

ANNUAL REPORT
PURSUANT TO UGB
FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2010
BAWAG P.S.K. BANK
FÜR ARBEIT UND WIRTSCHAFT
UND ÖSTERREICHISCHE
POSTSPARKASSE
AKTIENGESELLSCHAFT
VIENNA

2010



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BALANCE SHEET AS OF 31 DECEMBER 2010

ASSETS

	2010 EUR	2010 EUR	2009 in thousands of Euros
1. Cash on hand, balances at central banks		455,176,377.76	579,714
2. Public sector debt instruments approved by the central bank for refinancing		1,232,026,427.03	2,585,488
3. Loans and advances to credit institutions		2,117,175,169.86	4,961,547
a) On demand	186,281,658.48		182,303
b) Other receivables	1,930,893,511.38		4,779,244
4. Loans and advances to customers		24,877,804,091.58	23,744,792
5. Bonds and other fixed-income securities		5,797,557,870.08	5,905,433
a) From public sector issuers	101,781,533.01		150,255
b) From other issuers	5,695,776,337.07		5,755,178
Thereof bonds issued by the Bank	84,769,829.66		78,174
6. Shares and other variable-rate securities		158,276,681.35	79,380
7. Equity interests		93,806,696.63	95,017
Thereof in credit institutions	51,274,855.84		51,474
8. Shares in Group companies		1,402,556,719.08	1,463,166
Thereof in credit institutions	597,319,705.24		612,819
9. Intangible fixed assets		96,840,954.00	114,427
10. Tangible fixed assets		173,041,493.06	191,203
Thereof land and buildings used by the enterprise for its own operations	113,743,873.36		118,801
11. Other assets		1,933,481,152.43	1,403,635
12. Prepaid expenses		33,877,450.58	36,151
Total assets		38,371,621,083.44	41,159,951
Off-balance-sheet items			
1. Foreign assets		11,906,376,045.23	12,568,448

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

EQUITY AND LIABILITIES

	2010 EUR	2010 EUR	2009 in thousands of Euros	
1. Amounts owed to credit institutions		5,634,376,907.47		7,049,794
a) On demand	1,269,804,500.92		1,760,071	
b) With agreed maturities or notice period	4,364,572,406.55		5,289,722	
2. Amounts owed to customers		20,358,115,637.39		22,231,113
a) Savings deposits – thereof:		13,094,551,609.45		14,638,668
aa) On demand	1,252,254,560.05		1,486,819	
bb) With agreed maturities or notice period	11,842,297,049.40		13,151,849	
b) Other customer liabilities – thereof:		7,263,564,027.94		7,592,445
aa) On demand	6,360,426,700.56		5,984,154	
bb) With agreed maturities or notice period	903,137,327.38		1,608,291	
3. Debts evidenced by certificates		6,340,843,311.89		6,515,541
a) Issued bonds	5,130,981,383.95		5,392,685	
b) Others debts evidenced by certificates	1,209,861,927.94		1,122,856	
4. Other liabilities		2,290,999,004.43		1,490,223
5. Deferred income		30,716,149.87		13,996
6. Provisions		526,422,529.10		494,727
a) Provisions for severance payments	61,976,385.00		63,466	
b) Provisions for post-employment benefits	209,083,275.00		205,772	
c) Provisions for taxes	1,000,000.00		4,000	
d) Other provisions	254,362,869.10		221,488	
6.A Fund for general banking risks		28,200,000.00		28,200
7. Subordinated liabilities		508,797,645.87		781,396
8. Supplementary capital		710,481,686.83		746,732
9. Subscribed capital		800,000,000.00		800,000
10. Capital reserves		301,273,446.16		301,273
a) Tied	301,069,989.55		301,070	
b) Free	203,456.61		203	
11. Revenue reserves		100,101,614.14		102
a) Revenue reserves statutory	101,614.14		102	
b) Other revenue reserves	100,000,000.00		–	
12. Reserve pursuant to section 23 para. 6 BWG		613,754,463.10		613,754
13. Accumulated profit		116,293,447.83		80,670
14. Untaxed reserves		11,245,239.36		12,430
Valuation reserve for non-scheduled write-downs	11,245,239.36		12,430	
Total liabilities		38,371,621,083.44		41,159,951
Off-balance-sheet items				
1. Contingent liabilities		885,312,575.72		1,419,791
Thereof liabilities arising from guarantees and obligations from the provision of collateral	885,312,575.72		1,419,791	
2. Commitments		9,090,576,532.41		7,414,773
Thereof liabilities from repurchase agreements	–		–	
3. Liabilities from trust transactions		195,742,406.78		208,250
4. Eligible own funds pursuant to section 23 para. 14 BWG		2,911,009,000.00		2,839,197
Thereof: own funds pursuant to section 23 para. 14 line 7 BWG	114,922,000.00		66,822	
5. Required own funds pursuant to section 22 para. 1 BWG		1,668,565,000.00		1,682,201
Thereof required own funds pursuant to section 22 para. 1 line 1 and 4 BWG	1,554,000,000.00		1,615,379	
6. Foreign liabilities		7,350,305,692.35		9,233,506

Income Statement for Financial Year 2010

	2010 EUR	2010 EUR	2009 in thousands of Euros	
1. Interest and similar income		959,561,796.57		1,176,604
Thereof from fixed-income securities	190,034,431.58		250,235	
2. Interest and similar expenses		-425,628,327.28		-697,439
I. NET INTEREST INCOME		533,933,469.29		479,165
3. Income from securities and equity investments		36,105,427.49		10,429
a) Income from shares, other ownership interests and variable-rate securities	22,001,570.62		82	
b) Income from equity interests	3,741,019.67		4,176	
c) Income from shares in Group companies	10,362,837.20		6,170	
4. Fee and commission income		252,469,412.64		258,161
5. Fee and commission expenses		-118,404,022.19		-113,078
6. Net profit from trading activities		21,359,492.93		28,276
7. Other operating income		8,699,837.85		23,865
II. OPERATING INCOME		734,163,618.01		686,818
8. General administrative expenses		-501,501,527.67		-485,681
a) Staff costs	-334,025,855.91		-316,619	
Thereof:				
aa) Wages and salaries	-229,627,867.27		-210,785	
bb) Expenses for statutory social security contributions and compulsory contributions related to wages and salaries	-57,883,560.57		-55,807	
cc) Other employee benefits	-3,579,769.35		-2,916	
dd) Expenses for retirement benefits	-18,532,304.84		-18,366	
ee) Allocation to pension provision	-3,310,779.00		-12,104	
ff) Expenses for severance payments and payments to employee severance funds	-21,091,574.88		-16,641	
b) Other administrative expenses	-167,475,671.76		-169,061	
9. Depreciation and amortisation of asset items 9 and 10		-52,375,622.04		-52,291
10. Other operating expenses		-11,584,550.08		-5,060
III. OPERATING EXPENSES		-565,461,699.79		-543,032
IV. OPERATING RESULT		168,701,918.22		143,786

	2010 EUR	2010 EUR	2009 in thousands of Euros
IV. OPERATING RESULT		168,701,918.22	143,786
11./12. Net income/expenses from the disposal and valuation of loans and advances, securities, contingent liabilities and commitments		-108,966,291.14	-45,315
13./14. Net income/expenses from the disposal and valuation of securities valued as financial fixed assets, and of shares in Group companies and equity interests		124,385,073.43	-85,486
V. RESULTS FROM ORDINARY BUSINESS ACTIVITIES		184,120,700.51	12,986
15. Extraordinary income <i>Thereof: relocation from the fund for general banking risks</i>	-	-	53,518
16. Extraordinary expenses <i>Thereof: allocation to the fund for general banking risks</i>	-	-	-
17. Taxes on income		-18,029,233.76	12,760
18. Other taxes not included under item 17		-6,077,280.97	-126
VI. ANNUAL SURPLUS		160,014,185.78	79,138
19. Movements in reserves Thereof: allocation to the liability reserve Thereof: release from the liability reserve	- - -	-98,815,624.33	1,532
VII. PROFIT FOR THE YEAR		61,198,561.45	80,670
20. Profit brought forward from previous year		55,094,886.38	-
VIII. ACCUMULATED PROFIT		116,293,447.83	80,670

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

The Managing Board

Haynes m.p.

Koren m.p.

Raninger m.p.

Arndt m.p.

Klein m.p.

Sharma m.p.

Auditor's Report

Report on the Financial Statements

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

BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft, Vienna, for the fiscal year from 1 January 2010 to 31 December 2010. These financial statements comprise the balance sheet as of 31 December 2010, the income statement for the fiscal year ended 31 December 2010, and the notes.

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

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

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

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

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

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

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with the legal requirements and give a true and fair view of the financial position of BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft as of 31 December 2010, and of its financial performance for the fiscal year from 1 January 2010 to 31 December 2010, in accordance with Austrian Generally Accepted Accounting Principles.

Comments on the Management Report

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

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

Vienna, 7 March 2011

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Peter Bitzyk ppa. Mag. Wolfgang Wurm
Certified Public Accountants

The publication or transmission of the financial statements in a form different from the one we have audited is only permitted with our consent if in the course of doing so reference is made to our audit opinion or our audit. The auditor's opinion only refers to the German version of the financial statements including the management report. For any amended version the provisions of section 281 para 2 ACC need to be obeyed.

Notes

Key Events during the Financial Year

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

Scope of Consolidation and Consolidated Financial Statements

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

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

Recognition and Measurement Principles

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

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

Receivables from credit institutions and customers are generally recognised using the nominal value of the receivable item. In the case of identifiable risks, individual loan loss provisions are made. In retail banking, such loan loss provisions are determined according to common criteria for each individual risk item.

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

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

Equity investments are valued at cost. Corresponding write-downs are made when non-temporary impairments are determined.

Intangible non-current assets and **tangible non-current assets** are recognised at cost less scheduled straight-line amortisation or depreciation. The depreciation rates for buildings are in line with those defined in section 8 EStG, those for other tangible non-current assets range from 5 per cent to 20 per cent; the amortisation rates for intangible non-current assets range from 10 per cent to 20 per cent. Acquisitions in the first half of the year are written down using the full annual rate, acquisitions made in the second half of the year are written down with half the annual rate. Low-value assets with an individual purchase cost of EUR 400 or less are written down in full in their year of acquisition. No write-ups were made in 2010.

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

Provisions for severance payments were calculated on 31 December 2010 in the same manner as in the prior year using discounted methods (interest rate 4 per cent, entry age normal method, fluctuation discount 8 per cent) in accordance with expert opinion KFS RL 2 of the Board of Experts in the Austrian Chamber of Public Accountants (*Fachsenat für Handelsrecht und Revision*) using the amendments adopted on 5 May 2004.

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

The **provisions for jubilee benefits** were calculated on 31 December 2010 using discounted methods (interest rate 4 per cent, entry age normal method, fluctuation discount 8 per cent) in accordance with expert opinion KFS RL 2 of the Board of Experts in the Austrian Chamber of Public Accountants (*Fachsenat für Handelsrecht und Revision*) using the amendments adopted on 5 May 2004.

The **other provisions** were formed in line with the expected obligations. All recognisable risks are taken into account.

In principal, **receivables and liabilities denominated in foreign currencies** are translated at the middle exchange rate on the balance sheet date. Pending term contracts are recognised at the future rate.

Notes and Additional Information

Information on assets

3 | Receivables from credit institutions and

4 | Receivables from customers

Information on liabilities

1 | Payables to credit institutions

2 | Payables to customers

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

in thousands of Euros	31.12.2010	31.12.2009
Receivables from credit institutions and customers with agreed maturity dates or periods of notice:		
- Up to 3 months	5,111,107	7,043,664
- More than 3 months to 1 year	1,651,540	1,769,466
- More than 1 year to 5 years	8,772,910	8,832,631
- More than 5 years	9,917,407	9,092,746
Total	25,452,963	26,738,507
Payables to credit institutions and customers with agreed maturity dates or periods of notice:		
- Up to 3 months	1,579,861	3,144,830
- More than 3 months to 1 year	4,238,990	4,384,465
- More than 1 year to 5 years	4,475,121	5,230,458
- More than 5 years	6,816,035	7,290,111
Total	17,110,007	20,049,863

Receivables from and payables to Group companies and associates

in thousands of Euros	31.12.2010	31.12.2009
Receivables from credit institutions		
- From Group companies	604,880	1,040,855
- From associates	3	3
Receivables from customers		
- From Group companies	3,044,022	3,475,404
- From associates	232,638	226,838

in thousands of Euros	31.12.2010	31.12.2009
Payables to credit institutions		
- To Group companies	3,107,070	2,770,419
- To associates	931	909
Payables to customers		
- To Group companies	369,617	728,810
- To associates	48,196	73,914

Disclosures concerning related parties pursuant to section 237 line 8b UGB

Financing agreements with Group companies are concluded at standard Group terms, which means that a liquidity premium is charged, but no risk premium. Financing agreements with equity investments are concluded at standard market terms.

