

2010

CONSOLIDATED SEMI-ANNUAL REPORT



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PREFACE BY THE CHAIRMAN OF THE MANAGING BOARD



Notwithstanding the difficult macroeconomic developments, the sovereign debt crisis, continued uncertainty surrounding pending regulatory changes and possible future additional bank taxes, BAWAG P.S.K. managed to navigate successfully through the challenging environment and generated a good result for the first six months of 2010.

Ongoing Difficult Macroeconomic Environment

The recovery of the global economy has increasingly strengthened during the first half of 2010, boosted by increased international trade, the turnaround of the inventory cycle, the huge fiscal stimulus packages and an extremely expansionary monetary policy. However, there was also a rise in global risk aversion, as investors became more and more worried about the solvency of several high-deficit countries, in particular about certain member states of the Eurozone. As a result, risk premiums have increased considerably in recent months.

In May, the Eurozone countries in cooperation with the International Monetary Fund launched a EUR 750 billion stabilisation programme. Government debt issuances have been supported by bond purchases of the European Central Bank (ECB). Governments have also reacted by means of strong consolidation efforts and these measures are already at work. Fiscal tightening might potentially derail the fragile upswing in certain EU countries, but it is also key to regain confidence and to lower uncertainty. As long as the high-deficit countries are unable to convince investors of their ability to achieve those fiscal consolidations, the financial markets are expected to remain volatile. The depreciation of the Euro in recent months has also been a result of the rise in deficits and debt levels of Eurozone countries. Markets will therefore continue to focus on the funding outlook for sovereigns as well as banks in the Eurozone periphery. As inter-bank markets have dried up, the greater reliance on ECB funding reflects a difficult funding environment for non-core banks.

The sovereign debt crisis has only a limited direct impact on BAWAG P.S.K. as the Bank's exposure is less than EUR 75 million to high-deficit countries, including Greece, Ireland, the UK, Italy, Portugal and Spain. With respect to funding the Bank continues to have a deposit-to-loan ratio in excess of 100 per cent and therefore is not reliant on funding provided by the ECB.

Significantly Improved Operating Performance of BAWAG P.S.K.

BAWAG P.S.K. successfully navigated the difficult macroeconomic environment during the first half of 2010. The operating performance of the Bank significantly improved, with the continued turnaround of the core customer franchises, supported by several sale initiatives such as “Unternehmen Österreich” and “Energie-milliarde”.

The profit before tax for first half 2010 is EUR 107 million compared to EUR 66 million for the same period 2009. The key drivers for this significant improvement in operating results include:

- ▶ Overall total operating income is EUR 533 million, +5.2 per cent growth compared to same period 2009. Total operating income includes net interest income of EUR 309 million (+2.3 per cent growth), net commission income of EUR 84 million (+13.1 per cent growth) and gains and losses on financial instruments of EUR 130 million (–2.0 per cent decrease). Net interest income and net commission income growth has been achieved despite intense market competition on underlying volumes and lower margins.
- ▶ Overall total operating costs for 2010 are EUR 310 million, slightly higher (+1.2 per cent) than 2009. Operating costs for 2010 include restructuring provisions for the recently announced Efficiency and Productivity initiative.
- ▶ Provisions and impairment losses amounted to EUR 110 million (–12.3 per cent lower) compared to EUR 126 million for 2009. The lower level of loan loss provisions and defaults, despite the difficult economic environment, shows the relatively conservative risk profile of the Bank’s loan portfolio.

Finally, profit after tax and minority interests amounted to EUR 97 million compared to EUR 13 million in the first half of 2009, an EUR 84 million increase.

The balance sheet total increased by EUR 1.6 billion to EUR 42.8 billion as at 30 June 2010 compared to 31 December 2009, reflecting the growth of our customer businesses (EUR 1.0 billion, +4.7 per cent growth in customer loans). The Bank continues to have a sound liquidity and capital position and is hence in a position to offer attractive products to its clients, despite the increased competition in the market.

Capital and Liquidity – Impact of Regulatory Changes

There is a lot of uncertainty in the markets regarding the future regulatory environment and increased supervision of European banks. Basel III has not yet been finalised, however once introduced, it will lead to significant changes for the banking industry, particularly with respect to higher capital and liquidity requirements for banks. In addition future bank tax schemes are being discussed across Europe. Details on methodology and calculations have not yet been decided by each EU member state, however this tax will impact future earnings and require banks to provide further capital and liquidity going forward.

Austrian banks are well-positioned to absorb future economic crises, as the results of the recent stress test published by the Austrian National Bank in June 2010 demonstrate. Specific bank results were not published; BAWAG P.S.K. successfully passed this stress test. Also in the first half of 2010, a further stress test exercise was conducted by the Committee of European Banking Supervisors (CEBS) for the 91 largest European banks. Although BAWAG P.S.K. is not one of those banks and was therefore not asked to participate in the test, we are confident that a stress test on BAWAG P.S.K. would show that the Bank is sound and can absorb future economic crises. There would be no significant impact on our capital due to the Bank's insignificant sovereign and CEE exposure.

After a successful first half of 2010, the Bank's capital and liquidity position remains strong. The issuance of participation capital in the amount of EUR 550 million to the Republic of Austria in December 2009 was approved by the European Commission in June 2010. Together with the shareholder contribution of EUR 205 million last year, this supports our sound capital position going forward. The Group Tier I capital ratio of the Bank at the end of June 2010 amounted to 8.7 per cent (compared to 6.3 per cent at the end of June 2009). The Bank's liquidity position also remains strong with over EUR 4.6 billion of regulatory liquidity as at 30 June 2010.

BAWAG P.S.K. will look to further strengthen its capital and liquidity position in line with any future regulatory and supervisory changes.

Strategy of the Bank: Focus on Customer Service while Increasing Efficiency and Productivity

The strategy of the Bank remains unchanged. In the Austrian Retail segment, we are targeting the mass market with a clear value proposition: good-value products distributed via our multi-channel network, combined with strong customer service. In the segments Commercial Business and Financial Markets, we continue to accelerate growth by developing and delivering products that are tailored to our customers' needs.

Overall, we are further simplifying our products, processes, and organisation in order to be more responsive to our customers' needs. In this context, a major project was initiated and launched by the Bank in the first half of 2010 to improve efficiency and productivity through enhanced processes and increased technology investment to be able to free up resources to better serve our customers.

A new organisation has been launched which eliminates duplication and provides greater accountability and responsibility, ensuring quicker decision making. By streamlining the organisation, administration work will be decreased, resulting in lower overheads. A higher degree of automation and increased standardisation of products will also support the acceleration of improved processes.

This project is targeting a net full-time equivalent employee reduction of 500, EUR 60 million in staff cost savings and a EUR 40 million incremental technology investment by year-end 2013. Hence it will contribute to the Bank's endeavours to ensure sustainable profitability.

Changes in the Managing Board

Regina Prehofer has announced that she will leave the Bank in the second half of 2010 for personal reasons. I would like to take this opportunity to thank her for her efforts and dedication to BAWAG P.S.K. over the last two years, particularly in successfully building and developing the Austrian customer franchises.

I would also like to welcome two new members to the Managing Board of BAWAG P.S.K. In May 2010, Christoph Raninger joined the Bank as Head of Financial Markets, from UniCredit Group. He will also take over Managing Board responsibility for the Austrian Corporate Business from Regina Prehofer in the second half of 2010. In October 2010, Andreas Arndt will join the Bank as the new Chief Financial Officer. He has over 15 years of experience in banking.

Outlook

The European banking sector continues to face a large number of challenges and headwinds as we enter the second half of 2010. Capital markets are expected to remain volatile, bank funding costs are expected to increase, investor demand as well as the demand for new loans will continue to be weak as corporate and consumer confidence remains fragile. Banks will also continue to focus on building their capital base and strengthening regulatory liquidity positions in preparation for the implementation of the new Basel III rules and possible future bank taxes.

BAWAG P.S.K. faces similar challenges and headwinds, which will impact the Bank's profitability in the second half of the year. Nevertheless, with our good first half year results, I am confident that our Bank is well positioned to successfully absorb these difficult macroeconomic conditions and to remain profitable for the full year 2010.

Based on our Efficiency and Productivity Programme, we will be able to further improve the service we provide to our customers on the one hand and the daily work for our employees on the other hand, in order to secure the successful future of BAWAG P.S.K.

I would like to emphasise that all the achievements reached so far have only been possible due to the efforts and the continued commitment of our employees and would like to take this opportunity to thank them for their hard work and dedication over the last six months. I am confident that we will continue working together towards our common goal: To further position BAWAG P.S.K. as a strong Austrian bank, a good place to work and a great place for our customers to do banking business.



Byron Haynes, CEO
Chairman of the Managing Board
Vienna, August 2010

BAWAG P.S.K. GROUP MANAGEMENT REPORT

The Economy in the First Half of 2010

The Austrian economy bottomed out and then entered a slow recovery during the second half of 2009. Economic growth was driven primarily by resurging global demand, although a gradual reversal in the inventory cycle also made a significant contribution to the improvement in Austria's real gross domestic product. Growing only moderately but steadily, private consumption played a stabilising role during the recession.

Domestic demand rose for the first time in nearly two years in Q1 2010 as a result of expanded private consumption and public spending. In contrast, corporate investment activity continued to decline. As net exports were also negative, overall economic demand fell slightly compared to the previous quarter. The available data indicate that the Austrian economy was much more dynamic in the second quarter. Business conditions improved in all sectors, and consumer sentiment also brightened steadily. Exporters profited from the rapid recovery in Germany, Austria's largest trading partner.

The unemployment rate stopped climbing in spring, and the number of employed persons has been improving slowly ever since. However, unemployment will remain high for some time, as workforce growth is outpacing growth in demand for labour.

Consumer inflation has accelerated noticeably in recent months, primarily as a result of the higher energy prices compared to the previous year. However, this effect should start to disappear now, and the inflation rate should fall again in the coming months.

Key Events during the First Half of 2010

Changes in the Managing Board

Christoph Raninger joined the Managing Board on 17 May 2010 as the Head of Financial Markets. He succeeded Carsten Samusch, who announced in January 2010 that he would not be seeking an extension of his contract for personal reasons. Christoph Raninger was recently managing director and member of the managing board of UniCredit CAIB AG, where he was responsible for the Global Markets division, prior to joining BAWAG P.S.K.

In June 2010, Regina Prehofer announced that she would be leaving the Bank at the end of 2010 to pursue new challenges. She has been a member of the Bank's Managing Board since 2008, and in this role she has sustainably strengthened BAWAG P.S.K.'s customer business.

