

2009

ANNUAL REPORT

**Financial Statements of BAWAG P.S.K.
Bank für Arbeit und Wirtschaft und
Österreichische Postsparkasse Aktiengesellschaft Vienna
for the financial year ended 31 December 2009
pursuant to UGB**



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BALANCE SHEET AS OF 31 DECEMBER 2009

ASSETS

	2009 EUR	2009 EUR	2008 in thousands of Euros	
1. Cash on hand, balances at central banks		579,714,151.27		683,056
2. Public sector debt instruments approved by the central bank for refinancing		2,585,487,737.16		2,470,591
3. Loans and advances to credit institutions		4,961,546,748.75		5,870,929
a) On demand	182,302,992.04		113,568	
b) Other receivables	4,779,243,756.71		5,757,361	
4. Loans and advances to customers		23,744,792,039.07		23,537,990
5. Bonds and other fixed-income securities		5,905,433,183.29		4,743,896
a) From public-sector issuers	150,255,245.06		196,589	
b) From other issuers	5,755,177,938.23		4,547,307	
Thereof bonds issued by the Bank	78,173,784.43		152,091	
6. Shares and other variable-rate securities		79,379,589.86		146,199
7. Equity interests		95,016,514.88		97,510
Thereof in credit institutions	51,473,674.09		73,555	
8. Shares in Group companies		1,463,165,932.89		1,486,578
Thereof in credit institutions	612,818,705.24		622,945	
9. Intangible fixed assets		114,426,735.77		132,441
10. Tangible fixed assets		191,203,036.61		237,511
Thereof land and buildings used by the enterprise for its own operations	118,800,593.26		144,256	
11. Other assets		1,403,634,523.20		2,129,031
12. Prepaid expenses		36,150,659.15		45,710
Total assets		41,159,950,851.90		41,581,442
Items on the balance sheet				
1. Foreign assets		12,568,447,948.37		11,966,118

Differences in the totals in the columns for the prior year are due to rounding.

EQUITY AND LIABILITIES

	2009 EUR	2009 EUR	2008 in thousands of Euros	
1. Amounts owed to credit institutions		7,049,793,981.91		6,526,478
a) On demand	1,760,071,498.89		1,432,376	
b) With agreed maturities or period of notice	5,289,722,483.02		5,094,102	
2. Amounts owed to customers		22,231,113,280.25		22,092,711
a) Savings deposits – thereof:		14,638,668,358.43		15,206,635
aa) On demand	1,486,818,927.92		873,974	
bb) With agreed maturities or period of notice	13,151,849,430.51		14,332,661	
b) Other customer liabilities – thereof:		7,592,444,921.82		6,886,077
aa) On demand	5,984,154,053.90		5,521,126	
bb) With agreed maturities or period of notice	1,608,290,867.92		1,364,950	
3. Debts evidenced by certificates		6,515,540,710.85		7,617,970
a) Issued bonds	5,392,685,203.21		6,400,834	
b) Other debts evidenced by certificates	1,122,855,507.64		1,217,136	
4. Other liabilities		1,490,223,399.71		2,099,816
5. Deferred income		13,996,154.48		12,744
6. Provisions		494,726,870.90		482,038
a) Provisions for severance payments	63,466,429.00		64,956	
b) Provisions for post-employment benefits	205,772,496.00		191,570	
c) Provisions for taxes	4,000,000.00		5,450	
c) Other provisions	221,487,945.90		220,062	
6.A. Fund for general banking risks		28,200,000.00		80,000
7. Subordinated liabilities		781,395,742.16		720,512
8. Supplementary capital		746,731,686.83		770,082
9. Subscribed capital		800,000,000.00		250,000
10. Capital reserves		301,273,446.16		301,273
a) Tied	301,069,989.55		301,070	
b) Free	203,456.61		203	
11. Revenue reserves		101,614.14		102
a) Statutory revenue reserves	101,614.14		102	
b) Other revenue reserves	–		–	
12. Reserve pursuant to § 23 para. 6 BWG		613,754,463.10		613,754
13. Accumulated profit		80,669,886.38		–
14. Untaxed reserves		12,429,615.03		13,962
Valuation reserve for non-scheduled write-downs	12,429,615.03		13,962	
Total liabilities		41,159,950,851.90		41,581,442
Items on the balance sheet				
1. Contingent liabilities		1,419,791,055.00		1,584,109
Thereof liabilities arising from guarantees and obligations from the provision of collateral	1,419,791,055.00		1,584,109	
2. Commitments		7,414,773,231.16		9,832,362
Thereof liabilities from repurchase agreements	–		145,346	
3. Liabilities from trust transactions		208,249,853.45		515,972
4. Eligible own funds pursuant to § 23 para. 14 BWG		2,839,197,000.00		1,891,618
Thereof: own funds pursuant to § 23 para. 14 line 7 BWG	66,822,000.00		55,454	
5. Required own funds pursuant to § 22 para. 1 BWG		1,682,201,000.00		1,510,908
Thereof: required own funds pursuant to § 22 para. 1 line 1, 4 and 5 BWG	1,615,379,000.00		1,455,448	
6. Foreign liabilities		9,233,506,265.78		10,154,412
7. Loss in provisions for post-employment benefits (Article X paragraph 3 RLG)		–		–

Income Statement for Financial Year 2009

	2009 EUR	2009 EUR	2008 in thousands of Euros	
1. Interest and similar income		1,176,604,044.12		1,914,806
Thereof from fixed-income securities	250,235,266.01		401,189	
2. Interest and similar expenses		-697,438,928.99		-1,440,978
I. NET INTEREST EARNINGS		479,165,115.13		473,828
3. Income from securities and equity interests		10,428,545.76		337,304
a) Income from shares, other ownership interests and variable-yield securities	82,230.47		2,917	
b) Income from equity interests	4,176,409.23		4,143	
c) Income from shares in Group companies	6,169,906.06		330,244	
4. Fee and commission income		258,161,280.38		228,942
5. Fee and commission expenses		-113,077,974.54		-106,131
6. Net profit from trading activities		28,276,351.55		23,795
7. Other operating income		23,865,112.88		9,104
II. OPERATING INCOME		686,818,431.16		966,842
8. General administrative expenses		-485,680,558.23		-553,903
a) Staff costs	-316,619,095.43		-347,138	
Thereof:				
aa) Wages and salaries	-210,784,995.27		-236,433	
bb) Expenses for statutory social security contributions and compulsory contributions related to wages and salaries	-55,807,014.45		-56,647	
cc) Other employee benefits	-2,916,048.68		-3,069	
dd) Expenses for retirement benefits	-18,366,157.01		-17,778	
ee) Allocation to pension provision	-12,104,120.00		-20,295	
ff) Expenses for severance payments and payments to severance-payment funds	-16,640,760.02		-12,915	
b) Other administrative expenses	-169,061,462.80		-206,765	
9. Depreciation and amortisations of asset items 9 and 10		-52,291,340.07		-56,124
10. Other operating expenses		-5,060,356.99		-4,046
III. OPERATING EXPENSES		-543,032,255.29		-614,073
IV. OPERATING RESULT (carryover)		143,786,175.87		352,769

	2009 EUR	2009 EUR	2008 in thousands of Euros
IV. OPERATING RESULT (carryover)		143,786,175.87	352,769
11./12. Net income/expenses from the disposal and valuation of loans and advances, securities as well as contingent liabilities and commitments		-45,314,898.01	-263,399
13./14. Net income/expenses from the disposal and valuation of securities valued as financial fixed assets, and of shares in Group companies and equity interests		-85,485,596.55	-554,957
V. RESULT FROM ORDINARY BUSINESS ACTIVITIES		12,985,681.31	-465,586
15. Extraordinary income		53,518,187.70	-
Thereof: relocation to the fund for general banking risks	53,518,187.70		-
16. Extraordinary expenses		-	-80,125
Thereof: allocation to the fund for general banking risks	-		-80,000
17. Taxes on income		12,760,321.61	3,748
18. Other taxes not included under item 17		-126,214.58	223
VI. ANNUAL SURPLUS		79,137,976.04	-541,741
19. Movements in reserves		1,531,910.34	541,473
Thereof: allocation to the liability reserve	-		-
Thereof: release from the liability reserve	-		-
VII. PROFIT FOR THE YEAR		80,669,886.38	-268
20. Profit brought forward from previous year		-	268
VIII. ACCUMULATED PROFIT		80,669,886.38	-

BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft

The Managing Board

Haynes m.p.

Koren m.p.

Prehofer m.p.

Samusch m.p.

Sharma m.p.

Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements, including the accounting system, of

BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft, Vienna,

for the fiscal year from January 1, 2009 to December 31, 2009. These financial statements comprise the balance sheet as of December 31, 2009, the income statement for the fiscal year ended December 31, 2009, and the notes.

Management's Responsibility for the Financial Statements and for the Accounting Records

The Company's management is responsible for the accounting records and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles and the regulations of the Austrian Banking Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria, Austrian Standards on Auditing and Austrian Standards on Auditing of Banks. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft as of December 31, 2009 and of its financial performance for the fiscal year from January 1, 2009 to December 31, 2009 in accordance with Austrian Generally Accepted Accounting Principles.

Comments on the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures made according to section 243a para. 2 UGB (Austrian Enterprise Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures made according to section 243a para. 2 UGB (Austrian Enterprise Code) are appropriate.

Vienna, March 9, 2010

Deloitte Audit Wirtschaftsprüfungs GmbH
Dr. Peter Bitzyk m.p. Mag. Thomas Becker m.p.
Certified Public Accountants

The publication or transfer of the financial statements in a form different from the one we have audited is only permitted after our consent if in the course of doing so reference is made to our audit opinion or our audit. The auditor's opinion only refers to the German version of the consolidated financial statements including the management report. Regarding alternative versions we refer to section 281 para 2 UGB.

Notes

Key Events during the Financial Year

Please refer to the pertinent sections of the management report for information on key events during the reporting period.

Scope of Consolidation and Consolidated Financial Statements

The Company is a member of the consolidated group headed by BAWAG Holdings Coöperatie U.A. The consolidated financial statements can be viewed at the headquarters of this parent company. BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG P.S.K.) prepares consolidated financial statements according to IFRS pursuant to the provisions of section 59a BWG.

The financial statements for BAWAG P.S.K., which is domiciled at Georg-Coch-Platz 2, A-1018 Vienna, are submitted to the Commercial Court Vienna under the trade register number 205340 x.

Recognition and Measurement Principles

The annual financial statements were prepared in accordance with the provisions of the Uniform Commercial Code (UGB), the relevant provisions of the Austrian Banking Act (BWG) and the Austrian Stock Corporation Act. The breakdown of the balance sheet and income statement corresponds to the forms specified in Annex 2 to section 43 BWG.

After a carve-out and merger agreement was signed on 25 June 2009, the retail operations of Österreichische Verkehrskreditbank AG (ÖVKB) were carved out and incorporated into BAWAG P.S.K. effective 31 December 2008. **This limits comparability with the prior year's figures.**

The annual financial statements were prepared according to generally accepted accounting principles and provide as true and accurate a picture of the Company's financial and earnings position as possible. The values of the assets and liabilities were measured individually under the assumption that the Bank is a going concern. The principle of prudence was applied, taking account of the specific characteristics of the banking business.

The methods used to measure the values of securities changed compared to the prior financial year. An additional module was implemented in BAWAG P.S.K.'s Geos Nostro system in 2009. As a result of this, the calculations for the allocation of premiums and discounts to securities assets and liabilities were converted from the straight-line method to the effective interest method as of 1 January 2009. The effective interest rates were determined on the basis of the cost of acquisition plus or minus any straight-line write-ups and write-downs up to 31 December 2008. For zero-coupon bonds, the write-ups and write-downs are still calculated using the mathematical zero-coupon formula.

Receivables from credit institutions and customers are generally recognised using the nominal value of the receivable item. In the case of identifiable risks, individual impairment provisions are formed according to common criteria for each individual risk item, especially in retail banking.

Securities held for purposes of ongoing business are classified as financial investments and recognised as such on the balance sheet. Premiums and discounts are recognised on a pro rata basis pursuant to section 56 paragraph 2 or 3 BWG. Securities classified as financial investments are not discounted to their lower fair value because of the application of the diluted lower value principle, unless the recognised impairments are other than temporary.

Securities and derivatives in the trading book are valued at their fair values, and securities classified as other current assets at the lower of cost or market. When derivatives are used to hedge the interest rate risk for securities classified as current assets, both components are valued using the mark-to-market principle as long as the historical acquisition cost of the portfolio is not exceeded.

Equity interests are valued at cost unless a lack of earning power makes write-downs necessary.

Intangible non-current assets and tangible non-current assets are recognised at cost less scheduled straight-line amortisation or depreciation. The depreciation rates for buildings are in line with those defined in section 8 EStG, those for other tangible non-current assets range from 5 per cent to 20 per cent; the amortisation rates for intangible non-current assets range from 10 per cent to 20 per cent. Acquisitions in the first half of the year are written down using the full annual rate, acquisitions made in the second half of the year are written down with half the annual rate. Low-value assets with an individual purchase cost of EUR 400 or less are written down in full in their year of acquisition. No write-ups were made in 2009.

Liabilities are valued at their repayment amount in accordance with the principle of prudence. Premiums and discounts on securities issued by BAWAG P.S.K. are recognised pro rata temporis.

Provisions for severance payments were calculated on 31 December 2009 in the same manner as in the prior year using discounted methods (interest rate 4 per cent, entry age normal method, fluctuation discount 8 per cent) in accordance with expert opinion KFS RL 2 of the Board of Experts in the Austrian Chamber of Public Accountants (*Fachsenat für Handelsrecht und Revision*) using the amendments adopted on 5 May 2004.

Provisions for post-employment benefits were calculated using actuarial methods (interest rate 4 per cent, entry age normal method) in accordance with expert opinion KFS RL 3 of the Board of Experts in the Austrian Chamber of Public Accountants (*Fachsenat für Handelsrecht und Revision*) using the amendments adopted on 5 May 2004.

The **provisions for jubilee benefits** were calculated on 31 December 2009 using discounted methods (interest rate 4 per cent, entry age normal method, fluctuation discount 8 per cent) in accordance with expert opinion KFS RL 2 of the Board of Experts in the Austrian Chamber of Public Accountants (*Fachsenat für Handelsrecht und Revision*) using the amendments adopted on 5 May 2004.

The **other provisions** were formed in line with the expected obligations, They take into account all recognisable risks.

Receivables and liabilities denominated in foreign currencies are principally translated at the middle exchange rate on the balance sheet date. Pending futures contracts are recognised at the future rate.

Notes and Additional Information

Additional information on assets

3 | Receivables from credit institutions and

4 | Receivables from customers

Additional information on liabilities

1 | Payables to credit institutions

2 | Payables to customers

Breakdown of receivables from and payables to credit institutions and customers by maturity

in thousands of Euros	31.12.2009	31.12.2008
Receivables from credit institutions and customers with agreed maturity dates or periods of notice:		
– Up to 3 months	7,043,664	6,591,176
– More than 3 months to 1 year	1,769,466	2,118,121
– More than 1 year to 5 years	8,832,631	6,558,434
– More than 5 years	9,092,746	11,142,645
Total	26,738,507	26,410,378
Payables to credit institutions and customers with agreed maturity dates or periods of notice:		
– Up to 3 months	3,144,830	3,684,222
– More than 3 months to 1 year	4,384,465	7,118,963
– More than 1 year to 5 years	5,230,458	3,189,906
– More than 5 years	7,290,111	6,798,622
Total	20,049,863	20,791,713

Receivables from and payables to Group companies and associates

in thousands of Euros	31.12.2009	31.12.2008
Receivables from credit institutions		
– From Group companies	1,040,855	1,301,790
– From associates	3	2
Receivables from customers		
– From Group companies	3,475,404	3,879,236
– From associates	226,838	229,201

in thousands of Euros	31.12.2009	31.12.2008
Payables to credit institutions		
- To Group companies	2,770,419	2,227,113
- To associates	909	478
Payables to customers		
– To Group companies	728,810	569,141
– To associates	73,914	181,306

Disclosures Concerning Related Parties pursuant to Article 237 line 8b UGB

Financing agreements with Group companies are concluded at standard Group terms, which means that a liquidity premium is charged, but no risk premium. Financing agreements with equity interests are concluded at standard market terms. Transactions with related persons and their family members are subject to standard market interest rates, with the exception of transactions with members of the Managing Board and Supervisory Board (see the section Staff, Boards and Officers for more information).