Subordinated receivables

in thousands of Euros	31.12.2010	31.12.2009
Subordinated receivables from credit institutions		
– From Group companies	16,711	16,741
– From associates	–	–
– Other subordinated receivables	–	9,000
Subordinated receivables from customers		
– From Group companies	1,570,121	1,561,247
– From associates	–	–
– Other subordinated receivables	26,871	26,880

Further information about receivables from credit institutions and customers

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

The receivables include amounts collateralised by bills of exchange:

in thousands of Euros	31.12.2010	31.12.2009
Receivables from credit institutions	–	–
Receivables from customers	203,110	61,514

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

in thousands of Euros	31.12.2010	31.12.2009
Bonds and other fixed-income securities	5,797,558	5,905,433
Shares and other variable-rate securities	158,277	79,380
Balance	5,955,835	5,984,813

Breakdown of securities into non-current and current assets

in thousands of Euros	31.12.2010	31.12.2009
Non-current assets		
– Bonds and other fixed-income securities	5,102,255	4,931,992
– Shares and other variable-rate securities	-	-
Total non-current assets	5,102,255	4,931,992
Current assets		
– Bonds and other fixed-income securities	695,303	973,441
– Shares and other variable-rate securities	158,277	79,380
Total current assets	853,580	1,052,820

Breakdown of securities admitted for trading into listed and unlisted securities

in thousands of Euros	31.12.2010	31.12.2009
Admitted bonds and other fixed-income securities		
– Listed	5,387,898	5,768,494
– Unlisted	409,660	136,939
Total	5,797,558	5,905,433
Admitted shares and other variable-rate securities		
– Listed	16,743	4,838
– Unlisted	-	-
Total	16,743	4,838

Amounts expected to come due in the following year

in thousands of Euros	Due in 2011	Due in 2010
Bonds and other fixed-income securities	1,255,659	1,953,712
Shares and other variable-rate securities	14,114	1,345
Total	1,269,773	1,955,056

Securities issued by Group companies and associates

in thousands of Euros	31.12.2010	31.12.2009
Bonds and other fixed-income securities	5,687	6,551
Shares and other variable-rate securities	96,262	31,176
Total	101,949	37,727

Subordinated securities

in thousands of Euros	31.12.2010	31.12.2009
Bonds and other fixed-income securities	11,602	14,896
Shares and other variable-rate securities	26,472	16,657
Total	38,073	31,552
– Thereof issued by Group companies and associates	9,709	4,837

Repurchase agreements

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

in thousands of Euros	31.12.2010	31.12.2009
	330,732	825,638

The assets are still recognised as assets and the counter values as obligations.

The carrying amount of assets assumed under repurchase agreements totalled EUR 0 (2009: EUR 100,180 thousand).

Omitted addition

The addition that was not made during the financial year for tax reasons amounted to EUR 181 thousand (2009: EUR 577 thousand).

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

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

in thousands of Euros	31.12.2010	31.12.2009
	159,017	65,904

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

in thousands of Euros	31.12.2010	31.12.2009
	58,976	65,273

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

in thousands of Euros	31.12.2010	31.12.2009
	–	12

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

in thousands of Euros	31.12.2010	31.12.2009
	33,918	42,991

**Financial instruments classified as financial non-current investments reported above their fair value
(section 237a paragraph 1 line 2–section 237 line 8a UGB)**

in thousands of Euros	31.12.2010	31.12.2009
Carrying amount of these securities	1,643,740	667,730
Lower fair value of these securities	1,595,829	643,592
Interests and shares in Group companies	–	–

There is no need to recognise any impairment losses for these securities because the repayment of the full nominal value is contractually agreed upon at maturity and the full repayment of this nominal amount can be assumed because of the issuer's good credit standing.

Additional information on assets

7 | Equity investments and

8 | Shares in Group companies

in thousands of Euros	31.12.2010	31.12.2009
Carrying amount	1,496,363	1,558,182
– Listed	–	–

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

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

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

The fixed assets movement schedule can be found in a separate annex.

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

in thousands of Euros	31.12.2010	31.12.2009
	32,302	33,098

Obligations arising from the use of tangible non-current assets not recognised on the balance sheet are entered as follows:

in thousands of Euros	31.12.2010	31.12.2009
For the coming year	18,689	21,310
For the coming 5 years	95,362	97,610

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

in thousands of Euros	31.12.2010	31.12.2009
Deferred interest from derivative financial instruments (banking book and trading book)	220,853	199,346
Positive fair values of derivative financial instruments in the trading book (clean)	1,516,939	955,454
Values of derivative financial instruments in the banking book (clean)	122,887	105,954
Settlement receivables from Group companies	19,247	32,957
Other receivables	53,555	109,924
Total	1,933,481	1,403,635

Additional information on liabilities**3 | Debts evidenced by certificates****7 | Subordinated liabilities****8 | Supplementary capital**

Debts from subordinated and supplementary capital are primarily issued in securitised form as bonds. These securities are all bullet bonds. Supplementary capital bonds are primarily subscribed by Austrian private retail investors, while bonds with subordination are sold to major domestic and international investors.

During the next fiscal year, debts evidenced by certificates and supplementary capital bonds totalling EUR 973,533 thousand (face value) will come due for redemption at maturity.

The Bank issued supplementary capital bonds with a nominal value of EUR 306,717 thousand and has accepted supplementary capital deposits with a nominal value of EUR 300,000 thousand and JPY 14,000,000 thousand.

No new supplementary capital pursuant to section 23 BWG was issued during the reporting period.

As of 31 December 2010, the average weighted nominal interest rate on supplementary and subordinated capital bonds was 4.76 per cent, and the average remaining term to maturity was 6.5 years.

The term subordination is applied pursuant to section 45 paragraph 4 and section 51 paragraph 9 BWG.

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

in thousands of Euros	31.12.2010	31.12.2009
Accrued interest from derivative financial instruments (banking book and trading book)	98,000	115,408
Negative fair values of derivative financial instruments in the trading book (clean)	1,459,486	933,730
Values of derivative financial instruments in the banking book (clean)	573,484	321,840
Payables from taxes and levies	17,889	26,848
Accrued interest on supplementary capital bonds	9,411	16,316
Other liabilities	132,729	76,081
Total	2,290,999	1,490,223

Additional information on liabilities

6 | Provisions

The actuarial calculation of the **provisions for post-employment benefits** (interest rate 4 per cent, entry age normal method) on 31 December 2010 showed the following provision requirement:

in thousands of Euros	31.12.2010	31.12.2009
Provision requirements for post-employment benefits	209,083	205,772

The provision requirements were calculated taking into account the expert opinion and the new post-employment benefit entitlements laid down in the collective bargaining agreement on pensions for banks that went into force on 1 January 1997.

The difference between the coverage required and the actual pension accrual made in accordance with the tax rules resulting from the defined benefit and entitlements transferred in 2001 was then capitalised. By 2010 this difference was written down in full.

The discounted calculation of the **provisions for termination benefits** (interest rate 4 per cent, entry age normal method, fluctuation discount 8 per cent) on 31 December 2010 showed the following provision requirement:

in thousands of Euros	31.12.2010	31.12.2009
Provision requirement for termination benefits	61,976	63,466

The discounted calculation of the **provisions for jubilee benefits** (interest rate 4 per cent, entry age normal method, fluctuation discount 8 per cent) on 31 December 2010 showed the following provision requirement:

in thousands of Euros	31.12.2010	31.12.2009
Provision requirement for jubilee benefits	28,839	28,237

Provisions have also been formed for operational risks, for credit risks, for legal risks and for human resources purposes. The material other provisions include, among other items, the following:

in thousands of Euros	31.12.2010	31.12.2009
Provisions for receivables and off-balance-sheet transactions	41,151	43,504
Provisions for pre-retirement part-time work	56,567	44,724
Other staff provisions	49,346	35,542

Notes on own funds

The Bank has subscribed capital in the amount of EUR 800,000,000 (2009: EUR 800 million). The Bank issued EUR 550 million in participation capital on the basis of an agreement in principle with the Republic of Austria on 22 December 2009. A total of 11,000 individual certificates were issued. The share capital of EUR 250 million is represented by 250,000,000 bearer shares.

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

in thousands of Euros	31.12.2010	31.12.2009
Nominal volume of derivative financial instruments in the trading book	51,183,474	45,344,526
Securities held for trading	161,536	198,266
Money market transactions (recognised under receivables from credit institutions and payables to credit institutions)	666,856	2,332,200

In 2010, no new subordinated issues were made or loans taken that exceeded 10 per cent of the subordinated debt.

Changes in own funds

in thousands of Euros	31.12.2010	31.12.2009
Subscribed capital	800,000	800,000
Reserves and fund for general banking risks	1,118,372	954,237
Deductions	-96,841	-114,427
Core capital (Tier I)	1,821,531	1,639,810
Shareholdings pursuant to section 23 paragraph 13 BWG	-35,359	-50,683
Eligible core capital (Tier I)	1,786,172	1,589,127
Additional items (Tier II)	1,045,274	1,233,931
Shareholdings pursuant to section 23 paragraph 13 BWG	-35,359	-50,683
Eligible own funds	2,796,087	2,772,375
Own funds ratio	14.9%	14.1%
Existing Tier III	114,922	66,822
Own funds	2,911,009	2,839,197
Required own funds	1,668,565	1,682,201
Excess own funds	1,242,444	1,156,996

Taxes

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

in thousands of Euros	1.1.2010	All.	Rel.	31.12.2010
Holdings	-	-	-	-
Shares in Group companies	-	-	-	-
Land and buildings used for Bank operations	12,400	-	-1,184	11,216
Other assets	29	-	-	29
Total	12,429	-	-1,184	11,245

The changes in the untaxed reserves increased the income for tax purposes by EUR 1,184 thousand and resulted entirely from the release of valuation reserves.

The capitalised tax accruals and deferrals that are eligible for capitalisation pursuant to section 198 paragraph 10 UGB came to EUR 38,364 thousand as of 31 December 2010 (2009: EUR 47,228 thousand).

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

The tax group pursuant to section 9 KStG that had been parented by BAWAG P.S.K. since 2005 was dissolved in the financial year. A final settlement of 25 per cent for not yet credited tax losses was paid to individual members of the former tax group. Some members of the tax group did not meet the minimum group membership requirement of three years. As a result, all tax effects applied to these companies on the basis of their membership in the tax group were reversed, and the group parent reversed all positive tax allocations from these companies.

As of the start of the financial year, a new tax group was formed pursuant to section 9 KStG; this group is headed by BAWAG Holding GmbH and has 25 members in Austria, including BAWAG P.S.K. A new tax allocation agreement was concluded. The allocation method was chosen for determining the tax allocations. This method is based on the tax result of the group as a whole. The payable tax is allocated to each group member with a positive tax result on the basis of its proportionate share of the group's tax result. In this, an internal tax loss carryforward is taken into account for tax losses allocated to the group parent. A final settlement for uncredited tax losses must be effected by the group parent upon dissolution of the new tax group or when a member entity leaves the group.

The item income taxes includes expenses in connection with the dissolution of the former taxable group in the amount of EUR 4,832 thousand from final settlement payments and EUR 4,069 thousand from reversed tax allocations.

Further Information on the Balance Sheet

Assets pledged as collateral

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

in thousands of Euros	31.12.2010	31.12.2009
Cover pool for covered bonds	3,585,844	2,802,089
Cover pool for trust savings deposits	39,225	46,641
Receivables and securities assigned to Oesterreichische Kontrollbank AG	985,248	992,939
Collateral pledged in favour of the European Investment Bank	517,330	328,935
Other collateral	50,272	42,930
Total	5,177,919	4,213,534

Collateralised debt

These assets are linked to the following obligations, which are reported in the balance sheet items for debts evidenced by certificates, savings deposits and payables to credit institutions and customers.

in thousands of Euros	31.12.2010	31.12.2009
Covered bonds	2,604,980	2,177,549
Trust savings deposits	28,819	32,775
Oesterreichische Kontrollbank AG refinancing	986,035	992,939
European Investment Bank refinancing	495,576	378,087
Total	4,115,410	3,581,351

Balance sheet items in foreign currencies

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

in thousands of Euros	31.12.2010	31.12.2009
Assets in foreign currencies	5,974,932	5,627,310
Liabilities in foreign currencies	3,020,254	3,716,850

Trust transactions eligible for segregation

Trust transactions that are eligible for segregation represented a total volume of EUR 195,742 thousand as of the reporting date (2009: EUR 208,250 thousand).

Contractual liabilities – received collateral

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

in thousands of Euros	Collateralised on-balance-sheet claims	Collateralised off-balance-sheet claims	Total
Financial collateral:			
– Stocks	83,261	146,005	229,266
– Cash deposits	109,298	685,753	795,051
– Gold	104	–	104
– Investment funds	138	5	143
– Bonds	44,428	9,338	53,766
Real estate collateral:			
– Commercial properties	655,744	20,962	676,706
– Private properties	3,767,278	66,524	3,833,802
Personal collateral:			
– Guarantees	3,020,704	91,396	3,112,100
– Credit derivatives	37,190	–	37,190
Other forms of collateral:			
– Cash deposits at other banks	257	480	737
– Life insurance policies	47,534	240	47,774
Total	7,765,936	1,020,703	8,786,639

Collateral

Derivative transactions are secured by collateral deals (received or paid):

- ▶ Consideration received EUR 358,566 thousand
- ▶ Consideration paid EUR 831,050 thousand

For more information on off-balance-sheet transactions, please refer to the pertinent sections of the management report.

Contingent liabilities

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

in thousands of Euros	31.12.2010	31.12.2009
Contingent liabilities	885,313	1,419,791
Thereof guarantees and letters of comfort issued for Group companies	2,392	543,615
Commitments	9,090,577	7,414,773

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

Pending futures contracts

The volume of pending futures contracts as of 31 December 2010 is shown in a separate annex.

Notes to the Income Statement

The EUR 47 million rise in operating income can primarily be attributed to the increase in net interest income and income from variable-rate securities. The EUR 23 million increase in operating expenses stemmed from higher restructuring expenses relating to pension models and additional expenses related to changes in the distribution structure.

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

Expenditures on subordinated liabilities (the item Interest and similar expenses) came to EUR 81,120 thousand (2009: EUR 38,877 thousand). The figure for the previous year does not include interest for supplementary capital because this was paid by BAWAG Holding GmbH.

The net income from equity interests in the amount of EUR 14,104 thousand (2009: EUR 10,346 thousand) includes income from Group companies in the amount of EUR 10,363 thousand (2009: EUR 6,170 thousand).

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

The other operating income in the amount of EUR 8,700 thousand (2009: EUR 23,865 thousand) includes the following items, among others:

in thousands of Euros	2010
Income from the sale of tangible non-current assets	2,747
Rental income	601
Compensation for damages	66

The other operating expenses came to EUR 11,585 thousand (2009: EUR 5,060 thousand) and include EUR 10,163 thousand for expenses connected to the sale of non-current assets.

