Press release

Vienna, August 27th, 2013

BAWAG P.S.K. delivers improved results in the first half of 2013

- **Further investments in core businesses**
- **Repositioning of the balance sheet**
- **Acceleration of the efficiency and productivity programme**
- **Strong capital and liquidity base, conservative risk profile**
  - **Improvement of CET I capital ratio**[1] **to 12.3% (+4.5 percentage points over the last 18 months)**
  - **Risk costs down by 17.7%**
- **Increase of the profit before tax, restructuring expenses**[2] **and bank levy to EUR 120.3 million (EUR +37.9 million)**
- **Net profit (before restructuring expenses**[2]**) EUR 105.2 million (EUR +5.1 million)**

Over the last five years, the banking sector in Austria and around the globe has been continuously confronted with challenging economic conditions. The European banking industry has been operating in an environment characterised by low growth, exceptionally low interest rates, excess liquidity, persistently falling asset margins and the ongoing implementation of more stringent regulatory and capital frameworks.

Despite these challenging times BAWAG P.S.K. delivered improved results in the first half of 2013:

- Increase of **operating income** (EUR +12.8 million or 2.8%)
- Reduction of **operating expenses** despite continued investments in the core businesses and simultaneously tight cost management (EUR -13.5 million or 4.5%)
- Further decrease of **risk costs** (EUR -13.7 million or 17.7%)
- Increase of **net profit** (before restructuring expenses) by EUR 5.1 million or 5.1% to **EUR 105.2 million**
- **Improvement of capital ratios**:
  - Increase of the **Core Equity Tier I ("CET I") capital ratio** by 1.3 percentage points to **12.3%** (from 11.0% at year-end 2012)
  - Similar improvement of the **Tier I capital ratio** from 11.7% to **13.1%**
- Increase of the **own funds ratio** from 13.8% to **15.1%**

Focus on the four strategic key pillars

Given the macro-economic and regulatory headwinds, the Bank has taken decisive actions in all of its businesses to position itself to operate more profitably and efficiently in the future despite challenges to the industry.

[1] CET I Capital ratio is calculated according to CRR/Basel 2.5 throughout the document.
[2] Restructuring expenses contain restructuring expenses and sundry items throughout the document.

These measures are targeted to enhance our customer service, creating the capacity for future growth and simplifying our business focusing on the assets, liabilities, products, and services that are most valuable to both our customers and our other stakeholders.

BAWAG P.S.K.'s strategy has been focused on four key pillars:

- Investing in the core retail franchise as well as the domestic and international corporate lending operations;
- Repositioning the balance sheet to focus on the customers in core markets (Austria, Germany and Western Europe) while de-risking from non-core assets, products and certain geographic locations;
- Improving the cost base through accelerating the bank-wide efficiency and productivity programme focused on driving process-product simplification and productivity and
- significantly strengthening our capital base and maintaining strong liquidity to address the changing regulatory environment while at the same time providing us with sufficient capacity for further growth of our core businesses.

Further investments in the core businesses

The Bank's goal of these investments is to provide the products and services which our retail and commercial customers value.

- **Multi-channel approach:** The optimization of the existing branch network by combining the BAWAG and P.S.K. outlets and the expansion of the services offered in rural areas remained a key component of the Bank's retail strategy over the last three years. 93% of the about 500 planned branches are already now operating together with our partner Österreichische Post AG throughout Austria. In the context of BAWAG P.S.K.'s multi-channel approach, the Bank additionally offers direct distribution channels as well as develops innovative products for eBanking services such as a special mobile application (app) for iPads and tablet computers.

- **Retail banking – successful product concept "Box":** According to the Bank's 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" initiated in 2011 has been continuously supplemented, recently by the successfully launched "SparBox".

- **Corporate business – sustainable customer relationships:** In the corporate segment the Bank remains a strong and reliable banking partner for its domestic and international corporate customers under clearly defined economic and risk criteria. The Bank maintained stable business relationships with its core customers.

