2009

CONSOLIDATED SEMI-ANNUAL REPORT

BAWAG PSK

2009

CONSOLIDATED SEMI-ANNUAL REPORT

BAWAG PSK

CONTENTS

PREFACE BY THE CHAIRMAN OF THE MANAGING BOARD

Improved positive operating performance despite difficult market conditions

Pre-tax operating profit EUR 66 million

BAWAG P.S.K. posted a pre-tax operating profit of EUR 65.9 million in the first six months of 2009, compared to a loss of EUR 74.2 million in the same period 2008. This improved operating performance is despite the difficult market conditions caused by the global economic crisis with very low interest rates, high competition for customer deposits, weak asset demand and rising risk costs.

Operating income increased by 49 per cent to EUR 506.4 million. Net interest income of EUR 302.4 million was 6 per cent lower compared to the same period 2008, mainly due to savings deposit margin compression due to extremely low market interest rates and strong competition for customer deposits. This shortfall was more than offset by net commission income of EUR 74.6 million, an increase of 2 per cent, driven by increased sales of security saving products and an improved result from financial assets of EUR 133 million.

Operating expenses decreased by 15 per cent to EUR 306.4 million. Staff expenses of EUR 180.5 million for 2009 are unchanged compared to the same period 2008. Non-staff expenses have been reduced by EUR 52.3 million, a 29 per cent reduction compared to the same period in 2008.

Risk costs increased by EUR 71.4 million to EUR 125.8 million, reflecting the more challenging economic environment. The higher risk costs include further provisions for losses from the sale of securities. Underlying risk costs for the customer franchises of EUR 96.6 million were up EUR 42.2 million compared to the same period in 2008.

Net profit after tax and minorities increased by EUR 53.8 million to EUR 13.3 million for the first six months of 2009 compared to a loss of EUR 40.5 million in the first half of 2008.

Successful execution of our 2009 priorities has underpinned the strong first half operating performance

The Bank's core strategic priorities are targeted to improve its operational performance and financial strength significantly. This is supported by a continued investment in systems and processes, allied with selective hiring of market leading talent.

- Continue to invest and develop our core Austrian retail and commercial customer franchises
  - Austrian commercial customer revenues have grown by more than 20 per cent compared to the same period 2008 due to a focused market positioning supported by dedicated account managers and industry specialists
  - Security saving products volume increased by 62 per cent to over EUR 770 million
  - Further increases in current accounts and building society saving contracts – 45,000 new current accounts opened and 24,000 new building society saving contracts signed
  - Growth in insurance premium volumes of over 3 per cent and retail mutual fund volumes of over 4 per cent compared to overall net decrease across the rest of the market
- Redeploy our liquidity to support households, small and medium enterprises and commercial customers and companies
  - Overall customer loans up 2 per cent, EUR 300 million despite very weak demand
  - New corporate banking loans increased by over 10 per cent or EUR 1.5 billion
  - BAWAG P.S.K.'s market share in consumer credit business further improved to more than 8 per cent despite weak demand
  - EUR 1.0 billion "investment in communities" *(Kommunalmilliarde)* successfully launched, supporting our public sector franchise
- Continue to improve productivity and stringent cost optimisation with focus on non-personnel costs
  - Cost income ratio has improved to 61 per cent for 2009
  - All cost savings of EUR 52.3 million focused on non-personnel costs in 2009; staff costs remain in line with 2008
  - Annualised benefits from execution of 2008 Transformation Programme for efficiency improvements in processes being realised
- Pro-active risk management in response to the challenging market environment
  - Enhanced credit monitoring established
  - Pro-active management of existing exposures via significantly improved, forward-looking exposure reviews
  - Further de-risking of structured credit portfolio successfully executed

Further de-risking of the legacy structured credit portfolio achieved

In the period from 2003 to 2005, BAWAG P.S.K. built a sizeable investment in products collectively known as "structured credit". During the first six months of 2009, the Bank continued to execute significant actions to further mitigate risk in this legacy structured credit portfolio, including asset restructuring, security sales and adjusting our hedging strategy of the overall portfolio.

The total cost of these risk management actions charged through the profit and loss account during the first six months of 2009 amounted to EUR 65 million (2008: EUR 46 million).

Following execution of the risk mitigation actions, the book value of the structured credit portfolio was EUR 1.47 billion, a reduction of EUR 280 million compared to 31 December 2008, mainly through redemptions of notional EUR 190 million.

The Bank will continue to mitigate risk in the legacy structured credit portfolio where feasible. However, the Bank will continue to be impacted by valuation changes in the second half of 2009.

Strong and improved liquidity position – capital ratios in line with year-end 2008

The Bank's already strong liquidity position further improved in the first six months of 2009. Total cash and unutilised collateral resources at 30 June 2009 amounted to EUR 6.6 billion, which is an increase of 7 per cent compared to 31 December 2008.