Subordinated receivables

in thousands of Euros	31.12.2009	31.12.2008
Subordinated receivables from credit institutions		
– From Group companies	16,741	16,970
– From associates	–	–
– Other subordinated receivables	9,000	37,721
Subordinated receivables from customers		
– From Group companies	37,828	15,490
– From associates	–	–
– Other subordinated receivables	26,880	18,168

Further information about receivables from credit institutions and customers

No collective impairment provisions were formed for receivables from customers as of the balance sheet date.

The receivables include amounts collateralised by bills of exchange:

in thousands of Euros	31.12.2009	31.12.2008
Receivables from credit institutions	–	–
Receivables from customers	61,514	136,749

Additional information on assets**5 | Bonds and other fixed-income securities and****6 | Shares and other variable-rate securities**

in thousands of Euros	31.12.2009	31.12.2008
Bonds and other fixed-income securities	5,905,433	4,743,896
Shares and other variable-rate securities	79,380	146,199
Balance	5,984,813	4,890,094

Breakdown of securities into non-current and current assets

in thousands of Euros	31.12.2009	31.12.2008
Non-current assets		
– Bonds and other fixed-income securities	4,931,992	3,416,108
– Shares and other variable-rate securities	–	–
Total non-current assets	4,931,992	3,416,108
Current assets		
– Bonds and other fixed-income securities	973,441	1,327,788
– Shares and other variable-rate securities	79,380	146,199
Total current assets	1,052,820	1,473,987

Reclassification of securities

Securities with a nominal value of EUR 64,028 thousand were reclassified from current assets to non-current assets effective 30 April 2009. The securities portfolio in question consists solely of credit surrogates. BAWAG P.S.K. intends to hold the securities in question indefinitely.

Breakdown of securities admitted for trading into listed and unlisted securities

in thousands of Euros	31.12.2009	31.12.2008
Admitted bonds and other fixed-income securities		
– Listed	5,768,494	4,743,896
– Unlisted	136,939	–
Total	5,905,433	4,743,896
Admitted shares and other variable-rate securities		
– Listed	4,838	40,670
– Unlisted	–	64,896
Total	4,838	105,567

Amounts expected to come due in the following year

in thousands of Euros	Due in 2010	Due in 2009
Bonds and other fixed-income securities	1,953,712	664,633
Shares and other variable-rate securities	1,345	1,586
Total	1,955,056	666,219

Securities issued by Group companies and associates

in thousands of Euros	31.12.2009	31.12.2008
Bonds and other fixed-income securities	6,551	–
Shares and other variable-rate securities	31,176	43,029
Total	37,727	43,029

Subordinated securities

in thousands of Euros	31.12.2009	31.12.2008
Bonds and other fixed-income securities	14,896	–
Shares and other variable-rate securities	16,657	70,423
Total	31,552	70,423
Thereof issued by Group companies and associates	4,837	39,223

Repurchase agreements

The carrying amount of assets transferred under repurchase agreements was as follows at the end of the reporting period:

in thousands of Euros	31.12.2009	31.12.2008
	825,638	641,893

The assets are still recognised as assets and the countervalues as obligations.

The carrying amount of assets assumed under repurchase agreements totalled EUR 100,180 thousand.

Omitted addition

The addition that was not made during the financial year for tax reasons amounted to EUR 577 thousand (2008: EUR 380 thousand).

Information about differences in carrying and repayment amounts for bonds and other fixed-income securities

The difference between carrying amounts of bonds and other fixed-income securities with the characteristics of financial investments and the lower repayment amounts is written down pro rata temporis pursuant to section 56 paragraph 2 BWG. The differences to be allocated over the remaining maturities were as follows at the end of the reporting period:

in thousands of Euros	31.12.2009	31.12.2008
	65,904	42,702

The difference between carrying amounts of bonds and other fixed-income securities with the characteristics of financial investments and the higher repayment amounts is written up pro rata temporis pursuant to section 56 paragraph 3 BWG. The differences to be allocated over the remaining maturities were as follows at the end of the reporting period:

in thousands of Euros	31.12.2009	31.12.2008
	65,273	33,471

Certain securities that do not have the characteristics of financial investments and that are admitted for trading on a recognised exchange were recognised at cost in spite of the fact that their fair value was higher pursuant to section 56 paragraph 4 BWG. The difference was:

in thousands of Euros	31.12.2009	31.12.2008
	12	51

The difference between the acquisition cost and fair value of securities that do not have the characteristics of financial investments, that are admitted for trading on a recognised exchange and that were recognised at their higher fair value pursuant to section 56 paragraph 5 BWG was as follows:

in thousands of Euros	31.12.2009	31.12.2008
	42,991	16,981

Financial instruments classified as financial investments reported at their fair value (section 237a paragraph 1 line 2–section 237 line 8a UGB)

in thousands of Euros	31.12.2009	31.12.2008
Carrying amount of these securities	667,730	1,583,762
Lower fair value of these securities	643,592	1,535,466
Equity interests and shares in Group companies	–	–

No impairments must be recognised on these securities because the repayment of the full nominal value is contractually agreed upon maturity and the full repayment of this nominal amount can be assumed because of the issuer's good credit rating.

Additional information on assets

7 | Equity interests and

8 | Shares in Group companies

in thousands of Euros	31.12.2009	31.12.2008
Balance	1,558,182	1,584,088
– Listed	–	–

BAWAG P.S.K. does not directly engage in any leasing transactions, but offers such transactions through direct and indirect subsidiaries.

A list of all companies in which BAWAG P.S.K. directly or indirectly holds 20 per cent or more pursuant to section 238 line 2 UGB can be found in the annexes.

Additional information on assets**9 | Intangible non-current assets****10 | Tangible non-current assets**

The schedule of changes in fixed assets can be found in the annexes.

The balance sheet entry for land and buildings shows property with a carrying amount of:

in thousands of Euros	31.12.2009	31.12.2008
	33,098	38,773

Obligations arising from the use of tangible non-current assets not recognised on the balance sheet were expected to come to:

in thousands of Euros	31.12.2009	31.12.2008
For the coming year	21,310	20,337
For the coming 5 years	97,610	94,502

Additional information on assets**11 | Other assets**

in thousands of Euros	31.12.2009	31.12.2008
Deferred interest from derivative financial instruments (banking book and trading book)	199,346	122,415
Positive fair values of derivative financial instruments in the trading book (clean)	955,454	996,465
Values of derivate financial instruments in the banking book (clean)	105,954	555,623
Settlement receivables from Group companies	32,957	352,534
Other receivables	109,924	101,994
Total	1,403,635	2,129,031

Additional information on liabilities**3 | Debts evidenced by certificates****8 | Supplementary capital**

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are all bullet bonds. Supplementary capital bonds are primarily subscribed by private Austrian investors, while subordinated capital bonds are sold to major domestic and international investors.

Debts evidenced by certificates and supplementary capital bonds totalling EUR 1,977,204 thousand (nominal) will come due for redemption as contractually agreed during the coming financial year.

Debts evidenced by certificates and supplementary capital bonds held by Group companies

in thousands of Euros	31.12.2009	31.12.2008
Debts to Group companies evidenced by certificates	96,111	110,485
Supplementary capital bonds held by Group companies	403,615	403,465

Additional information on liabilities**4 | Other liabilities**

in thousands of Euros	31.12.2009	31.12.2008
Deferred interest from derivative financial instruments (banking book and trading book)	115,408	98,047
Negative fair values of derivative financial instruments in the trading book (clean)	933,730	939,711
Values of derivative financial instruments in the banking book (clean)	321,840	526,762
Payable taxes and other mandatory contributions	26,848	38,399
Deferred interest on the supplementary capital bonds	16,316	18,059
Other liabilities	76,081	478,838
Total	1,490,223	2,099,816

Additional information on liabilities**6 | Provisions**

The provisions for post-employment benefits reported on the balance sheet include the following amount in addition to the benefit obligations below:

in thousands of Euros	31.12.2009	31.12.2008
Benefit claims from early retirement agreements	–	70

The actuarial calculation of the provisions for post-employment benefits (interest rate 4 per cent, entry age normal method) on 31 December 2009 showed the following provision requirement:

in thousands of Euros	31.12.2009	31.12.2008
Provision requirement for post-employment benefits	205,772	191,501

in thousands of Euros	31.12.2009	31.12.2008
Outstanding difference pursuant to expert opinion KFS RL 3 (20 per cent)	–	6,703

The provision requirements were calculated taking into account the expert opinion and the new post-employment benefit entitlements laid down in the pension law for banks and bank employees that went into force on 1 January 1997.

The EUR 5,957 thousand difference between the coverage requirements and the provisions formed for tax purposes in connection with the benefit entitlements carried forward in 2001 was capitalised and is being written down over a period of ten years in accordance with section XII paragraph 1 PKG. On 31 December 2009, one tenth of this difference was still capitalised.

The actuarial calculation of the provisions for jubilee benefits (interest rate 4 per cent, entry age normal method, fluctuation discount 8 per cent) on 31 December 2009 showed the following provision requirement:

in thousands of Euros	31.12.2009	31.12.2008
Provision requirement for jubilee benefits	28,237	25,464

in thousands of Euros	31.12.2009	31.12.2008
Outstanding difference (20 per cent)	–	1,132

Provisions have also been formed for the impairment of financial investments, for credit risks, for legal risks, for human resources purposes and for possible obligations in connection with the sale of real estate.

The other material provisions include the following, among other items (in thousands of Euros):

▶ Provisions for receivables and off-balance-sheet transactions	40,942
▶ Provisions for pre-retirement part-time work	44,724
▶ Other staff provisions	63,779
▶ Provisions for REFCO settlement risks	29,557

Capital Resources

The bank has subscribed capital in the amount of EUR 800,000,000 (2008: EUR 250 million).

The Bank issued EUR 550 million in participation capital on the basis of a fundamental agreement reached with the Republic of Austria on 22 December 2009. This capital was issued in the form of 11,000 individual certificates. The share capital of EUR 250 million is represented by 250,000,000 bearer shares.

The Bank has issued supplementary capital bonds with a nominal value of EUR 343,117 thousand and has accepted supplementary capital deposits with a nominal value of EUR 299,850 thousand and JPY 14,000,000 thousand.

Additional supplementary capital pursuant to section 23 BWG was raised in 2009 through the issue of two bonds with nominal values of EUR 50 million and EUR 30 million. These bonds currently have interest rates of 8.50 per cent and 4.73 per cent and both run for ten years. The indicated interest rates only apply for the first five years.

Supplementary and subordinated capital bonds were in issue on 31 December 2009 with remaining terms of between one and twenty-four years and interest rates of between 0.95 per cent and 8.50 per cent.

BAWAG P.S.K. calculates its required capital resources in accordance with section 22n BWG for a large securities trading book.

in thousands of Euros	31.12.2009	31.12.2008
Nominal volume of derivative financial instruments in the trading book	50,774,964	46,340,860
Securities holdings	198,266	397,661
Money market transactions (recognised under receivables from credit institutions and payables to credit institutions)	2,332,200	642,405

No new subordinated issues were made or loans taken that exceeded 10 per cent of the subordinated obligations in financial year 2009.

Changes in own funds

in thousands of Euros	31.12.2009	31.12.2008
Subscribed capital	800,000	250,000
Reserves and fund for general banking risks	954,237	1,007,321
Deductions	-114,427	-132,441
Core capital (Tier I)	1,639,810	1,124,881
Shareholdings pursuant to § 23 paragraph 13 BWG	-50,683	-65,453
Eligible core capital (Tier I)	1,589,127	1,059,428
Additional items (Tier II)	1,233,931	842,189
Shareholdings pursuant to § 23 paragraph 13 BWG	-50,683	-65,453
Eligible own funds	2,772,375	1,836,164
Own funds ratio	14.1%	10.3%
Existing Tier III	66,822	55,454
Own funds	2,839,197	1,891,618
Required own funds	1,682,201	1,510,908
Excess own funds	1,156,996	380,710

Taxes

The following table shows the changes in the valuation reserve for non-scheduled write-downs:

in thousands of Euros	1.1.2009	All.	Rel.	31.12.2009
Equity interests	-	-	-	-
Shares in Group companies	-	-	-	-
Land and buildings used for Bank operations	13,914	-	-1,514	12,400
Other assets	47	-	-18	29
Total	13,962	-	-1,532	12,430

The changes in the untaxed reserves increased the income for tax purposes by EUR 1,532 thousand and are due entirely to the release of valuation reserves.

The reduction in net income from income taxes is the result of tax contributions and is reported under the result from ordinary business activities.

The non-capitalised tax accruals and deferrals that are eligible for capitalisation pursuant to section 198 paragraph 10 UGB increased as follows in 2009:

in thousands of Euros	2009
Capitalisable deferred taxes in prior year	37,243
Capitalisable deferred taxes in reporting period	9,985
Deferred tax assets as of 31 December 2009	47,228

The deferred taxes pursuant to UGB were calculated on the balance sheet date at a tax rate of 25 per cent.

A taxable group pursuant to section 9 KStG was parented by BAWAG P.S.K. AG in the financial year. No negative tax contributions were applied during the financial year in accordance with the group agreement because the taxable group did not achieve a positive result for tax purposes.

The item Income taxes includes tax contributions in the amount of EUR 10,450 thousand.

Further Notes to the Balance Sheet

Assets pledged as collateral

Assets pledged as collateral pursuant to section 64 paragraph 1 line 8 BWG break down as follows:

in thousands of Euros	31.12.2009	31.12.2008
Cover pool for covered bonds	2,802,089	3,209,679
Cover pool for trust savings deposits	46,641	38,009
Receivables and securities assigned to Oesterreichische Kontrollbank AG	992,939	1,112,027
Collateral pledged in favour of the European Investment Bank	328,935	518,712
Other collateral	42,930	34,936
Total	4,213,534	4,913,363

Collateralised debt

These assets are linked to the following obligations, which are reported in the balance sheet items Debts evidenced by certificates, Savings deposits and Payables to credit institutions and customers.

in thousands of Euros	31.12.2009	31.12.2008
Covered bonds	2,177,549	2,532,987
Trust savings deposits	32,775	35,251
Oesterreichische Kontrollbank AG refinancing	992,939	1,112,034
European Investment Bank refinancing	378,087	414,487
Total	3,581,351	4,094,759

Balance sheet items in foreign currencies

The assets and liabilities that are denominated in foreign currencies were as follows:

in thousands of Euros	31.12.2009	31.12.2008
Assets in foreign currencies	5,627,310	5,739,450
Liabilities in foreign currencies	3,716,850	4,419,076

Trust transactions eligible for segregation

Trust transactions that are eligible for segregation represented a total volume of EUR 208,250 thousand as of the reporting date (2008: EUR 515,972 thousand).