Changes in the Supervisory Board

Scott Parker left the Bank's Supervisory Board for personal reasons on 30 June 2010.

Capital Contributions and EU Commission Approval

A framework agreement was signed in 2009 between BAWAG P.S.K., its shareholders and the Republic of Austria in which the Republic of Austria undertook to subscribe participation capital in BAWAG P.S.K. in the amount of EUR 550 million and to issue a guarantee for certain assets in the maximum amount of EUR 400 million. In addition, the Bank's shareholders granted a capital contribution totalling EUR 205 million in August 2009. The Bank cancelled its entitlement to the guarantee from the Republic of Austria in full as of 22 June 2010.

On 30 June 2010, the European Commission approved the assistance package. This approval included certain conditions and compensatory measures that the Bank must fulfil in the upcoming years.

These compensatory measures include the sale of certain non-core participations, a temporary prohibition on the payment of dividends, limits on investments in business activities outside of Austria, and the early redemption of certain securities. As usual in these cases, a monitoring trustee will be appointed to submit quarterly reports to the Commission on the progress of the implementation of the compensatory measures and of the business plan.

Key Sales Initiatives in 2010

Unternehmen Österreich – Energiemilliarde (Enterprise Austria – One Billion for Energy)

BAWAG P.S.K. launched its broad and multi-faceted “Enterprise Austria” initiative last year. The programme covers a variety of products and services for private, business and municipal customers such as the initiative “One Billion for Communities” (Gemeindemilliarde) created to finance key infrastructure projects. In 2010, the campaign “One Billion for Energy” was launched – a sustainable housing renovation offensive by BAWAG P.S.K. in cooperation with Wüstenrot as another part of the “Enterprise Austria” initiative.

“One Billion for Energy” is a complete source package for everything a customer may need, from an online energy check and suggestions for renovation steps to an optimal combination of financing and subsidies and the provision of all construction services in cooperation with our general contractors, which currently work together with 1,000 regional construction firms and tradespersons. Plans are in place to expand this collaboration network to as many as 10,000 firms.

Municipalities are also being offered the opportunity to become “Energy-Saving Towns” by analysing and sustainably improving their energy balance.

Think Business

In 2010, BAWAG P.S.K. has also expanded its offerings for business customers and freelancers under the motto “Think Business – Responsible Financial Solutions”. The Bank has also developed a concept for mobile customer service. In addition to its traditional financing services, BAWAG P.S.K. also offers alternative finance and investment solutions through its subsidiaries, BAWAG P.S.K. Leasing and BAWAG P.S.K. Invest.

Vienna Micro Loan Campaign and EIB Loans at Favourable Terms

To assist small businesses and sole proprietorships, BAWAG P.S.K. is in addition to its existing initiatives such as the “Joint Loan Campaign” and the “Micro ERP Loan Programme” also taking part in the new “Vienna Micro Loan Campaign” (Wiener Kleinkreditaktion), which was launched at the initiative of the Vienna city government and the Economic Chamber. BAWAG P.S.K. is also providing up to EUR 100 million in additional financing in cooperation with the European Investment Bank (EIB).

Bank Partners

In order to expand its distribution network, BAWAG P.S.K. has launched an innovative pilot project to sustainably secure and improve its already strong presence especially in rural areas. Local bank partners in each region are taking over the operation of former post office outlets to provide customers with continued access to banking and postal services at a single location. The bank partners remain independent business enterprises at every stage of the project. This BAWAG P.S.K. bank partner concept is unique in Austria.

The BAWAG P.S.K. bank partners offer the most important financial products and services, from private and mortgage loans to personal and property insurance as well as retirement investment and securities products. In order to ensure a consistently high standard of service into the future, BAWAG P.S.K. has defined strict qualification guidelines for its bank partners.

Basel II – Application for an Internal Rating Based Approach

BAWAG P.S.K. filed an application with the Austrian Financial Market Authority (FMA) in December 2009 and 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.

The Bank withdrew this application in the first half of 2010 and intends to submit a new application to the FMA at a later date.

Efficiency and Productivity Programme

A project was launched in the first half of 2010 to increase the efficiency and productivity of the Bank and to further improve customer service. It is to run for three years and will focus on improving processes and workflows within the Bank and on streamlining the Bank's organisational structure. A large share of the cost savings envisaged in the programme will result from natural staff fluctuation and retirements.

This project is targeting a net full-time employee reduction of 500 and EUR 60 million in staff cost savings. The Bank has also committed approximately EUR 40 million of incremental technology investment over the next three years in support of this programme.

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.

The proceedings are proving to be lengthy. The Bank's claims still have not been recognised, and the liquidator's proposals for the distribution of the available assets have caused further discussions.

Implementation of the Consumer Loan Directive

The EU Consumer Loan Directive has been implemented in Austria in the form of the Consumer Loan Act (Verbraucherkreditgesetz). This law went into force on 11 June 2010. Amendments to the Austrian Civil Code also became effective at this time.

BAWAG P.S.K. complied with the new requirements on time.

Equity Participations

BAWAG P.S.K. Versicherung

The Bank sold a 24.99 per cent share in BAWAG P.S.K. Versicherung AG to Generali Holding Vienna AG in January 2010, reducing its stake from 49.99 per cent to 25 per cent plus one share.

MKB

The Hungarian MKB Bank Zrt. completed a capital increase equal to EUR 72 million on 24 June 2010. BAWAG P.S.K. Group participated in this capital increase through P.S.K. Beteiligungsverwaltung GmbH in accordance with its stake in the bank, and BAWAG P.S.K. still holds a share of 9.77 per cent. The capital contribution totalled EUR 7.06 million. Antoinette Holding Ltd., which is controlled by Cerberus, did not participate in the capital increase, and its stake was diluted from 0.48 per cent to 0.44 per cent. Together, P.S.K. Beteiligungsverwaltung and Antoinette Holding Ltd. now hold a 10.21 per cent stake in MKB Bank Zrt.

Poštová banka

As of 4 May 2010, BAWAG P.S.K. sold its entire stake (less than one per cent) in the Slovakian Poštová banka a.s. to the bank's main shareholder, Istrokapital SE.

Other Changes in the Group's Participations

During the first half of 2010, approximately 20 non-core participations were sold or liquidated as part of the ongoing simplification of BAWAG P.S.K. Group. In addition, the Bank continued its real estate strategy by selling properties with a book value of approximately EUR 34 million. Overall, a profit of about EUR 5 million was realised with these changes.

Notes to the Financial Statements for the First Half of 2010

The Group's reports were prepared in accordance with the International Financial Reporting Standards (IFRS).

The Group consisted of 58 entities in Austria and abroad as of 30 June 2010 (compared to 57 on 31 December 2009), which did not change significantly in the first half 2010.

Aside from BAWAG P.S.K., the other banks and financial institutions in the Group are easybank, Österreichische Verkehrskreditbank, BAWAG P.S.K. Wohnbaubank, BAWAG P.S.K. Invest, BAWAG Banka d.d. in Slovenia, and BAWAG Malta Bank. Material non-credit institutions are the leasing group, the BAWAG P.S.K. real estate sub-group, the shoe retailer Stiefelkönig and four indirect 100 per cent subsidiaries to which parts of the structured credit portfolio have been transferred. BAWAG P.S.K. Versicherung is accounted for using the equity method.

The **Bank's consolidated assets** as of 30 June 2010 totalled EUR 42,780 million, and were EUR 1,555 million or 3.8 per cent higher than at the end of 2009 primarily due to increases in receivables from customers and credit institutions.

Assets

in millions of Euros	30.06.2010	31.12.2009	Change	
Cash reserves	516	615	-99	-16.1%
Financial assets	11,914	14,543	-2,629	-18.1%
Fair value through profit or loss	2,733	2,980	-247	-8.3%
Available for sale	6,872	3,250	+3,622	>+100%
Held to maturity	–	6,560	-6,560	-100%
Held for trading	2,309	1,753	+556	+31.7%
Loans and receivables	29,284	24,879	+4,405	+17.7%
Securities	2,281	–	+2,281	+100%
Customers	22,051	21,066	+985	+4.7%
Credit institutions	4,952	3,813	+1,139	+29.9%
Hedging derivatives	103	33	+70	>+100%
Tangible non-current assets	250	287	-37	-12.9%
Intangible non-current assets	242	266	-24	-9.0%
Other assets	471	602	-131	-21.8%
Total assets	42,780	41,225	+1,555	+3.8%

The item **fair value through profit or loss** contains the securities and loans for which changes in fair value are recognised on the income statement. The financial instruments in this category decreased by EUR 247 million or 8.3 per cent to EUR 2.7 billion in the first half of 2010, primarily as a result of redemptions and disposals.

Because of the Bank's changed investment policy, the category of **held-to-maturity investments**, which totalled EUR 6.6 billion at the end of the prior year, was reclassified as available-for-sale financial assets or sold (see Annex). Overall, the **available-for-sale financial assets** increased from EUR 3.3 billion at the end of 2009 to EUR 6.9 billion.

Held for trading covers not only the positions in the trading book, but also all positive fair values of derivative financial instruments, including those held to hedge positions in the banking book but for which hedge accounting is not applied. The increase of EUR 556 million (+31.7 per cent) to EUR 2.3 billion can be attributed primarily to higher values of interest-rate- and currency-based derivatives. A similar trend was seen for the trading liabilities.

The item **loans and receivables** contains the loans to customers and credit institutions that are valued at amortised cost. Half of the EUR 4.4 billion increase is the result of financial instruments that could not be actively traded being reclassified from the category **available-for-sale financial assets** to the category **loans and receivables**. **Receivables from customers** increased by EUR 1.0 billion or 4.7 per cent to EUR 22.1 billion in the first half of 2010. This can be attributed primarily to increased business with corporate customers.

Liabilities

in millions of Euros	30.06.2010	31.12.2009	Change	
Financial liabilities	39,375	38,054	+1,321	+3.5%
Fair value through profit or loss	5,630	6,371	-741	-11.6%
Held for trading	4,803	2,198	+2,605	>+100%
At amortised cost	28,942	29,485	-543	-1.8%
Customers	22,206	22,674	-468	-2.1%
Credit institutions	3,954	3,468	+486	+14.0%
Issued securities	2,782	3,343	-561	-16.8%
Hedging derivatives	33	60	-27	-45.0%
Provisions	455	441	+14	+3.2%
Other obligations	538	378	+160	+42.3%
Equity	2,025	1,919	+106	+5.5%
Minorities	354	373	-19	-5.1%
Total equity and liabilities	42,780	41,225	+1,555	+3.8%

The item **fair value through profit or loss** under financial liabilities comprises the Bank's issued securities and deposits that are reported at fair value and that are not assigned to the category held for trading. These liabilities came to EUR 5.6 billion on 30 June 2010, a decrease of EUR 741 million or 11.6 per cent compared to the end of the prior year. This resulted from the redemption of securities issued by the Bank for which no new securities were issued due to the unattractive conditions on the international financial markets. Savings products recognised at their fair values fell by EUR 63 million or 14.5 per cent to EUR 372 million. The interest paid on these deposits depends not only on the general interest rate level, but also on other factors such as the inflation rate or the development of specific indices. Because these products are hedged against the relevant risks using derivative financial instruments, they are recognised at fair value through profit or loss consistent with the underlying hedging instrument.