The net expenses from the disposal and valuation of receivables, from securities held as current assets, from contingent liabilities and commitments and from risk provisions for the financial year came to EUR 108,966 thousand (2009: EUR 45,315 thousand, taking into account the contribution of EUR 205,000 thousand made by the owner to cover expenses).

Item 13/14 includes gains from the sale of securities classified as non-current assets in the amount of EUR 184,738 thousand (2009: loss of EUR 27,118 thousand). Impairments of equity interests, gains from the sale of equity interests and assumed losses came to EUR 60,353 thousand (2009: EUR 58,368 thousand).

The refunds for received tax allocations and back tax payments associated with the change in the taxable group resulted in tax expenses for the period of EUR 24,107 thousand (2009: income of EUR 12,634 thousand).

Staff, Boards and Officers

Our average headcount during the 2010 financial year was 4,296 (2009: 4,344 employees), all of whom were salaried staff or federal civil servants. This headcount includes 150 employees (2009: 176 employees) who are employed by BAWAG P.S.K. but who are assigned to NAVENSIS Zahlungsverkehrsabwicklungs GmbH.

Expenses for staff benefit fund contributions in financial year 2010 totalled EUR 929 thousand (2009: EUR 790 thousand).

Expenses for remuneration paid to active members of the Managing Board during the financial year came to EUR 9,358 thousand (2009: EUR 6,662 thousand).

Pension benefits totalling EUR 1,674 thousand were paid to former Managing Board members and their surviving dependants. Due to the release of provisions, earnings of EUR 456 thousand were recognised in the period (2009: earnings of EUR 1,669 thousand).

Remuneration of members of the Supervisory Board came to EUR 253 thousand (2009: EUR 308 thousand).

Expenditures for severance pay and post-employment benefits for the Managing Board and key management personnel came to EUR 10,729 thousand (2009: EUR 11,549 thousand). Expenditures with respect to other employees came to EUR 32,219 thousand (2009: EUR 39,400 thousand).

As of the balance sheet date, there was one outstanding loan to a member of the Managing Board in the amount of EUR 38 thousand (2009: no outstanding loans). Loans to members of the Supervisory Board totalled EUR 29 thousand (2009: EUR 33 thousand). Repayments of loans granted to board members took place as contractually agreed.

No members of the Managing Board were making use of overdraft facilities on their current accounts as of the reporting date. Overdraft facilities on current accounts being used by Supervisory Board members totalled EUR 26 thousand (2009: EUR 32 thousand). Transactions on guaranteed credit cards in the possession of members of the Managing Board came to EUR 0 in December 2010, while transactions on guaranteed credit cards in the possession of members of the Supervisory Board came to EUR 2 thousand (2009: EUR 1 thousand).

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

Notes on Derivative Financial Instruments

Quoted prices are used for the valuation of exchange-traded instruments such as futures and options on futures.

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

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

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

The valuation of credit-linked notes for which there is no active market is completed using valuation models. Credit-linked notes (CLNs) are bonds whose repayment amount is dependent on contractually agreed events. These are generally bonds that bear the synthetic default risk of another reference bond (via a credit default swap) in addition to the default risk of the issuer. CLNs are valued on the basis of the bond and CDS spreads of the issuer and the reference bond, the coupon and the remaining term to maturity.

Valuations by external experts are also used for the valuation of complex structures after being subjected to a plausibility check.

Breakdown of derivative instruments in the trading book:

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

For further information on the derivative financial transactions of BAWAG P.S.K., please refer to the two tables in the Notes (“Derivatives in the banking book” and “Derivatives in the trading book”).

Information about the Disclosure pursuant to Section 26 BWG

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

Vienna, 7 March 2011



Byron Haynes
Chairman of the Managing Board and CEO



Stephan Koren
Deputy Chairman of the Managing Board



Andreas Arndt
Member of the Managing Board



Wolfgang Klein
Member of the Managing Board



Christoph Raninger
Member of the Managing Board



Sanjay Sharma
Member of the Managing Board

Changes in fixed assets pursuant to section 226 para 1 UGB

in thousands of Euros	Cost of purchase or conversion				Write-downs (write-ups)		Carrying amount	
	Balance 1.1. 2010	Additions 2010	Re- allocation 2010	Disposals 2010	Cumulative	2010	Balance 31.12. 2010	Balance 31.12. 2009
Financial investments								
Public sector debt instruments approved by the central bank for refinancing	2,574,682	2,088,136	-	-3,426,565	10,595	14,145	1,225,658	2,546,414
Loans and advances to credit institutions	-	59,328	-	-15,308	-22	-22	44,042	-
Loans and advances to customers	-	110,984	-	-	-1,367	-1,367	112,352	-
Bonds and other fixed-income securities	4,947,179	3,274,137	-	-3,204,098	5,371	13,962	5,011,848	4,947,173
Stocks and other securities	-	-	-	-	-	-	-	-
Equity interests	99,835	-	-	-199	5,830	1,011	93,807	95,017
Shares in Group companies	1,940,913	5,249	-	-7,587	536,018	58,981	1,402,557	1,463,166
Intangible fixed assets	247,124	5,387	-7	-2,193	153,470	21,606	96,841	114,427
Tangible fixed assets								
Land and buildings used for Bank operations	185,750	1,222	-	-7,408	65,820	3,074	113,744	118,801
Other tangible fixed assets	475,392	16,686	7	-36,537	396,251	27,695	59,298	72,402
Total	10,470,875	5,561,129	-	- 6,699,894	1,171,965	139,085	8,160,145	9,357,400

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

in thousands of Euros	Share- holding in %	Equity incl. untaxed reserves	Annual surplus/ (loss)	Cons.	VAT group	Figures as of
Banks						
BAWAG Allianz Vorsorgekasse AG, Vienna	50.00%	5,760	1,825			31.12.2009
BAWAG banka d.d., Ljubljana	100.00%	16,935	-2,953	C		31.12.2009
BAWAG Malta Bank Limited, Sliema	100.00%	468,898	81,668	C		31.12.2009
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	100.00%	18,498	515	C		31.12.2009
easybank AG, Vienna	100.00%	22,133	4,119	C	U	31.12.2009
Kapital-Beteiligungs Aktiengesellschaft, Vienna	20.00%	7,085	-1,729			30.09.2009
Österreichische Verkehrskreditbank AG, Vienna	100.00%	14,063	632	C		31.12.2009
PayLife Bank GmbH, Vienna	20.82%	87,507	41,551			31.12.2009
Non credit institutions						
A.U.S. Alpha Holding GmbH, Vienna	100.00%	5,033	-2	C		31.12.2009
A.U.S. Beta Holding GmbH, Vienna	100.00%	5,033	-2	C		31.12.2009
A.U.S. Gamma Holding GmbH, Vienna	100.00%	10,068	-2	C		31.12.2009
AUSTOST ANSTALT, Balzers	100.00%	4,148	97			31.12.2009
BAWAG Finance Malta Ltd., Sliema	100.00%	734	194	C		31.12.2009
BAWAG P.S.K. Capital Advisors Ltd., London	100.00%	252	-146			31.12.2009
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	100.00%	404	1			31.12.2009
BAWAG P.S.K. Equity Finance Ltd., Jersey	100.00%	4	-21			31.12.2009
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	100.00%	46,990	7,134	C		31.12.2009
BAWAG P.S.K. Jersey Capital Limited, Jersey	100.00%	-14,910	-14,910	C		31.12.2009
BAWAG P.S.K. LEASING GmbH, Vienna	100.00%	57,278	9,721	C	U	31.12.2009
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna	61.66%	77	22			31.12.2009
LTB Beteiligungs-Gesellschaft m.b.H., Vienna	25.10%	3,866	3,282			30.11.2010
NAVENSIS Zahlungsverkehrsabwicklungs GmbH, Vienna	99.66%	574	23	C	U	31.12.2009
P.S.K. Beteiligungsverwaltung GmbH, Vienna	100.00%	633,302	-57,515	C		31.12.2009
P.S.K. Handel und Vermietung GmbH, Vienna	100.00%	473	-4			31.12.2009
P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%	13,834	1,619	C		31.12.2009
RF BAWAG Leasing Gesellschaft m.b.H., Vienna	100.00%	35	45	C		31.12.2009
RVG, Realitätenverwertungsgesellschaft m.b.H., Vienna	100.00%	19,864	2,856	C		31.12.2009
Wiener Risikokapitalfonds Ges.m.b.H., Vienna	20.00%	20	-678			31.12.2009

Other Group affiliates and associates

in thousands of Euros	Share- holding in %	Equity incl. untaxed reserves	Annual surplus/ (loss)	Cons.	VAT group	Figures as of
Consolidation mandatory						
A.U.S. Alpha Vermögensverwaltung GmbH	100.00%					
A.U.S. Beta Vermögensverwaltung GmbH	100.00%					
A.U.S. Delta Holding GmbH	100.00%					
A.U.S. Delta Vermögensverwaltung GmbH	100.00%					
A.U.S. Gamma Vermögensverwaltung GmbH	100.00%					
BAWAG CAPITAL FINANCE III LIMITED, Jersey	100.00%					
BAWAG CAPITAL FINANCE II LIMITED, Jersey	100.00%					
BAWAG CAPITAL FINANCE LIMITED, Jersey	100.00%					
BAWAG Investments Limited, Jersey	100.00%					
BAWAG P.S.K. Fuhrparkleasing GmbH, Vienna	100.00%					
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%					
BAWAG P.S.K. INVEST GmbH, Vienna	100.00%					
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	100.00%					
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	100.00%					
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	100.00%					
BAWAG P.S.K. Vermietungs- und Leasing GmbH, Vienna	100.00%					
BAWAG P.S.K. Versicherung Aktiengesellschaft	25.00%			at equity		
B.L.H. BAWAG Leasing Holding GmbH, Vienna	100.00%					
Bodensee Limited, Sliema	51.00%					
BPI Holding GmbH & Co KG., Vienna	100.00%					
BV Holding GmbH, Vienna	100.00%					
BV Vermögensverwaltung GmbH, Vienna	100.00%					
CARNI Industrie-Immobilien-gesellschaft m.b.H., Vienna	100.00%					
CVG Immobilien GmbH, Vienna	100.00%					

Other Group affiliates and associates

in thousands of Euros	Share- holding in %	Equity incl. untaxed reserves	Annual surplus/ (loss)	Cons.	VAT group	Figures as of
Consolidation mandatory						
FCH beta Finanzierungsvermittlung GmbH, Vienna	100.00%					
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	100.00%					
KLB Baulandentwicklung GmbH., Vienna	100.00%					
M. Sittikus Str. 10 Errichtungs GmbH., Vienna	100.00%					
P.S.K. IMMOBILIENLEASING GmbH, Vienna	100.00%					
R & B Leasinggesellschaft m.b.H., Vienna	100.00%					
RF 17 BAWAG Immobilienleasing GmbH, Vienna	100.00%					
RF BAWAG Leasing Gesellschaft m.b.H., Vienna	100.00%					
RF elf Realitätenverwertungsgesellschaft m.b.H., Vienna	100.00%					
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	100.00%					
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%					
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	100.00%					
Rhein Limited, Grand Cayman	51.00%					
START Immobilienleasing GmbH, Vienna	100.00%					
Stiefelkönig Schuhhandels Gesellschaft m.b.H., Graz	100.00%					
Vindobona Finance Beta S.A., Luxembourg	100.00%					
Zeus Recovery Fund S.A., Luxembourg	50.00%					
Consolidation not mandatory						
ATHENA Burgenland Beteiligungen AG, Eisenstadt	38.30%					
Athena Wien Beteiligungen AG, Vienna	50.00%					
ATHENA Zweite Beteiligungen AG, Vienna	33.33%					
B.A.O. Immobilienvermietungs GmbH, Vienna	33.33%					
BAWAG Leasing & Fleet Kft, Budapest	100.00%					
BAWAG Leasing & Fleet Sp. z o.o., Warsaw	100.00%					
BAWAG Leasing & fleet s.r.o., Prague	100.00%					
BAWAG Leasing & Fleet s.r.o., Bratislava	100.00%					
BAWAG Leasing s.r.o., Bratislava	100.00%					
BAWAG Leasing Zrt., Budapest	100.00%					
BAWAG Real Estate Leasing s.r.o., Prague	100.00%					
B.I.S. BAWAG Internet Services GmbH, Vienna	100.00%					
BPLCZ One s.r.o., Prague	100.00%					
E-C-B Beteiligungsgesellschaft m.b.H., Vienna	50.00%					
Fides Leasing GmbH, Vienna	50.00%					
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%				U	
Generali Leasing GmbH, Vienna	25.00%					
HFE alpha Handels-GmbH, Vienna	50.00%					
IDG Immobilien Development Gesellschaft m.b.H. & Co KG, Vienna	100.00%					
Immoconsult Uriah Leasinggesellschaft m.b.H., Vienna	45.00%					
Ingebe Immobilienhandels- und Vermittlungs-GmbH., Vienna	100.00%					
IPO Wachstumsfonds Beteiligungs-Management GmbH, Vienna	30.90%					
Kommunalleasing GmbH, Vienna	50.00%					

in thousands of Euros	Share- holding in %	Equity incl. untaxed reserves	Annual surplus/ (loss)	Cons.	VAT group	Figures as of
Consolidation not mandatory						
Lethe Leasing GmbH, Vienna	100.00%					
MAP Handels GmbH, Vienna	95.84%					
Obernosterer - Beteiligungsgesellschaft m.b.H., Graz	100.00%					
Omnimedia Werbegesellschaft m.b.H., Vienna	27.57%					
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	50.00%					
PLATO Grundstücksverwertung GmbH, Vienna	100.00%					
PT Immobilienleasing GmbH, Vienna	100.00%					
REAL ESTATE Leasing s.r.o., Bratislava	100.00%					
Realplan Beta Liegenschaftsverwaltung Gesellschaft m.b.H., Vienna	50.00%					
Stiefelkönig d.o.o., Belgrade	100.00%					
Stiefelkönig d.o.o., Zagreb	100.00%					
Stiefelkönig Schuhhandels GmbH, Germany	100.00%					
Stiefelkönig spol. s.r.o., Bratislava	100.00%					
Stiefelkönig trgovinas cevliji d.o.o., Maribor	100.00%					
uni venture Beteiligungs AG, Vienna	100.00%					
Vindobona Alpha S.a r.l., Luxembourg	100.00%					
WBG Wohnen und Bauen Gesellschaft mbH, Vienna	24.00%					