Contingent liabilities

The contingent liabilities, which consist solely of liabilities from guarantees and the provision of collateral as well as the commitments associated with unused lines of credit, were as follows:

in thousands of Euros	31.12.2009	31.12.2008
Contingent liabilities	1,419,791	1,584,109
Thereof guarantees and letters of comfort issued for Group companies	543,615	602,059
Commitments	7,414,773	9,832,362

The commitments include no significant individual obligations that are relevant to the overall operations of the bank. The commitments consist primarily of unutilised lines of credit.

Contractual liabilities – received collateral

Different types of collateral have been pledged to the Bank as part of its business transactions. The following breakdown is based on the Basel II collateral management system.

in thousands of Euros	Collateralised on-balance-sheet claims	Collateralised off-balance-sheet claims	Total
Financial collateral:			
– Stocks	66,083	190,136	256,219
– Cash deposits	105,970	548,929	654,898
– Gold	126	–	126
– Investment funds	64	–	64
– Bonds	127,841	2,569	130,411
Real estate collateral:			
– Commercial properties	441,964	25,207	467,171
– Private properties	3,522,813	21,656	3,544,469
Personal collateral:			
– Guarantees	3,190,550	70,261	3,260,811
– Credit derivatives	56,347	–	56,347
Other forms of collateral:			
– Cash deposits at other banks	430	16	445
– Life insurance policies	40,256	196	40,453
Total	7,552,443	858,971	8,411,414

Consideration was given and received under collateral deals for derivative financial instruments:

- ▶ Consideration received = EUR 368,266 thousand
- ▶ Consideration paid = EUR 393,460 thousand

For more information on off-balance-sheet transactions pursuant to section 237 line 8a UGB, please refer to the pertinent sections of the management report.

Pending futures contracts

The volume of pending futures contracts as of 31 December 2009 is shown in a separate annex.

Notes to the Income Statement

The operating income for the prior year contained an extraordinary dividend from P.S.K. Beteiligungsverwaltung GmbH in the amount of EUR 310 million. An equal amount of this equity interest was written down at the same time. Without this one-off effect, operating income increased by nearly EUR 30 million, largely due to the net commission income and the receipt of a one-off payment. The significant decrease in operating expenses is the result of lower restructuring costs in connection with post-employment benefit models, and the use of new actuarial tables in the prior year for the calculation of social capital requirements.

It was not necessary to break down interest income, income from securities and equity interests, fee and commission income, the net profit from trading activities and the other operating income according to region because Austria is the only relevant regional market for BAWAG P.S.K.

The interest on supplementary capital (EUR 47,594 thousand) was not reported under expenses pursuant to section 23 paragraph 7 line 2 BWG because the Bank did not report a profit for 2008. The coupon payments on outstanding supplementary capital bonds from BAWAG P.S.K. were covered by BAWAG Holding GmbH in 2009. These payments are again being made by BAWAG P.S.K. as of 1 January 2010.

Expenditures on subordinated liabilities (the item Interest and similar expenses) came to EUR 38,877 thousand.

The net income from equity interests in the amount of EUR 10,346 thousand (2008: EUR 334,387 thousand) includes income from Group companies in the amount of EUR 6,170 thousand (2008: EUR 330,244 thousand).

As permitted under section 237 line 14 UGB, expenses for the financial auditor in the period are not being reported here because this information is included in the consolidated financial statements.

The other operating income in the amount of EUR 23,865 thousand (2008: EUR 9,104 thousand) includes the following items, among others:

in thousands of Euros	2009
Income from the sale of tangible non-current assets	6,568
Rental income	1,529
Damage claims paid to the Bank	12,000

The other operating expenses came to EUR 5,060 thousand (2008: EUR 4,046 thousand) and include EUR 3,247 thousand for expenses connected to the sale of properties.

The Bank's owner made a capital contribution of EUR 205 million to cover expenses, which is recognised in item 11/12. When the net expenses from the disposal and valuation of receivables, from securities held as current assets, and from contingent liabilities and commitments are adjusted, risk provisions for the financial year come to EUR 250,315 thousand (2008: EUR 263,339 thousand).

The significant loss reported under item 13/14 in 2008 was due to the sale of securities to a subsidiary (EUR 510,073 thousand). This one-off effect did not occur in the reporting period. Write-downs on equity interests totalled EUR 56,440 thousand.

As the parent of the taxable group, BAWAG P.S.K. received tax contributions that led to a positive tax balance in financial year 2009.

Staff, Boards and Officers

Our average headcount during the 2009 financial year was 4,344 (2008: 4,379 employees), all of whom were salaried staff. This headcount includes 176 employees (2008: 250 employees) who are employed by BAWAG P.S.K. but who are assigned to P.S.K. Zahlungsverkehrsabwicklungs GmbH.

Expenses for staff benefit fund contributions in financial year 2009 totalled EUR 790 thousand (2008: EUR 488 thousand).

Expenses for remuneration paid to active members of the Managing Board during the financial year came to EUR 6,662 thousand (2008: EUR 7,108 thousand).

Expenses for post-employment benefits for former members of the Managing Board and their surviving dependents came to EUR 2,414 thousand. Due to the death of beneficiaries, provisions were released and resulted in earnings of EUR 1,669 thousand in 2009 (2008: expenses of EUR 2,765 thousand).

No bonuses were paid to members of the Managing Board for 2009. Remuneration of members of the Supervisory Board came to EUR 308 thousand (2008: EUR 289 thousand).

Expenditures for severance pay and post-employment benefits for the Managing Board and key management personnel came to EUR 11,549 thousand (2008: EUR 16,760 thousand). Expenditures with respect to other employees came to EUR 39,400 thousand (2008: EUR 35,214 thousand).

As of the balance sheet date, there were no outstanding loans to the members of the Managing Board (2008: no outstanding loans). Loans to members of the Supervisory Board totalled EUR 66 thousand (2008: EUR 42 thousand). Repayments of loans granted to board members took place as contractually agreed.

A list of the boards and officers of BAWAG P.S.K. can be found in a separate annex at the end of the notes.

Notes on Derivative Financial Instruments

To measure instruments traded on an exchange (stocks, equity index options, futures and options on futures), we fed exchange prices into our front-office systems on a daily basis, thus ensuring mark-to-market valuation.

The basic valuation model used for plain vanilla OTC options was the Black-Scholes option price model, which varies according to the underlying instruments and hedged items. Currency options were measured using the Garman-Kohlhagen model (adapted Black-Scholes model), and interest rate options using the Black model.

The total value of an interest rate swap is the sum of the present values of its fixed and variable-rate legs. Similarly, the total value of a cross currency swap is the sum of the present values of the two cash flows expressed in terms of the functional currency.

In the case of foreign currency forwards and futures – i.e. agreements to exchange currency amounts at a future date – the agreed forward rate, which depends on movements in exchange and interest rates for both currencies, is compared with the forward rate on the balance sheet date and the result used to calculate the instrument's value.

Breakdown of derivative instruments in the trading book:

Only one side of interest rate swaps and basic swaps is recognised in the reported volumes. For futures and options on interest-based index contracts, the nominal values of all bought and sold instruments is taken into account in the calculation. Only one side of currency and interest rate swaps with multiple currencies (CRS) is included in the total nominal value of the trading book. For currency forwards and futures, the nominal value of the purchase and sale contracts is included in the total for derivative instruments. The same applies to foreign exchange options. Only one side of the remainder of the derivatives is included in the calculation, with the exception of CDS. For these instruments, the nominal of the purchased CDS and of the sold CDS is included in the calculation of the derivative volume.

For further details about BAWAG P.S.K.'s transactions with derivative financial instruments, please see the two tables in the annexes (Derivative Financial Instruments in the Banking Book and Derivative Financial Instruments in the Trading Book).

Information about the Disclosure pursuant to section 26 BWG

In compliance with section 26 line 1 BWG, all information about the organisational structure, risk management and the risk capital situation is disclosed on the Internet at www.bawagpsk-annualreport.com (in German and English).

Vienna, 9 March 2010



Byron Haynes, CEO
Chairman of the Managing Board



Stephan Koren
Deputy Chairman of the Managing Board



Regina Prehofer
Member of the Managing Board



Carsten Samusch
Member of the Managing Board



Sanjay Sharma
Member of the Managing Board

Changes in fixed assets pursuant to section 226 para. 1 UGB

in thousands of Euros	Cost of purchase or conversion				Write-downs (write-ups)		Carrying amount	
	Balance 1.1. 2009	Additions 2009	Re- allocation 2009	Disposals 2009	Cumulative	2009	Balance 31.12. 2009	Balance 31.12. 2008
Financial investments								
Treasury bills and other bills eligible for refinancing at central banks	2,438,578	1,377,775	–	-1,241,671	28,267	8,137	2,546,414	2,476,505
Bonds and other fixed-income securities	3,414,748	2,656,897	–	-1,124,466	6	14,234	4,947,173	3,332,303
Stocks and other securities	–	–	–	–	–	–	–	–
Equity interests	102,285	590	–	-155	7,704	2,932	95,017	97,510
Shares in Group companies	1,910,838	40,963	–	-10,868	477,767	53,507	1,463,166	1,486,578
Intangible fixed assets⁽¹⁾	244,728	2,877	–	-481	132,697	20,812	114,427	132,441
Tangible fixed assets								
Land and buildings used for Bank operations	209,590	4,137	34	-28,012	66,949	3,777	118,801	144,256
Other tangible non-current assets ⁽²⁾	520,320	19,405	-34	-64,299	402,990	27,702	72,402	93,256
Total	8,841,088	4,102,645	–	-2,469,952	1,116,381	131,102	9,357,400	7,762,848

1) Including acquisition and production costs from the demerger of Österreichische Verkehrskreditbank AG in the amount of EUR 60,834.43

2) Including acquisition and production costs from the demerger of Österreichische Verkehrskreditbank AG in the amount of EUR 6,544,193.16 and EUR 6,605,027.59 for low-value assets

Entities in which BAWAG P.S.K. holds at least 20 per cent

in thousands of Euros	Share- holding in %	Equity incl. untaxed reserves	Net profit (loss)	Cons.	VAT group	Figures as of
Banks						
BAWAG Allianz Vorsorgekasse AG, Vienna	50.00%	3,935	818			31.12.2008
BAWAG banka d.d., Ljubljana	100.00%	19,889	-576	C		31.12.2008
BAWAG Malta Bank Limited, Sliema	100.00%	387,230	-152,633	C		31.12.2008
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	100.00%	17,983	1,987	C		31.12.2008
easybank AG, Vienna	100.00%	14,014	1,122	C	U	31.12.2008
Kapital-Beteiligungs Aktiengesellschaft, Vienna	20.00%	8,893	142			30.09.2008
Österreichische Verkehrskreditbank AG, Vienna	100.00%	18,054	1,061	C		31.12.2008
PayLife Bank GmbH, Vienna	20.82%	60,651	14,041			31.12.2008
Non credit institutions						
A.U.S. Alpha Holding GmbH, Vienna		newly established: no balance sheet available		C		
A.U.S. Beta Holding GmbH, Vienna		newly established: no balance sheet available		C		
A.U.S. Gamma Holding GmbH, Vienna		newly established: no balance sheet available		C		
AUST-INGEBE Beteiligungsverwaltung GmbH, Vienna	100.00%	145	73			31.12.2008
AUSTOST ANSTALT, Balzers	100.00%	4	1			31.12.2008
BAWAG Finance Malta Ltd., Sliema	100.00%	540	129	C		31.12.2008
BAWAG INTERNATIONAL FINANCE LIMITED, Dublin	100.00%	8,229	60			31.12.2008
BAWAG P.S.K. Capital Advisors Ltd., London	100.00%	341	340			31.12.2008
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	100.00%	402	4			31.12.2008
BAWAG P.S.K. Equity Finance Ltd., Jersey	100.00%	-2	-2			31.12.2008
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	100.00%	39,856	5,854	C		31.12.2008
BAWAG P.S.K. Jersey Auto Finance Limited, Jersey	100.00%					31.12.2008
BAWAG P.S.K. Jersey Capital Limited, Jersey	100.00%	-10,112	-10,112	C		31.12.2008
BAWAG P.S.K. LEASING GmbH, Vienna	100.00%	58,557	2,683	C	U	31.12.2008
C e l e s t e Trust reg., Balzers	100.00%	67	-16			31.12.2008
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna	61.82%	54	0			31.12.2008
LTB Beteiligungs-Gesellschaft m.b.H., Vienna	25.10%	3,554	2,955			31.12.2008
P.S.K. Beteiligungsverwaltung GmbH, Vienna	100.00%	995,069	-1,912	C		31.12.2008
P.S.K. Handel und Vermietung GmbH, Vienna	100.00%	477	-793			31.12.2008
P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%	13,981	1,766	C		31.12.2008
P.S.K. Zahlungsverkehrsabwicklungs GmbH, Vienna	99.71%	551	0	C	U	31.12.2008
RF BAWAG Leasing Gesellschaft m.b.H., Vienna	100.00%	37	99			31.12.2008
RVG, Realitätenverwertungsgesellschaft m.b.H., Vienna	100.00%	7,301	-137	C		31.12.2008
Wiener Risikokapitalfonds Ges.m.b.H., Vienna	20.00%	20	-121			31.12.2008

Other Group affiliates and associates

in thousands of Euros	Shareholding in %	Equity incl. untaxed reserves	Net profit (loss)	Cons.	VAT group	Figures as of
Consolidation mandatory						
A.U.S. Alpha Vermögensverwaltung GmbH	100.00%					
A.U.S. Beta Vermögensverwaltung GmbH	100.00%					
A.U.S. Delta Holding GmbH	100.00%					
A.U.S. Delta Vermögensverwaltung GmbH	100.00%					
A.U.S. Gamma Vermögensverwaltung GmbH	100.00%					
BAWAG CAPITAL FINANCE III LIMITED, Jersey	100.00%					
BAWAG CAPITAL FINANCE II LIMITED, Jersey	100.00%					
BAWAG CAPITAL FINANCE LIMITED, Jersey	100.00%					
BAWAG Investments Limited	100.00%					
BAWAG P.S.K. Fuhrparkleasing GmbH, Vienna	100.00%					
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%					
BAWAG P.S.K. INVEST GmbH, Vienna	100.00%					
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	100.00%					
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	100.00%					
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	100.00%					
BAWAG P.S.K. Vermietungs- und Leasing GmbH, Vienna	100.00%					
BAWAG P.S.K. Versicherung Aktiengesellschaft	49.99%			at equity		
B.L.H. BAWAG Leasing Holding GmbH, Vienna	100.00%					
Bodensee Limited, Sliema	51.00%					
BPI Holding GmbH, Vienna	100.00%					
BPI Holding GmbH & Co. Immobilien und Anlagen KG., Vienna	99.65%					
BPI Holding GmbH & Co KG., Vienna	100.00%					
BV Holding GmbH, Vienna	100.00%					
BV Vermögensverwaltung GmbH, Vienna	100.00%					
CARNI Industrie-Immobilien-gesellschaft m.b.H., Vienna	100.00%					
FCH beta Finanzierungsvermittlung GmbH, Vienna	100.00%					
Gara Feuerwehrzentralen Leasing Gesellschaft m.b.H., Vienna	100.00%					
Hafner See-Liegenschaftsverwaltungsgesellschaft m.b.H., Vienna	100.00%					
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	100.00%					