The item **held for trading** increased by EUR 2.6 billion to EUR 4.8 billion in the first half of 2010. This rise can be attributed to a EUR 2.0 billion increase in repurchase transactions, as well as to higher values of the interest-rate- and currency-based derivatives. A similar trend in fair values was seen for the trading assets.

Payables to customers fell marginally by EUR 468 million or 2.1 per cent to EUR 22.2 billion. The rather conservative conditions being offered by BAWAG P.S.K. over the past months as well as the shift of some investments in securities and other bank deposits resulted in an EUR 843 million decrease in savings deposits, partially offset by an increase in savings cards of EUR 245 million. Together with the savings products recognised at fair value mentioned above, savings deposits totalled EUR 13.7 billion as of 30 June 2010, or one third of the Bank's consolidated assets. Other deposits (including savings cards) grew by EUR 375 million to reach EUR 8.8 billion.

Equity increased by EUR 106 million (+5.5 per cent) to EUR 2.0 billion. **Minorities** fell slightly by EUR 19 million (–5.1 per cent) to EUR 354 million due to the lower values of the Group assets attributable to these shares.

Income statement¹⁾

in millions of Euros	1-6/2010	1-6/2009	Change	
Net interest income	309.3	302.4	+6.9	+2.3%
Net fee and commission income	84.4	74.6	+9.8	+13.1%
Gains and losses on financial assets and liabilities adjusted for minority interests	130.4	133.1	-2.7	-2.0%
Other operating income and expenses	8.7	-3.7	+12.4	-
Operating income	532.8	506.4	+26.4	+5.2%
Administrative expenses	-276.0	-265.9	-10.1	-3.8%
Depreciation and amortisation on tangible and intangible non-current assets	-34.2	-40.5	+6.3	+15.6%
Operating expenses	-310.2	-306.4	-3.8	-1.2%
Operating profit	222.6	200.0	+22.6	+11.3%
Provisions and impairment losses	-110.3	-125.8	+15.5	+12.3%
Share of the profit or loss of associates accounted for using the equity method	-4.9	-8.3	+3.4	+41.0%
Profit (loss) before tax adjusted for minority interests	107.4	65.9	+41.5	+63.0%
Income taxes	-9.0	-43.3	+34.3	+79.2%
Gains and losses on financial assets attributable to minorities	-3.8	165.0	-168.8	-
Profit (loss) after tax	94.6	187.6	-93.0	-49.6%
Thereof attributable to minority interests	-2.2	174.3	-176.5	-
Thereof attributable to owners of the parent	96.8	13.3	+83.5	>+100%

1) Under IFRS, the item gains and losses on financial assets and liabilities also includes the valuation of securities whose risk is borne by minority shareholders. These securities are subject to substantial fair value fluctuations. In order to improve the comparability of the results, the valuation results attributable to minority shareholders are shown under a separate item. Compared to the income statement presented in the consolidated financial report according to IFRS, the item gains and losses on financial assets and liabilities is EUR 3.8 million higher (2009: EUR 165.0 million lower). Accordingly, the item profit (loss) before tax presented above is EUR 3.8 million higher (2009: EUR 165.0 million lower) than the profit (loss) before tax presented in the consolidated financial report according to IFRS.

Net interest income improved by EUR 7 million or 2.3 per cent in the first half of 2010 compared to the first half of 2009, reaching EUR 309 million, primarily as a result of the encouraging increase in business volume.

Commission income came to EUR 84 million (+EUR 10 million or 13.1 per cent), and improved significantly compared to the prior year, especially for payment transactions and other services.

The item **gains and losses on financial instruments** includes the valuation and sales results for the financial assets, but no impairment provisions or write-downs on loans or financial assets. Risk spreads narrowed on the capital market in the first half of 2010, leading to a positive valuation result for the financial assets recognised at their fair values through profit or loss. In the current period, this item consists entirely of the result from the valuation and sale of securities, equity investments and derivatives.

The reversal in the balance of **other operating income and expenses** by EUR 12.4 million to EUR 9 million in the period is primarily due to the sale of non-core land and buildings as well as to the lower losses incurred by subsidiaries that are not active in the financial sector.

Administrative expenses rose by EUR 10 million or 3.8 per cent to EUR 276 million in the first half of 2010, including provisions for restructuring costs with respect to the efficiency programme. Effective cost management enabled the Bank to keep this increase low despite one-off expenses for special projects.

Depreciation and amortisation on tangible and intangible non-current assets fell by EUR 6 million or 15.6 per cent to EUR 34 million.

Expenses for **provisions and impairment losses** declined by EUR 16 million to EUR 110 million in the first half of 2010. Provisions for loans totalled EUR 86 million, and provisions for equity investments and goodwill came to EUR 24 million. No impairments have been required for the structured credit portfolio in the first half of 2010.

The significant EUR 34 million decrease in **tax expenses** to EUR 9 million was primarily caused by changes in deferred taxes resulting from differences in values according to Austrian tax law and IFRS. No additional deferred taxes were capitalised in 2010 for BAWAG P.S.K.'s existing tax loss carryforwards.

After deduction of taxes and minorities, the **net consolidated profit** for the first six months of 2010 grew considerably by EUR 84 million to reach EUR 97 million.

Consolidated own funds of the BAWAG P.S.K. bank group pursuant to the Austrian Banking Act (BWG)

in millions of Euros	30.06.2010	31.12.2009
Share and participation capital	800	800
Reserves (including fund for general banking risks)	1,009	954
Goodwill, minorities and deductions	281	346
Core capital (Tier I)	2,090	2,100
Less shareholdings held for investment purposes	-35	-51
Core capital (Tier I) after deductions	2,055	2,049
Reserve under § 57 BWG, revaluation reserve	41	85
Supplementary and subordinated debt capital	745	746
Additional items (Tier II)	786	831
Less shareholdings held for investment purposes	-35	-51
Eligible own funds	2,806	2,829
Tier III	92	67
Own funds	2,898	2,896

Own funds requirement

in millions of Euros	30.06.2010	31.12.2009
Credit risk	1,826	1,579
Market risk	92	67
Operational risk	146	150
Capital requirements	2,064	1,796

The Group Tier I capital ratio and the own funds ratio as of 30 June 2010 were 8.7 per cent and 11.7 per cent, respectively, and were lower than at the end of 2009, primarily due to business growth. These ratios also take into account the cancellation of the guarantee of the Republic of Austria, which was granted within the assistance package, in June 2010. The Group Tier I credit risk ratio (excluding operational risk) was 9.0 per cent (31 December 2009: 10.4 per cent).

Non-Financial Performance Indicators

Corporate Governance

Supervisory Board

The Supervisory Board of BAWAG P.S.K., which is responsible for monitoring but also assisting the Managing Board, consists of six national and international representatives elected by the Annual General Meeting (only four representatives are currently appointed). An additional three members are delegated by the Works Council.

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.

Under the ultimate responsibility of the full Supervisory Board, 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. An annual report about the large exposures approved by the Credit Committee is submitted to the Supervisory Board. The Credit Committee also approves 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 material credit policies. It also advises the Managing Board in basic credit risk policy issues.

The Audit Committee reviews the Bank's accounts and the annual financial statements, and monitors 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 also approves 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

The Managing Board consisted of five members in the first half of 2010.

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 Legal and Compliance Committee.

The Bank has 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 threshold.

Proactive Risk Management

Proactive risk management was again a top priority in the first half of 2010. The systems for monitoring credit exposures were refined further to account for the difficult economic environment. Additional future-oriented monitoring mechanisms were also implemented for the portfolio. The level of risk in the structured credit portfolio continued to be carefully monitored following the substantial reduction in 2009 through a number of measures including sales, restructuring and hedging.

Code of Corporate Governance

BAWAG P.S.K. voluntarily adopted the Austrian Code of Corporate Governance for listed companies in 2006.

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; these audits 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.

Additional amendments have been made to the Code since the last report and will be implemented in BAWAG P.S.K.'s own code in the second half of the year. A corporate governance report is also planned for 2010.

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 Development

The “LEAD – New Leadership in BAWAG P.S.K.” programme will start this autumn and will help members of middle- and lower-level management to successfully fulfil their role in the Bank.

The “Successful Management in the New BAWAG P.S.K.” series for all management staff that was launched in autumn 2009 will continue with “My Bank – My Network” starting in September. The objective is to foster a better understanding of the Bank’s strategies, processes and key performance indicators among managers.

Talent Development and Succession and Career Planning

BAWAG P.S.K. is expressly committed to filling important positions of responsibility internally, and to providing the development paths that will enable its employees to fill these positions.

The first run of EMERGE, a programme for high-potential employees (junior/potential managers and experts) who are to be given new positions with greater responsibilities throughout the Bank in the coming years, was concluded successfully in April 2010. The programme will be repeated in a revised form in 2011.

The Bank also has the “TopTeam Sales” programme for potential managers in retail sales, which started in December 2009, and the “OPS Talent Programme” for its operations and processing areas. Both programmes are designed to support employees on their way to their first management positions.

Training

The focus in the first half of 2010 was on two major strategic training initiatives designed especially for sales staff, “Sales Empowerment” and “Sales Force 3”. In addition to new training plans for sales and processing staff, further custom-tailored specialist, IT and language training courses were also introduced in the first half of the year.

The complete training programme will be available to all staff members by means of a modernised and expanded e-learning tool on a virtual training portal starting in winter 2010.

Corporate Social Responsibility

CSR Report 2009 and UN Global Compact

BAWAG P.S.K. released its second corporate social responsibility report in April 2010. This report discusses the measures BAWAG P.S.K. has implemented and the progress the Bank has made in its efforts to conduct its business in a sustainable manner. This was also the first report to include the Communication on Progress (COP) required for members of the UN Global Compact.