Total derivatives of BAWAG P.S.K. as of 31 December 2010

Derivatives in the banking book

in thousands of Euros	Nominal values by maturity			Total	Fair purchase and selling value	
	Up to 1 year	1-5 years	Over 5 years		Pos fair value	Neg fair value
Interest rate derivatives						
a) Interest rate swaps (with a single currency)	13,023,594	13,907,962	3,845,211	30,776,767	578,176	-359,402
b) Base swaps	10,000	119,230	976,807	1,106,037	70,827	-33,409
c) Forward rate agreements	-	-	-	-	-	-
d) Interest rate futures and interest-rate-based index contracts (*)	306,900	-	-	306,900	-	-
e) Options on interest-rate-based index contracts	82,165	170,452	89,848	342,465	1,994	-3,338
f) Other comparable contracts	-	-	-	-	-	-
FX transactions and gold-based transactions						
a) Currency and interest rate swaps (with multiple currencies)	82,920	906,180	457,092	1,446,192	16,369	-138,690
b) Forwards	1,938,882	-	-	1,938,882	13,493	-18,763
c) Exchange-traded forwards and currency-based index contracts	-	-	269,673	269,673	62	-43,666
d) Currency options	74,056	10,000	9,384	93,440	7,462	-7,365
e) Gold-based contracts and contracts comparable with items a to d	-	-	-	-	-	-
f) Other exchange and gold contracts	-	-	-	-	-	-
Index and asset value contracts						
a) Forwards in asset values and other securities-price-based index forwards	-	-	42,628	42,628	-	-
b) Index forwards in asset values and other securities-based index forwards	17,400	121,376	14,600	153,376	5,428	-23,187
c) Options in asset values and other securities index options	-	-	-	-	-	-
d) Other comparable contracts involving asset values and other securities	-	-	-	-	-	-
Precious metals						
a) OTC precious metal forwards	-	-	-	-	-	-
b) Exchange-traded precious metal forwards	-	-	-	-	-	-
c) Precious metal options	-	-	-	-	-	-
d) Other comparable precious metal contracts	-	-	-	-	-	-
Commodities contracts (excluding precious metal contracts)						
a) Commodities forwards	-	-	-	-	-	-
b) Exchange-traded commodities forwards	-	-	-	-	-	-
c) Purchased commodities options	13,070	63,000	10,465	86,535	4,914	-164
d) Other comparable commodities contracts	-	-	-	-	-	-
Credit derivatives						
a) Single name credit event/default swaps	48,000	172,870	44,903	265,773	41,464	-2,200
b) Portfolio credit event/default swaps	-	-	-	-	-	-
c) Total return swaps	-	-	-	-	-	-
d) Credit spread forwards	-	-	-	-	-	-
e) Credit spread options	-	-	-	-	-	-
f) Sundries	-	-	-	-	-	-
Other futures, options and comparable transactions that cannot be assigned to categories above						
	-	5,601	62,711	68,312	3,772	-1,940
Total nominal value in the banking book				36,896,980	743,961	-632,124

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

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

Internal deals are not included.

Derivatives in the trading book

in thousands of Euros	Nominal values by maturity			Total	Fair purchase and selling value	
	Up to 1 year	1–5 years	Over 5 years		Pos fair value	Neg fair value
Interest rate derivatives						
a) Interest rate swaps (with a single currency)	3,742,699	10,707,059	5,405,747	19,855,505	543,617	-451,546
b) Base swaps	100,000	500,000	712,000	1,312,000	3,997	-20,077
c) Forward rate agreements	–	–	–	–	–	–
d) Interest rate futures and interest-rate-based index contracts (*)	82,500	–	–	82,500	–	–
e) Options on interest-rate-based index contracts	1,437,737	7,554,302	3,013,120	12,005,159	146,376	-152,299
f) Other comparable contracts	–	–	–	–	–	–
FX transactions and gold-based transactions						
a) Currency and interest rate swaps (with multiple currencies)	20,232	1,261,157	4,923	1,286,312	3,170	-261,835
b) Forwards	907,317	454,439	152,246	1,514,002	22,969	-48,858
c) Exchange-traded forwards and currency-based index contracts	–	–	–	–	–	–
d) Currency options	4,351,279	6,883,467	2,292,833	13,527,579	439,448	-390,920
e) Gold-based contracts and contracts comparable with items a to d	102,672	25,745	–	128,417	2,347	-3,856
f) Other exchange and gold contracts	–	–	–	–	–	–
Index and asset value contracts						
a) Forwards in asset values and other securities-price-based index forwards						
b) Index forwards in asset values and other securities-based index forwards						
c) Options in asset values and other securities index options						
d) Other comparable contracts involving asset values and other securities						
Precious metals						
a) OTC precious metal forwards						
b) Exchange-traded precious metal forwards						
c) Precious metal options						
d) Other comparable precious metal contracts						
Commodities contracts (excluding precious metal contracts)						
a) Commodities forwards						
b) Exchange-traded commodities forwards						
c) Purchased commodities options						
d) Other comparable commodities contracts						
Credit derivatives						
a) Single name credit event/default swaps	10,000	1,212,000	250,000	1,472,000	6,726	-26,645
b) Portfolio credit event/default swaps						
c) Total return swaps						
d) Credit spread forwards						
e) Credit spread options						
f) Sundries						
Other futures, options and comparable transactions that cannot be assigned to categories above						
Total nominal value in the trading book				51,183,474	1,168,650	-1,356,036
Total nominal value				88,080,454	1,912,611	-1,988,160

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

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

Internal deals are not included.

Total derivatives of BAWAG P.S.K. as of 31 December 2009

Derivatives in the banking book

in thousands of Euros	Nominal values by maturity			Total	Fair purchase and selling value	
	Up to 1 year	1-5 years	Over 5 years		Pos fair value	Neg fair value
Interest rate derivatives						
a) Interest rate swaps (with a single currency)	4,012,545	11,925,413	2,563,516	18,501,474	548,710	-306,638
b) Base swaps	-	107,730	953,556	1,061,286	57,246	-33,259
c) Forward rate agreements						
d) Interest rate futures and interest-rate-based index contracts (*)	20,000	-	-	20,000	-	-
e) Options on interest-rate-based index contracts	1,896,071	163,443	15,546	2,075,060	1,695	-682
f) Other comparable contracts	-	-	-	-	-	-
FX transactions and gold-based transactions						
a) Currency and interest rate swaps (with multiple currencies)	137,765	387,691	29,931	555,387	14,076	-16,858
b) Forwards	1,689,327	-	-	1,689,327	3,200	-45,488
c) Exchange-traded forwards and currency-based index contracts	-	-	223,791	223,791	49	-40,342
d) Currency options	55,813	72,424	9,292	137,529	-	-
e) Gold-based contracts and contracts comparable with items a to d	-	-	-	-	-	-
f) Other exchange and gold contracts	-	-	-	-	-	-
Index and asset value contracts						
a) Forwards in asset values and other securities-price-based index forwards	-	-	42,628	42,628	-	-
b) Index forwards in asset values and other securities-based index forwards	62,890	127,776	20,000	210,666	3,311	-23,597
c) Options in asset values and other securities index options						
d) Other comparable contracts involving asset values and other securities						
Precious metals						
a) OTC precious metal forwards						
b) Exchange-traded precious metal forwards						
c) Precious metal options						
d) Other comparable precious metal contracts						
Commodities contracts (excluding precious metal contracts)						
a) Commodities forwards						
b) Exchange-traded commodities forwards						
c) Purchased commodities options	-	82,070	5,000	87,070	2,146	-
d) Other comparable commodities contracts						
Credit derivatives						
a) Single name credit event/default swaps	220,000	414,909	59,000	693,909	51,515	-39,259
b) Portfolio credit event/default swaps						
c) Total return swaps						
d) Credit spread forwards						
e) Credit spread options						
f) Sundries						
Other futures, options and comparable transactions that cannot be assigned to categories above						
	256,100	5,601	74,022	335,723	11,438	-1,400
Total nominal value in the banking book				25,633,850	693,386	-507,523

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

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

Internal deals are not included.

Derivatives in the trading book

in thousands of Euros	Nominal values by maturity			Total	Fair purchase and selling value	
	Up to 1 year	1–5 years	Over 5 years		Pos fair value	Neg fair value
Interest rate derivatives						
a) Interest rate swaps (with a single currency)	4,950,100	10,239,624	6,003,871	21,193,595	522,331	-455,750
b) Base swaps	–	550,000	712,000	1,262,000	5,663	-20,340
c) Forward rate agreements	200,000	–	–	200,000	287	-253
d) Interest rate futures and interest-rate-based index contracts (*)	20,000	–	–	20,000	–	–
e) Options on interest-rate-based index contracts	683,520	5,670,297	3,862,752	10,216,569	127,525	-134,776
f) Other comparable contracts	–	–	–	–	–	–
FX transactions and gold-based transactions						
a) Currency and interest rate swaps (with multiple currencies)	–	1,082,557	2,374	1,084,931	3,710	-69,890
b) Forwards	771,939	69,904	–	841,843	14,445	-12,761
c) Exchange-traded forwards and currency-based index contracts	–	–	–	–	–	–
d) Currency options	7,142,032	1,730,083	655,439	9,527,554	138,278	-151,845
e) Gold-based contracts and contracts comparable with items a to d	23,034	–	–	23,034	423	-16
f) Other exchange and gold contracts	–	–	–	–	–	–
Index and asset value contracts						
a) Forwards in asset values and other securities-price-based index forwards						
b) Index forwards in asset values and other securities-based index forwards						
c) Options in asset values and other securities index options						
d) Other comparable contracts involving asset values and other securities						
Precious metals						
a) OTC precious metal forwards						
b) Exchange-traded precious metal forwards						
c) Precious metal options						
d) Other comparable precious metal contracts						
Commodities contracts (excluding precious metal contracts)						
a) Commodities forwards						
b) Exchange-traded commodities forwards						
c) Purchased commodities options						
d) Other comparable commodities contracts						
Credit derivatives						
a) Single name credit event/default swaps	30,000	725,000	220,000	975,000	9,083	-14,981
b) Portfolio credit event/default swaps						
c) Total return swaps						
d) Credit spread forwards						
e) Credit spread options						
f) Sundries						
Other futures, options and comparable transactions that cannot be assigned to categories above						
Total nominal value in the trading book				45,344,526	821,745	-860,612
Total nominal value				70,978,376	1,515,131	-1,368,135

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

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

Internal deals are not included.

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

The Managing Board of BAWAG P.S.K. as of 31 December 2010

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

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

Andreas ARNDT (from 1 October 2010)

Wolfgang KLEIN (from 1 November 2010)

Christoph RANINGER (from 17 May 2010)

Sanjay SHARMA (from 1 January 2010)

Managing Board appointments that ended during the year

Regina PREHOFER (until 31 August 2010)

Carsten SAMUSCH (until 14 May 2010)

The Supervisory Board of BAWAG P.S.K. as of 31 December 2010

Chairman

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

Deputy Chairman

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

Members

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

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

Ronald E. KOLKA (from 6 August 2010 to the Annual General Meeting 2011*)

Keith TIETJEN (from 5 October 2010 to the Annual General Meeting 2011*)

Works Council Delegates

Ingrid STREIBEL-ZARFL

Brigitte JAKUBOVITS

Beatrix PRÖLL

State Commissioner

Beate SCHAFFER (from 1 August 2009, previously Deputy State Commissioner from 1 March 2007 to 31 July 2009)

Deputy State Commissioner

Markus CHMELIK (from 1 March 2010)

Supervisory Board appointments that ended during the year

Scott PARKER (until 30 June 2010; Member of the Audit, Nomination and Remuneration Committees)

State Commissioner appointments that ended during the year

Susanne SPIESZ (until 28 February 2010; Deputy State Commissioner)

*) Until the end of the Annual General Meeting adopting the annual financial statements for 2010.

Committees of BAWAG P.S.K. as of 31 December 2010

Credit Committee

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

Cees MAAS, Chairman
Pieter KORTEWEG, Deputy Chairman
Keith TIETJEN

Related Parties Special Audit Committee

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

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The clear focus of BAWAG P.S.K. is on our core competence, retail and corporate banking in Austria. While the emphasis in past years lay on repositioning the Bank, we are now entering a new phase of investment and growth in which our successful business model will be expanded and enhanced for the benefit of our customers.”

MANAGEMENT REPORT

BAWAG P.S.K. MANAGEMENT REPORT

The Economy

Economic Conditions in 2010

The Eurozone economy started to recover in 2010. Real gross domestic product grew by 1.7 per cent after contracting by 4.1 per cent in the prior year, thus remaining substantially lower than before the crisis. The upswing was triggered by exports, but the spring of 2010 saw more and more impetus coming from domestic demand. In addition to companies restocking their inventories, reviving demand for equipment was a key source of business activity. Consumer spending increased only moderately, but steadily.

