balance sheet management will of course be continued as a part of serving our customers and overall risk management of the Bank's balance sheet.

Our achievements at one glance:

- **Market Share:** Despite a challenging economic environment and highly competitive markets the Bank maintained its market share of about 5% in the corporate lending business.
- **Corporate Bonds:** Participation in more than half of all corporate bonds issued in Austria in 2012.
- **Payment Services:** Confirmation of our cooperation with the Republic of Austria, one of our key customers.

International Business:

- This segment covers selective lending investment in international opportunities under disciplined risk adjusted return criteria. The International Business focuses primarily on Western Europe transactions.
- The portfolio of this segment business segment was expanded from EUR 2.9 billion to EUR 3.4 billion and achieved record revenues in 2012.

Strengthening of the Bank's Equity Position – Simplification of the Shareholder Structure

A capital increase of EUR 200 million in BAWAG P.S.K. was made effective as of 31 December 2012, which was subscribed by the existing owner Cerberus Capital Management L.P. ("Cerberus"), and a second new owner, GoldenTree Asset Management L.P. ("GoldenTree"), a U.S.-based asset management company. Cerberus remains the controlling shareholder with a stake of 51.78%. GoldenTree acquired a significant minority stake of 39.46%. The Austrian investors, including Österreichische Post AG, Generali Holding Vienna AG and Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H., continue to hold stakes in the Bank's share capital.

This capital investment is a strong sign of the continued financial commitment of the shareholders and investors and demonstrates substantial confidence in BAWAG P.S.K.'s ability to further drive sustainable profitability in the future as it executes its business plans.

The increase also served as the required replacement capital in fulfilment of the FMA requirements for the redemption of the hybrid instruments in March 2012.

The capital injection as well as the successful launch of a programme for optimisation of the risk weighted assets (RWA) improved the Bank's already strong equity structure.

All these actions have improved

- **Core Equity Tier I** (CET1 acc. to CRR/Basel 2.5) **capital ratio** to **11.0%** in 2012 (2011: 7.8%).
 - **Tier I capital ratio** amounted to **11.7%** (2011: 9.6%) and
 - **Own funds ratio** to **13.8%** (2011: 12.3%).
- Both ratios are well above the minimum legal standards, which amount to 4% and 8%, respectively.

Due to its strong equity base, BAWAG P.S.K. plans to **redeem participation capital to the Republic of Austria in a nominal amount of EUR 50 million** by 30 June 2013, subject to regulatory approvals.

At the same time, a decision was taken by the shareholders and investors in the BAWAG P.S.K. holding companies **to streamline and simplify the Bank's capital structure at holding levels** in order to fully comply with forthcoming regulatory requirements under Basel III.

Total regulatory surplus liquidity has remained very strong at EUR 4.1 billion (2011: EUR 1.8 billion). In February 2013 BAWAG P.S.K. has already paid back the liquidity provided by the ECB to European banks through its long-term refinancing operations ("LTRO") programme.

Solid operating performance in 2012 – continued investments in the core business – further focus on cost efficiency

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 solid operating profit.

Net interest income decreased by EUR 80.5 million or 11.9% to EUR 597.4 million in 2012. This result is particularly influenced by continuously falling interest rates, rising margin pressure and optimisation of risk-weighted assets (RWA).

Net commission income improved by EUR 18.8 million or 10.7% compared with the prior year, coming in at EUR 194.7 million. This increase partly compensated for the decreased net interest income and resulted from a recovery of the securities sales to customers.

Income Statement in millions of Euros	2012	2011	Change	
Net interest income	597.4	677.9	-80.5	-11.9%
Net fee and commission income	194.7	175.9	18.8	10.7%
Core revenues	792.1	853.8	-61.7	-7.2%
Gains and losses	128.9	31.5	97.4	>100%
Other operating income	10.8	38.4	-27.6	-71.9%
Operating income	931.8	923.7	8.1	0.9%
Personnel expenses	-345.2	-335.8	-9.4	-2.8%
Other administrative expenses	-203.8	-192.5	-11.3	-5.9%
Depreciation and amortisation	-55.5	-64.6	9.1	14.1%
Operating expenses	-604.5	-592.9	-11.6	-2.0%
Operating profit before bank levy	327.3	330.8	-3.5	-1.1%
Risk expenses	-150.1	-154.8	4.7	3.0%
Valuation results of associates at equity	1.5	0.3	1.2	>100%
Bank levy	-25.3	-20.2	-5.1	-25.2%
Income taxes	-0.2	-8.6	8.4	97.7%
Profit after tax excluding restructuring expenses	153.2	147.5	5.7	3.9%
Restructuring expenses	-43.2	-20.3	-22.9	>100%
Minorities	-2.7	-4.7	2.0	42.6%
Net profit	107.3	122.5	-15.2	-12.4%