The Bank joined the UN Global Compact in April 2009. BAWAG P.S.K.'s Corporate Social Responsibility officer is also a member of the steering committee of the Austrian Global Compact Network.

New Chance Account

On 1 April 2009, PSK BANK became 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 in all of 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. We already had 5,600 customers at the end of June 2010. The "New Chance Account" is one of the benefits of our proactive commitment to human rights, and for us is a way to counter discrimination and social exclusion.

Its nomination for the most important sustainability award in Austria, the TRIGOS, was also a major honour for the "New Chance Account".

Sponsoring

BAWAG P.S.K.'s key sponsoring areas in 2010 are again the arts, education and social issues. The current focus is contemporary art and culture. In May 2010, the new gallery BAWAG Contemporary was opened at Franz-Josefs-Kai 3 in Vienna's first district. The gallery is a venue for contemporary artists to present their works.

The Bank has also had a focus on film since 2010. BAWAG P.S.K. is the new main sponsor of the Diagonale film festival in Graz and a sponsor of the "EspressoFilm" short film festival in Vienna. BAWAG P.S.K. also made possible the first student theatre festival as part of "Junge Burg" at Burgtheater.

The "Feminine Fifties" exhibition in the banking hall at Georg-Coch-Platz set a new visitor record and also generated a great deal of response in the media.

Events after the Balance Sheet Date

Changes in the Managing and Supervisory Board

In October 2010, Andreas Arndt will join the Bank as new Chief Financial Officer. At the beginning of August, Ronald E. Kolka was appointed as a member of the Supervisory Board of BAWAG P.S.K. as the replacement for Scott Parker.

Outlook

Although the recovery of the Austrian economy is steadily progressing, the pace of the rebound is much slower than in previous cycles. With low income growth, high unemployment and continued low capacity utilisation, private demand will only pick up slowly. And while the governments are rolling back their expansive fiscal policies, public budget restructuring will dampen economic growth starting in the coming year. A further increase in the level of private bankruptcies and business failures cannot be ruled out for the coming months. We also cannot rule out negative impacts from changes in fair values despite the recently seen stabilisation on the credit markets.

Together with the other member states of the Eurozone, Austria is also at a minor risk of another economic downturn as a result of high budget deficits in some countries. Increasing doubts about the solvency of several Eurozone member states sent yields on government bonds and prices for credit default swaps soaring in April and May of this year. Austria is not directly affected by this situation, but the destabilisation of the financial markets would have negative consequences for the real economy in the Eurozone.

In the second half of 2010, we expect the uncertainty on European financial markets to continue. Furthermore, the quantitative easing policy of the European Central Bank is likely to be gradually phased out. The European banking sector continues to face a large number of challenges and headwinds. Capital markets are expected to remain volatile, bank funding costs are expected to increase, investor demand as well as the demand for new loans will continue to be weak as corporate and consumer confidence remains fragile. Banks will also continue to focus on building their capital base and strengthening regulatory liquidity positions in preparation for the implementation of the new Basel III rules and possible future bank taxes.

BAWAG P.S.K. faces similar challenges and headwinds to all other banks, which will impact our profitability in the second half of the year. Nevertheless, with our satisfactory first half year results, we are confident that the Bank is well positioned to continue to absorb these difficult market conditions successfully and to remain profitable for the full year 2010.

Vienna, 24 August 2010



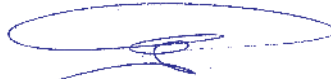
Byron Haynes, CEO
Chairman of the Managing Board



Stephan Koren
Deputy Chairman of the Managing Board



Regina Prehofer
Member of the Managing Board



Christoph Raninger
Member of the Managing Board



Sanjay Sharma
Member of the Managing Board

CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS

Consolidated Accounts

Consolidated balance sheet as of 30 June 2010

Assets

in millions of Euros	(Notes)	30.06.2010	31.12.2009
Cash reserves	(1)	516	615
Financial assets designated at fair value through profit or loss	(2)	2,733	2,980
Available-for-sale financial assets	(3)	6,872	3,250
Held-to-maturity investments	(4)	–	6,560
Assets held for trading	(5)	2,309	1,753
Loans and receivables	(6)	29,284	24,879
Securities		2,281	–
Customers		22,051	21,066
Credit institutions		4,952	3,813
Hedging derivatives	(15)	103	33
Tangible non-current assets		250	287
Intangible non-current assets		242	266
Other assets	(8)	471	602
Total assets		42,780	41,225

Equity and liabilities

in millions of Euros	(Notes)	30.06.2010	31.12.2009
Financial liabilities designated at fair value through profit or loss	(9)	5,630	6,371
Liabilities held for trading	(10)	4,803	2,198
Financial liabilities at amortised cost	(11)	28,942	29,485
Customers		22,206	22,674
Credit institutions		3,954	3,468
Issued bonds, subordinated and supplementary capital		2,782	3,343
Hedging derivatives	(15)	33	60
Provisions	(13)	455	441
Other obligations	(14)	538	378
Equity		2,025	1,919
Minorities		354	373
Total equity and liabilities		42,780	41,225

Consolidated income statement for the period 1 January to 30 June 2010

in millions of Euros	(Notes)	1-6/2010	1-6/2009
Net interest income	(16)	309.3	302.4
Net fee and commission income	(17)	84.4	74.6
Gains and losses on financial assets and liabilities	(18)	126.6	298.1
Other operating income and expenses	(19)	8.7	-3.7
Administrative expenses	(20)	-276.0	-265.9
Depreciation and amortisation on tangible and intangible non-current assets	(21)	-34.2	-40.5
Provisions and impairment losses	(22)	-110.3	-125.8
Share of the profit or loss of associates accounted for using the equity method		-4.9	-8.3
Profit (loss) before tax		103.6	230.9
Income taxes	(23)	-9.0	-43.3
Profit (loss) after tax		94.6	187.6
Thereof attributable to minority interests		-2.2	174.3
Thereof attributable to owners of the parent		96.8	13.3

The item Gains and losses on financial assets and liabilities also includes fair value adjustments of securities whose risk is borne by minorities. In the first half of 2010, valuation losses of EUR 3.8 million that were shown in the item Gains and losses on financial assets and liabilities were passed on to minorities in the item Minority interests. In 2009, valuation profits which were borne by minorities in the amount of EUR 165.0 million were included in the item Gains and losses on financial assets and liabilities.

Excluding the valuation results borne by minorities, the item Gains and losses on financial assets and liabilities would amount to EUR 130.4 million in 2010 (2009: EUR 133.1 million). The item Profit (loss) before tax would amount to EUR 107.4 million (2009: EUR 65.9 million).

Consolidated statement of comprehensive income for the period 1 January to 30 June 2010

in millions of Euros	1-6/2010	1-6/2009
Profit (loss) recognised in the income statement	94.6	187.6
Other comprehensive income		
Change in scope of consolidation	–	–
Foreign exchange differences	0.4	0.1
AFS reserve	39.7	40.5
Deferred taxes on items recognised directly in equity	-20.0	-11.1
Income and expenses recognised directly in equity	20.1	29.5
Total comprehensive income	114.7	217.1
Thereof attributable to minority interests	-17.1	174.3
Thereof attributable to owners of the parent	131.8	42.8

Consolidated statements of changes in equity

in millions of Euros	Subscribed capital	Participation capital ¹⁾	Capital reserves	Retained reserves ²⁾	AFS reserve	Foreign exchange differences	Equity w/o minorities	Minority interests	Equity including minorities
Balance as of 1.1.2009	250.0	–	1,042.4	-124.5	-30.1	–	1,137.8	188.5	1,326.3
Transactions with owners	–	–	–	–	–	–	–	-7.8	-7.8
Dividends on minority interests	–	–	–	–	–	–	–	-7.8	-7.8
Total comprehensive income	–	–	–	13.3	29.4	0.1	42.8	174.3	217.1
Balance as of 30.6.2009	250.0	0.0	1,042.4	-111.2	-0.7	0.1	1,180.6	355.0	1,535.6
Balance as of 1.1.2010	250.0	550.0	1,247.4	-146.7	18.1	–	1,918.8	373.0	2,291.8
Transactions with owners	–	–	–	–	–	–	–	-1.6	-1.6
Dividends on minority interests	–	–	–	–	–	–	–	-1.6	-1.6
Dividend on participation capital	–	–	–	-25.6	–	–	-25.6	–	-25.6
Total comprehensive income	–	–	–	96.8	34.6	0.4	131.8	-17.1	114.7
Balance as of 30.6.2010	250.0	550.0	1,247.4	-75.5	52.7	0.4	2,025.0	354.3	2,379.3

1) Participation capital according to section 23 (4) BWG.

2) Thereof revaluation reserve in accordance with IFRS 3: EUR 0.8 million.

Cash flow statement

in millions of Euros	1-6/2010	1-6/2009
Cash and cash equivalents at end of previous period	615	945
Net cash from operating activities	-3,406	1,330
Net cash used in investing activities	3,362	-1,300
Net cash from financing activities	-55	6
Cash and cash equivalents at end of period	516	981

Notes

The consolidated interim financial statements of BAWAG P.S.K. Group were prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS), which are released by the International Accounting Standards Board (IASB), and in accordance with their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) – formerly the Standing Interpretations Committee (SIC).

These unaudited interim financial statements for the first half of 2010 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in the preparation of this interim financial report are the same as those used for the preparation of the consolidated financial statements as of 31 December 2009. The valuation principles as of 31 December 2009 were applied again.

The Group consists of 58 entities in Austria and abroad (2009: 57) which has not changed significantly during the first half of 2010.

The semi-annual financial statements for the first half of 2010 were not audited or reviewed by the external auditor.

Significant Reclassifications

Reclassification of financial assets out of the category “held-to-maturity investments”

BAWAG P.S.K. sold a significant portion of its held-to-maturity investments in 2010, and therefore the remaining positions were reclassified as available-for-sale financial assets.

The effects of reclassification from “held-to-maturity” to “available-for-sale” are shown in the following table:

in millions of Euros	Carrying amount	Fair value
Held-to-maturity investments	-5,480	-5,454
Available-for-sale financial assets	+5,454	+5,454

Reclassification of financial assets into the category “loans and receivables”

BAWAG P.S.K. transferred available-for-sale financial assets to the balance sheet item “loans and receivables” using their fair values as of 1 June 2010.

These reclassified assets are not-actively-traded structured credit products without derivative components. BAWAG P.S.K. is of the opinion that the fair value of the reclassified assets does not reflect the intrinsic value of the position because of insufficient liquidity in this market segment.