Other Group affiliates and associates

in thousands of Euros	Share- holding in %	Equity incl. untaxed reserves	Net profit (loss)	Cons.	VAT group	Figures as of
Consolidation mandatory						
KLB Baulandentwicklung GmbH., Vienna	100.00%					
M. Sittikus Str. 10 Errichtungs GmbH., Vienna	100.00%					
P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%					
R & B Leasinggesellschaft m.b.H., Vienna	100.00%					
RF 17 BAWAG Immobilienleasing GmbH, Vienna	100.00%					
RF elf Realitätenverwertungsgesellschaft m.b.H., Vienna	100.00%					
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	100.00%					
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%					
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	100.00%					
Rhein Limited, Grand Cayman	51.00%					
START Immobilienleasing GmbH, Vienna	100.00%					
Stiefelkönig Schuhhandels Gesellschaft m.b.H., Graz	100.00%					
Vindobona Finance Beta S.A.	100.00%					
Zeus Recovery Fund S.A.	50.00%					
Consolidation not mandatory						
ATHENA Burgenland Beteiligungen AG, Eisenstadt	38.30%					
Athena Wien Beteiligungen AG, Vienna	50.00%					
ATHENA Zweite Beteiligungen AG, Vienna	33.33%					
B.A.O. Immobilienvermietungs GmbH, Vienna	33.33%					
BAWAG Leasing & Fleet Kft, Budapest	100.00%					
BAWAG Leasing & Fleet Sp. z o.o., Warsaw	100.00%					
BAWAG Leasing & fleet s.r.o., Prague	100.00%					
BAWAG Leasing & Fleet s.r.o., Bratislava	100.00%					
BAWAG Leasing s.r.o., Bratislava	100.00%					
BAWAG Leasing Zrt., Budapest	100.00%					
BAWAG P.S.K. Datendienst GmbH	30.00%					
BAWAG Real Estate Leasing s.r.o., Prague	100.00%					
B.I.S. BAWAG Internet Services GmbH, Vienna	100.00%					
BPLCZ One s.r.o., Prague	100.00%					
CVG Immobilien GmbH, Vienna	100.00%					
E-C-B Beteiligungsgesellschaft m.b.H., Vienna	50.00%					
Elektro-Beteiligungs-GmbH, Vienna	100.00%					
Fribus Holding	100.00%					
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%				U	
GCP2 GmbH, Vienna	100.00%					
Generali Leasing GmbH, Vienna	25.00%					
HFE alpha Handels-GmbH, Vienna	50.00%					
IDG Immobilien Development Gesellschaft m.b.H., Vienna	100.00%					
IDG Immobilien Development Gesellschaft m.b.H. & Co KG, Vienna	100.00%					
Immoconsult Uriah Leasinggesellschaft m.b.H.	45.00%					

in thousands of Euros	Share- holding in %	Equity incl. untaxed reserves	Net profit (loss)	Cons.	VAT group	Figures as of
Consolidation not mandatory						
Ingebe Immobilienhandels- und Vermittlungs-GmbH., Vienna	100.00%					
IPO Wachstumsfonds Beteiligungs-Management GmbH, Vienna	30.90%					
Kommunalleasing GmbH, Vienna	50.00%					
MAP Handels GmbH, Vienna	95.84%					
MARVE Immobilienentwicklungsgesellschaft m.b.H., Vienna	100.00%					
Obernosterer - Beteiligungsgesellschaft m.b.H., Graz	100.00%					
Omnimedia Werbegesellschaft m.b.H., Vienna	27.57%					
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	50.00%					
PLATO Grundstücksverwertung GmbH, Vienna	100.00%					
PT Immobilienleasing GmbH, Vienna	100.00%					
RAIL TRANS INVEST LIMITED in Liqu., Dublin	100.00%					
REAL ESTATE Leasing s.r.o., Bratislava	100.00%					
Realplan Beta Liegenschaftsverwaltung Gesellschaft m.b.H., Vienna	50.00%					
RF BAWAG Leasing Gesellschaft m.b.H.	100.00%					
Stiefelkönig d.o.o., Belgrade	100.00%					
Stiefelkönig d.o.o., Zagreb	100.00%					
Stiefelkönig Schuhhandels GmbH, Germany	100.00%					
Stiefelkönig spol. s.r.o., Bratislava	100.00%					
Stiefelkönig trgovinas cevli d.o.o., Maribor	100.00%					
uni venture Beteiligungs AG, Vienna	100.00%					
Versicherungsdienst der BAWAG P.S.K. GmbH, Vienna	50.01%					
Vindobona Alpha S.a r.l., Luxembourg	100.00%					
WBG Wohnen und Bauen Gesellschaft mbH, Vienna	24.00%					

All derivative financial instruments in BAWAG P.S.K.'s accounts as of 31 December 2009

Derivatives in the banking book

in thousands of Euros	Nominal values by maturity			Total	Fair purchase and selling value	
	Up to 1 year	1–5 years	Over 5 years		Pos fair value	Neg fair value
Interest rate derivatives						
a) Interest rate swaps (with a single currency)	4,131,960	11,900,871	3,762,697	19,795,528	662,696	-338,526
b) Basic swaps	–	107,730	953,556	1,061,286	57,246	-33,259
c) Interest rate futures	–	–	–	–	–	–
d) Interest rate futures and interest-rate-based index contracts (*)	20,000	–	–	20,000	–	–
e) Options on interest-rate-based index contracts	1,908,672	255,392	56,298	2,220,362	2,426	-2,789
f) Other comparable contracts	–	–	–	–	–	–
Exchange rate transactions and gold-based transactions						
a) Currency and interest rate swaps (with multiple currencies)	269,253	2,774,262	64,436	3,107,951	14,076	-82,310
b) Exchange futures	1,689,327	–	–	1,689,327	3,200	-45,488
c) Currency futures and currency-based index contracts	–	–	223,791	223,791	49	-40,342
d) Currency options	55,813	72,424	9,292	137,529	–	–
e) Gold-based contracts and contracts comparable with items a to d	–	–	–	–	–	–
f) Other exchange and gold contracts	–	–	–	–	–	–
Index and asset value contracts						
a) Futures in asset values and other securities-price-based index futures	–	–	42,628	42,628	–	–
b) Index futures in asset values and other securities-based index futures	62,890	127,776	20,000	210,666	3,311	-23,597
c) Options in asset values and other securities index options	–	–	–	–	–	–
d) Other comparable contracts involving asset values and other securities	–	–	–	–	–	–
Precious metals						
a) OTC precious metal futures	–	–	–	–	–	–
b) Listed precious metal futures	–	–	–	–	–	–
c) Precious metal options	–	–	–	–	–	–
d) Other comparable precious metal contracts	–	–	–	–	–	–
Commodities contracts (excluding precious metals contracts)						
a) OTC commodities futures	–	–	–	–	–	–
b) Listed commodities futures	–	–	–	–	–	–
c) Purchased commodities options	–	82,070	5,000	87,070	2,146	–
d) Other comparable commodities contracts	–	–	–	–	–	–
Credit derivatives						
a) Single name credit event/default swaps	220,000	414,909	59,000	693,909	51,515	-39,259
b) Portfolio credit event/default swaps	–	–	–	–	–	–
c) Total return swaps	–	–	–	–	–	–
d) Credit spread forwards	–	–	–	–	–	–
e) Credit spread options	–	–	–	–	–	–
f) Other	–	–	–	–	–	–
Other futures, options and comparable transactions that cannot be assigned to the categories above	256,100	5,601	74,022	335,723	11,438	-1,400
Total nominal value in the banking book				29,625,770	808,103	-606,970

* Futures are included in the item Interest rate futures and interest-rate-based index contracts.

No fair values are given for the futures because they are compensated for by the continual variation margin payments.

Derivatives in the trading book

in thousands of Euros	Nominal values by maturity				Fair purchase and selling value	
	Up to 1 year	1–5 years	Over 5 years	Total	Pos fair value	Neg fair value
Interest rate derivatives						
a) Interest rate swaps (with a single currency)	5,069,515	11,180,689	7,203,052	23,453,256	613,814	-569,228
b) Basic swaps	–	550,000	712,000	1,262,000	5,663	-20,340
c) Interest rate futures	200,000	–	–	200,000	287	-253
d) Interest rate futures and interest-rate-based index contracts (*)	20,000	–	–	20,000	–	–
e) Options on interest-rate-based index contracts	696,121	5,762,246	3,903,504	10,361,871	129,632	-135,507
f) Other comparable contracts	–	–	–	–	–	–
Exchange rate transactions and gold-based transactions						
a) Currency and interest rate swaps (with multiple currencies)	–	4,101,394	8,974	4,110,368	69,162	-69,890
b) Exchange futures	771,977	69,904	–	841,881	14,446	-12,761
c) Currency futures and currency-based index contracts	–	–	–	–	–	–
d) Currency options	7,142,032	1,730,083	655,439	9,527,554	138,278	-151,845
e) Gold-based contracts and contracts comparable with items a to d	23,034	–	–	23,034	423	-16
f) Other exchange and gold contracts	–	–	–	–	–	–
Index and asset value contracts						
a) Futures in asset values and other securities-price-based index futures						
b) Index futures in asset values and other securities-based index futures						
c) Options in asset values and other securities index options						
d) Other comparable contracts involving asset values and other securities						
Precious metals						
a) OTC precious metal futures						
b) Listed precious metal futures						
c) Precious metal options						
d) Other comparable precious metal contracts						
Commodities contracts (excluding precious metals contracts)						
a) OTC commodities futures						
b) Listed commodities futures						
c) Purchased commodities options						
d) Other comparable commodities contracts						
Credit derivatives						
a) Single name credit event/default swaps	30,000	725,000	220,000	975,000	9,083	-14,981
b) Portfolio credit event/default swaps						
c) Total return swaps						
d) Credit spread forwards						
e) Credit spread options						
f) Other						
Other futures, options and comparable transactions that cannot be assigned to the categories above						
Total nominal value in the trading book				50,774,964	980,788	-974,821
Total nominal value				80,400,734	1,788,891	-1,581,791

* Futures are included in the item Interest rate futures and interest-rate-based index contracts.

No fair values are given for the futures because they are compensated for by the continual variation margin payments.

Boards and Officers of BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft

The Managing Board of BAWAG P.S.K. as of 31 December 2009

Byron HAYNES, Member of the Managing Board (from 1 August 2008), Chairman of the Managing Board and CEO
(from 16 September 2009)

Stephan KOREN, Deputy Chairman of the Managing Board (from 1 October 2005)

Joseph LAUGHLIN (from 13 August 2007 to 31 December 2009)

Carsten SAMUSCH (from 13 August 2007)

Regina PREHOFER (from 15 September 2008)

The Supervisory Board of BAWAG P.S.K. as of 31 December 2009

Chairman

Cees MAAS (from 15 October 2009, Member of the Supervisory Board from 27 July 2009 to the Annual General Meeting 2011*)

Deputy Chairman

Pieter KORTEWEG (from 15 December 2009, Member of the Supervisory Board from 27 August 2007 to the Annual General Meeting 2011*)

Members

Marius J.L. JONKHART (from 18 July 2007 to the Annual General Meeting 2011*)

Rudolf JETTMAR (from 15 May 2007 to the Annual General Meeting 2011*)

Scott PARKER (from 15 December 2009 to the Annual General Meeting 2011*)

Works Council Delegates

Ingrid STREIBEL-ZARFL

Brigitte JAKUBOVITS

Beatrix PRÖLL

State Commissioner

Beate SCHAFFER (from 1 March 2007; Deputy State Commissioner to 1 August 2009)

Deputy State Commissioner

Susanne SPIESZ (from 1 August 2009)

* Until the end of the Annual General Meeting adopting the Annual Financial Statements for 2010.

Committees of BAWAG P.S.K. as of 31 December 2009

Credit Committee

Cees MAAS, Chairman
Marius J.L. JONKHART
Rudolf JETTMAR
Ingrid STREIBEL-ZARFL, Works Council Delegate
Beatrix PRÖLL, Works Council Delegate

Audit Committee

Marius J.L. JONKHART, Chairman
Scott PARKER, Deputy Chairman
Rudolf JETTMAR
Cees MAAS
Ingrid STREIBEL-ZARFL, Works Council Delegate
Brigitte JAKUBOVITS, Works Council Delegate

Nomination Committee

Cees MAAS, Chairman
Scott PARKER, Deputy Chairman
Pieter KORTEWEG
Ingrid STREIBEL-ZARFL, Works Council Delegate
Brigitte JAKUBOVITS, Works Council Delegate

Remuneration Committee

Cees MAAS, Chairman
Pieter KORTEWEG, Deputy Chairman
Scott PARKER

Related Parties Special Audit Committee

Marius J.L. JONKHART, Chairman
Cees MAAS, Deputy Chairman
Pieter KORTEWEG
Rudolf JETTMAR
Ingrid STREIBEL-ZARFL, Works Council Delegate
Brigitte JAKUBOVITS, Works Council Delegate

BAWAG P.S.K. MANAGEMENT REPORT

The Economy

Economic Conditions in 2009

The turning point in the financial and real estate crisis came in 2009. The extensive and concerted action of governments and central banks around the world took effect, demand from the Asian economies helped to reinvigorate global trade, and businesses and consumers slowly began regaining some of the confidence lost due to the crisis. The economies of the industrialised countries began growing again starting in early summer.

In the Eurozone, the recession ended with a moderate contraction of 0.1 per cent in the second quarter of 2009, and the 0.4 per cent quarterly GDP increase in the following three-month period marked the start of an upswing. The recovery process was triggered primarily by awakening global demand and the reversal of the inventory cycle. However, not all countries in the Eurozone proceeded at the same pace. While the strong export orientation of Germany's economy enabled it to begin growing relatively rapidly again after an especially deep recession, Spain's economy continued to shrink into the autumn because of the particularly detrimental effects of the real estate crisis. All leading indicators for the Eurozone bottomed out in the spring of 2009 (mostly at record lows), and then began to climb steadily.

Austria's economic output also began increasing slightly in the second half of 2009, not only thanks to a considerable increase in export demand, but also because of the reversal in the inventory cycle after the nearly complete consumption of existing stocks in the first half of the year. This was a windfall for the manufacturing industry, where new orders and output rose steadily starting in the middle of the year. The recovery has not yet taken strong hold in the construction industry, but the slide in output was also less drastic than in goods manufacturing. Private consumption grew by only 0.1 per cent in the third quarter of 2009, lagging considerably behind overall demand. During the recession, however, consumer spending played a major stabilising role by increasing slowly but steadily and helping to limit the economy's downside potential. Investment activity did not improve yet in the third quarter. As capacity utilisation levels have fallen seriously over the course of the crisis, there is no immediate need for new investments.

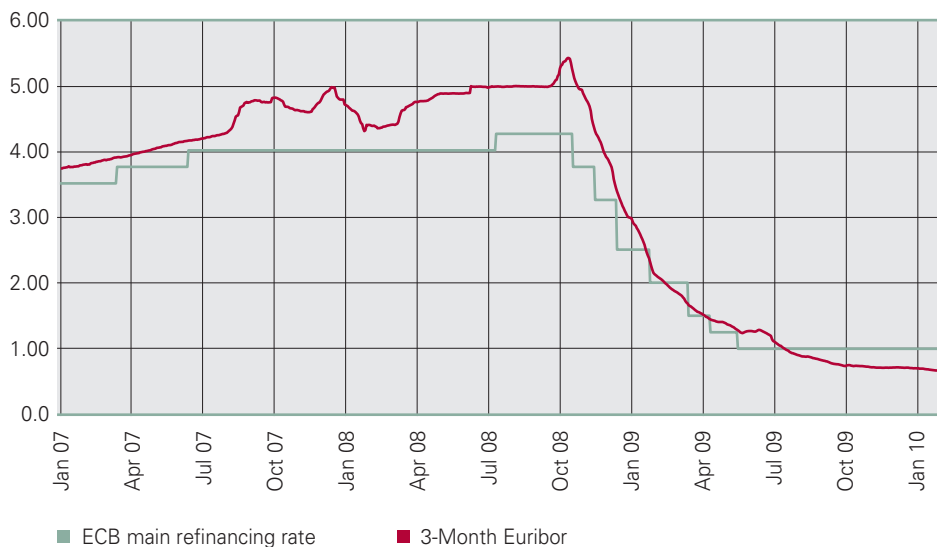
The information available to date indicates that the recovery of the domestic economy continued in the final quarter of the year. Over the year as a whole, however, the economy contracted compared to 2008. Real GDP decreased by roughly 3.5 per cent over the reporting period.