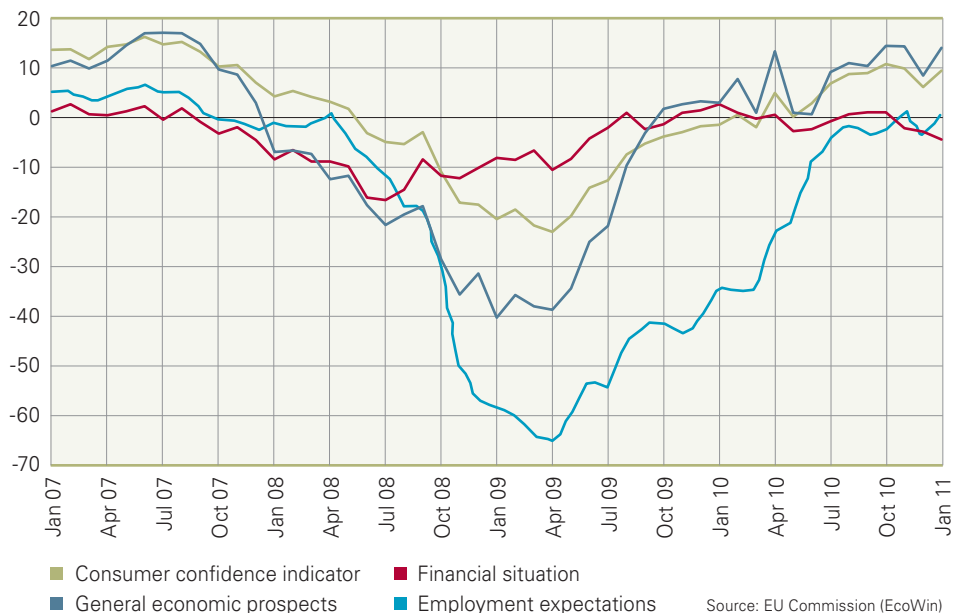
The economies of the individual Eurozone countries fared very differently. While economies such as Germany, Finland and Slovakia saw substantial growth, recovery was slow or non-existent in countries with high budget deficits and foreign trade imbalances. Government spending cuts and high unemployment in these countries hampered business activity and eroded consumer confidence.

The sovereign debt crisis dominated media and investor attention, although the Eurozone as a whole, and Austria in particular, saw a return to a modest growth path.

Austria is among the top third of the Eurozone economies in terms of performance and bettered the region's average in 2010 with economic growth of 2.0 per cent. In the first half of the reporting period, the Austrian economy profited from the marked export-orientation of its industry. In addition to robust demand from Southeast Asia, the economic upswing in Germany was a key source of stimulus. World trade began to lose some of its considerable momentum in the middle of the year, but another important cornerstone of economic stability began to improve: corporate investment. In addition to the reversal of the inventory cycle, demand for investment goods also started to pick up at the end of the period. In contrast, construction investment declined over the entire year. Unlike other demand components, private consumption did not slide during the recession, and proved to be a key source of support for the economy again in 2010. The savings rate fell for the second year in a row to 10.6 per cent of disposable income.

Austrian consumers showed increasing confidence in the reporting period, and the EU Commission's consumer confidence index surpassed its long-term average in the spring. In addition to the improved economic outlook, a key reason for this was the more optimistic expectations for the labour market. Austria is one of the very few members of the Eurozone that recorded a decline in the jobless rate in 2010. This can of course be attributed in substantial part to the increased training measures being conducted by the national employment service, but the number of jobs also increased. According to Austrian statistics, the seasonally adjusted unemployment rate fell by one half of a percentage point in annual comparison to reach 6.8 per cent.

Austria: Consumer Confidence



The general government balance worsened by three percentage points to -3.5 per cent of GDP in 2009 as a result of the financial and economic crisis. The budget deficit rose again to 4.1 per cent of GDP in 2010. This is no cause for concern in international comparison, but does mean that Austria, along with nearly every other member of the Eurozone, has exceeded the threshold specified by the Stability and Growth Pact.

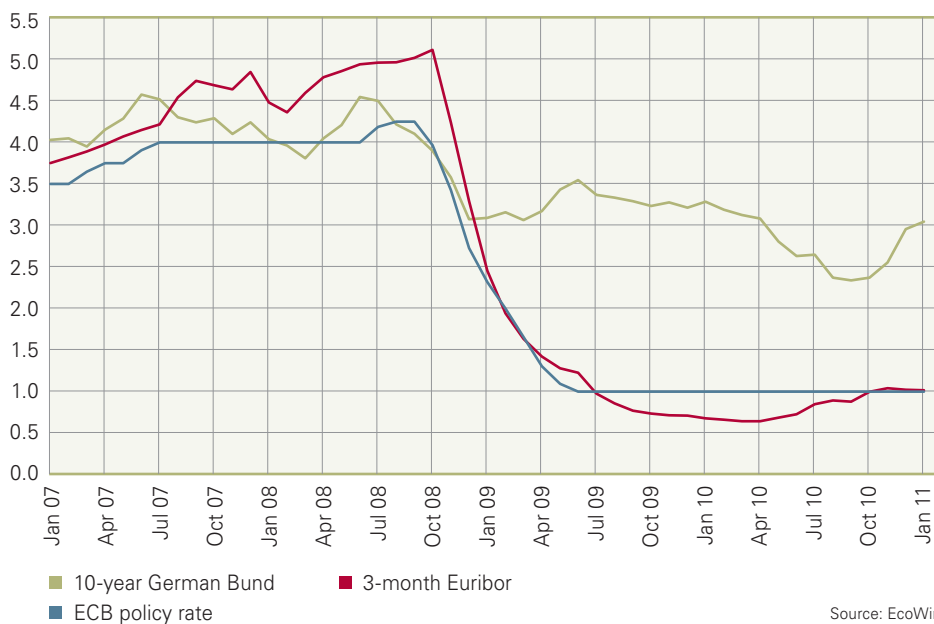
Credit demand in the private sector was very restrained in the reporting period. Corporate financing hit its low point at a year-on-year decline of 1.5 per cent in the first quarter of 2010, and business in this segment has only been expanding slightly for Austrian banks since then. Consumer lending stagnated over the entire reporting period; only demand for housing loans proved to be robust, growing at an average of 2.5 per cent compared to the prior year.

Interest Rates and Exchange Rates

The European Central Bank (ECB) left its key interest rate unchanged at 1 per cent over the year. The so-called “unconventional measures” for providing the banking sector with liquidity were expanded in May when the ECB began purchasing European government bonds on the secondary market to counter the effects of the worsening European sovereign debt crisis. The gradual reduction of the unconventional measures that was initially announced for January 2011 (but that has since been pushed back to April) caused the interbank rates to rise slowly. The three-month Euribor rose by approximately 40 basis points from its low in April to 1.01 per cent at the end of 2010.

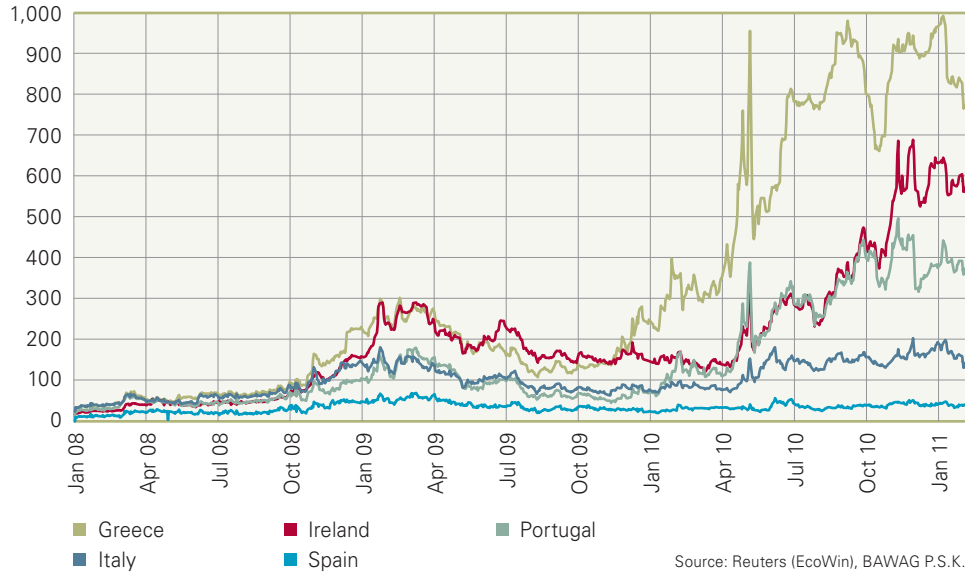
However, the positive effects from the low base rate were at least partially eroded by a very volatile development of the credit spreads, thus increasing the refinancing costs for banks.

Eurozone: Interest Rates



The bond market was extremely volatile and performed differently from country to country. Yields on German government bonds, the benchmark for the Eurozone, fell substantially in the first eight months of the reporting period and reached an all-time low of 2.11 per cent for ten-year maturities at the end of August. Yields on government bonds from Austria, France and other highly rated Eurozone members developed similarly. In contrast, risk premiums on Greek, Irish and Portuguese government bonds rose dramatically, and Spain, Italy and Belgium saw their spreads increase starting in autumn. Yields for AAA countries rose again in the last months of the year. The ten-year German government bond closed 2010 at 2.96 per cent, and the premium for comparable Austrian government bonds was approximately 50 basis points.

Risk Premia of 10-Year Bonds on 10-Year German Bunds, Percentage Points



The foreign exchange markets also had a very tumultuous 2010. The nominal-effective Euro exchange rate index, which measures its value against the currencies of its main trading partners, lost 9 per cent in annual comparison. Compared to the individual currencies in the index, the Euro lost the most versus the Japanese yen (-18 per cent) and the Swiss franc (-16 per cent). In June, the Euro reached its low for the year of less than 1.20 USD/EUR, but rebounded to 1.42 USD/EUR by the beginning of November and then fell back to 1.34 USD/EUR in the last two months of the period. Overall, the value of the Euro relative to the world's other major currencies during 2010 was driven primarily by the frequently changing market assessment of the sovereign debt situation in the Eurozone.

BAWAG P.S.K.: Customer-Focused Investment and Growth

BAWAG P.S.K. is one of the largest banks in Austria, offering a wide range of products and services predominantly in Austria, but also in other countries. The Bank's business activities cover retail and corporate banking as well as the financial markets segment.

The clear focus of BAWAG P.S.K. is on our core competence, retail and corporate banking in Austria. While the emphasis in past years lay on repositioning the Bank, we are now entering a new phase of investment and growth in which our successful business model will be expanded and enhanced for the benefit of our customers.

Key steps for the growth of the Bank were already taken in the financial year 2010 including:

1. Expansion of our Austrian retail banking franchise, with its strong deposit base, continues to be the main pillar of the Bank's excellent liquidity position. An investment budget of over EUR 100 million for the coming years underscores the strategic importance of this segment. The merger of the BAWAG and P.S.K./ post office branches into a uniformly managed outlet network that was started in October 2010 will open up significant growth potential.
2. The profitability of Austrian corporate banking was improved substantially, and lending in this segment grew markedly. Our focus on providing integrated financial and capital market solutions will create additional value for our customers.
3. We are selectively complementing our Austrian business activities with a careful and risk-mitigating expansion of our international corporate banking business, focused primarily in Western Europe.
4. In the first half of 2010, we initiated a comprehensive programme to drive the improvement of our customer service and cost-income ratio, based on extensive investments in efficiency and productivity, covering all customer-related and internal units of the Bank.

Retail Banking and Small Business

The Bank has a traditionally strong position in the retail market with 1.6 million customers, and together with our partner Österreichische Post AG, we have the largest centrally managed branch network in Austria. At the end of the year, BAWAG's branch network consisted of 150 outlets. PSK Bank offers its services at 1,038 post offices throughout Austria. Thanks to our coverage of almost the entire Austrian market, BAWAG P.S.K. was able to hold its strong deposit base despite the challenging market conditions. This supports the Bank's strong liquidity position.

The expansion and intensification of the collaboration between BAWAG P.S.K. and Österreichische Post AG in 2010 will enable the Bank to offer its full spectrum of banking services in approximately 520 branches (280 outlets in rural areas and 240 in urban areas) throughout Austria in the future. Postal services will also be available at these outlets.

Each of the branches will have three areas:

▶ **Self-service zones in the foyer area**

A self-service area will offer account statement printers, payment transfer scanners and cash dispensers to enable customers to conveniently cover their basic banking needs 24 hours a day.

▶ **Counter zone**

Transactions for financial and postal services will be handled in the counter zone.

▶ **Advisory zone for financial services**

Advice on bank products and services will be provided in the advisory zone that is clearly separated from the remainder of the branch.

This new branch concept will be implemented consistently throughout the country. The experience gathered during daily operations will be used to improve the further implementation of this major branch concept. This groundbreaking project of BAWAG P.S.K. and Österreichische Post AG is to be completed by 2012.

The new sales strategy will also be underpinned by a new brand image, as the Bank will be operating under a single strong brand throughout Austria: BAWAG P.S.K.



Our first joint branch with Österreichische Post AG was successfully opened in Innsbruck on 15 December 2010.

In addition to expanding our branch network, we are also continuously working to improve and broaden our product range. When developing our products, we always take into account the wishes and needs of our customers, and focus on providing transparent and fairly priced products. Our Security Barometer clearly shows our customers the security and earnings profile of each of our products at a glance. Our product range includes our strong current account range “Kontobox”, attractive savings products such as our “Kletterzins Sparbuch”, investment products such as the “MinMax Floater” and our successful Wohnbaubank bonds, and fairly priced loans such as the “Superschnell Kredit” private loan or housing loans with energy savings service.

Our subsidiaries easybank and BAWAG P.S.K. Invest offer additional retail products:

easybank is the second-largest direct bank in Austria and manages over 300,000 accounts. A key goal is to expand its position as a main direct bank for retail customers. easybank offers its customers clear, simple solutions for their financial needs. Lean organisational structures make it possible to offer its products at extremely competitive terms. It is also the centre of competence for credit card business within BAWAG P.S.K. Group. The 2010 financial year brought the best result in the history of easybank. A survey by the Chamber of Labour (AK) named easy gratis, easybank’s salary and pension account, the best of all tested accounts in Austria for the fifth time.