The effects of the reclassification of available for sale assets are shown in the following table:

in millions of Euros	Carrying amount	Fair value
Available-for-sale financial assets	-1,897	-1,897
Loans and receivables	+1,897	+1,897

The effective interest rates of the reclassified financial assets averaged 2.2 per cent with expected achievable cash flows of EUR 2.2 billion.

If the assets had not been reclassified, unrealised fair value changes in the amount of EUR –4 million would have been recognised directly in equity (in the AFS reserve) for available-for-sale financial assets.

After reclassification, the financial assets in question made the following contribution to the pre-tax profit for the first half of 2010:

in millions of Euros	6/2010
Interest income	4
Impairment provisions	0

Before reclassification, unrealised fair value losses of EUR –38 million were recognised directly in equity for reclassified available-for-sale financial assets in the first half of 2010. No impairment provisions were formed in the consolidated 2010 income statement for the now reclassified available-for-sale financial assets before their reclassification.

All available-for-sale financial assets that were reclassified in the first half of 2010 were classified as held-to-maturity investments in the prior financial year. They were recategorised as available-for-sale financial assets in 2010. No unrealised fair value losses for the now reclassified available-for-sale financial assets were recognised directly in equity in the prior years.

Key Events in the First Half of 2010

Please refer to the management report for information on significant events in the first half of 2010.

Details of the Consolidated Balance Sheet

1 | Cash reserves

in millions of Euros	30.06.2010	31.12.2009
Cash on hand	315	245
Balances at central banks	201	370
Cash reserves	516	615

2 | Financial assets designated at fair value through profit or loss

in millions of Euros	30.06.2010	31.12.2009
Bonds and other fixed income securities	1,527	1,611
Public sector debt instruments	32	19
Bonds of other issuers	1,495	1,592
Shares and other variable rate securities	95	173
Investment certificates	55	51
Other	40	122
Loans and advances to customers	1,111	1,196
Customers	1,111	1,196
Designated at fair value through profit or loss	2,733	2,980

3 | Available-for-sale financial assets

in millions of Euros	30.06.2010	31.12.2009
Debt instruments	6,597	2,971
Bonds and other fixed income securities	6,594	2,968
Public sector debt instruments	1,659	–
Bonds of other issuers	4,935	2,968
Other variable rate securities	3	3
Equity investments	275	279
Recognised at cost		
Investments in non-consolidated subsidiaries	48	58
Interests in associates	72	72
Other shareholdings	155	149
Available-for-sale financial assets	6,872	3,250

4 | Held-to-maturity financial investments

in millions of Euros	30.06.2010	31.12.2009
Bonds and other fixed income securities		
Public sector debt instruments	–	2,814
Bonds of other issuers	–	3,746
Held-to-maturity investments	–	6,560

5 | Assets held for trading

in millions of Euros	30.06.2010	31.12.2009
Bonds and other fixed income securities	115	160
Public sector debt instruments	–	–
Bonds of other issuers	115	160
Positive fair values of derivative financial instruments	2,186	1,493
Derivatives trading book	1,313	822
Foreign currency derivatives	615	223
Interest rate derivatives	688	590
Credit related derivatives	10	9
Derivatives banking book	873	671
Foreign currency derivatives	45	6
Interest rate derivatives	761	614
Credit related derivatives	67	51
Other trading assets	8	100
Thereof repurchase agreements	8	100
Assets held for trading	2,309	1,753

6 | Loans and receivables

30.06.2010 in millions of Euros	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets ¹⁾	Total net carrying amount
Securities	2,281	–	–	–	2,281
Public sector debt instruments	162	–	–	–	162
Debt instruments of other issuers	2,119	–	–	–	2,119
Receivables from credit institutions	4,950	38	-36	–	4,952
Receivables from customers	21,661	1,259	-549	-320	22,051
Central governments	358	–	–	–	358
Corporates	11,702	364	-182	-2	11,882
Retail	6,576	895	-367	-280	6,824
Other customers	3,025	–	–	–	3,025
Portfolio impairment provision	–	–	–	-38	-38
Total	28,892	1,297	-585	-320	29,284

1) Includes allowances for incurred but not reported losses.

31.12.2009 in millions of Euros	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets ¹⁾	Total net carrying amount
Receivables from credit institutions	3,812	34	-33	–	3,813
Receivables from customers	20,668	1,217	-470	-349	21,066
Central governments	409	–	–	–	409
Corporates	10,693	353	-180	-2	10,864
Retail	6,405	864	-290	-312	6,667
Other customers	3,161	–	–	–	3,161
Portfolio impairment provision	–	–	–	-35	-35
Total	24,480	1,251	-503	-349	24,879

1) Includes allowances for incurred but not reported losses.

7 | Receivables from credit institutions and customers

Receivables from credit institutions – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Austria	–	–	2,580	2,273	2,580	2,273
Abroad	–	–	2,372	1,540	2,372	1,540
Western Europe	–	–	2,160	1,275	2,160	1,275
Central and Eastern Europe	–	–	112	108	112	108
North America	–	–	1	41	1	41
Asia/Pacific	–	–	53	62	53	62
Rest of the world	–	–	46	54	46	54
Receivables from credit institutions	–	–	4,952	3,813	4,952	3,813

Receivables from customers – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Austria	1,111	1,196	17,059	17,184	18,170	18,380
Abroad	–	–	4,992	3,882	4,992	3,882
Western Europe	–	–	2,467	1,962	2,467	1,962
Central and Eastern Europe	–	–	1,670	1,382	1,670	1,382
North America	–	–	457	250	457	250
Asia/Pacific	–	–	7	7	7	7
Rest of the world	–	–	391	281	391	281
Receivables from customers	1,111	1,196	22,051	21,066	23,162	22,262

Receivables from credit institutions – Breakdown by credit type

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Demand deposits	–	–	372	183	372	183
Time deposits	–	–	4,268	3,238	4,268	3,238
Loans	–	–	304	385	304	385
Other	–	–	8	7	8	7
Receivables from credit institutions	–	–	4,952	3,813	4,952	3,813

Receivables from customers – Breakdown by credit type

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Current accounts	–	–	1,352	1,758	1,352	1,758
Cash advances	–	–	740	728	740	728
Loans	1,111	1,196	18,862	17,470	19,973	18,666
One-off loans	1,111	1,196	18,679	17,249	19,790	18,445
Current account loans	–	–	11	28	11	28
Other	–	–	172	193	172	193
Debt instruments¹⁾	–	–	2,281	–	2,281	–
Leasing	–	–	1,097	1,110	1,097	1,110
Receivables from customers	1,111	1,196	24,332	21,066	25,443	22,262

1) Not traded on an active market.

8 | Other assets

in millions of Euros	30.06.2010	31.12.2009
Tax assets	273	292
Thereof for current taxes	27	29
Thereof for deferred taxes	246	263
Associates accounted for using the equity method	15	30
Accruals	36	34
Leasing objects not in operation	23	49
Other items	124	197
Other assets	471	602

9 | Financial liabilities designated at fair value through profit or loss

in millions of Euros	30.06.2010	31.12.2009
Payables to customers	372	435
Savings deposits	372	435
Other deposits	–	–
Issued bonds, subordinated and supplementary capital	5,258	5,936
Issued bonds	2,752	3,566
Subordinated capital	901	847
Supplementary capital	33	31
Other obligations evidenced by paper	1,572	1,492
Financial liabilities designated at fair value through profit or loss	5,630	6,371

10 | Liabilities held for trading

in millions of Euros	30.06.2010	31.12.2009
Negative fair values of derivative financial instruments	2,009	1,372
Derivatives trading book	1,437	861
Foreign currency derivatives	610	235
Interest rate derivatives	814	611
Credit related derivatives	13	15
Derivatives banking book	572	511
Foreign currency derivatives	315	180
Interest rate derivatives	183	228
Credit related derivatives	74	103
Other trading liabilities	2,794	826
Thereof repurchase agreements	2,794	826
Liabilities held for trading	4,803	2,198

11 | Financial liabilities measured at amortised cost

in millions of Euros	30.06.2010	31.12.2009
Payables to credit institutions	3,954	3,468
Payables to customers	22,206	22,674
Savings deposits ¹⁾	13,377	14,220
Other deposits	8,829	8,454
Issued bonds, subordinated and supplementary capital	2,782	3,343
Issued bonds	935	1,808
Subordinated capital	260	256
Supplementary capital	304	325
Other obligations evidenced by paper	1,283	954
Financial liabilities at amortised cost	28,942	29,485

1) Excluding savings deposits recognised at fair value which are disclosed in note 9 (Financial liabilities designated at fair value through profit or loss).

12 | Payables to credit institutions and customers

Payables to credit institutions – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Austria	–	–	2,883	2,226	2,883	2,226
Abroad	–	–	1,071	1,242	1,071	1,242
Western Europe	–	–	574	814	574	814
Central and Eastern Europe	–	–	38	22	38	22
North America	–	–	7	20	7	20
Asia/Pacific	–	–	–	–	–	–
Rest of the world	–	–	452	386	452	386
Payables to credit institutions	–	–	3,954	3,468	3,954	3,468

Payables to customers – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Austria	367	429	21,704	22,095	22,071	22,524
Abroad	5	6	502	579	507	585
Western Europe	4	4	289	298	293	302
Central and Eastern Europe	1	2	120	201	121	203
North America	–	–	25	21	25	21
Asia/Pacific	–	–	8	8	8	8
Rest of the world	–	–	60	51	60	51
Payables to customers	372	435	22,206	22,674	22,578	23,109

Payables to customers – Breakdown by sector

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Savings deposits	372	435	13,376	14,220	13,748	14,655
Savings accounts	28	–	5,694	6,651	5,722	6,651
Savings associations	–	–	438	416	438	416
Fixed-term investment savings accounts	344	435	7,244	7,153	7,588	7,588
Other deposits	–	–	8,830	8,454	8,830	8,454
Central governments	–	–	523	412	523	412
Non credit institutions	–	–	429	489	429	489
Corporates	–	–	3,092	3,137	3,092	3,137
Customers	–	–	4,786	4,416	4,786	4,416
Payables to customers	372	435	22,206	22,674	22,578	23,109

13 | Provisions

in millions of Euros	30.06.2010	31.12.2009
Severance payments	91	89
Pension provision	243	236
Jubilee benefits	31	31
Tax provisions	30	19
Thereof for current taxes	15	4
Thereof for deferred taxes	15	15
Anticipated losses on pending business	16	17
Credit promises and guarantees	1	2
Provisions for troubled contracts	15	15
Other items	44	49
Provisions for pending litigation	38	43
Other	6	6
Provisions	455	441