Despite the fact that the situation on the labour market worsened markedly during the recession, the economic stimulus packages, part-time working programmes and employment measures for young people helped to slow the decrease in the number of jobs. A general stabilisation in the conditions even became apparent starting in the late summer. However, the seasonally-adjusted number of employed persons (not including the self-employed) at the end of the year was over 50,000 lower than the record peak in the summer of 2008. The seasonally-adjusted unemployment rate (as a percentage of the workforce excluding the self-employed) was up by 1.5 per cent to 7.3 per cent at the end of the year.

Interest Rates

The development of interest rates over the reporting period was driven largely by the intense efforts on the part of the central banks to stabilise the financial markets with massive injections of liquidity. As a result, money market rates took a steep dive in the first half of 2009. The decline continued over the year, but slowed starting in the autumn. The three-month Euribor fell by over 200 basis points in a single year, and the money market reference rate has even been below the ECB's key rate of 1 per cent since the middle of the year. The US Federal Reserve left its target range for the key interest rate at a record low of 0 per cent to 0.25 per cent for the entire year.

Euro Area: Main Refinancing Rate and 3-Month Euribor



The capital market rates developed much less spectacularly. At the end of 2009, the benchmark for ten-year government bonds was at 3.4 per cent in the Eurozone, roughly 0.5 per cent higher than at the beginning of the year. Ten-year US Treasuries recovered in the first half of the year after a marked slide in the winter months of 2008/09 and stayed more or less flat from the summer onwards. They traded at a yield of 3.8 per cent at the end of the year. After the money market rates had lost so much ground over the course of the year, the yield curve became noticeably steeper in the Eurozone and the USA.

Exchange Rates

The Euro made considerable gains in 2009. The nominal effective exchange rate, which measures changes in the value of a currency compared to its main trading partners, increased by 2.6 per cent over the reporting period. The common currency made particularly hefty gains against the US dollar (+9 per cent) and the Japanese yen (+7 per cent). However, the relationship between the Euro and the dollar reversed at the end of the year. Sentiment on the FX market turned in favour of the US dollar, and the greenback has made steady gains since. Over the course of the reporting period, the British pound regained some of the ground it lost in the final quarter of 2008. In contrast, the Swiss franc was under heavy downside pressure for the whole year, causing a number of interventions by the Swiss National Bank. After losing substantially in value in 2008 and the spring of 2009, the currencies of the new EU member states were able to make in part considerable gains.

Equity Markets

All major securities entered a rally starting in the spring of 2009. However, they were only able to make up for part of the massive losses incurred in 2008. The indexes had simply fallen too quickly and too far in 2008. The Euro Stoxx 50 Index closed 2009 with a plus of 21 per cent year-on-year, and the Dow Jones was 18 per cent higher (both were down by 35 per cent in 2008). The ATX also gained considerable ground (+40 per cent), and the companies on the US NASDAQ 100 even doubled their market capitalisation in 2009. The exchanges in the new EU member states saw very different developments. The PX 50 (Prague) regained one third of its value, while the BUX (Budapest) was even stronger at a gain of over 70 per cent. The weak performers in the region included the Slovakian exchange, which fell back to its level from over five years ago.

Key Events during the Financial Year

Changes in the Managing Board

David Roberts, Chairman of the Managing Board, announced at the end of August 2009 that he would be resigning from the Bank for health reasons on 15 September 2009. Byron Haynes, who has been a member of the Managing Board since August 2008, was named as his successor. In addition to his function as the Chief Executive Officer, Byron Haynes currently retains his responsibilities as the Bank's Chief Financial Officer. Stephan Koren continues to be Deputy Chairman of the Board.

Changes in the Supervisory Board

Mike Rossi stepped down from the Supervisory Board in July 2009. Cees Maas, formerly chief financial officer, chief risk officer and deputy managing board chairman of ING Group NV, was appointed to the Supervisory Board of BAWAG P.S.K. on 27 July 2009.

After Supervisory Board Chairman Wulf von Schimmelmann resigned on 15 October 2009, Cees Maas was elected as Chairman in his place. Von Schimmelmann vacated his post because of obligations in connection with his appointment as chairman of the supervisory board of Deutsche Post AG in January 2009.

After Deputy Chairman Daniel Wolf announced his retirement from the Supervisory Board in December, Scott Parker was appointed to the Board effective 15 December 2009. Pieter Korteweg was appointed as the new Deputy Chairman of the Supervisory Board.

Capital and Guarantee Contributions by the Republic of Austria and Shareholders

BAWAG P.S.K., its shareholders and the Republic of Austria agreed to a capital increase and a guarantee from the Republic of Austria for certain assets in 2009. The agreement is in line with the objectives of the Financial Market Stability Act and stipulates the subscription of participation capital issued by BAWAG P.S.K. in the amount of EUR 550 million by the Republic of Austria. The agreement also provides a guarantee from the Republic of Austria for certain assets in a maximum amount of EUR 400 million valid until 30 June 2014. Furthermore, the Bank's shareholders granted a capital contribution of EUR 205 million in August 2009.

Pre-approval for the assistance package was granted by the EU Commission on 22 December 2009. After this, the contracts were signed by the Bank, its shareholders and the Republic of Austria. Under the agreement, BAWAG P.S.K. has undertaken to provide loans amounting to a total of EUR 1.7 billion to small and medium-sized businesses and households in Austria in addition to its currently existing loans over the next three years.

The approval from the EU Commission is limited to six months. In this time, the Commission will review and assess the documents and information submitted by and still to be submitted by the Republic of Austria before coming to a final decision. Any potential compensatory measures deemed necessary by the EU Commission will be determined on final approval.

For 2009, the Austrian government is entitled to a guarantee fee and a semi-annual dividend on the participation capital in the amount of 9.3 per cent p.a. The dividend will be disbursed once approval is granted by the Annual General Meeting deciding on the 2009 financial year. The guarantee fee was paid in early 2010.

Basel II – Application for an Internal Rating Based Approach

BAWAG P.S.K. filed an application with the Austrian Financial Market Authority in December 2009 to gain approval for the use of an internal rating based (IRB) approach for calculating its own funds requirements stemming from credit risk instead of the previously used Basel II standardised approach.

Moody's Rating for BAWAG P.S.K.

The rating agency Moody's completed a review of its rating for BAWAG P.S.K. in October 2009. Despite the challenging business conditions, the agency confirmed its rating for BAWAG P.S.K. on 2 November 2009 and assigned the Bank a stable outlook. In light of the numerous downgrades announced for other financial institutions, this result is satisfying. Long-term bonds from BAWAG P.S.K. are rated at Baa1, short-term liabilities at P2, and the Bank's financial strength rating is D. In February 2010, Moody's completed its review of the outstanding hybrid capital notes due to changes in its rating methodology. The rating for these instruments was adjusted to B2.

In its rating explanation, Moody's specifically recognised the extensive improvements already made by the Bank and noted that BAWAG P.S.K. is on the right path; it also included special praise for the improvements made in the area of risk. However, the Bank must improve its profitability over the medium term in order to receive a better rating, the agency said.

In its justification for the stable outlook, Moody's noted that the Bank has successfully stabilised its position under its new management. The support being provided by the new shareholder group is also having positive effects, said Moody's.

Key Sales Initiatives in 2009

Opening of New Flagship Branches

Vienna's first "flagship branch", the customer centre at the corner of Wipplingerstraße and Tuchlauben in the first district, was opened on 15 December 2009. This centre was created by combining the two branches at Seitzergasse and Fleischmarkt, and offers an entirely new level of modern banking service in a functional and appealing atmosphere. The focus is on providing individual, tailored advice and service.

A branch in Salzburg's Lehen district was renovated and reopened. At the end of the year, BAWAG's branch network consisted of 71 outlets in Vienna and 82 in the other provinces. PSK BANK offers its services at 1,230 post offices throughout Austria, including new postal partner offices.

Kommunalmilliarde (One Billion for Municipalities)

In June 2009, an initiative was launched under the motto “One Billion for Municipalities from BAWAG P.S.K.” to assist provincial and municipal governments in Austria in realising targeted infrastructure investments despite the difficult economic conditions. To this end, BAWAG P.S.K. provided financing in a total amount of EUR 1 billion under very attractive terms to stimulate regional growth and to promote the protection and creation of jobs.

The provision of this billion Euros in targeted financing is the logical continuation of BAWAG P.S.K.’s long tradition and close ties with the public sector.

“One Billion for Municipalities” generated a great deal of positive response among public sector entities across the country.

Unternehmen Österreich (“Enterprise Austria”)

BAWAG P.S.K. presented its new autumn campaign, “Unternehmen Österreich” (Enterprise Austria), in September 2009. This is a long-term, sustainable initiative that is designed to benefit all Austrians and to strengthen the Austrian economy.

It includes different, custom-tailored services and solutions for private, commercial and municipal customers and offers a range of attractive savings and investment products related to Austria.

Security Barometer

BAWAG P.S.K. introduced the Security Barometer in October 2009 as a means of labelling all savings, investment and life insurance products in a way that clearly depicts their relationship between security and earnings.

easybank

BAWAG P.S.K. Group’s direct bank, easybank, continued on its very successful course, which is based on offering simple and transparent products, in the 2009 financial year. easybank’s free salary account was named the winner of the Chamber of Labour’s comparison test for the fourth time in a row.

Legal Aspects

SPhinX

SPhinX companies filed a lawsuit with the Supreme Court of the State of New York in March 2008 against over fifty parties, one of them being BAWAG P.S.K. No amount has been specified for the alleged damages.

Various motions for the dismissal of this suit are still pending. In addition, documents are being collected and reviewed to gather evidence for the case, and witnesses have already been questioned in hearings lasting several days. BAWAG P.S.K. has filed claims with the liquidators of SPhinX for investments in SPhinX funds that have not been redeemed in the amount of roughly USD 29.4 million.

There were no significant developments in this case during the 2009 financial year, and the Bank's claims have still not been recognised. A draft plan for the distribution of the liquidation proceeds has been drawn up, but no final decision on the plan has yet been made.

Implementation of the Payment Services Directive

The Payment Services Act (ZaDiG) came into force on 1 November 2009. The necessary changes in the Bank's General Terms and Conditions and in its other forms and terms were made in good time, and the necessary approvals were also obtained from the Bank's customers. The technical changes needed to meet the new regulations (e.g. with regard to the value and posting dates when handling payment transfers) were also made.

Changes in the Bank's Equity Interests

Sparda Bank Vienna

SPARDA Bank Aktiengesellschaft was incorporated into BAWAG P.S.K. by way of an upstream merger with retroactive effect as of 30 June 2008. This merger was entered into the commercial register on 23 January 2009, bringing the merger process to a legal conclusion. The Sparda Bank brand is being maintained.

Merger of ÖVKB's Retail Business

In May 2009, BAWAG P.S.K. decided to merge the retail business operations of Österreichische Verkehrskreditbank (ÖVKB) into BAWAG P.S.K. This merger became effective on 1 October 2009.

This transfer of business activities was decided to leverage synergies, especially with BAWAG P.S.K.'s own retail banking franchise, and to gain access to ÖVKB's very attractive rail station outlets for all of the Group's retail customers.

Notes to the Annual Financial Statements

After a carve-out and merger agreement was signed on 25 June 2009, the retail operations of Österreichische Verkehrskreditbank AG (ÖVKB) were carved out and incorporated into BAWAG P.S.K. AG.

Despite the difficult market environment, BAWAG P.S.K.'s consolidated assets totalled EUR 41,160 million as of 31 December 2009, virtually the same level as at the end of the prior year. Notable structural shifts occurred as a result of a reduction in receivables from credit institutions and an increase in longer-term investments in securities.

Assets

in millions of Euros	31.12.2009		31.12.2008		Change	
	Balance	Share of assets	Balance	Share of assets		
Receivables from customers	23,745	58%	23,538	57%	+207	+0.9%
Securities	8,570	21%	7,360	17%	+1,210	+16.4%
Receivables from credit institutions	4,962	12%	5,871	14%	-909	-15.5%
Shares in Group companies	1,558	4%	1,584	4%	-26	-1.6%
Other items	2,325	5%	3,228	8%	-903	-28.0%
Assets	41,160	100%	41,581	100%	-421	-1.0%

Receivables from customers rose to EUR 23,745 million. BAWAG P.S.K.'s securities portfolio increased in value to EUR 8,570 million as of 31 December 2009 (plus EUR 1,210 million or 16.4 per cent). This growth can be attributed to the fact that BAWAG P.S.K. is investing a greater share of its liquidity in asset classes that have medium-term maturities and that are recognised as collateral for repo transactions by the European Central Bank.

Because of this shift, receivables from credit institutions fell by EUR 909 million or 15.5 per cent in annual comparison to EUR 4,962 million.

Shares in Group companies remained virtually unchanged and came to EUR 1,558 million at the end of the reporting period.

The EUR 903 million decline in other items to EUR 2,325 million can primarily be attributed to changes in the fair values of derivative financial instruments.

Liabilities and equity

in millions of Euros	31.12.2009		31.12.2008		Change	
	Balance	Share of assets	Balance	Share of assets		
Savings deposits	14,639	36 %	15,207	37 %	-568	-3.7 %
Other customer deposits	7,592	18 %	6,886	17 %	+706	+10.3 %
Securities issued by BAWAG P.S.K.	8,044	20 %	9,109	22 %	-1,065	-11.7 %
Payables to banks	7,050	17 %	6,526	15 %	+524	+8.0 %
Other liabilities	1,999	5 %	2,595	6 %	-596	-23.0 %
Equity	1,836	4 %	1,258	3 %	+578	+46.0 %
Liabilities and equity	41,160	100 %	41,581	100 %	-421	-1.0 %

Savings deposits decreased by EUR 568 million or 3.7 per cent because of the general fall in interest rates and came to EUR 14,639 million on 31 December 2009. Making up well over one third of the Bank's balance sheet total, savings deposits are very important for BAWAG P.S.K. and the reported level an encouraging confirmation of the confidence that our customers place in us.

Other customer deposits grew by EUR 706 million to EUR 7,592 million.

On 31 December 2009, securities issued by BAWAG P.S.K. in the amount of EUR 8,044 million were in circulation, EUR 1,065 million or 11.7 per cent less than at the end of the 2008 financial year. This decline was due to the redemption of issued securities and the fact that no new securities were issued in their place because of our good liquidity situation.

The most important factor behind the EUR 596 million reduction in other liabilities to EUR 1,999 million is changes in the fair values of derivative financial instruments, as was also reported on the assets side.

Equity increased due to the subscription of EUR 550 million in participation capital by the Republic of Austria. A motion will be submitted at the Annual General Meeting to disburse the net profit for the period of EUR 25.6 million as a dividend on this participation capital.