BAWAG P.S.K. Invest grew its fund volume by over 10 per cent despite the difficult market conditions in 2010. In achieving this, the company not only outperformed the market, but also passed the EUR 4 billion assets under management mark. BAWAG P.S.K. Invest’s funds took prizes at the Lipper Fund Awards, the Austrian Fund Prize, the Austrian Umbrella Fund Awards and the VisioFund Award in multiple categories in 2010.

Corporate Customers and Financial Markets

In commercial banking, the Bank is pursuing the same successful strategy that it has been following over the past years. Most of the customers in this segment are located in Austria, and BAWAG P.S.K. offers a broad range of products to meet their needs for doing business locally as well as expanding their international activities. These include standard products as well as tailor-made financing and investment solutions that make BAWAG P.S.K. a particularly valuable and reliable partner for Austria’s economy.

It has become clear in recent years that developments on the financial markets have a direct impact on the real economy and vice versa. This made it a logical step to merge the formerly separate business areas Austrian Corporates and Financial Markets into a single area of competence at BAWAG P.S.K. This approach is being supplemented by the introduction of a unique business solution partner concept. In the future, our corporate customers will have a single point of contact that will be able to react more quickly to each customer’s needs by creating comprehensive but individualised financial solutions without having to coordinate with different operating units within the Bank.

The Financial Markets unit conducts financial market transactions for our customers and is also responsible for trading for the Bank's own account. Financial Markets works continuously to design attractive and innovative financial market products to supplement our retail spectrum and the offerings from third-party banks.

In 2010, the Bank was the lead or co-lead manager for nearly all corporate bond placements on the Austrian market. Thus, we were able to optimally leverage our many years of experience in corporate banking in combination with our strong retail sales base.

Another success in 2010 was BAWAG P.S.K.'s return to the international capital markets, which led to an enthusiastic investor response. The Bank issued almost EUR 2 billion in financial instruments in the reporting period, including Wohnbaubank bonds and four covered bonds denominated in Euros and Swiss francs.

The BAWAG P.S.K. Leasing Group strengthened its position as one of the top leasing providers in the Austrian market in 2010. Especially the stable growth of motor vehicle leasing through the distribution partners of BAWAG P.S.K. Leasing and the realisation of a number of major real estate transactions in close collaboration with the banking sales units played a key part in this success. BAWAG P.S.K. Leasing increased its new business volume by 10 per cent in Austria, the Czech Republic, Hungary, Poland and Slovakia compared to 2009.

For 2011, the Bank's business solution partners and the leasing product specialists will be working closely together to offer BAWAG P.S.K.'s corporate customers leasing products in a more focused and effective manner. At the same time, BAWAG P.S.K. Leasing will be increasing its focus on indirect sales through distribution partners and on its collaboration with Generali Versicherung.

International Business

Our service range is rounded out by selective transactions with key international enterprises within a pre-defined and conservative risk framework. In geographical terms, our International Business focuses predominantly on Western Europe.

Additionally, selected commercial properties were gradually financed in Western Europe in the financial year 2010. This business area is to be expanded further in the following years.

Efficiency and Productivity Enhancement Programme

A project was launched in the first half of 2010 to increase the efficiency and productivity of the Bank and to improve the standard of service that we provide to our customers. 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 projected cost savings envisaged in the programme will result from natural staff fluctuation and retirements, and will reduce the net number of full-time staff by 500 by 2013.

The Bank also plans to invest approximately EUR 40 million in new technology over the coming three years to support this programme.

Outlook

BAWAG P.S.K. is positioning itself to successfully master the continued challenging conditions on the Austrian and international financial markets through an expansion of our Austrian retail franchise, by combining the competences for Austrian Corporates and Financial Markets into a single unit, and by selectively expanding our International Business activities. The strategic position that we have achieved and the consistent improvement of our processes have contributed significantly to the growth of our earnings power in the reporting period, and will ensure stable growth in the coming years.

Key Events during the Financial Year

Changes in the Managing Board

Sanjay Sharma was appointed Chief Operating Officer effective 1 January 2010. He can draw on many years of experience at Barclays Bank plc and has been Managing Director for Operations at BAWAG P.S.K. since August 2008.

Christoph Raninger joined the Managing Board on 17 May 2010 as Head of Financial Markets. He succeeded Carsten Samusch, who announced in January 2010 that he would not be seeking an extension of his fixed term contract. Christoph Raninger is now responsible for Corporate and Financial Markets and took over the Austrian Corporates division from Regina Prehofer, who left the Managing Board at the end of August 2010. Before taking on these duties, Christoph Raninger was managing director and member of the managing board of UniCredit CAIB AG, where he was responsible for the Markets and Investment Banking division.

Andreas Arndt became Chief Financial Officer on 1 October 2010. Prior to this, he spent many years in managerial positions in the Deutsche Bank group, including a tenure on the board of Deutsche Bank Privat- und Geschäftskunden AG.

The business areas Retail Banking and Small Business have been directed by Wolfgang Klein since 1 November 2010. Wolfgang Klein worked at Deutsche Postbank for the last ten years. During this time, he was a member of the board and was responsible for the various aspects of retail banking. He was CEO for his last two years at the bank prior to joining BAWAG P.S.K.

Changes in the Supervisory Board

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

The Supervisory Board was expanded with the appointment of Ronald E. Kolka on 6 August 2010 and Keith Tietjen on 5 October 2010.

Capital and Guarantee Contributions by the Republic of Austria and Shareholders

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 shareholder dividends, limits on investments in business activities outside of Austria and the early redemption of certain securities.

Basel II – Internal Rating Based Approach (IRB)

The application filed by BAWAG P.S.K. with the Financial Market Authority (FMA) in December 2009 to gain approval for the use of an internal ratings based (IRB) approach for calculating its own funds requirements stemming from credit risk instead of the previously used Basel II standardised approach was withdrawn by the Bank in the first half of 2010. The Bank intends to submit a new application to the FMA for this change at a later date.

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

The rating agency Moody's completed a review of its rating for BAWAG P.S.K. in October, based on the figures for the first half of 2010.

Despite the challenging business conditions, the agency confirmed its rating for BAWAG P.S.K. on 14 January 2011 and assigned the Bank a stable outlook, as it did last year. This result is satisfactory.

Long-term bonds from BAWAG P.S.K. are rated at Baa1, short-term liabilities at P2 and the Bank's financial strength rating is D. The rating for hybrid capital instruments remained unchanged at B2.

In its rating illustration, Moody's specifically recognised the extensive improvements already made by the Bank; it also included special praise for the improvements made in the area of risk and the intensive collaboration with Österreichische Post AG, which will have a positive effect on the retail network.

The rating classification is "stable outlook".

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 specific amount has been named 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 approximately USD 29.4 million.

The proceedings are proving to be arduous, and it cannot be foreseen when they will be completed.

The Bank's claims still have not been recognised, and the liquidator's proposals for the distribution of the available assets have been subject to debate.

Changes in the Group's Holdings

BAWAG P.S.K. Versicherung

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

To account for the requirements of the market and the significant growth of the company, a shareholders' contribution was agreed in 2010 to strengthen the equity base of BAWAG P.S.K. Versicherung. BAWAG P.S.K. participated in the contribution in accordance with its stake in the company.

MKB Bank Zrt.

The Hungarian MKB Bank Zrt. completed a capital increase equal to EUR 172 million on 1 December 2010. BAWAG P.S.K. participated in this capital increase through P.S.K. Beteiligungsverwaltung GmbH in accordance with its stake in the bank, and still holds a share of 9.77 per cent. The capital contribution totalled approximately EUR 17 million. Antoinette Holding Ltd., which is affiliated with the shareholders, did not participate in the capital increase. Together, P.S.K. Beteiligungsverwaltung and Antoinette Holding Ltd. now hold a 10.11 per cent stake.

Restructuring of Foreign Companies

As part of the comprehensive reorganisation of our subsidiaries in Liechtenstein and Ireland, a number of steps were taken to streamline our structure. After the completion of the liquidation proceedings of our subsidiaries in Ireland that were initiated in 2010 and that are nearing their conclusion, the Bank will exit the Irish market entirely. Due to mergers, the number of companies that are active in Liechtenstein was reduced to one.

Other Material Changes in the Group's Holdings

Further Companies in Liquidation

The liquidation of BAWAG International Finance Ltd. (Ireland), BAWAG P.S.K. Jersey Auto Finance Ltd., Auto Finance Jersey I Ltd. and Auto Finance Jersey II Ltd. was completed in 2010.

Real Estate

We continued to consistently apply our real estate strategy in the 2010 financial year. Properties worth approximately EUR 41.4 million in total were sold, in part through asset and share deals.

The Leasing and Real Estate Project "Simple"

The comprehensive restructuring and streamlining of the leasing structure was decided during the current financial year. The project consists of the following steps:

- ▶ Liquidation or merger of companies that are no longer needed
- ▶ Structuring according to business segments
- ▶ Liquidation of the dormant companies

Some of these steps have already been completed, and the incorporation of the CEE subsidiaries into a new holding company is currently being prepared.

In the real estate segment, BPI Holding GmbH and IDG Immobilien Development Gesellschaft m.b.H. were merged with BAWAG P.S.K. IMMOBILIEN GmbH.

Sale of BAWAG P.S.K. Versicherungsdienst GmbH

In the financial year 2007, a 49.99 per cent minority share in the insurance brokerage company BAWAG P.S.K. Versicherungsdienst GmbH was sold to Generali. The remaining 50.01 per cent were sold to BAWAG P.S.K. Versicherung AG in the reporting period.

CARNI Industrie-Immobilien-gesellschaft m.b.H. and R & B Leasinggesellschaft m.b.H.

The real estate profit participation certificates that were sold by these companies to Bank Winter & Co. AG in 2002 were bought back at the end of 2010.

Sale of APK-Pensionskasse Aktiengesellschaft

The 4.25 per cent share in APK-Pensionskasse was sold at the end of 2010.

Notes to the Annual Financial Statements

Because of optimised capital deployment, BAWAG P.S.K.'s consolidated assets totalled EUR 38,372 million as of 31 December 2010, a decrease compared to the prior reporting period. Notable structural shifts occurred as a result of a reduction in receivables from credit institutions and securities and an increase in customer loans. The Bank reduced its portfolio of low-return investments and selectively entered into positions offering higher returns.

Assets

in millions of Euros	31.12.2010		31.12.2009		+(-) Change	
	Balance	Share of assets	Balance	Share of assets		
Receivables from customers	24,878	65%	23,745	58%	+1,113	+4.8%
Securities	7,188	19%	8,570	21%	-1,382	-16.1%
Receivables from credit institutions	2,117	6%	4,962	12%	-2,844	-57.3%
Shares in subsidiaries	1,496	4%	1,558	4%	-62	-4.0%
Other items	2,693	6%	2,325	5%	+367	+15.8%
Assets	38,372	100%	41,160	100%	-2,788	-6.8%

Receivables from customers rose to EUR 24,878 million. BAWAG P.S.K.'s securities portfolio decreased in value to EUR 7,188 million as of 31 December 2010 (minus EUR 1,382 million or 16.1 per cent). This decline is the result of changes in the Bank's investment strategy.

Receivables from credit institutions fell by EUR 2,844 million or 57.3 per cent in annual comparison to EUR 2,117 million, primarily due to liquidity management measures. This contraction can be attributed primarily to short-term investments at other banks, which were reduced because of the low returns they offered.

Shares in subsidiaries remained virtually unchanged and came to EUR 1,496 million at the end of the reporting period.

The EUR 367 million increase in other items to EUR 2,693 million can primarily be attributed to changes in the fair values of derivative financial instruments.

Liabilities and equity

in millions of Euros	31.12.2010		31.12.2009		+(-) Change	
	Balance	Share of liabilities	Balance	Share of liabilities		
Savings deposits	13,095	34%	14,639	36%	-1,544	-10.5%
Other customer deposits	7,264	19%	7,592	18%	-329	-4.3%
Securities issued by BAWAG P.S.K.	7,560	20%	8,044	20%	-484	-6.0%
Payables to banks	5,634	15%	7,050	17%	-1,414	-20.1%
Other liabilities	2,848	7%	1,999	5%	+849	+42.5%
Equity	1,971	5%	1,836	4%	+134	+7.3%
Liabilities and equity	38,372	100%	41,160	100%	-2,788	-6.8%

Savings deposits (including investment products) decreased by EUR 1,544 million or 10.5 per cent because of the generally conservative terms being offered by the Bank and a partial shift of investments to securities and other bank deposits, and came to EUR 13,095 million on 31 December 2010. Making up roughly one third of the Bank's balance sheet total, savings deposits including investment products are very important for BAWAG P.S.K.

Other customer deposits fell by EUR 329 million to EUR 7,264 million.

On 31 December 2010, securities issued by BAWAG P.S.K. in the amount of EUR 7,560 million were in circulation, EUR 484 million or 6.0 per cent less than at the end of the 2009 financial year. This decline was due to the redemption of issued securities and the fact that only a smaller volume of new securities was issued in their place because of our good liquidity situation.

The most important factor behind the EUR 849 million rise in other liabilities to EUR 2,848 million are changes in the fair values of derivative financial instruments, as was also reported on the assets side.

The current net profit is also included in the increase in equity. A proposal will be submitted to the Annual General Meeting to issue a dividend of EUR 51.2 million on the participation capital from the net profit.