14 | Other obligations

in millions of Euros	30.06.2010	31.12.2009
Other liabilities	515	347
Accruals	23	31
Other obligations	538	378

15 | Hedging derivatives

in millions of Euros	30.06.2010	31.12.2009
Hedging derivatives in fair value hedges		
Positive market values	103	33
Negative market values	33	60

Details of the Consolidated Income Statement

16 | Net interest income

in millions of Euros	1-6/2010	1-6/2009
Interest income	709.2	845.1
Cash reserves	2.0	3.7
Financial assets held for trading	147.8	89.7
Financial assets designated at fair value through profit or loss	53.6	101.8
Available-for-sale financial assets	75.6	50.0
Loans and receivables	378.7	491.1
Held-to-maturity investments	51.5	108.8
Interest expenses	-405.9	-544.8
Financial liabilities held for trading	-59.4	-44.3
Financial liabilities designated at fair value through profit or loss	-139.6	-146.0
Financial liabilities measured at amortised cost	-206.9	-354.5
Dividend income	6.0	2.1
Available-for-sale financial assets	6.0	2.1
Net interest income	309.3	302.4

17 | Net fee and commission income

in millions of Euros	1-6/2010	1-6/2009
Payment transfers	77.1	72.0
Lending	10.7	13.7
Securities and custody business	19.6	17.5
Foreign business, currency and notes-and-coin business	0.2	0.2
Payments to Österreichische Post AG	-37.5	-39.6
Other services	14.3	10.9
Net fee and commission income	84.4	74.6

18 | Gains and losses on financial assets and liabilities

in millions of Euros	1-6/2010	1-6/2009
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	176.4	-15.6
Available-for-sale financial assets	24.4	-3.4
Loans and receivables (including finance leases)	–	-2.1
Held-to-maturity investments	130.7	-10.3
Financial liabilities measured at amortised cost	0.1	0.2
Gain from the sale of consolidated subsidiaries	21.2	–
Gains (losses) on financial assets and liabilities held for trading, net	70.0	124.7
Interest rate instruments and related derivatives	66.3	19.2
Foreign exchange trading	14.1	3.0
Credit risk instruments and related derivatives	-10.4	102.5
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	-127.6	194.1
Gains (losses) from fair value hedge accounting	11.0	-4.0
Fair value adjustment of hedged item	-86.2	0.8
Fair value adjustment of hedging instrument	97.2	-4.8
Exchange differences revaluations, net	-3.2	-1.1
Gains and losses on financial assets and liabilities	126.6	298.1

The item Gains and losses on financial assets and liabilities also includes fair value adjustments of securities whose risk is borne by minorities. In the first half of 2010, valuation losses of EUR 3.8 million that were shown in the item Gains and losses on financial assets and liabilities were passed on to minorities in the item Minority interests. In 2009, valuation profits which were borne by minorities in the amount of EUR 165.0 million were included in the item Gains and losses on financial assets and liabilities.

Excluding the valuation results borne by minorities, the item Gains and losses on financial assets and liabilities would amount to EUR 130.4 million in 2010 (2009: EUR 133.1 million). The item Profit (loss) before tax would amount to EUR 107.4 million (2009: EUR 65.9 million).

19 | Other operating income and expenses

in millions of Euros	1-6/2010	1-6/2009
Net income from investment properties	1.9	2.3
Net income from the sale of tangible and intangible non-current assets	1.8	-0.8
Net income from operating leasing	-	-
Net income from retailing	-2.8	-7.7
Other income and expenses	7.8	2.5
Other operating income and expenses	8.7	-3.7

20 | Administrative expenses

in millions of Euros	1-6/2010	1-6/2009
Staff costs	-189.9	-180.5
Wages and salaries	-137.8	-131.7
Statutory social security contributions	-31.3	-32.2
Voluntary fringe benefits	-2.1	-2.0
Post-employment benefit costs	-9.6	-9.5
(Increase) decrease of pension provision	-6.6	-2.7
(Increase) decrease of provision for severance payments	-1.4	-0.8
(Increase) decrease of provision for jubilee benefits	-0.5	-0.9
Staff benefit fund costs	-0.6	-0.7
Other administrative expenses	-86.1	-85.4
Administrative expenses	-276.0	-265.9

21 | Depreciation and amortisation on tangible and intangible non-current assets

in millions of Euros	1-6/2010	1-6/2009
Depreciation and amortisation		
Intangible non-current assets	-18.0	-18.8
Tangible non-current assets	-16.2	-21.7
Depreciation and amortisation	-34.2	-40.5

22 | Provisions and impairment losses

in millions of Euros	1-6/2010	1-6/2009
Changes in provisions	3.6	-32.2
Impairment losses on financial assets	-105.9	-91.6
Impairment losses on non-financial assets	-8.0	-2.0
Provisions and impairment losses	-110.3	-125.8

23 | Income taxes

in millions of Euros	1-6/2010	1-6/2009
Current tax income / expense	-12.2	-1.2
Deferred tax income / expense	3.2	-42.1
Income taxes	-9.0	-43.3

Other Information**24 | Contingent assets, contingent liabilities and commitments**

in millions of Euros	30.06.2010	31.12.2009
Contingent assets	-	-
Contingent liabilities	974	1,479
Arising from guarantees	961	1,466
Other contingent liabilities	13	13
Commitments	8,999	7,440

25 | Human resources

Headcount	30.06.2010	31.12.2009
Human resources, end of period	5,601	5,659
Human resources, average	5,625	5,879

26 | Segment reporting

in millions of Euros		Retail customers	Corporate customers	Inter-national customers	Financial markets	Non-core activities	Others ¹⁾	Total
Net interest income	2010	141.6	99.1	42.2	44.7	3.0	-21.3	309.3
	2009	192.5	77.7	15.4	-1.7	3.0	15.5	302.4
Net fee and commission income	2010	64.3	41.1	2.8	0.8	-1.0	-23.6	84.4
	2009	54.1	35.9	4.0	-3.3	-1.0	-14.9	74.6
Gains and losses on financial assets and liabilities	2010	2.0	17.9	–	105.5	18.0	-13.0	130.4
	2009	1.6	-2.7	–	133.0	–	1.2	133.1
Other operating income (expenses)	2010	0.2	1.4	–	–	–	7.1	8.7
	2009	–	5.0	–	-0.2	-0.1	-8.4	-3.7
Administrative expenses	2010	-177.3	-50.8	-4.3	-12.9	-7.1	-23.6	-276.0
	2009	-185.3	-48.9	-2.6	-13.8	-1.7	-13.6	-265.9
Depreciation and amortisation on tangible and intangible non-current assets	2010	-19.9	-7.3	-0.5	-1.4	-0.2	-4.9	-34.2
	2009	-20.7	-7.4	-0.3	-1.5	-0.2	-10.4	-40.5
Provisions and impairment losses	2010	-38.1	-7.0	–	0.4	-67.3	1.7	-110.3
	2009	-35.4	-40.5	–	-30.3	-21.8	2.2	-125.8
Share of the profit or loss of associates accounted for using the equity method	2010	–	–	–	–	–	-4.9	-4.9
	2009	–	–	–	–	–	-8.3	-8.3
Profit (loss) before tax	2010	-27.2	94.4	40.2	137.1	-54.6	-82.5	107.4
	2009	6.8	19.1	16.5	82.2	-21.8	-36.7	65.9
Risk-weighted assets	2010	3,949.0	8,137.5	2,160.5	7,055.3	649.4	867.6	22,819.3
	2009	3,781.0	8,150.1	741.4	6,446.3	902.5	932.2	20,953.5

1) Net interest income is not fully comparable as the result for 2010 includes interest expense for supplementary capital in the amount of EUR 22.4 million, which was not recognised until the second half of 2009.

The segment results presented above are based on internal management reporting and have been changed compared to last year for the current period as well as for the first half of 2009. Non-core banking activities are depicted in a separate segment and comprise income and expense from non-core participations, provisions for restructuring and the legacy book as well as discontinued business lines. Due to changes in customer segmentation, real estate and leasing business are presented in the corporate segment, Wohnbaubank has been transferred to financial markets and international business is presented separately. Last year's figures have been adapted accordingly.

Segment results can be reconciled with the consolidated income statement as follows:

in millions of Euros	2010	2009
Gains and losses on financial assets and liabilities according to segment report	130.4	133.1
Gains and losses on financial assets attributable to minorities	-3.8	165.0
Gains and losses on financial assets and liabilities according to consolidated income statement	126.6	298.1

in millions of Euros	2010	2009
Profit (loss) before tax according to segment report	107.4	65.9
Gains and losses on financial assets attributable to minorities	-3.8	165.0
Profit (loss) before tax according to consolidated income statement	103.6	230.9

27 | Capital management

The Austrian Banking Act (BWG) requires the Bank to maintain a minimum amount of own funds that is calculated on the basis of its risk-weighted assets and operational risk. The capital management system employed by BAWAG P.S.K. is based on own funds as defined by the BWG. The supervisory own funds are broken down into the three categories Tier I to III in accordance with their quality, whereby there are specific recognition limits.

The Bank has instituted a monthly Capital Management Meeting to handle its capital management. The main responsibilities of this function are to continuously monitor the development of the Bank's business, to analyse changes in its risk-weighted assets and to reconcile these assets with the available regulatory own funds. The budgeted business volumes are also compared with the expected changes in the eligible own funds at the beginning of every financial year. Stress tests (sensitivity analyses) are also conducted to assess the Bank's ability to meet the minimum requirements and to maintain the ratios defined for BAWAG P.S.K. so that it can reach and maintain its target rating. In addition to the risk-weighted assets, the calculation also includes the own funds requirement for market risk (using an internal value-at-risk model) and the own funds requirement to cover operational risk. Planned changes in the Bank's equity holdings (changes in the scope of consolidation) are also simulated.

The results of these analyses are discussed in the Capital Management Meeting, which then gives recommendations to the Managing Board for increasing the own funds coverage when necessary.

BAWAG P.S.K. continually monitors its compliance with the stipulated own funds ratios on the basis of the notifications sent to Oesterreichische Nationalbank (the Austrian national bank) at the end of every month and on the basis of current business developments. Changes and the current status are reported regularly to the Managing Board.