Income statement

in millions of Euros	2009	2008	+(-) Change	
Net interest income including income from securities	479	477	+2	+0.5 %
Net income from equity interests	10	334	-324	-96.9 %
Commissions	145	123	+22	+18.1 %
Net income from financial investments	28	24	+4	+18.8 %
Other operating income	24	9	+15	+>100.0 %
Net operating income	687	967	-280	-29.0 %
Administrative expenses	-486	-554	-68	-12.3 %
Write-downs and other operating expenses	-57	-60	-3	-4.7 %
Operating expenses	-543	-614	-71	-11.6 %
Operating profit	144	353	-209	-59.2 %
Cost/income ratio	79.1 %	63.5 %		
Allocation of credit risk provisions	-74	-147	-73	-49.7 %
Valuation and sale proceeds from securities	29	-116	+145	+>100 %
Valuation and sale proceeds from financial assets	-85	-555	-470	-84.6 %
Profit (loss) on ordinary activities	13	-466	+479	+>100 %
Result of extraordinary items	54	-80	+134	+>100 %
Taxes	13	4	+9	+>100 %
Profit (loss) before changes in reserves	79	-542	+621	-
Changes in reserves and retained earnings	2	542	-540	-
Profit (loss) after changes in reserves	81	-	-	-

Despite the difficult market conditions, stable customer business and our investment policy shift towards longer-term securities enabled us to maintain our net interest income at the same level as in the prior year.

The net income from equity interests for the 2008 financial year contained a one-time dividend from P.S.K. Beteiligungsverwaltung in the amount of EUR 310 million. Taking this one-off factor into account, the decrease in net income from equity interests to EUR 10 million in 2009 is not serious.

Commissions increased again in 2009, by EUR 22 million or 18.1 per cent to EUR 145 million. Commissions from securities transactions, payment transaction fees and commissions from the brokerage of building association savings agreements and insurance policies were up significantly.

The other operating income includes sales proceeds and other revenues not arising from our banking business. This item came to EUR 24 million in 2009, EUR 15 million more than in 2008.

Administrative expenses fell considerably compared to 2008, by EUR 68 million or 12.3 per cent to EUR 486 million. This decrease can be attributed primarily to operating expenses. Staff costs were reduced by EUR 30 million or 8.8 per cent compared to the prior reporting period and totalled EUR 317 million. This significant decline is the result of lower restructuring costs in connection with post-employment benefit models, and the use of new actuarial tables in the prior year for the calculation of social capital requirements. Operating expenses fell by EUR 38 million or 18.2 per cent to EUR 169 million.

Write-downs and other operating expenses were slightly lower than in the prior year.

Allocations to credit risk provisions came in at EUR 74 million in the reporting period after a contribution was made by a grandparent company to cover expenses.

As the situation on the credit and capital markets has normalised to some extent, the valuation and sales proceeds from securities improved considerably from minus EUR 116 million in 2008 to plus EUR 29 million in 2009.

The valuation and sale proceeds from financial assets came in at minus EUR 555 million in the prior financial year because of one-off effects, and is not comparable with the result of minus EUR 85 million for the current reporting period.

The tax income in the amount of EUR 13 million resulted from BAWAG P.S.K.'s role as the parent of a taxable group.

In total, the Bank achieved a net profit before changes in reserves of EUR 79 million.

Own funds pursuant to section 23 BWG

in millions of Euros	31.12.2009	31.12.2008
Subscribed capital	800	250
Reserves and fund for general banking risks	954	1,007
Deductions	-114	-132
Core capital (Tier I)	1,640	1,125
Core capital ratio	8.2 %	6.0 %
Shareholdings pursuant to § 23 (13) BWG	-51	-65
Eligible core capital (Tier I)	1,589	1,059
Additional items (Tier II)	1,234	842
Shareholdings pursuant to § 23 (13) BWG	-51	-65
Eligible own funds	2,772	1,836
Own funds ratio	14.1 %	10.3 %
Existing Tier III	67	55
Own funds	2,839	1,892
Required own funds	1,682	1,511
Excess own funds	1,157	381

Non-Financial Performance Indicators

Corporate Governance

Supervisory Board

The Supervisory Board of BAWAG P.S.K., which is responsible for supervising but also supporting the Managing Board, consists of six national and international representatives elected by the Shareholder Meeting (currently only five persons are appointed). An additional three members are delegated by the Works Council. (The members of the Supervisory Board and the composition of its committees are listed in the section Boards and Officers.)

The Rules of Procedure of the Supervisory Board comprise the rights and obligations of this board and also define the individual committees of the Supervisory Board and their responsibilities. As part of the amendment of the Supervisory Board's Rules of Procedure, some of the provisions were simplified and harmonised.

Responsibility for the approval of loans and other forms of financing and credit to individual borrowers or groups of connected customers for the purposes of section 27 of the Banking Act (exposures that equal 10 per cent or more of the Bank's eligible own funds) has been delegated to the Credit Committee that was set up by the Supervisory Board. An annual report about the large exposures approved by the Credit Committee is submitted to the Supervisory Board. The Credit Committee is also responsible for approving transactions with the Bank's affiliated parties (except for transactions with members of the Supervisory Board or Managing Board that are delegated to the Remuneration Committee) and for approving material credit policies. It also advises the Managing Board in basic credit risk policy issues.

The Audit Committee is responsible for reviewing the Bank's accounts and the annual financial statements, and monitoring the Bank's risk management and internal control systems. This committee is also in regular contact with the external auditor, the Internal Audit division and the Compliance Office. The annual audit plans and reports about the activities of the Internal Audit division and the Bank's Compliance Office are also submitted to the Audit Committee.

While the Nomination Committee deals with succession planning and selecting suitable candidates for the Managing Board, the Remuneration Committee deals with relationships between the Bank and the members of the Managing Board. For example, it decides the performance targets for the Managing Board and also the remuneration paid to and contracts signed with the members of the Managing Board. The Remuneration Committee is also responsible for approving transactions with members of the Supervisory Board and Managing Board.

The Related Parties Special Audit Committee reviews all financing commitments and transactions above a certain amount involving companies with controlling influence as defined in IAS 24 or companies related to these controlling companies. The Related Parties Special Audit Committee is intended to ensure transparency in all transactions involving the Bank's shareholders.

Managing Board

At the beginning of 2009, the Managing Board consisted of six members. Currently, the Board has five members, following the retirement of Chairman David Roberts.

The Rules of Procedure of the Managing Board define the responsibilities and tasks of this board. According to these Rules of Procedure, the Managing Board has the right to form committees and to issue statutes for these committees. The following executive committees have been formed:

- ▶ The Enterprise Risk Meeting for managing risk for the entire Bank;
- ▶ The Credit Policy Committee, which focuses on credit guidelines and strategies;
- ▶ The Credit Approval Committee, which decides on financing agreements above a certain amount;
- ▶ The strategic Asset Liability Committee, which deals with strategic capital and liquidity planning issues;
- ▶ The tactical Asset Liability Committee; and
- ▶ The Retail & SME Committee.

The Bank also established a series of additional non-executive committees. These include:

- ▶ The Exposure Review Committee, which was set up in 2009 for the ongoing analysis of certain credit exposures;
- ▶ The Capital Management Meeting, which monitors the development of the regulatory capital ratios and the changes in the risk-weighted assets; and
- ▶ The Capital Expenditure Committee, which decides on investments above a certain amount.

Proactive Risk Management

Top priority was again assigned to risk management in 2009. After the credit risk management system was divided into two groups, Retail and SME Risk and Corporate and Institutional Risk, in the prior financial year, the focus in 2009 was placed on improving the relevant systems and processes. In response to the difficult economic environment, the systems for monitoring credit exposures were expanded significantly. Additionally, forward-looking monitoring mechanisms were also introduced for the portfolio. A number of measures were implemented to lower the level of risk in the structured credit portfolio, including the sale of assets, restructuring and hedging.

Code of Corporate Governance

BAWAG P.S.K. voluntarily adopted the Austrian Code of Corporate Governance for listed companies in 2006. In the 2009 financial year, amendments were made to the Austrian Code of Corporate Governance which were subsequently incorporated into BAWAG P.S.K.'s individual Code.

The Bank prepared its first-ever annual corporate governance report for the 2009 financial year and published it on the Internet.

Compliance with the Code of Corporate Governance was audited by independent third parties in 2009 and revealed that all key provisions of the Code were fulfilled with the exception of those that do not apply to a bank with a closed shareholder structure.

Compliance

The Compliance Office is a sub-unit of BAWAG P.S.K.'s Legal division but reports directly to the Managing Board. Regular reports are also submitted directly to the Bank's Audit Committee.

The key responsibilities of the Compliance Office are preventing money laundering, monitoring compliance with sanctions, securities compliance, as well as the prevention of insider trading, market abuse and conflicts of interest. A series of detailed guidelines have been put into place to ensure compliance with all legal requirements.

In addition to all relevant laws such as the Securities Supervision Act, all employees are also bound by a Code of Conduct that contains, among other things, guidelines for business conduct and customer service, for how conflicts of interest are to be handled, and for preventing market abuse and money laundering.

Personnel Development

Management and Personnel Development; Succession and Career Planning

A key focus in the Bank's personnel development activities in 2009 was the Leadership Development Initiative. Under this initiative, the Bank held workshops for all of its managers with the goal of discussing what is expected of these managers and how they see their own roles, and to introduce the revised Management by Objectives (MBO) process as a key leadership and management instrument.

In addition to continuously improving the skills of its management personnel, the Bank also attaches considerable importance to providing development paths for talented individuals so that it can fill key positions from within its staff. One measure to this end was the creation of the EMERGE programme for potential managers and specialists who are to be given new positions with greater responsibilities in the coming years.

The programme began with a careful selection process, and a number of candidates are now completing a one-year programme that will significantly improve their professional and personal skills. EMERGE is built up around the completion of strategic business projects to facilitate learning by doing. Flanking measures include mentoring, leadership and technical specialist training, 360-degree feedback with subsequent coaching, and an internal career workshop that is designed to show the specific advancement paths available in the Bank and that ends with the creation of individual career and development plans.

In addition to this, the retail sales programme for future managers, "TopTeam Vertrieb", was launched in December 2009, and a succession planning project was started in Operations.

Personnel Training

The Bank adapted and updated its personnel training system in 2009 to bring it in line with the changed operating conditions resulting from various restructuring efforts, process improvements and modified job profiles. Specifically developed seminars were held in the larger organisational units to fill gaps in the staff's qualifications and to better enable people to fill new roles in some cases. At the same time, the foundation was laid for a new, structured training system at BAWAG P.S.K.

Corporate Social Responsibility

Every business enterprise strives to achieve success and to create value. For BAWAG P.S.K., success also means meeting its social responsibility.

To this end, the sustainability and corporate social responsibility programme the Bank launched in 2007 was continued and expanded throughout the organisation in 2009.

In April 2009, the Bank's first CSR report was published in tandem with the 2008 annual report. We are releasing our second CSR report this year together with the 2009 annual report to document our work and achievements in the area of sustainability.

The CSR Report 2009 can be accessed at www.bawagpsk-annualreport.com. We decided to forgo a printed version of this report to save paper.

The following is an overview of some of the efforts we undertook in 2009. More extensive information can be found in the CSR Report 2009.

New Chance Account

On 1 April 2009, PSK BANK was the first bank in the country to offer a basic current account to any customer regardless of their credit rating. This "New Chance Account" (Neue Chance Konto) does not include an overdraft facility and is available throughout Austria. This product is designed for the roughly 50,000 people in Austria who otherwise have no access to one of the most important banking services, electronic payment transactions, because of their credit history.

The "New Chance Account" has generated a great deal of positive response. At the end of 2009, only nine months after the launch, an impressive 3,500 customers were already using this product. The "New Chance Account" is one of the fruits of our proactive commitment to human rights, and for us is a way to counter discrimination and social exclusion.

Human Rights Matrix

To the best of our knowledge, BAWAG P.S.K. is the first bank in Austria that has evaluated the issue of human rights in connection with its area of business in such an extensive manner and that also systematically takes human rights into account and incorporates their protection into its daily operations.

Human rights are the only binding system of rules that are valid around the world and that apply not only to governments, but also to business enterprises. At BAWAG P.S.K., we decided to assess where the Bank actually stands in these terms. To this end, we drew up a human rights matrix and completed a gap analysis to identify the areas in which we need to improve.

For example, our credit policies now also include ethical and antidiscriminatory guidelines for the awarding of loans. A Supplier Code of Conduct has also been developed which requires BAWAG P.S.K.'s service providers and suppliers to commit themselves to respecting human rights in their operations, in addition to other obligations.

The BAWAG P.S.K. Human Rights Matrix was presented to the UN's special envoy on human rights and business, Prof. John Ruggie, and the human rights activist and former president of Ireland, Mary Robinson, during a workshop in June 2009.

UN Global Compact

BAWAG P.S.K. joined the UN Global Compact in the middle of March 2009. As a result of this, the CSR Report 2009 also includes a Communication on Progress (COP). Our CSR officer is also a member of the UN Global Compact Network Austria.

BAWAG P.S.K. Women's Initiative

The BAWAG P.S.K. Women's Initiative was launched in May 2009 under the patronage of Managing Board member Regina Prehofer and Works Council Chairwoman Ingrid Streibel-Zarfl. The goal of this initiative is to create a working environment in which every female employee can achieve success in accordance with her own abilities and performance. Key focuses in this are the harmonisation of salaries and training opportunities, as well as increasing the number of women in key, specialist and management positions.

Diversity

Throughout the 2009 financial year, a number of different campaigns, workshops, podium discussions and a diversity survey were conducted and a newsletter distributed to increase awareness for the issue of diversity within BAWAG P.S.K. One project was launched to examine all aspects of diversity and to define concrete measures by the beginning of 2010 that will enable the Bank to derive benefits from the diversity within it and to ensure equal opportunities for all.

Temporary Assistance for Unemployment after Bankruptcies

When a business goes bankrupt, this not only affects the company's owners and suppliers, but also all of its employees. Such employees are entitled to benefits from the bankruptcy compensation fund, but it can take several months for these benefits to be paid out. Based in part on advice provided by the Austrian Trade Union Federation and in response to the economic crisis, BAWAG P.S.K. created an unbureaucratic and nationwide aid package in 2009 for people who have lost their job because of the bankruptcy of their employer.

Sponsoring

BAWAG P.S.K.'s focus on the areas of the arts, education and social issues and the ways in which it combines these areas with its business activities make it a pioneer in sponsoring. The objective of these activities is to reposition the Bank through projects focusing on innovation and sustainability, and through the promotion of contemporary art. BAWAG P.S.K.'s support for the renowned jazz club Porgy&Bess earned it the 2009 maecenas art sponsoring prize for the best art sponsoring project by a large corporation. We will continue on this path in 2010.

Events after the Balance Sheet Date

Changes in the Managing Board

In December 2009, Joseph Laughlin announced that he would be retiring at the end of the year. Sanjay Sharma will take over as Chief Operating Officer on 1 January 2010. Sanjay Sharma can draw on many years of experience at Barclays Bank plc and has been Managing Director of Operations at BAWAG P.S.K. since August 2008.

Carsten Samusch, who assumed responsibility for the Treasury division in August 2007, announced in January 2010 that he would not be seeking the extension of his contract, which expires in May 2010, for personal reasons. The search for a suitable successor is underway.

Equity Interests

BAWAG P.S.K. Versicherung

In January 2010, the Bank sold 24.99 per cent of its stake in BAWAG P.S.K. Versicherung AG, thus reducing its stake from 49.99 per cent to 25 per cent plus one share.

Risk Report

Introduction and Overview

BAWAG P.S.K. identifies, measures, monitors and manages all risks to which BAWAG P.S.K. Group is exposed. Because the Bank employs financial instruments, it is subject to the following risks that are addressed by means of clear monitoring and management processes within its risk management system:

- ▶ Credit risk
- ▶ Market risk
- ▶ Liquidity risk
- ▶ Participation risk
- ▶ Operational risk

This risk report provides information on BAWAG P.S.K.'s exposure to each of the risks listed above.