- **International business – carefully selected markets**: The Bank primarily focuses on Germany, United Kingdom and other selected areas of Western Europe with the priority on commercial real estate and corporate financing.

Repositioning of the balance sheet

Part of the strategy for repositioning the balance sheet over the last years has been deleveraging non-core assets of the Bank freeing up additional capital for future investments in the Bank's core businesses.

- Back in 2008 BAWAG P.S.K. already started **to withdraw from CEE countries**. Its last CEE banking subsidiary in Slovenia was merged into BAWAG P.S.K. at the end of 2012. Over the last 12 months the Bank has reduced its CEE exposure by 35% which currently amounts to approximately 3% of the total assets.

- In course of the **restructuring of the leasing business** as well as the reduction of the CEE exposure, BAWAG P.S.K. successfully sold its Polish leasing subsidiary, BAWAG Leasing & Fleet Sp. z o.o. in February 2013. Furthermore the sale of Leasing's Austrian fleet management subsidiary in July 2013 was agreed upon, subject to regulatory approval.

- In June 2013 the Bank agreed **to dispose of its remaining shares (1.34% so far) in MKB,** a Hungarian bank, subject to regulatory approval by the Hungarian authorities which is expected in the second half of 2013.

- Positive fair value changes in the **structured credit portfolio** allowed the Bank to actively replace legacy positions with high risk and capital requirements by selective reinvestments with significantly lower capital requirements.

BAWAG P.S.K. is committed to further reducing this legacy structured credit portfolio and to deleverage further non-core investments.

Acceleration of the efficiency and productivity programme

Over the last months, Austrian as well as international banks have announced cost reduction initiatives in response to the prevailing adverse economic conditions and increased regulatory costs.

BAWAG P.S.K. already instituted a comprehensive restructuring programme in early 2010 which – accelerated in 2012 – is targeted to be finalized by year end 2013. This programme contains significant investments in the Bank's branch network, in e-banking capabilities and IT systems aimed to achieve an increase of productivity based on enhanced processes and end-to-end capabilities.

The first six months of 2013 already show a reduction in the overall cost base and, more importantly, significant cost and productivity improvements will materialize in 2014.

Further improvement of capital ratios – Solid liquidity position maintained – conservative risk profile

Due to early and proactive measures such as

- Introduction of a RWA optimization programme started in 2011
- Buyback of the majority of hybrid instruments in March 2012
- Equity capital raise of EUR 200 million by the shareholders at the end of 2012

the Bank has a strong capital base anticipating upcoming regulatory requirements.

Additionally, the Bank was granted regulatory approval to use **the Internal Ratings-Based ("IRB") Approach** for its core business areas of Retail and Corporates in April 2013. By applying the IRB approach, the Bank was able to significantly reduce its risk-weighted assets having positive impact on the capital ratios and freeing up additional capital for future investments in our core business.

The **risk-weighted asset optimisation programme** was also continued and has now contributed a EUR 3.4 billion reduction over the past 18 months. The reduction can be mainly attributed to the closing of the proprietary trading, deleveraging of non-core assets and reducing CEE exposure.

These measures led to a **significant strengthening of the capital position** of BAWAG P.S.K. as of 30 June 2013:

- The **CET I capital ratio** increased by 1.3 percentage points to **12.3%** (from 11.0% at year-end 2012).
- The **Tier I capital ratio** improved to a similar extent from 11.7% to **13.1%.**
- The **own funds ratio** increased from 13.8% to **15.1%.**

BAWAG P.S.K. was able to improve the **CET I capital ratio by 4.5 percentage points** over the last 18 months. The Bank continues to be well capitalised and is able to continue to invest in support of its core franchises and to deploy its capital base in servicing our customers' needs also in times of an upcoming economic recovery.

As announced in March 2013, the partial **redemption of a portion of the participation capital issued in 2009** with a nominal value of EUR 50 million was effected by the end of June 2013. Further redemptions of participation capital are already being planned for the future.