The following table presents our own funds requirements within the meaning of BWG and the composition of the own funds of the credit institution group at the level of BAWAG P.S.K.:

in millions of Euros	30.06.2010	31.12.2009
Share capital, participation capital	800	800
Reserves (including fund for general banking risks)	1,009	954
Goodwill, minorities and deductions	281	346
Core capital (Tier I)	2,090	2,100
Less shareholdings held for investment purposes	-35	-51
Core capital (Tier I) after deductions	2,055	2,049
Reserve under § 57 BWG, revaluation reserve	41	85
Supplementary and subordinated debt capital	745	746
Additional items (Tier II)	786	831
Less shareholdings held for investment purposes	-35	-51
Eligible own funds	2,806	2,829
Tier III	92	67
Own funds	2,898	2,896

Our own funds compared with the following own funds requirement:

in millions of Euros	30.06.2010	31.12.2009
Credit risk	1,826	1,579
Market risk	92	67
Operational risk	146	150
Capital requirements	2,064	1,796

As of 30 June 2010 BAWAG P.S.K. recognised a fund for general banking risks according to section 57 paragraph 3 BWG in the amount of EUR 28 million (2009: EUR 28 million).

The Group Tier I capital ratio and the own funds ratio as of 30 June 2010 were 8.7 per cent and 11.7 per cent, respectively, and were lower than at the end of 2009, primarily due to business growth. These ratios also take into account the cancellation of the guarantee of the Republic of Austria, which was granted within the assistance package, in June 2010. The Group Tier I credit risk ratio (excluding operational risk) was 9.0 per cent (31 December 2009: 10.4 per cent).

Semi-Annual 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 the Group'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. Group monitors all risks to different degrees of complexity in accordance with their materiality. In this connection, the functions and duties of all employees have been clearly defined.

The risk management organisation comprises the following units:

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

Specific Risks of BAWAG P.S.K. Group

28 | 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. Group 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.

Portfolio Development in the First Half of 2010

The overall volume of the portfolio grew in the first half of 2010. The decrease in lending to the public sector was offset by increases in commercial lending. Retail lending remained stable in terms of volume.

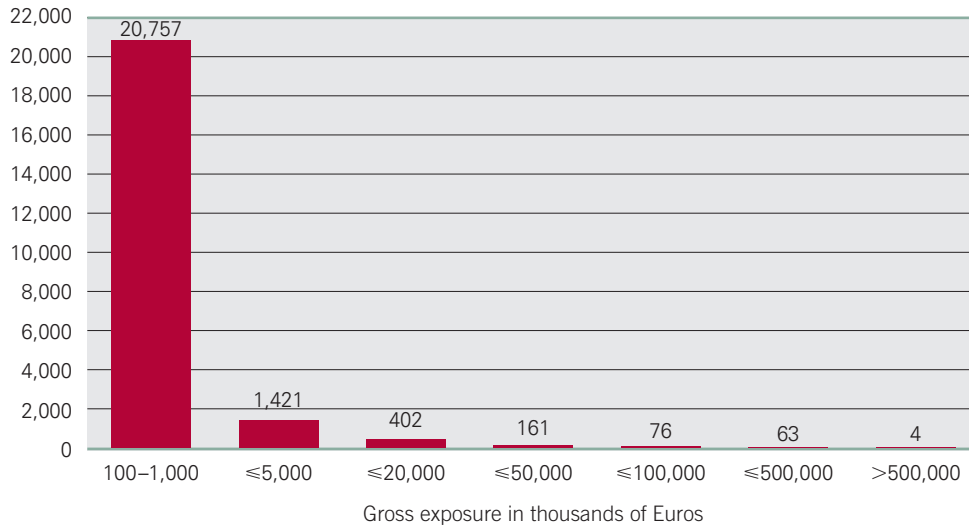
Credit risk by customer segment, in millions of Euros¹⁾

Segment	Book value credits ²⁾		Bonds		Off-balance business		Total risk	
	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009	30.06.2010	31.12.2009
Banks	3,925	2,640	4,706	5,006	1,313	802	9,944	8,448
Public sector	5,880	6,199	1,853	3,258	868	692	8,601	10,149
Corporates	11,339	10,391	3,829	2,862	2,363	2,411	17,531	15,664
Small business	1,363	1,377	–	16	147	132	1,510	1,525
Retail private customers	5,606	5,467	–	–	226	88	5,832	5,555
Others	1	1	17	–	1	36	37	37
Total	28,114	26,075	10,405	11,142	4,918	4,161	43,455	41,378

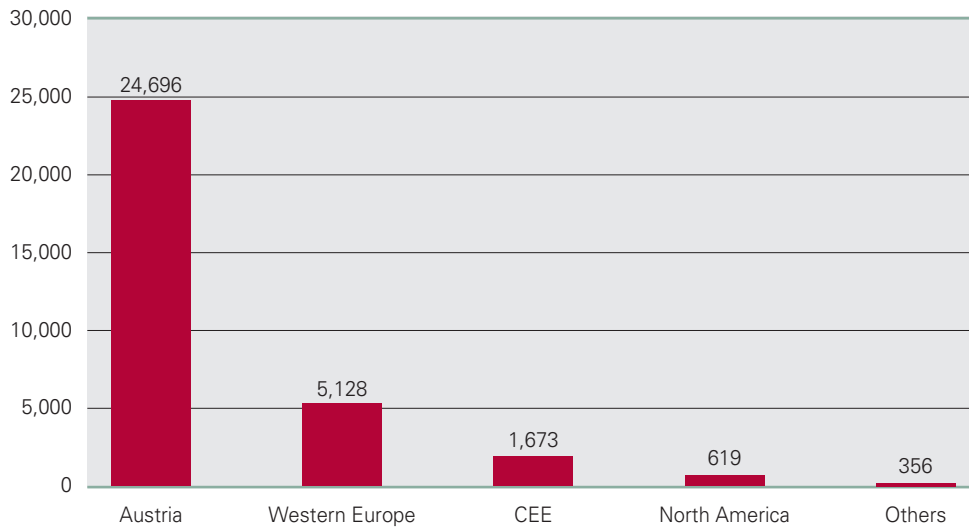
1) Total risk includes book values and off-balance-sheet items like guarantees and committed but currently unutilised limits.

2) Including fair value assets.

Number of customers by size as of 30 June 2010



Geographical distribution of the loan portfolio as of 30 June 2010, in millions of Euros



Impaired Loans

Impairment provisions are formed for loans for which it can be assumed that the Bank's 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.

IFRS Portfolio Impairments pursuant to IAS 39 AG 89

A general impairment provision is formed on a portfolio basis for incurred but not detected losses in the Group's credit portfolio as of the reporting date. For this, it is assumed that a certain percentage of customers that have not been identified as being in default are in fact in default on the reporting date.

To calculate these loss provisions, the receivables are grouped into homogeneous portfolios with comparable risk characteristics. The provisions are quantified on the basis of the expected loss, taking into account the loss identification period. This is determined individually for each customer segment on the basis of the average time until the next expected payment. As of 30 June 2010, the IFRS portfolio impairment amounted to EUR 37.8 million, compared to EUR 34.6 million on 31 December 2009.

Structured Credit Portfolio

BAWAG P.S.K.'s securities portfolio includes a portfolio of structured credit instruments with a nominal value of EUR 1.80 billion and a current book value pursuant to IFRS of EUR 947 million (excluding portions attributable to minority shareholders; 31 December 2009: EUR 1,159 million). EUR 227 million (nominal) were redeemed in the first six months of the year, realising a profit compared to book value of EUR 4 million. The resulting risk position is detailed in the following tables by rating, maturity and origin.

Structured credit portfolio as of 30 June 2010 – Breakdown by rating (IFRS book value)

in millions of Euros	AAA	AA	A	BBB	BB and below	Not rated	Total
CDO-of-ABS	–	13	3	4	2	–	22
CDO-of-ABS w/ subprime	10	0	–	21	42	0	73
CLO	11	101	110	77	19	–	318
CLO ²	–	–	–	–	0	–	0
CMBS	5	24	1	6	–	5	42
Corporate CDO	2	23	–	–	81	56	162
Corporate CDO ²	–	–	–	–	–	69	69
Corporate CPDO	–	–	20	–	11	41	72
Corporate LSS	50	–	–	–	–	82	131
European RMBS	30	5	8	–	–	–	43
US RMBS	–	–	–	–	14	–	14
Total	108	167	143	108	169	252	947

Structured credit portfolio as of 30 June 2010 – Breakdown by maturity (IFRS book value)

in millions of Euros	Until end of 2011	2012–2014	2015–2017	2018 and later	Total
CDO-of-ABS	–	20	2	–	22
CDO-of-ABS w/ subprime	12	9	24	29	73
CLO	–	167	150	–	318
CLO ²	0	–	–	–	0
CMBS	1	22	19	–	42
Corporate CDO	43	47	72	1	162
Corporate CDO ²	–	69	–	–	69
Corporate CPDO	–	–	72	–	72
Corporate LSS	50	82	–	–	131
European RMBS	1	20	8	15	43
US RMBS	0	4	10	–	14
Total	106	439	357	44	947

Structured credit portfolio as of 30 June 2010 – Breakdown by origin (IFRS book value)

in millions of Euros	USA	Continental Europe	UK	Other	Total
CDO-of-ABS	3	16	4	0	22
CDO-of-ABS w/ subprime	44	7	22	0	73
CLO	156	134	28	0	318
CLO ²	0	–	–	0	0
CMBS	27	15	–	0	42
Corporate CDO	72	78	12	0	162
Corporate CDO ²	37	25	7	0	69
Corporate CPDO	33	34	5	0	72
Corporate LSS	80	32	19	0	131
European RMBS	–	38	5	0	43
US RMBS	14	–	–	–	14
Total	467	378	102	0	947

Abbreviations:

ABS	Asset backed security
CDO	Collateralised debt obligation
CLO	Collateralised loan obligation
CMBS	Commercial mortgage backed security
CPDO	Constant proportion debt obligation
LSS	Leveraged super senior
RMBS	Residential mortgage backed security

BAWAG P.S.K. uses internal valuation models to determine the fair values of transactions for which there is no active market. Such models are used for CDOs of ABS with subprime exposure, corporate CDOs and CDO², corporate CPDOs, corporate LSS, CLOs, US RMBS and corresponding micro hedges. All of BAWAG P.S.K.'s models are calibrated to actively traded instruments such as ABX, tranchéd iTraxx and CDX, and tranchéd LCDX and use all available market data (such as yield curves, CDS spreads, loan prices, etc.) as inputs.

Fair value changes in the amount of EUR –12 million were recognised on the income statement under gains and losses on financial assets and liabilities for the structured credit portfolio in the first half of 2010. In the same period, book gains of EUR 6 million were achieved through redemptions and sales.