Risk Management Framework – Risk Organisation

BAWAG P.S.K.'s Managing Board defines the Bank's risk strategy, and the principles of risk management, limits for all relevant risks and procedures for monitoring these risks are documented in risk manuals and work guidelines. The Managing Board is informed of the overall risk situation and the situation regarding specific risks on a monthly basis, and quarterly risk reports are submitted to the Supervisory Board's monitoring and control committees.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the products and services offered. BAWAG P.S.K. maintains a disciplined, constructive control environment in which all employees understand their roles and obligations.

Over the course of 2009, BAWAG P.S.K.'s risk management framework was enhanced and adapted to the needs of the specific risk types to which the Bank is exposed. The risk management organisation comprises the following units:

- ▶ Corporate and Institutional Risk
- ▶ Retail and SME Credit Risk
- ▶ Market Risk
- ▶ Operational Risk
- ▶ Risk Reporting
- ▶ Workout Group
- ▶ Special Projects

Specific Risks of BAWAG P.S.K.

Credit risk

Credit risk is the general risk that a customer will not be able to meet its payment obligations. For risk management purposes, BAWAG P.S.K. considers and consolidates all elements of credit risk exposures, such as individual obligor default risk, country risk and business segment risk.

In the retail segment, the creditworthiness of private and small business customers is assessed by means of an automated scoring method. This consists of initial application scoring on the basis of proven and recognised mathematical and statistical models, and behavioural scoring on the basis of the customer's account use that updates the customer's credit rating every month.

No ratings are available from external agencies for the majority of BAWAG P.S.K.'s commercial customers. Before new commitments are made (or when existing commitments are to be expanded or risk assessments need to be updated), the borrower's credit rating is assessed using an internal rating method for the customer's specific business segment. The rating methods that have been developed by BAWAG P.S.K. for this are based on a broad spectrum of quantitative and qualitative factors. The specific risk categories from the uniform BAWAG P.S.K. master scale are assigned to the customer on this basis and represent its individual estimated probability of default.

All non-consumer exposure components that exist in BAWAG P.S.K. are aggregated at the customer and customer group level using a specific software application. Duties requiring that exposures be reported to the Managing Board and Supervisory Board are defined for customers/groups of affiliated customers by risk grades to identify the concentration of risk exposure.

Revised Risk Policy for Retail and Small Business Customers

The framework for the granting of loans to consumers and business customers is defined in the Bank's credit guidelines. These guidelines were revised, and have been in force in their new form since March 2009.

In addition to the current economic environment and the significantly increased risk costs, a key focus of the revised guidelines was the creation of objective and transparent decision-making rules and procedures for all sales channels and risk centres.

The most important changes concern assessing the borrower's ability to service the line of credit as well as the provision of collateral with stable value to cover provided financing.

Introduction of New Credit Processes in the Small Business Segment

New credit processes were put into place in the small business segment in November 2009. These processes were aimed at achieving the following objectives in the interests of designing simpler and quicker processes while ensuring the more uniform and more traceable collection and storage of data:

- ▶ Increased efficiency and reduced workload for the sales units by moving information collection and processing tasks to a central unit;
- ▶ Significantly improved data quality through the centralised collection of financial and business documents;
- ▶ Creation of a uniform stock of data about commercial and SME customers' financial and business situation;
- ▶ Reduction of the manual effort required for risk assessment for new applications and extension applications by means of the automated calculation of indicators;
- ▶ Full compliance with all regulatory requirements (Basel II);
- ▶ Increased customer satisfaction through faster decisions in sales and shorter processing times for applications through the implementation of a direct decision recommendation in the scoring system; and
- ▶ A reduction in the level of resources required for extensions through longer terms for extension agreements while ensuring correct risk assessments, thereby providing considerable advantages for the Bank and the customer.

Timely Management in the SME Segment (Middle Market)

The monitoring processes in the small and medium-sized enterprise segment are based on a software system that analyses exposures for which the customer is in arrears or that exhibit irregularities and prepares them for processing by a customer agent. The individual processing steps for this are documented in writing, and the Commercial Customer risk centre is responsible for reviewing the processing status, the duration of processing and the current results of the efforts to correct the problems with the exposure on a monthly basis.

This control mechanism ensures the timely processing of troubled SME commitments, whereby the applicable risk costs can be reduced and the rapid processing of such troubled commitments enables customers to avoid fees for late notices or possible changes in credit terms resulting from rating downgrades.

Valuation of Residential and Commercial Properties

The value of all residential properties in Austria is determined by the central real estate valuation department on the basis of a largely standardised method and using a valuation tool. Roughly 40,000 residential properties have been pledged to BAWAG P.S.K. as collateral in total. In the 2009 financial year, 70 per cent of residential properties that were offered as collateral were appraised. Starting in 2010, the legally required periodic review and updating of the property values will be automated on the basis of the changes in the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich*).

Commercial properties are appraised individually by experts in the central real estate valuation department, by selected external appraisers commissioned by the Bank, or by a syndicate partner after an inspection of the property and completion of a full report. Roughly 2,800 commercial properties have been pledged to BAWAG P.S.K. as collateral.

Improvement and Refinement of the Scorecards and Rating Systems

The following measures were taken as part of the periodic revision of the scorecards:

- ▶ The existing application scorecards for a large share of the SME customers were validated and revised in the second and third quarters of 2009, significantly improving the granularity. At the same time, an automated decision recommendation was implemented that allows a larger number of approvals to be granted directly in the sales units, which shortens the processes and saves a great deal of time for the customers.
- ▶ The behavioural scorecards for loans (monthly assessment of repayment behaviour for credit products) were also revised. In addition, the algorithm for deriving a customer rating from individual product ratings was refined further.

Impaired Loans

Impairment provisions are formed for loans for which it can be assumed that the open claims will not be entirely fulfilled. These correspond to the estimated incurred but not yet detected losses in the credit portfolio. The primary components are:

- ▶ Specific loss provisions that are formed manually after detailed analysis based on the estimates of the Credit Risk unit and under responsibility of the Workout Group; and
- ▶ Loss provisions that are formed automatically by the core banking system in the case of more than two unpaid instalments, when limits are continuously exceeded on current accounts, as well as when legal action is initiated.

Past Due Loans with No Provisions

No provisions are formed for past due loans when the creditworthiness of the customer appears to be stable, when sufficient collateral has been provided or when the outstanding amount will be paid in the near future.

Collateral

All types of collateral that are accepted by BAWAG P.S.K. are listed in the Group Collateral Handbook. Prudent discounts are defined for each type of collateral. The amounts in the table above show the recognised values of the collateral held by the Bank after application of these discounts.

Workout Group and Collections

The Workout Group and Collections unit is responsible for working out and closing out troubled credit commitments. The primary objectives here are minimising losses by providing restructuring expertise, and maximising the amount collected if collection is required.

Early Recognition of Troubled Assets

Customers that must be monitored especially closely for different reasons such as declines in stock prices, a rise in CDS spreads, deterioration in creditworthiness, negative reports in the news, particular risk concentration or other relevant reasons are placed on a review list. Customers on this list are subject to review and monitoring in shorter intervals.

Market risk

Market risk is the risk of loss caused by taking open risk positions in the market and the adverse development of market risk factors (interest rates, foreign exchange rates, equity prices, volatilities). Market risk can pertain to trading and non-trading activities.

At BAWAG P.S.K. particular emphasis is placed upon market risk identification, measurement, analysis and management performed by the Market Risk division for all market risks at the Group level.

Market risk is bounded by the BAWAG P.S.K. Managing Board's approved market risk limits which consist of value-at-risk, sensitivity, volume and worst-case limits.

For risk management purposes, the Managing Board is informed of the Bank's market risk position, the utilisation of limits and the profit and loss situation. These reports are provided on a daily basis for the most part for BAWAG P.S.K. as an individual institution and on a monthly basis for the Group.

All strategies, organisational procedures, principles of risk management and monitoring and market risk limits approved by the Managing Board are documented in an internal Group market risk manual and in a specific BAWAG P.S.K. Treasury manual.

Market Risk in the Trading Book

Since 1998, BAWAG P.S.K. has used the value-at-risk (VaR) of an internal model that has been assessed by Oesterreichische Nationalbank (the Austrian national bank) and approved by the Federal Ministry of Finance to control and limit the market risk arising from trading activities. It includes the risk categories interest rate, equity market and foreign exchange risk (there was no active equity desk in the trading book in 2009) and the linear and non-linear gamma and vega risks broken down by risk type.

Because of the uniform depiction of the market risk, the VaR results are used for internal risk control purposes and are also included in the reports to the supervisory authorities. The regulatory capital requirements for each specific risk in the trading book are calculated using the legally specified standard procedure.

The model is based on a variance-covariance approach in which the value-at-risk is calculated for all trading positions at a confidence level of 99 per cent taking into account the correlations for a holding period of one day and ten days using the computer system PMS. In order to test the reliability of the model, the trading book is also subjected to a Monte Carlo simulation, and the results of both analyses are compared.

The VaR limits are supplemented by sensitivity limits and worst-case limits.

On 31 December 2009, the value-at-risk (with gamma and vega risk included) was measured at EUR 1.26 million (30 December 2008: EUR 1.48 million), based on a confidence interval of 99 per cent and a holding period of one day.

The result of the aggregated VaR, which takes the diversification effect into consideration, differs from the sum of the individual VaR results of the risk categories as follows:

VaR (99 per cent, one-day holding period), financial year 2009, in millions of Euros

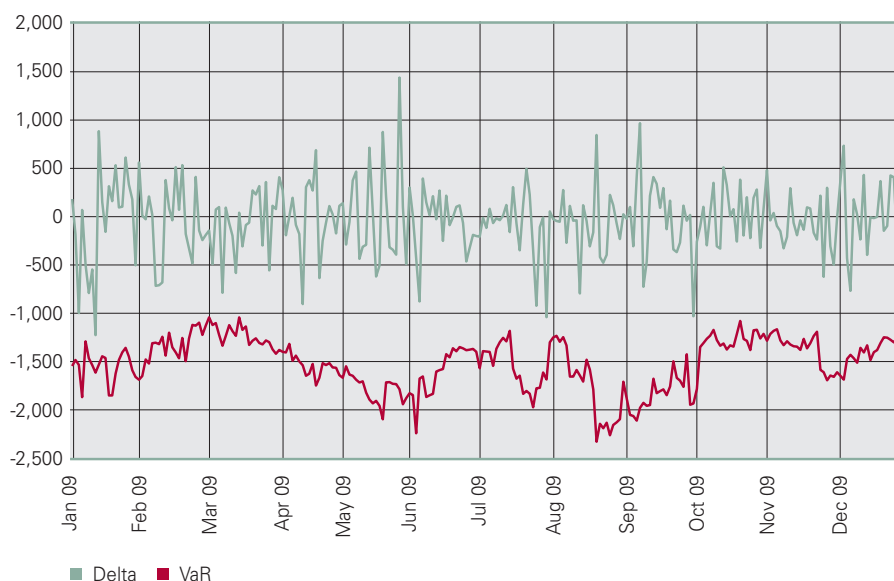
Risk class	Minimum	Maximum	Average	31.12.2009
FX risk	0.23	1.22	0.65	0.37
Interest rate risk	0.75	1.96	1.15	0.99
Total (without correlations)	1.20	2.75	1.80	1.36
Total (with correlations)	1.05	2.32	1.52	1.26
Diversification	n/a	n/a	-0.27	-0.10

The accuracy and reliability of the model is verified by means of daily backtesting by comparing the hypothetically realised gains and losses for two consecutive trading days with the value-at-risk of the first day. If a negative backtesting result is lower than the VaR, this is designated as an “exception”.

There were no exceptions at BAWAG P.S.K. during the reporting period, which confirms the high quality of the model and which means that the best-possible multiplier of 3 for the calculation of own funds as specified by the Federal Ministry of Finance (which has been applied continuously since 1998) can be maintained.

The daily VaR (99 per cent, one-day holding period) values are compared with the backtesting results (delta) for the reporting period in the following chart:

VaR (99 per cent, one-day holding period) compared with the backtesting results (delta), financial year 2009, in thousands of Euros



As a measure of risk, value-at-risk quantifies the potential loss under normal market conditions. VaR methodology is based on the assumption that the price data from the recent past can be used to predict future market events. If market conditions differ substantially from past market developments, then the risk predicted by value-at-risk may be too conservative or too liberal. It is not intended to cover losses associated with unusually severe market movements. These are intended to be covered by stress tests.

Stress tests are performed, in the course of which the trading book is stressed by scenarios simulating extreme market conditions which are not covered by the confidence interval. The results of these tests are compared with the worst-case foreign exchange and interest rate limits.

A distinction is made between time-based and event-based stress tests, whereby statistical methods (changes in correlations, higher confidence level, etc.) and extreme market movements of risk factors are assumed and applied. The results are reported to the Managing Board, the Asset Liability Committee (ALCO), trading management and the responsible group heads.

Market Risk in the Banking Book

The primary components of market risk for BAWAG P.S.K. result from interest rate risk, foreign currency risk, alternative investments and liquidity risk.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Asset Liability Committee (ALCO) has assigned interest rate risk limits to the Treasury division to manage the interest rate risk and to ensure an optimal risk/return ratio. The Market Risk division reports to the ALCO on a daily basis for some areas and monthly at the Group level on limit utilisation as well as on the distribution of risk.

Every two weeks, alternating meetings are held by the Strategic ALCO (full Managing Board) and the ALCO (CFO, CRO and Managing Board member responsible for the Treasury). In addition to the members of the Managing Board, the ALCO meetings are also attended by the heads of the Treasury divisions, Market Risk, Controlling and Accounting. On the basis of the risk reports and also using the results of scenario analyses and stress tests, the market risk and its effects are analysed and steering measures are decided to reduce risk and optimise earnings for the Bank as a whole.

The risks are also presented to the Managing Board as a whole as part of an overall risk report submitted to the Enterprise Risk Committee on a monthly basis.

For the purpose of interest rate analysis, all interest-bearing instruments are assigned to corresponding time buckets based upon their contractual repricing periods (in the case of fixed and variable rate instruments) or assumptions regarding these (in the case of accounts with undefined maturity profiles or when interest rate and minimum commitment periods are not contractually agreed).

Interest rate risk is measured using the present value of a basis point (PVBP) concept. The PVBP is an absolute value that is derived from the duration of interest-bearing financial instruments. It indicates in monetary units the change in the net cash value of the instrument that will occur when the market yield curves shift by one basis point (0.01 per cent).

The following table depicts the interest rate risk as of 31 December 2009 on the basis of the PVBP concept. The net asset value changes of all financial positions in BAWAG P.S.K.'s banking book due to a yield curve shift of one basis point are assigned to the corresponding time buckets as follows:

PVBP

in thousands of Euros	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
EUR	-38	-144	62	62	154	-36	61
USD	10	1	-6	1	-17	-26	-35
CHF	-16	-2	-5	-12	-19	-60	-113
JPY	3	0	-1	0	0	12	13
Other currencies	1	6	0	1	0	0	7
Total 31.12.2009	-40	-139	51	53	118	-110	-67
Total 31.12.2008	84	193	-109	57	0	-64	162

The PVBP of all positions whose fair value changes arising from interest rate changes impact the income statement is calculated, limited and monitored separately. The fair-value-relevant PVBPs of BAWAG P.S.K. by time bucket are as follows.

Fair value PVBP relevant for profit and loss and for equity

in thousands of Euros	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
Total 31.12.2009	16	-313	275	90	240	16	323
Total 31.12.2008	-4	-62	104	43	-70	1	12

In addition to the traditional approaches to measuring interest rate risk, a value-at-risk calculation for BAWAG P.S.K. is conducted within the framework of the internal capital adequacy assessment process on a monthly basis (ICAAP).