Income statement

in millions of Euros	2010	2009	+(-) Change	
Net interest income including income from securities	556	479	+77	+16.0%
Net income from equity investments	14	10	+4	+37.1%
Commissions	134	145	-11	-7.6%
Net income from financial investments	21	28	-7	-24.5%
Other operating income	9	24	-15	-63.5%
Net operating income	734	687	+47	+6.9%
Administrative expenses	-502	-486	+16	+3.3%
Depreciation and other operating expenses	-64	-57	+7	+11.5%
Operating expenses	-566	-543	+23	+4.1%
Operating profit	168	144	+24	+17.3%
Cost-income ratio	77.0%	79.1%		
Allocation of credit risk provisions	-122	-74	+48	+65.1%
Valuation and sale proceeds from securities	13	29	-16	-54.4%
Valuation and sale proceeds from financial assets	124	-85	+209	+>100.0%
Profit on ordinary activities	184	13	+171	+>100.0%
Result of extraordinary items	0	54	-54	-100.0%
Taxes	-24	13	-37	-<100.0%
Profit before changes in reserves	160	79	+81	
Changes in reserves and retained earnings	-44	2	-46	
Profit after changes in reserves	116	81	+35	+44.2%

Despite the difficult market conditions, we were able to increase our net interest income by EUR 77 million or 16 per cent to EUR 556 million by consistently improving the profitability of our operations and selectively expanding our international business activities.

Net commission income fell by EUR 11 million or 7.6 per cent in the period to EUR 134 million. This decline can primarily be attributed to outlay in the amount of EUR 5.7 million for the guarantee issued by the Republic of Austria for certain assets in the maximum amount of EUR 400 million, which was valid until 22 June 2010.

The other operating income includes sales proceeds and other revenues not arising from our banking business. This item came to EUR 9 million in 2010, EUR 15 million less than in 2009, although it must be noted that the figure for the previous period included a one-off effect.

Administrative expenses rose by EUR 16 million or 3.3 per cent compared to 2009 and came to EUR 502 million. This increase can be attributed primarily to staff costs. These grew by EUR 17 million or 5.5 per cent compared to the prior reporting period and totalled EUR 334 million. This increase was the result of higher restructuring costs in connection with our efficiency and productivity boosting programme. Operating expenses fell by EUR 2 million or 0.9 per cent to EUR 168 million.

Depreciation and other operating expenses rose by EUR 7 million or 11.5 per cent to EUR 64 million. This item includes additional expenses related to the new sales and distribution structure.

Credit risk provisions came to EUR 122 million in the reporting period, EUR 48 million more than in 2009. The figure for the previous year included a contribution made by a grandparent company to cover expenses.

The valuation and sales proceeds from securities fell from EUR 29 million in 2009 to EUR 13 million in 2010.

The valuation and sales proceeds from financial investments in the period in the amount of EUR 124 million include gains from the sale of securities classified as non-current assets and impairment charges on equity interests.

The refunds for received tax allocations and back tax payments associated with the change in the taxable group resulted in tax expenses for the period of EUR 24 million.

In total, the Bank achieved a net profit before changes in reserves of EUR 160 million in the 2010 financial year.

Own funds pursuant to section 23 BWG

in millions of Euros	31.12.2010	31.12.2009
Subscribed capital	800	800
Reserves and fund for general banking risks	1,118	954
Deductions	-97	-114
Core capital (Tier I)	1,821	1,640
Core capital ratio	9.6%	8.2%
Shareholdings pursuant to section 23 (13) BWG	-35	-51
Eligible core capital (Tier I)	1,786	1,589
Additional items (Tier II)	1,045	1,234
Shareholdings pursuant to section 23 (13) BWG	-35	-51
Eligible own funds	2,796	2,772
Own funds ratio	14.9%	14.1%
Existing Tier III	115	67
Own funds	2,911	2,839
Required own funds	1,669	1,682
Excess own funds	1,242	1,157

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. An additional three members are delegated by the Works Council. (The individual members of the Supervisory Board and the composition of the committees are presented in the Boards and Officers section).

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

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 as well as the executives. 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 and determines the Remuneration Policy according to CRD III and the Austrian Banking Act.

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

As per the end of the year 2010, the Managing Board consisted of six members.

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 steering the total bank risk;
- ▶ The Credit Policy Committee, which focuses on credit guidelines and strategies;
- ▶ The Credit Approval Committee, which decides on financing transactions above a certain threshold;
- ▶ The Strategic Asset Liability Committee, which deals with strategic issues regarding capital and liquidity planning;
- ▶ The Tactical Asset Liability Committee, which deals with operative topics of the asset-liability management; and
- ▶ The Legal and Compliance Committee, which discusses the implications of new or relevant legal regulations on the Bank.

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 risk-weighted assets; and
- ▶ The Capital Expenditure Committee, which decides on investments above a certain threshold.

Corporate Governance Code

BAWAG P.S.K. voluntarily adopted the Austrian Corporate Governance Code for listed companies in 2006. Additional amendments to the Code were made in 2010 and were implemented in BAWAG P.S.K.'s own code in the second half of the year.

The Bank prepared its first-ever annual corporate governance report for the financial year 2009 and published it on the Internet. A corporate governance report was also prepared for the financial year 2010.

Compliance with the Corporate Governance Code was audited by independent third parties in 2010 and revealed that all key provisions of the Code were fulfilled with the exception of those that do not apply due to its closed shareholder structure.

Compliance

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

The key responsibilities of the Compliance Office are preventing money laundering and combating terrorism, 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

Our work on the establishment of a successful leadership culture continued during the year, including in the form of the initiative "Erfolgreich Führen – Meine Bank". The Bank's strategy, current position and developments in connection with the state of the economy were discussed at large group events in which Managing Board members participated.

"LEAD – neue Führungskräfte", a new leadership development programme, was launched in the autumn of 2010 and will help middle- and lower-level managers get off to a good start in their first managerial positions.

A range of unit-specific activities, primarily tailored team-building and strategy workshops for management teams, were also conducted in 2010.

Talent Development

The first run of the “EMERGE” talent development programme was completed successfully in the spring of 2010. Some of the participants, employees with concrete potential to fill relevant expert and managerial positions, have already taken on new responsibilities. Preparations for a second run in 2011 are already under way.

In Retail Sales, the “Sales Talent Management” process, which was completed for the second time already in 2010, has proven to be an effective instrument for succession planning and for managing training requirements. Part of the computer-assisted process is the nomination of participants for the “TOP Team Vertrieb” programme for the development of future retail sales managers.

In Corporates, the Sales Empowerment Programme, which is aimed at increasing cross-selling, was a main topic in 2010. This tailored development programme nurtured the cross-selling skills and customer relationship management capabilities of relationship managers. Apart from that, control and coaching measures were implemented in a targeted manner on the management level to support the achievement of objectives.

Training

The newly developed training plan for branch sales was introduced in 2010. Training plans and seminars were prepared based on new requirements profiles.

Tailored initiatives such as specialist and behavioural training were also completed again in many different areas of the Bank such as the Customer Service Centre. The e-learning system was also revised as part of this.

Performance Management

The new Management by Objectives (MBO) process was successfully introduced in 2010. A high implementation rate was already achieved in the first phase. The new BAWAG P.S.K. Success Factors were also applied for behavioural assessment in the MBO process, and represent a Bank-wide standard for a performance-oriented and open corporate culture.

Corporate Social Responsibility (CSR)

New CSR Report

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 we have made in our efforts to conduct our business in a sustainable manner. It also contains an action plan for further improvements. This was also the first report to include the Communication on Progress (COP) required due to our membership in 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. Representatives of BAWAG P.S.K. participated in working groups on the topics of sustainability reporting and anti-corruption under the framework of the UN Global Compact Network in Austria.

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 his or her credit rating. This New Chance Account (*Neue Chance Konto*) is available to anyone without limitations, does not include an overdraft facility and is offered all over Austria. This product is designed for the roughly 50,000 people in Austria who otherwise have no access to one of the most important banking services, electronic payment transactions, because of their credit history.

The New Chance Account has generated a great deal of positive response. At the end of 2010, an impressive 7,712 customers were already using this product. The New Chance Account is one of the fruits of our proactive commitment to human rights, and for us is a way to counter discrimination and social exclusion.

Its nomination for the most important sustainability award in Austria, the TRIGOS, in June 2010 was also a major honour for the New Chance Account.

Diversity Charter

In reflection of our commitment to promoting diversity, BAWAG P.S.K. in November became one of the first companies in Austria to sign the Diversity Charter. This charter has clearly defined goals and is intended as a guideline for all of its members. The Diversity Charter spotlights the many benefits of diversity in the economy and society, and promotes dialogue between different stakeholder groups. The members actively commit to increasing mutual respect, tolerance and appreciation with regards to diversity in their organisations.

A complete overview of our CSR activities and facts and figures on our environmental impact and staff can be found in the CSR Report 2010.

Sponsoring

BAWAG P.S.K.'s key sponsoring areas in 2010 were again the arts, education and social issues. In the arts, our efforts focused on the new opening of the BAWAG Contemporary gallery near the Bank's headquarters. The gallery, which is intended to be a meeting point for the art scenes of different cities, is located at Franz-Josefs-Kai 3 and is a venue for the display of the creative visions and energies of young contemporary artists.

The Bank also supports projects in music, design, architecture, theatre and film. In the social area, we collaborate closely with charitable organisations, especially Caritas and the RED NOSES Clown Doctors, and also launched the **www.meinespende.at** interactive donation platform in the latter part of the year. In education, we are striving to enter into additional collaboration projects with vocational secondary schools.

In all of these projects, BAWAG P.S.K. sees itself as an active sponsoring partner. We aim to establish long-term partnerships to jointly develop projects and ideas. This often results in cooperation with individual institutions and project partners over many years, and makes it easier to identify and use synergies.

An overview of BAWAG P.S.K.'s sponsoring activities can be found at **<http://www.bawagpsk.com/sponsoring>**.

Events after the Reporting Date

Equity Holdings

Effective from 31 January 2011 Stiefelkönig Schuhhandels Gesellschaft m.b.H. sold its 19 Geox shops, which were run based on a franchise contract, to a wholly-owned Austrian subsidiary of the Italian shoe manufacturer GEOX S.p.A. in the course of an asset deal. Simultaneously, the framework franchise contract between Stiefelkönig and GEOX was terminated.

Stiefelkönig and Schuhquadrat GmbH & Co KG, a company owned by Salamander Austria, agreed on the sale of the distribution line Delka, which runs 35 shops. The asset purchase agreement was signed on 15 February 2011.

Exposure to Libya

The Bank has a relatively minor exposure to Libya and the other Middle Eastern countries recently affected by internal unrest. In total, the Bank has some EUR 28 million in exposure mostly against collateral outside the region to six individual clients that are either based in Libya or that conduct a material part of their business with Libya. We are in close contact with these clients to assist them wherever possible.

Risk Report

Introduction and Overview

Risk Management and the corresponding committees of BAWAG P.S.K. identify, measure, monitor and manage all risks to which BAWAG P.S.K. Group is exposed. Because the Bank employs financial instruments, it is subject to the following risks that are addressed by means of clear monitoring and management processes within its risk management system:

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

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

Risk Management Framework and 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. During the 2010 financial year, BAWAG P.S.K.'s risk management system was restructured to focus on the following four areas as part of a Bank-wide efficiency and productivity boosting project:

- ▶ Commercial and Institutional Risk
- ▶ Retail Credit Risk (segment credit risk and operational risk)
- ▶ Market Risk (market-specific risks and liquidity risks)
- ▶ Risk Reporting

Specific Risks of BAWAG P.S.K.

Credit Risk

Credit risk is the general risk that a customer will not be able to meet its payment obligations. For risk management purposes, BAWAG P.S.K. considers and consolidates all elements of credit risk exposures, such as individual obligor or obligor group 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 small-scale non-consumer exposure components that exist in BAWAG P.S.K. are aggregated at the customer and customer group level using a specific software application. Duties requiring that exposures be reported to the Managing Board and Supervisory Board are defined for customers/groups of affiliated customers by risk grades to identify the concentration of risk exposure.

Revised Risk Policy for Retail and Small Business Customers

Implementation of Late Payment Notice Software for Retail and Small Business Customers

New software for managing the notification of private and small business customers of missed payments by telephone and regular mail was introduced in August 2010. This new software resulted in the following improvements:

- ▶ The software enables the automatic differentiation of customers by probability of default, and allows the individual segments to be processed in a targeted manner.
- ▶ An extremely high degree of automation makes it possible to effectively focus the Bank's resources for early intervention, which reduces risk and increases customer satisfaction.
- ▶ Offering repayment agreements and consistently enforcing them prevents the default of significant parts of the portfolio.

Continuation of Efficiency Boosting Efforts for Credit Processes in the Small Business Segment

The programme that was launched in November 2009 to improve the credit processes in the Small Business segment was continued in the reporting period.

The primary goals of the programme are:

- ▶ Increased efficiency in all sub-processes
- ▶ Increased customer satisfaction through shorter decision-making times
- ▶ Increasing the level of automation to free up additional advisor capacities for our customers
- ▶ Consistent implementation of the regulatory requirements for portfolio risk assessment

The implementation of an automated process for credit reviews and limit extensions for customers within defined exposure limits in the reporting period was another key milestone.

Improved Interfaces in the SME Segment

Work in the Small and Medium-Sized Enterprises segment focused on improving the interfaces between the market and risk units. Existing processes were streamlined and various systems expanded.

Key achievements included the expansion of the customer relationship management system to significantly simplify the processing and monitoring of specific conditions for credit decisions and for the completion and monitoring of the annual risk reviews.

Valuation of Residential and Commercial Properties

The value of all residential properties in Austria is determined by the central real estate valuation department on the basis of a largely standardised method and using a valuation tool. Nearly 45,000 residential properties were pledged to BAWAG P.S.K. as collateral. The periodic review and updating of the property values is automated on the basis of the changes in the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich*).

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

Improvement and Refinement of the Scorecards and Rating Systems

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

The standard commercial rating system was revised in the second and third quarter of 2010. This brought an increase in the discriminatory power of the system and improved the acceptance of the system by the sales units. A new rating system was also adopted for the standard foreign commercial customers segment. The system was implemented in the IT systems in the fourth quarter of 2010, and became operational in the first quarter of 2011.