The item **gains and losses on financial assets and liabilities** shows an increase by EUR 97.4 million to EUR 128.9 million. The favourable development can primarily be attributed to positive results by trading in securities, realised earnings from securities and issued securities

as well as overall positive result from the **structured credit portfolio**, which has significantly been reduced to a current book value pursuant to IFRS of below EUR 1 billion (EUR 610 million). As in the prior year, no impairments have been recognised on the structured credit portfolio in 2012.

Overall, the **operating income** amounted to EUR 931.8 million and shows an increase by EUR 8.1 million or 0.9%.

Despite continued investments in the expansion and modernisation of our branch network, **total operating expenses** (without bank levy) amounted to EUR 604.5 million, a slight increase of only EUR 11.6 million or 2.0% compared to last year.

In 2012 the focus remained on measurements to increase the Bank's cost efficiency. The **efficiency and productivity programme**, which started in 2010 and focuses on the reduction of operating and personnel costs, was accelerated during 2012 in response to the deteriorating economic environment and the fundamental structural changes in the banking industry over the past years. In 2012 appropriate **restructuring measures** and associated costs in the amount of EUR 43.2 million were enacted. These expenses, which doubled compared to 2011, represent a necessary key step for BAWAG P.S.K. to realise sustainable profits over the next years. The restructuring expenses will allow the Bank to largely complete its restructuring programme by the end of year 2013.

Risk costs (provisions and impairment losses) amounted to EUR 150.1 million, which is EUR 4.7 million or 3.0% lower than the amount in 2011 (EUR 154.8 million). This position includes an impairment charge relating to our investment in MKB (Hungary). 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 64.9%.

In 2012 BAWAG P.S.K. delivered a **solid profit after tax** (without restructuring expenses) of **EUR 153.2 million**, which is in line with previous year's figure. This shows BAWAG P.S.K.'s strength in realising solid profit considering the very difficult operating economic environment.

Net profit amounts to EUR 107.3 million which is EUR 15.2 million or 12.4% less than the net profit for 2011. This can be attributed to higher bank levy (EUR 5.1 million) and higher restructuring expenses, which increased by EUR 23 million compared to the previous year.

ASSETS

The **Bank's consolidated assets** as at 31 December 2012 came to EUR 41.3 billion, EUR 188 million or 0.5% more than at the end of the previous financial year. This slight growth was primarily the result of higher business volume with credit institutions.

The item **loans and receivables**, which contains the loans to customers and credit institutions valued at amortised cost, grew by EUR 857 million or 3.0% to EUR 29.7 billion in the reporting period. This increase is due to a rise in loans to credit institutions which reflects the excellent liquidity position of BAWAG P.S.K. This item amounts to EUR 5.2 billion and shows an increase by EUR 2.8 billion.

Due to the lower demand for loans together with lower business volumes with corporate and retail customers the **receivables from customers** had decreased by EUR 948 million or 4.1% as of 31 December 2012.

However, **new loan businesses with private customers** in the category consumer and housing loans developed much better than last year and report an increase by 11.8%.

One reason for this favourable performance was the successful market launch of the "KreditBox" in September 2012. Furthermore, the high demand for new Wohnbaubank-housing loans made a substantial contribution to this development.

BAWAG P.S.K. has also reduced its **credit exposure towards sovereigns and banks in high-deficit countries**: The sovereign and bank exposure in Spain and Italy as of year-end 2012 is about one third lower than year-end 2011. The Bank's sovereign exposure in Spain and Italy now stands at EUR 30 million. Greek sovereign bonds are no more part of the portfolio of BAWAG P.S.K., neither Portugal nor Irish sovereign bonds.

ASSETS in millions of Euros	2012	2011	Change	
Cash reserves	481	616	-135	-21.9%
Financial assets	10,050	10,574	-524	-5.0%
Loans and receivables	29,744	28,887	857	3.0%
thereof: Debt instruments	2,283	3,250	-967	-29.8%
thereof: Customers	22,275	23,223	-948	-4.1%
thereof: Credit institutions	5,186	2,414	2,772	>100%
Hedging derivatives	192	127	65	51.2%
Tangible non-current assets	181	191	-10	-5.2%
Intangible non-current assets	173	193	-20	-10.4%
Tax assets	221	283	-62	21.9%
Other assets	223	206	17	8.3%
Total assets	41,265	41,077	188	0.5%

LIABILITIES

Payables to customers remained nearly unchanged compared to the prior year. Savings deposits decreased by EUR 1.73 billion, but this was nearly offset by a EUR 1.71 billion increase in other deposits (including savings card accounts). Together with the investment products measured at their fair values mentioned above, savings and investment deposits totalled EUR 11.0 billion as of 31 December 2012, which is approximately one fourth of the Bank's consolidated assets. BAWAG P.S.K. was thereby able to once again refinance its receivables from customers in 2012 without making substantial use of the capital markets.