Stress Tests and Sensitivity Analysis of the Structured Credit Portfolio

Stress tests and sensitivity analyses are completed for the structured credit portfolio on a quarterly basis. In this the effects of various scenarios on the recovery value, fair value and risk-weighted assets are analysed. The results are reported to the Managing Board.

For each asset class in the structured credit portfolio, the first step is the identification of the material risk factors and the creation of a base case scenario for these risk values that reflects the current loss expectations. Individual or multiple risk factors are then worsened to simulate various stress scenarios.

The base case is the scenario that is based on the expected recovery value. In this, the recovery value is defined as the present value of the expected cash flows (discounted with the risk premium specified upon conclusion of the transaction). A sub-par recovery value means that the expected cash flows are lower than the contractually agreed cash flows.

All assumptions apply in addition to the losses already incurred in the portfolio, and all rating downgrades are also taken into account.

To assess the effects that the stress scenarios could have on the fair values, the current implied discount margins are increased to match the level of risk in the scenario and the expected market overreaction.

The following tables show the effects that the stress scenarios have on the IFRS value and the recovery value of the portfolio. The difference between the value according to IFRS and the recovery value is due to the fact that the majority of the assets in the portfolio are measured at their fair values, which are lower than their recovery values because of the currently higher risk premiums.

The depicted stress scenarios are defined as follows:

- ▶ Defaults +20 per cent: the default and arrears rates are increased by 20 per cent;
- ▶ Combined scenario: the simultaneous worsening of the default, arrears, LGD and prepayment rates by 20 per cent and a 10 per cent worsening of the correlation.

Effects of stress scenarios on the IFRS value of the structured credit portfolio

in millions of Euros	Scenario p.d. +20%	Combined scenario
CDO-of-ABS	-3	-5
CDO-of-ABS w/ subprime	-15	-21
CLO	-3	-6
CLO ²	-0	-0
CMBS	-9	-14
Corporate CDO	-8	-14
Corporate CDO ²	-	-
Corporate CPDO	-6	-12
Corporate LSS	-12	-41
European RMBS	-2	-5
US RMBS	-	-
Macro hedge	-	-
Total	-58	-119

Recovery value of the structured credit portfolio; effects of stress scenarios

in millions of Euros	Recovery value	Diff. between recovery value and IFRS value	Change in recovery value	
			Scenario p.d. +20%	Combined scenario
CDO-of-ABS	36	+14	-4	-8
CDO-of-ABS w/ subprime	113	+40	-15	-24
CLO	394	+76	-10	-28
CLO ²	-	-0	-	-
CMBS	59	+17	-7	-12
Corporate CDO	187	+25	-7	-13
Corporate CDO ²	69	-	-	-
Corporate CPDO	98	+26	-2	-4
Corporate LSS	150	+19	-	-
European RMBS	51	+8	-1	-2
US RMBS	21	+6	-	-5
Macro hedge	-	-	-	-
Total	1,178	+231	-46	-97

29 | 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 current 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. Financial Markets 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 pursuant to section 26b BWG to control and limit the market risk arising from trading activities. It includes the risk categories interest rate, equity market and foreign exchange risk 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 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. 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.

On 30 June 2010, the value-at-risk (with gamma and vega risk included) was measured at EUR 2.3 million (31 December 2009: EUR 1.3 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), first half of 2010, in millions of Euros

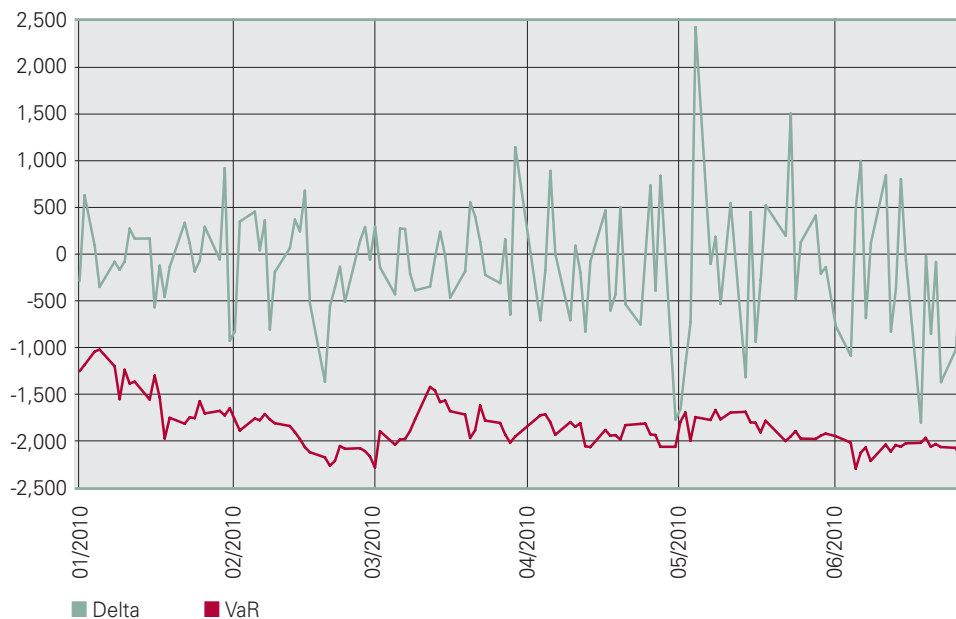
Risk class	Minimum	Maximum	Average	30.06.2010
FX risk	0.23	1.00	0.50	1.00
Interest rate risk	0.94	2.07	1.60	1.73
Total (without correlations)	1.18	2.72	2.10	2.72
Total (with correlations)	1.04	2.27	1.84	2.25
Diversification	n/a	n/a	-0.26	-0.47

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”.

No exceptions occurred at BAWAG P.S.K. in the reporting period from January to June 2010. There were no exceptions for a total period of 250 business days, 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 can be maintained.

The daily VaR values are compared with the backtesting results (delta) for January to June 2010 in the following chart:

VaR (99 per cent, one-day holding period) compared with the backtesting results (delta), first half of 2010, 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.

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 (equity and index prices, interest rates, exchange rates and volatilities) 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. Group result from interest rate risk, foreign currency risk 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) assigned interest rate risk limits to the Financial Markets divisions 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 Financial Markets). In addition to the members of the Managing Board, the ALCO meetings are also attended by the heads of the Financial Markets divisions, Market Risk, Controlling and Accounting. On the basis of the risk reports, the market risk and the results of various scenario analyses and stress tests 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 Meeting on a monthly basis.

For the purpose of interest rate analysis, all interest-bearing instruments (with fixed and variable rates) are assigned to corresponding time buckets based upon their contractual repricing periods or assumptions regarding these in the case of accounts with undefined maturity profiles.

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 Group's interest rate risk as of 30 June 2010 on the basis of the PVBP concept. The net asset value changes of all financial positions in the Group'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	-382	109	-126	-63	244	121	-97
USD	5	-4	-11	-5	-1	-2	-18
CHF	-21	-4	-7	-13	-21	-68	-134
JPY	7	-1	-5	-	-	12	12
Other currencies	5	4	-4	-	-3	7	8
Total 30.06.2010	-387	105	-153	-82	220	69	-228
Total 31.12.2009	-62	-130	61	31	118	-112	-94

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

P&L and equity-relevant PVBP

in thousands of Euros	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
30.06.2010	-138	24	26	213	277	143	546
31.12.2009	16	-313	275	90	240	16	323

In addition to the traditional approaches to measuring interest rate risk, a value-at-risk calculation for the Group 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 30 June 2010, the value-at-risk for interest rate risk in the Group's banking book amounted to EUR 10.6 million (compared to EUR 4.2 million as of 31 December 2009).

Net interest income is one of the key parameters in periodic income management and is the result 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.

Alternative Investments

In November 2009, the Managing Board of BAWAG P.S.K. decided to discontinue the Bank’s alternative investments strategy. As a result of this decision, BAWAG P.S.K. submitted notice of the termination of all funds in its alternative investments portfolio in 2009.

As of 30 June 2010, roughly EUR 40 million were still invested. The current redemption plan calls for a further EUR 20 million to be repaid in the third quarter of 2010.

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 in the Financial Markets applications with the positions in the accounts and initiates analysis and clearing activities in the case of differences.

30 | 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).

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 hypotheses, 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.

BAWAG P.S.K. has maintained its substantial liquidity overhang. The Bank also held unrestricted, tenderable collateral in the amount of over EUR 4 billion as of 30 June 2010 and can dispose of these assets if needed for the short-term creation of liquidity.

31 | Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential impairments and low profitability of non-consolidated equity investments. Participation risk does not include operating Group 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 investments in the Bank's portfolio and to determine the hidden reserves in the equity investment portfolio.

Shares in non-consolidated companies

in millions of Euros	30.06.2010	31.12.2009
Shares categorised as "Available-for-sale assets"	275	279
Shares in credit institutions	183	177
Subsidiaries	–	–
Associates	36	36
Other shares	147	141
Shares in other companies	92	102
Subsidiaries	48	58
Associates	36	36
Other shares	8	8
Shares accounted for using the equity method	15	30
Associates	15	30
Total shares in non-consolidated companies	290	309

32 | 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.

In addition to the central Operational Risk division, decentralised risk managers have also been assigned to the Bank's various divisions and subsidiaries. While the central division is primarily responsible for selecting the methods to be applied, the risk managers in the Bank's various divisions are responsible for identifying and measuring risks and for implementing measures to minimise operational risk.

A workflow tool is used to collect and analyse data on losses, near losses, profits and events and to provide this information to the Enterprise Risk Meeting on a monthly basis.

Structured Risk Control Self Assessment questionnaires are used to identify risk potential. The risk assessments and the agreed risk-mitigation measures are documented in a report for each organisational unit and reported to the respective unit heads and managers, the responsible Managing Board member and the Chief Risk Officer.

A monthly risk-potential overview (totals per division and subsidiary and the greatest individual risks) is drawn up for the Enterprise Risk Meeting.

The regulatory own funds for operational risk are calculated using the basis-indicator approach pursuant to §§ 182 ff. SolvaV.

Vienna, 24 August 2010



Byron Haynes, CEO
Chairman of the Managing Board



Stephan Koren
Deputy Chairman of the Managing Board



Regina Prehofer
Member of the Managing Board



Christoph Raninger
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 condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements and of the principal risks and uncertainties for the remaining six months of the financial year.”

Vienna, 24 August 2010



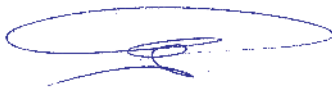
Byron Haynes, CEO
Chairman of the Managing Board



Stephan Koren
Deputy Chairman of the Managing Board



Regina Prehofer
Member of the Managing Board



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