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Solid liquidity position

The liquidity position continues to be a source of strength for the Bank. The **total surplus liquidity remains solid and strong at EUR 6.0 billion** as of 30 June 2013 having allowed the Bank to fully pay back the ECB funding of EUR 2 billion received under the long-term refinancing operations programme (LTRO) at the first available opportunity in early 2013.

Due to the stable level of primary funds as well as its long-term refinancing structure, the Bank also is in a position to refinance its current portfolio of assets without additional funding measures on the capital markets in the first half 2013 while meeting all the regulatory requirements. Loan-to-deposit-ratio currently stands at 97%.

Following the overall portfolio quality improvement, **risk costs** were further successfully reduced by 17.7% to EUR 63.8 million.

Improved operating performance in the first half of 2013

Despite difficult market conditions BAWAG P.S.K. reports an improved operating performance for the first six months of 2013.

Due to the continued low interest rate level, the margin pressure and a lower balance sheet volume, **net interest income** came to EUR 259.5 million in the first half of 2013, declining by EUR 50.9 million or 16.4%. However, the **net fee and commission income** of EUR 98.1 million was largely stable in semi-annual comparison, whereby revenue increased especially in retail securities and custodial business.

The item **gains and losses on financial instruments** shows an increase by EUR 68.2 million to EUR 113.4 million compared to last year's reporting period. The favourable development can primarily be attributed to positive valuation results, realized gains from the sale of parts of the structured credit portfolio as well as proceeds from securities, own issues and derivatives.

Overall, **operating income** amounted to EUR 474.4 million and shows an increase by EUR 12.8 million or 2.8%.

Despite continued investments in the expansion and modernisation of our branch network and thanks to positive results of our efficiency and productivity programme, the **operating expenses** amounted to EUR 288.9 million in the first half of 2013 which is EUR 13.5 million or 4.5% lower than in the same period 2012.

Income Statement in millions of Euro	**1-6/2013**	**1-6/2012**	**Change**	
Net interest income	259.5	310.4	-50.9	-16.4%
Net fee and commission income	98.1	100.9	-2.8	-2.8%
Gains and losses on financial instruments	113.4	45.2	68.2	>+100%
Other operating income	3.4	5.1	-1.7	-33.3%
Operating income	**474.4**	**461.6**	**12.8**	**+2.8%**
Personnel expenses	-167.6	-172.2	4.6	+2.7%
Other administrative expenses	-94.0	-103.2	9.2	+8.9%
Depreciation and amortisation	-27.4	-27.0	-0.4	-1.5%
Operating expenses	**-288.9**	**-302.4**	**13.5**	**+4.5%**
Restructuring expenses and sundry items	-11.4	-3.5	-7.9	>-100%
Operating profit before bank levy	174.1	155.6	18.5	+11.9%
Bank levy	-12.7	-12.7	-	-
Operating profit before risk costs	161.4	142.9	18.5	+12.9%
Risk costs	-63.8	-77.5	13.7	+17.7%
Valuation results of associates at equity	-1.4	0.8	-2.2	-
Profit before tax	**96.2**	**66.2**	**30.0**	**+45.3%**
Income taxes	-1.8	32.3	-34.1	-
Profit after tax	94.4	98.5	-4.1	-4.2%
Minorities	0.6	1.9	-1.3	-68.4%
Net profit	**93.8**	**96.6**	**-2.8**	**-2.9%**

Profit before tax, restructuring expenses and bank levy	**120.3**	**82.4**	**37.9**	**+46.0%**

Net profit before restructuring expenses	**105.2**	**100.1**	**5.1**	**+5.1%**

The **restructuring expenses** in the amount of EUR 11.4 million result from the accelerated efficiency and productivity programme 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 **operating profit before bank levy** rose by EUR 18.5 million or 11.9% in semi-annual comparison to EUR 174.1 million, primarily due to the increase in gains and losses on financial assets and liabilities and the cost reductions discussed above.