The loan-to-deposit-ratio amounted to 101%.

Payables to credit institutions increased by EUR 349 million to EUR 3.7 billion over the reporting period. Of this increase, EUR 327 million concern payables to domestic credit institutions.

Due to successfully sold new **issued securities**, the item recognised at amortised cost increased by EUR 479 million to EUR 4.8 billion.

LIABILITIES in millions of Euros	2012	2011	Change	
Financial liabilities	37,195	37,853	-658	-1.7%
thereof: At amortised cost	30,602	30,615	-13	<-0.1%
thereof: Customers	21,999	22,016	-17	-0.1%
thereof: Credit institutions	3,748	3,399	349	10.3%
thereof: Issued securities	4,769	4,290	479	11.2%
thereof: Financial liabilities associated with transferred assets	86	910	-824	-90.5%
Hedging derivatives	164	64	100	>100%
Provisions	484	413	71	17.2%
Equity	2,445	1,962	483	24.6%
Other liabilities	977	785	192	24.5%
Total equity and liabilities	41,265	41,077	188	0.5%

City of Linz

The legal disputes with the City of Linz which started in 2011 continued in 2012. The mediation proceedings recommended by the Commercial Court of Vienna in spring 2012 started in October 2012. However, the mediators declared the mediation procedure ended (due to lack of success) in mid-February. From BAWAG P.S.K.'s point of view the City of Linz continuously pursued delaying tactics during the mediation proceedings.

BAWAG P.S.K. will now focus on the civil proceedings and use all efforts in order to quickly secure a court decision. Therefore 2013 will be marked by the Bank's next steps with regards to our legal case against the City of Linz. The Bank's strong legal position remained unchanged over the last year. The Managing Board of BAWAG P.S.K. strongly believes that it is in the interests of all parties to find an acceptable solution to resolve this matter. If no acceptable solution can be found for BAWAG P.S.K., the Bank will continue to actively pursue our claim through all legal proceedings.

In this case, the first oral hearings are expected to be held in the course of 2013. 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 financial statements 2012.

Outlook

BAWAG P.S.K. expects the economic environment to gradually improve over the coming years. The conditions will again be difficult for the financial services sector in 2013. The banking industry will remain very competitive, especially in Austria and banks will continue to face an unfavourable market environment characterised by low interest margins, decreasing volumes and regulatory constraints.

At the EU level, three important regulatory projects are scheduled to be completed in the first half of the year: the implementation of the new capital and liquidity regulations (Basel III, CRD IV, CRR); the enactment of rules for common bank supervision in the Euro zone; and a restructuring and liquidation system for banks. Furthermore, the Crisis Management Directive is expected to be adopted in 2013.

Interest rate conditions in Europe are unlikely to change to any great extent in 2013. The low market interest rate level is making it difficult to offer sensible terms for customer deposits, and lending is being impacted by the relatively low demand for credit.

BAWAG P.S.K. is now in very strong position to address the challenging conditions mentioned above. The Bank's capital and liquidity base is strong and stable, ready to serve as

a basis for new business growth. Building on this strong position BAWAG P.S.K. has already paid back the liquidity provided by the ECB through its long-term refinancing operations (“LTRO”) programme in February 2013, and also plans to redeem EUR 50 million of the participation capital provided by the Republic of Austria in the second quarter of 2013, subject to regulatory approvals.

The Bank’s focus in 2013 will remain on our core areas of business, namely on our customers in the Retail and Corporate franchises. One major target for the Bank going forward will be the successful optimisation of advanced end-to-end processes, the development of a flexible operating model and boosting efficiency and productivity in order to further improve services and to lower our cost base.

This focus and our push to act in line with the needs of our customers in all regards are an excellent base on which to build a successful 2013.

Further inquiries:
BAWAG P.S.K. group press office
Tel. 0043 (0) 5 99 05 – 31210,
E-Mail: presse@bawagpsk.com

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<http://www.bawagpsk.com>