For a particular portfolio, the value-at-risk measures the worst expected future loss (in terms of market value) over a given time horizon with a specific confidence level. The calculation of value-at-risk is based on the variance-covariance approach and uses a confidence level of 99 per cent and a time horizon of ten days. As of 31 December 2009, the value-at-risk for interest rate risk in BAWAG P.S.K.'s banking book amounted to EUR 4.2 million (compared to EUR 9.6 million as of 31 December 2008).

Net interest income is one of the key parameters in periodic income management and consists of the difference between interest income and interest expenses in a given period. To determine the net interest income for a specific future period, the average volume and average interest rates of all interest-bearing assets and liabilities that are subject to interest are compared. A software-based dynamic interest rate simulation model is used to determine the interest income and expense at the individual contract level using the interest rate characteristics extracted from the core banking system.

Additional inputs required for this model include expected future product margins as well as estimates of the volume of new contracts and the extension of existing contracts. The market yield curve is kept constant in the model for the entire simulation period, and plays a key role in determining future interest rates for the individual products. This base projection is known as the "stable rates scenario".

The possible effects of shifts in the yield curve (both standardised interest rate scenarios as well as forward rates and internal projections from the Economics and Research division) are calculated using this base projection. The results of these simulations are analysed and presented on a monthly basis to the Asset Liability Committee and to the Enterprise Risk Meeting as part of the overall risk report.

The significant quality improvements achieved in terms of managing interest rate risk in the banking book in 2009 include the expansion and improvement of the limit system for managing market price risks at the Group level as well as the qualitative and quantitative refinement of the dynamic net interest income simulation.

For further details about BAWAG P.S.K.'s transactions with derivative financial instruments, please see the two tables in the annexes (Derivative Financial Instruments in the Banking Book and Derivative Financial Instruments in the Trading Book).

FX Risk in the Banking Book

The extent of the open foreign exchange positions in BAWAG P.S.K.'s banking book is constrained by conservative limits to ensure that only marginal FX risks are carried in the banking book.

Compliance with these limits is observed by means of a daily process. Another reconciliation routine compares the outstanding FX positions according to Treasury applications with the positions in the accounts and initiates analysis and clearing activities in the case of differences.

Liquidity risk

In addition to the risk of not being able to fulfil payment obligations when they become due (liquidity risk in a narrow sense), this risk type also includes the danger that it will not be possible to obtain sufficient liquidity at the expected terms when it is needed (refinancing risk). Liquidity risk also includes the risk that transactions cannot be closed or sold, or that they can only be closed or sold at a loss because of insufficient market depth or due to market interruptions (market liquidity risk).

BAWAG P.S.K.'s liquidity remained well over the minimum legal requirements during the 2009 financial year, and the restructuring of the securities portfolio increased the extent of the already large collateral pool. This further improved the Bank's independence from the interbank and capital markets.

The Risk Manual for Liquidity Risks specifies how liquidity risks are to be handled and includes a contingency liquidity plan. Asset Liability Management is responsible for daily liquidity management, while Controlling is responsible for liquidity planning and conducting stress tests and back tests. Scenarios are based on historical events, case studies and hypothetical models, and the data are updated continuously with current information from the market reports. Reports on the stress tests and scenarios are submitted monthly, and the results of the tests are discussed by the Strategic Asset Liability Committee on a quarterly basis. Market Risk prepares a monthly capital commitment report that includes scenario calculations for changes in the balance sheet structure and various assumptions about customer behaviour and presents it to the ALCO to facilitate structural liquidity management.

The following table shows the nominal (non-discounted) cash flows including interest payments on financial liabilities in the banking book based on their earliest contractually agreed maturities, with the exception of

- ▶ variable savings deposits in the amount of EUR 4.9 billion, for which the next contractually agreed fixed interest adjustment dates were used as the end of the term, and
- ▶ capital savings accounts in the amount of EUR 7.5 billion,

despite the fact that these deposits are usually extended on maturity and generally increase over time. The expected cash flow dates in BAWAG P.S.K. deviate considerably from the dates in this analysis in other areas as well. Under the item Deposits from customers,

- ▶ current accounts with a volume of EUR 5.4 billion and
- ▶ other demand deposits with a remaining term to maturity of less than one month totalling EUR 2.7 billion

are reported despite the fact that the expected investment duration is considerably longer on the basis of years of historical experience.

Liability maturities as of 31 December 2009

in millions of Euros	Gross nominal inflow (outflow)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Non-derivative liabilities						
Deposits from banks	-5,210	-2,642	-209	-1,305	-531	-523
Deposits from customers	-21,961	-13,245	-1,658	-2,494	-4,317	-248
Debts securities issued	-12,466	-14	-169	-2,485	-4,641	-5,157
Subtotal	-39,637	-15,901	-2,036	-6,284	-9,489	-5,928
Derivative liabilities						
Net inflow (outflow)	534	-19	68	95	177	213
Total	-39,103	-15,919	-1,968	-6,188	-9,312	-5,715

Participation risk

Participation risk includes potential losses in the fair value of equity interests, potential impairments and low profitability of equity interests. Participation risk does not include operating subsidiaries because their risks are assessed separately according to the specific risk types and are already accounted for in this way.

Impairment tests are conducted every year to validate the values of the equity interests in the Bank's portfolio and to determine the hidden reserves in the equity interest portfolio. These impairment tests are completed on the basis of the planning projections (budgeted income statements, budgeted balance sheets, budgeted cash flows) prepared for future periods by the management of each entity. The free cash flows indicated in the projections are discounted using risk-adjusted rates. The total of the discounted free cash flows from the detailed planning period and perpetuity as of the reporting date is taken as the value of the company. The proportionate value of the company based on the Bank's shareholding is then compared with the carrying amount of the equity interest. If the current proportionate value of the company is lower than the carrying amount, the equity interest is written down by the corresponding amount. If the current proportionate value of the company is higher than the carrying amount, this is recognised as a hidden reserve. The results of the impairment tests are reviewed by the Participation Risk Management division.

Operational risk

BAWAG P.S.K. defines operational risk as the risk of loss resulting from insufficient or failed internal processes, external events, misconduct or staff errors. This definition of operational risk includes legal risks, but not strategic risks or risks to the Bank's reputation, which are assessed and managed directly by the Managing Board.

BAWAG P.S.K.'s Managing Board specifies Group-wide principles for managing operational risk in its Enterprise Risk Meeting. In order to ensure that measures and principles are applied uniformly throughout the Group, these activities are coordinated by the central Operational Risk unit. The detailed management of operational risks in the individual business segments is completed locally in the respective units by the division heads and their operational risk agents.

BAWAG P.S.K. uses the basis indicator approach pursuant to sections 182ff SolvaV to calculate its own funds requirements in connection with operational risk at the Group level and for itself as an individual institution.

Losses incurred in the business segments and divisions as a result of operational risks are continuously documented in a central loss database through an institutionalised loss reporting system to collect data for the internal management of operational risks. Subsequent central analysis allows the clustering of losses to be identified early and further losses to be prevented.

Additional information is collected through Risk Control Self Assessments (RCSAs). All units and subsidiaries assess their material operational risks and the effectiveness of their control measures on a yearly basis using a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks.

BAWAG P.S.K. has created an effective basis for limiting operational risks with a compartmentalised organisational structure, clear authorisation levels and working instructions. Additionally, consistent guidelines regarding authority levels and a risk-adequate internal control system including computer-assisted plausibility reviews is designed to allow the Bank to maintain a controlled risk situation.

Application filed for switch from Basel II to IRB approach

BAWAG P.S.K. uses the standardised approach according to Basel II to calculate its risk-weighted assets, which are needed to calculate the core capital and own funds ratios. Over the past years, BAWAG P.S.K. has completed all preparations necessary to begin calculating its credit risk using an internal rating based approach (IRB) in accordance with the requirements of the Financial Market Authority's Solvency Regulation starting in 2010. BAWAG P.S.K. filed an application for the approval of this system pursuant to section 21a paragraph 1, paragraph 7 and paragraph 8 BWG and section 22b paragraph 9 BWG with the Austrian Financial Market Authority in 2009.

Outlook

The recovery of the global economy will continue this year. The emerging Asian countries will be a key source of impetus for reinvigorating international trade. Economic growth is projected to be faster in the US than in the Eurozone this year. However, consumer spending is likely to suffer as US households continue reducing their levels of debt, and the poor labour market situation in the Eurozone will dampen consumer confidence even further into the future. The effects of the crisis will hamper the pace of recovery in the medium term, but the concerted efforts undertaken by governments around the world to manage the crisis significantly reduced the extent and duration of the recession.

The economic upswing in Austria should continue at a good pace into the near future. A number of temporary factors are responsible for this. The economic stimulus package and the tax reform are still having observable effects, and the reversal in the inventory cycle is causing a temporary rise in overall economic output. Exports will play a major role this year as a driver of growth, and investment activity will only begin to ramp up again slowly because of the low levels of capacity utilisation. The outlook on the domestic labour market will not improve for the time being. The number of available jobs should begin increasing again soon, but not strongly enough to lower the unemployment rate because the Austrian economy will continue to perform at a level below its growth potential, and the supply of workers will grow steadily. As a result, wage increases this year will be low, which will curtail private consumption. However, the low inflation rate will help to improve disposable incomes.

Following successful measures in raising capital in 2009, it is expected that the Bank will be able to deploy its liquidity to generate profits in the medium term. In light of this, a key focus will be placed on identifying promising investment opportunities that offer attractive margins and that are in line with the Bank's risk strategy. We will also invest in further expanding our core business in Austria. We intend to reach our market share targets in retail and commercial banking through the campaigns and initiatives that we launched last year, as well as through the measures we have implemented to improve and standardise our back-office processes, which are a significant source of competitive advantage for the Bank. Continued stringent cost management is of course also necessary in order for the Bank to remain competitive.

We are likely to see a further increase in the level of private bankruptcies and business failures in the coming months as a consequence of the economic downturn. We also cannot rule out negative impacts from changes in market values. As the result of the Bank's financial position, the development of our core business and our strong level of liquidity, BAWAG P.S.K. is well positioned to deal with any such events. As loans to domestic customers make up the majority of our credit portfolio, its ongoing performance will depend largely on the development of the Austrian economy.

The Bank is employing rigorous risk management to mitigate the negative effects of the continued adverse market conditions. In addition to continuous, forward-looking monitoring on a portfolio basis in the retail and mid-market segment and on an individual basis in the large corporates segment, the arrears notice and collection processes are also to be improved further.

A key project in 2010 will be the switch to an IRB approach for determining credit risk, which will further strengthen the management of risk within the Bank. This change is not expected to have significant effects on the risk-weighted assets or the expected loss calculations.

Overall, we expect to see continued poor credit demand and high pressure on margins for savings products in 2010 as interest rates remain very low. However, the Bank has made all necessary preparations for the new financial year, and is well positioned to counter potential macro-economic difficulties thanks to its strong liquidity and capital position.

Internal Control and Risk Management System

Introduction

The designation “internal control system” refers to all processes designed by management and executed within the Bank to facilitate the monitoring and control of:

- ▶ The effectiveness and efficiency of its operating activities (including protecting assets against losses resulting from damages or misconduct);
- ▶ The reliability of the financial reports; and
- ▶ The Bank’s compliance with material legal regulations to which it is subject.

The risk management system covers all processes that serve to identify, analyse and measure risks and that serve to determine and implement appropriate measures that will ensure that the Bank can still reach its objectives when risks are incurred.

According to the internationally recognised COSO framework for the design of risk management systems, the internal control system is one part of an organisation-wide risk management system. Other aspects include the management and monitoring of risks that can affect the correctness and reliability of the accounting records.

The Bank’s management is responsible for the fundamental design, implementation and ongoing adaptation and refinement of the internal control and risk management system as well as for the alignment of these systems and processes with the existing requirements in a way that takes account of the Bank’s strategy, the scope of its business and other relevant economic and organisational aspects.

Characteristics of the Internal Control and Risk Management System

Control Environment

The Code of Conduct that has been adopted by the Bank and the fundamental values described in it apply to every employee in the Group. The Code of Conduct creates a climate rooted in focusing on the customer, achievement, mutual respect, teamwork and trust.

The Accounting division is responsible for maintaining the Bank's accounting records. The primary responsibilities of the Accounting division are preparing the annual and interim financial statements of BAWAG P.S.K. AG, the Group and certain subsidiaries; maintaining the financial and consolidated accounts; managing taxes; and supervisory reporting.

The Accounting division is responsible for setting directives on all matters of accounting and exercises the power to ensure the application of uniform standards across the entire Group. To support the operational implementation, corporate guidelines were drawn up partly in the form of manuals, such as the accounting manual.

Risk Assessment and Control Measures

Our internal control and risk management systems contain instructions and processes for the accounting workflows:

- ▶ To ensure the correct and appropriate documentation of business activities, including the use of Group assets;
- ▶ To record all information required for the preparation of the period-end financial statements; and
- ▶ To prevent unauthorised purchases or sales that could have a material effect on the financial statements.

The Accounting division is integrated into the Bank's entire organisational, structural and operational workflows. Customer and transaction data is generally collected in the market and operating units, and supplementary information is entered by the risk units. The elements of this information that are needed for the accounting records are usually transferred automatically into the Bank's electronic accounting systems. In this, the Accounting division fulfils a control and monitoring function to ensure that this automatically transmitted data is handled properly in accordance with the applicable accounting rules, and also completes the various item entry and other steps needed to prepare the financial statements.

The accounting of BAWAG P.S.K. AG according to Austrian GAAP (UGB) of the corporation is contained in SAP-FI. The accounting and all upstream systems are protected by access permissions, and automatic and obligatory manual control steps provided for in the process.

Information and Communication

A comprehensive report about the balance sheet, the income statement and other controlling and risk data is submitted to the Supervisory Board at least every quarter. Highly detailed reports about this information are also submitted to the Managing Board on a regular (monthly or more frequent) basis. The Managing Board has also set up its own committees that collect, analyse and monitor this information.

Monitoring

The Operational Risk division documents all identified risks and control gaps in the accounting system and implements measures to mitigate or entirely eliminate these risks and gaps. Damage incidents are documented separately, and are also used to identify necessary improvements in the systems and in the monitoring and control measures.

The Internal Audit division conducts regular accounting system audits. The findings of these audits are also used to make ongoing improvements in the internal control and risk management systems as they pertain to the accounting process.

Vienna, 9 March 2010



Byron Haynes, CEO
Chairman of the Managing Board



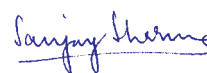
Stephan Koren
Deputy Chairman of the Managing Board



Regina Prehofer
Member of the Managing Board



Carsten Samusch
Member of the Managing Board



Sanjay Sharma
Member of the Managing Board

Statement of All Legal Representatives

“We confirm to the best of our knowledge that the separate financial statements of BAWAG P.S.K. give a true and fair view of the assets, liabilities, financial position and profit or loss of the company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.”

Vienna, 9 March 2010



Byron Haynes, CEO
Chairman of the Managing Board




Stephan Koren
Deputy Chairman of the Managing Board



Regina Prehofer
Member of the Managing Board



Carsten Samusch
Member of the Managing Board



Sanjay Sharma
Member of the Managing Board

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Editor: Christel Dazelle, Christian Karlinger (BAWAG P.S.K., Accounting)

Translation: LanguageLink Sprachdienste, Vienna

Layout and Production: Gottfried Neubauer, Helmut Wernbacher (BAWAG P.S.K., Marketing Communication)

Typesetting: AV+Astoria Druckzentrum, Vienna