Despite the difficult economic conditions expenses for **risk cost** declined by EUR 13.7 million to EUR 63.8 million in the first half of 2013. This continues to be at a low level.

Profit before tax, restructuring expenses and bank levy is EUR 120.3 million. This compares to EUR 82.4 million of the first half year 2012, a 46.0% increase.

Net profit before restructuring of EUR 105.2 million for the first half 2013 is 5.1% higher compared to EUR 100.1 million for first half 2012.

The **cost-income ratio** has further improved to 60.9% in the first half of 2013 compared to 65.5%.

Balance sheet development

The Bank's **consolidated assets** as of 30 June 2013 totalled EUR 38.2 billion, and were EUR 3.1 billion or 7.4% lower than at the end of 2012. The main cause for this development is the full repayment of EUR 2 billion ECB funding received under the LTRO programme, a decrease in loans and receivables from customers, credit institutions as well as financial assets mainly due to non-core assets disposals.

Assets

Financial assets fell by EUR 1.0 billion to EUR 9,0 billion (-10.2%) due to scheduled redemptions and disposals partially related to the restructuring of the excess-liquidity.

Assets in millions of Euros	**30.06.2013**	**31.12.2012**	**Change**	
Cash reserves	1,047	481	566	>+100%
Financial assets	9,029	10,050	-1,021	-10.2%
Loans and receivables	27,001	29,744	-2,743	-9.2%
thereof: Debt instruments	2,812	2,283	529	+23.2%
thereof: Customers	21,275	22,275	-1,000	-4.5%
thereof: Credit institutions	2,914	5,186	-2,272	-43.8%
Heding derivatives	124	192	-68	-35.4%
Tangible non-current assets	170	181	-11	-6.1%
Intangible non-current assets	166	173	-7	-4.0%
Tax assets	243	221	22	+10.0%
Other assets	417	223	194	+87.0%
Total assets	**38,197**	**41,265**	**-3,068**	**-7.4%**

The item **loans and receivables** contains the loans to customers and credit institutions that are recognised at amortised cost. The decrease of EUR 2.7 billion can be attributed to the reduction in the Bank's **loans to and receivables from credit institutions** of EUR 2.3 billion, which was partially offset by an increase of not actively traded **debt instruments** in the amount of EUR 529 million.

Receivables from customers decreased during the first half of 2013 by EUR 1.0 billion to EUR 21.3 billion. The decrease can be attributed to the weakened demand for financing on the part of companies due to lower investment and – as a result of low interest rates – to high redemptions of the international corporate portfolio. However, business volume increased in the International Commercial Real Estate segment.

Despite the significant margin pressure and strong competition in the corporate business, the Bank achieved stable operating income among its core customers.

In the retail business segment the Bank saw – compared with the previous year – a marked increase of its market share in new consumer loans to 12.7% (compared to 8.4% as of 30 June 2012) in contrast to the market, which is largely trending sideways.

The legacy **structured credit portfolio** deriving from 2003 to 2005 was further reduced by scheduled and early repayments as well as sales over the last years.
Market valuations in this credit book improved significantly during first half year 2013 and allowed the Bank to close and sell certain existing debt instruments carrying high capital requirements at favourable results. These actions further de-risked the balance sheet credit exposure substantially and lowered capital requirements resulting in a favourable reduction of risk weighted assets on the Bank's balance sheet. The Bank will continue to evaluate opportunities to reduce the remaining legacy Structured Credit Book. No impairments were recorded for the structured credit portfolio in the first half of 2013 as well as the year before.

BAWAG P.S.K. has reduced its CEE exposure by 35% over the last 12 months which currently amounts to approximately 3% of total assets.