The results of the validation were included in the behavioural scorecards to improve granularity in the annual assessment.

The private leasing and consumer loan scorecards were also revised and newly applied.

Impaired Loans

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

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

Past Due Loans with No Provisions

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

Collateral

All types of collateral that are accepted by BAWAG P.S.K. are listed in the Group Collateral Handbook. Prudent discounts are defined for each type of collateral.

Workout Group and Collections

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

Early Recognition of Troubled Assets

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

Market Risk

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

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

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

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

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

Market Risk in the Trading Book

BAWAG P.S.K. uses the value-at-risk (VaR) of an internal model that has been assessed by Oesterreichische Nationalbank (the Austrian national bank) and approved by the Federal Ministry of Finance to control and limit the market risk arising from trading activities. It includes the risk categories interest rate, equity market and foreign exchange risk (there was no active equity desk in the trading book in 2010) and the linear and non-linear gamma and vega risks broken down by risk type.

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

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

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

On 31 December 2010, the value-at-risk (with gamma and vega risk included) was measured at EUR 4.50 million (30 December 2009: EUR 1.26 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:

Value-at-risk (99 per cent, one-day holding period), financial year 2010, in millions of Euros

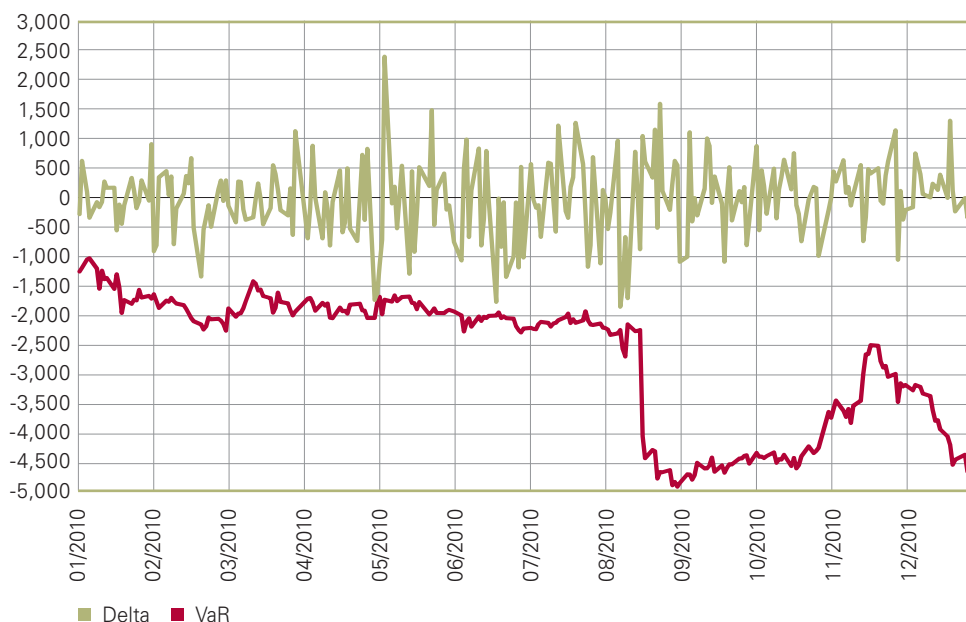
Risk class	Minimum	Maximum	Average	31.12.2010
FX risk	-0.23	-4.17	-1.62	-4.17
Interest rate risk	-0.70	-2.07	-1.39	-0.70
Total (without correlations)	-1.18	-5.21	-3.02	-4.87
Total (with correlations)	-1.04	-4.90	-2.71	-4.51
Diversification	n/a	n/a	-0.31	-0.36

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

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

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

Value-at-risk (99 per cent, one-day holding period) compared to the back tests, financial year 2010, in thousands of Euros



The increase in the value-at-risk in August 2010 can be attributed to a customer-induced position. Provisions were formed for parts of this position to compensate for this increased risk.

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.

In the course of such stress tests, which were expanded during the 2010 financial year, the trading book is stressed by scenarios simulating extreme market conditions which are not covered by the confidence interval. The results of these tests are compared with the worst-case foreign exchange and interest rate limits.

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

Market Risk in the Banking Book

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

Interest Rate Risk in the Banking Book

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

The Asset Liability Committee (ALCO) has assigned interest rate risk limits to the Financial Markets units 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) or the Tactical ALCO (Managing Board member responsible for Austrian Corporates and Financial Markets, CFO, CRO). 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/ALM and Accounting.

On the basis of the risk reports and also using the results of scenario analyses and stress tests, the market risk and its effects are analysed and steering measures are decided to reduce risk and optimise earnings for the Bank as a whole.

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

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

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

The following table depicts the Bank's interest rate risk as of 31 December 2010 on the basis of the PVBP concept. The net asset value changes of all financial positions in BAWAG P.S.K.'s banking book due to a positive 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	-21	-107	-115	-28	549	112	390
USD	-	-5	-7	-4	-3	-19	-37
CHF	-18	1	-6	-9	-14	-38	-84
JPY	3	-1	-4	1	2	20	21
Other currencies	-14	5	12	-1	5	-15	-8
Total 31.12.2010	-50	-107	-121	-41	540	61	281
Total 31.12.2009	-40	-139	51	53	118	-110	-67

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

Income-statement-relevant PVBP

in thousands of Euros	< 1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	> 10Y	Total
31.12.2010	-9	26	70	-3	-4	-8	72
31.12.2009	-11	-6	2	-1	-6	-7	-30

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 (ICAAP) on a monthly basis.

For a particular portfolio, the value-at-risk measures the worst expected future loss (in terms of market value) over a given time horizon with a specific confidence level. The calculation of value-at-risk is based on the variance-covariance approach and uses a confidence level of 99 per cent and a time horizon of ten days. As of 31 December 2010, the value-at-risk for interest rate risk in BAWAG P.S.K.'s banking book amounted to EUR 10.5 million (compared to EUR 10.4 million as of 31 December 2009).

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

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

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

The quality improvements achieved in terms of managing interest rate risk in the banking book in 2010 include the expansion of the method for determining the replication assumptions for positions with unspecified interest rates or terms, which is based on mathematical models, as well as the qualitative and quantitative refinement of the dynamic net interest income simulation.

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 low FX risks are carried in the banking book.

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

Liquidity Risk

Liquidity risk management has two important goals:

- ▶ securing the Bank’s solvency and
- ▶ managing the risk resulting from changes in refinancing costs.

BAWAG P.S.K. uses a multi-stage process for this:

a) Management of structural liquidity

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 Tactical ALCO to facilitate structural liquidity management.

b) Annual projection

A liquidity projection is prepared on a monthly basis for (at least) the following twelve months and depicts the development of the Bank's cash position, collateral position and regulatory liquidity position, taking into account the budgeted customer business and any planned refinancing measures. Limits have been defined for the Bank's regulatory liquidity position and cash position and may not be underrun in any current or planned scenarios. The Group's overall liquidity and collateral position is managed on the basis of this report.

Simulations are also run to assess the impacts on the Bank's liquidity position when individual refinancing measures cannot be completed as planned or at all, or when the Bank experiences unexpected cash outflows.

The projections are presented to the Strategic ALCO on a monthly basis to enable the Managing Board to take appropriate action (for example initiating additional refinancing measures).

The actual liquidity usage is also compared with the projections in monthly backtests to identify ways to improve the methods for generating the liquidity forecast.

c) Operational liquidity management

A one-week balance preview is prepared for the accounts every day for daily liquidity position management purposes. This then forms the basis for selecting the individual actions that need to be taken each day.

Thanks to these processes, BAWAG P.S.K. was able to meet all of its payment obligations and fully comply with all legal requirements in 2010.

Liability maturities as of 31 December 2010

in millions of Euros	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Non-derivative liabilities						
Deposits from banks	-3,076	-1,837	-30	-228	-300	-681
Deposits from customers	-20,225	-11,899	-799	-3,252	-4,037	-238
Debt securities issued	-12,186	-51	-596	-733	-6,323	-4,482
Subtotal	-35,487	-13,788	-1,425	-4,213	-10,661	-5,401
Derivative liabilities						
Net inflow/outflow	56	32	-272	113	19	163
Other off-balance-sheet financial obligations	-885	-885				
Total	-36,316	-14,641	-1,696	-4,100	-10,641	-5,238

Participation Risk

Participation risk includes potential losses in the fair value of equity investments, potential impairments and low profitability of 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. These impairment tests are completed on the basis of the planning projections (budgeted income statements, budgeted balance sheets, budgeted cash flows) prepared for future periods by the management of each entity. The free cash flows indicated in the projections are discounted using risk-adjusted rates. The total of the discounted free cash flows from the detailed planning period and perpetuity as of the reporting date is taken as the value of the company. The proportionate value of the company based on the Bank's shareholding is then compared with the carrying amount of the investment. If the current proportionate value of the company is lower than the carrying amount, the equity investment is written down by the corresponding amount. If the current proportionate value of the company is higher than the carrying amount, this is recognised as a hidden reserve.

In deviation from the method described above, a simplified procedure is applied to low-value equity interests and to equity interests where the carrying amount is covered by the proportionate equity, by capitalisation of the proportionate average earnings before tax for the past three years or by other value indicators.

The results of the impairment tests are reviewed by the Participation Risk Management division.

Operational Risk

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

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

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

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

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

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

Outlook

The state of the economy and the development of the leading indicators at the turn of the year are pointing to a continuation of the upswing in the Eurozone in 2011, which, however, will be overshadowed by the aftermath of the sovereign debt crisis. The development of food prices and the uprising of citizens in the MENA region resulting in higher crude oil prices have led to a discussion about the probability of substantially higher inflation rates.

Domestic consumption will likely become a more important source of support for economic growth, while foreign trade will make less of a contribution. The individual economies in the region will continue to grow at different rates, but the planned spending cuts and budget consolidation measures will have a slowing effect on the entire Eurozone economy. Because of the continuing doubts about the viability of the public finances of a number of member states, the financial markets are likely to remain highly volatile. This may have a negative impact on the real economy.

In light of the currently precarious debt situation of some countries in the Eurozone, Austria's economic prospects for 2011 are comparatively good. The government here must also consolidate its budget, but the growth-hampering effects will be relatively minor. Austria has one of the lowest unemployment rates in the Eurozone, and the conditions on the labour market are expected to improve further during the current year. The domestic economy could gain substantial momentum during 2011 and balance out the slowdown in exports. Real GDP is projected to grow by about 2 per cent, as last year. Thus far, it is not clear whether and to what extent the recent international developments will affect Austria.

The Austrian economy has coped well with the economic crisis. So far, the number of personal bankruptcies and corporate insolvencies has not been as high as previously expected. However, aftereffects of the recession or a significant rise in interest rates in 2011 could lead to an increase of personal bankruptcies and corporate insolvencies. In addition, negative impacts on financial results from fair value changes cannot be ruled out due to the continued high financial market volatility.

As the majority of the Bank's loan portfolio is composed of domestic customers, BAWAG P.S.K.'s performance is partly dependent on the development of the Austrian economy, and the current economic forecasts are cautiously optimistic. In 2011 the Bank will be subject to strong competition in the market place, which will result in a tight margin situation on both the credit and the deposit side. Furthermore, new regulations and additional financial burdens (e.g. the bank levy) will lead to a tough business environment.

Nevertheless, BAWAG P.S.K. will use its good momentum from 2010 to successfully overcome these external shocks and the strong market competition. In addition, the Bank will continue to work hard on implementing a number of initiatives and projects, including the new branch offensive, with the focus on further improving our customer service. From an economic point of view, BAWAG P.S.K. is optimally prepared for the financial year 2011 due to its financial strength, the growth of its core banking business and its strong liquidity position.

Internal Control and Risk Management System

Introduction

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

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

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

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

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

Characteristics of the Internal Control and Risk Management System

Control Environment

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

The Accounting division is responsible for maintaining the Bank's accounting records. Material subsidiaries also operate their own accounting departments, which work in close cooperation with the Accounting division. The primary responsibilities of the Accounting division are preparing the annual and interim financial statements of BAWAG P.S.K. AG, the Group and certain subsidiaries, maintaining the financial and consolidated accounts, managing taxes and regulatory reporting.

The Accounting division is responsible for setting directives on all matters of accounting and exercises the power to ensure the application of uniform standards across the entire Group. To support the operational implementation, corporate guidelines were drawn up partly in the form of manuals, such as the Group accounting manual. This policy applies to all consolidated subsidiaries. For all other holdings, the adherence to these principles and standards is realised as far as possible.

Risk Assessment and Control Measures

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

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

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

The accounting of BAWAG P.S.K. AG and the significant domestic subsidiaries of the corporation are contained in SAP New GL. The preparation of the consolidated financial statements under IFRS is done in SAP-ECCS, which receives the values of the individual financial statements of consolidated companies through interfaces. The accounting and all upstream systems are protected by access permissions, and automatic and obligatory manual control steps provided for in the process.

Information and Communication

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

Monitoring

In order to limit or eliminate operational risks and control deficiencies, risk identification through Risk Control Self Assessments (RCSA) is performed annually. Thus, the measures to minimise risk agreed upon with the Accounting division are tracked proactively by the Operational Risk department in regard to implementation. Damage incidents are documented separately, and are also used to identify necessary improvements in the systems and in the monitoring and control measures.

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

Vienna, 7 March 2011

Byron Haynes
Chairman of the Managing Board

Stephan Koren
Deputy Chairman of the Managing Board

Andreas Arndt
Member of the Managing Board

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

Vienna, 7 March 2011



Byron Haynes
Chairman of the Managing Board



Stephan Koren
Deputy Chairman of the Managing Board



Andreas Arndt
Member of the Managing Board



Wolfgang Klein
Member of the Managing Board



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