Liabilities

Payables to customers rose slightly by EUR 21 million or 0.1% to EUR 22.0 billion. Savings deposits decreased by EUR 1.0 billion, but this was more than offset by an increase over EUR 1.0 billion in other deposits (including saving card accounts). Together with the investment products measured at their fair value, savings and investment deposits totalled EUR 10.0 billion as of 30 June 2013, or approximately 26% of the Bank's total assets. Customers already invested EUR 400 million in the recently introduced "SparBox".

Payables to credit institutions decreased by EUR 1.9 billion or 50.7% to EUR 1.8 billion. This can be attributed mainly to the full repayment of the tender facility offered by the European Central Bank (ECB).

The **issued securities** recognised at amortised cost rose slightly by EUR 73 million or 1.5% to EUR 4.8 billion.

Liabilities in millions of Euros	**30.06.2013**	**31.12.2012**	**Change**	
Financial liabilities	33,606	37,195	-3,589	-9.6%
thereof: At amortised cost	28,798	30,602	-1,804	-5.9%
thereof: Customers	22,020	21,999	21	+0.1%
thereof: Credit institutions	1,846	3,748	-1,902	-50.7%
thereof: Own issues	4,842	4,769	73	+1.5%
thereof: Financial liabilities associated with transferred assets	90	86	4	+4.7%
Hedging derivatives	110	164	-54	-32.9%
Provisions	520	484	36	+7.4%
Equity	2,369	2,445	-76	-3.1%
Other liabilities	1,592	977	615	+62.9%
Total equity and liabilities	**38,197**	**41,265**	**-3,068**	**-7.4%**

City of Linz

The legal dispute with the City of Linz which started in 2011 continued in the first half of 2013. The mediation proceedings recommended by the Commercial Court of Vienna started in October 2012. However, the mediators declared the mediation procedure ended (due to lack of success) in mid-February 2013.

The lawsuit filed by the City of Linz against BAWAG P.S.K. in November 2011 seeking payment of CHF 30.6 million (equaling EUR 24.2 million) and the (counter) suit filed by BAWAG P.S.K. against the City of Linz for the fulfillment of its contractual obligations from the same transaction in the amount of EUR 417.7 million, were combined by the Commercial Court of Vienna to one single litigation. The first oral hearings were held on 24 May 2013, the first hearings of parties were conducted on 26 July 2013 (CEO Byron Haynes) and 19 August 2013 (Mayor Franz Dobusch). Preparatory briefs of both sides were filed on 12 July 2013 and – upon instruction by the Commercial Court of Vienna – primarily dealt with the validity of the conclusion of the transaction. Until 30 August 2013, both parties may file reply briefs to these briefs with the court.

The Bank sees itself having a strong legal position and is confident that it will prevail in this litigation. As BAWAG P.S.K. is maintaining its previous assessment of the legal outlook and the accounting treatment of the claim, there has been no reason to make any accounting adjustments in the semi-annual report 2013.

Outlook

After stagnating in the first half of 2013, the Austrian economy is expected to gain additional momentum in autumn. The reversal of the trend in the industrial sector should bolster investment activity, while private consumption will benefit from a moderate expansion of real disposable household income.

In this environment of continuing low interest rates, it remains very difficult to offer attractive terms for customer deposits, and lending is being impacted by the relatively low demand for credit and the ongoing reduction of risks.

Many of the initiatives mentioned above are still work in progress, and additional efforts have to be made. For the second half 2013, BAWAG P.S.K. will continue to follow its business strategy: offering attractive, fair and innovative products to our customers through a modern multi-channel capability as well as improving productivity and efficiency by enhancing end-to-end processes as well as flexible operating models. A further focus will be a continued strengthening of the Bank's capital position under the changing regulatory environment in order to meet upcoming requirements imposed by the ECB under the future Single Supervisory Mechanism.

BAWAG P.S.K. believes itself to be in an excellent position to master the upcoming opportunities and challenges. The focus on the core businesses as well as its strong and stable capital level, liquidity position, repositioning of the balance sheet and an improved cost structure set an excellent base which will help us to continue our strong momentum in the remainder of 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