This liquidity will be used in the second half of the year in order to continue to support the Austrian economy as well as commercial businesses and private customers.

The Group's Tier I capital ratio as of 30 June 2009 was 6.7 per cent (31 December 2008: 6.9 per cent). Capital ratios for 2009 have remained in line with year-end 2008, despite increased risk weighted assets (EUR 4.3 billion) during the period through rating changes, continued active management of the balance sheet and efficient capital deployment.

Agreement reached with shareholders and the Republic of Austria to increase the capital deployed in the Bank

As announced on 29 April 2009, BAWAG P.S.K. has reached an agreement in principle, subject to approval by the EU Commission, with its existing shareholders and the Republic of Austria to increase the capital of the Bank, in line with the objectives set out in the Financial Market Stability Act.

The strengthening of BAWAG P.S.K.'s capital base allows the Bank to execute its chosen strategy of focusing on the core Austrian banking market as well as competing effectively under the current economic climate.

Post balance sheet events – capital position further improved

Since 30 June 2009 the capital position of the Bank has further improved.

In July 2009, BAWAG P.S.K. successfully raised EUR 80 million Tier II qualifying capital on competitive terms. The issue was oversubscribed and was raised *before* shareholder and Republic of Austria capital injections were completed, thereby highlighting the strength and confidence that the investor base has in BAWAG P.S.K.

In August 2009, shareholders and the Republic of Austria finalised contract negotiations for the investment of Tier I participation capital of EUR 550 million with an initial coupon of 9.3 per cent post-tax and the granting of a guarantee in the amount of EUR 400 million covering certain assets on the Bank's balance sheet. The agreement is subject to approval by the EU Commission. This approval is expected before the end of 2009.

In accordance with these agreements, on 6 August 2009, the shareholders contributed capital of EUR 205 million into BAWAG P.S.K.

With the completion of these capital injection measures, BAWAG P.S.K. will be well capitalised in line with its European banking peers and new regulatory benchmarks.

Outlook

The outlook for the remainder of 2009 is expected to remain challenging. Risk costs are expected to increase as the full impact of the global economic crisis filters into the Austrian economy. Consumer confidence and credit demand should continue to be weak. The legacy structured credit portfolio continues to be conservatively valued but further fair value changes could still result in a negative impact.

BAWAG P.S.K., however, continues to be uniquely positioned to help its customers through these difficult economic times, supporting our strategy to grow the Austrian commercial and retail banking franchise through deployment of our liquidity while at the same time adhering to strict risk management practices.

We will continue to focus on the successful execution of our key priorities for 2009.

On behalf of the Managing Board, I would like to thank all our employees for their tremendous hard work over the last six months, continued commitment to the Bank and the successful execution in serving our customers. As can be seen from the improved operating performance in the first half of 2009, we are on track in building a powerful banking business centered in Austria delivering long-term value for our customers and shareholders.

David Roberts, CEO
Chairman of the Managing Board
Vienna, August 2009

BAWAG P.S.K. GROUP MANAGEMENT REPORT

The Economy

The international financial and economic crisis appears to have reached its peak in late 2008 through to early 2009. Most industrialised countries saw their overall economic output decline significantly as a result of a sudden fall in exports and investment activity.

In Austria, the recession caused a 2.5 per cent decrease in the real gross domestic product in the first quarter of 2009 compared to the previous quarter. Economic growth had only slowed marginally in the last quarter of 2008 (–0.5 per cent). Surveys conducted by the Austrian Institute of Economic Research (WIFO) show that while all sectors of the Austrian economy have been affected by the significant slowdown, export-oriented goods manufacturers are being hit the hardest. The decrease in exports can be attributed to Austria’s export structure and the significant economic contraction that has hit its main trading partner, Germany. Foreign demand for input goods and services and automobile parts, which account for the majority of Austrian exports, has fallen especially dramatically. This is also impacting investment activity in the country, with the combination of the poor economic outlook and more difficult access to financing causing domestic companies to curtail their investments (both in plant and equipment and also construction).

Private consumption declined noticeably over the winter months as the adverse economic conditions and increasing unemployment significantly undermined consumer confidence. The unemployment rate in Austria is still very low compared to other European countries, in part thanks to the introduction of part-time work, but employment has declined markedly since the beginning of the year.

Most leading indicators have recovered from their lows in recent months and are now pointing to a slowing in the speed of the decline in the second quarter. Evidence is growing that most of the Eurozone economies bottomed out at the middle of the year. This makes a gradual recovery ever more likely in the second half of the year, as the current expansive monetary and fiscal policy is beginning to have its full effect. In the coming year, the economic upturn should continue to strenghten, enabling the Austrian economy to grow at a moderate pace.

Key Events during the First Half of 2009

Agreement Reached to Raise Capital

As announced on 29 April 2009, an agreement in principle (subject to contract and EU Commission approval) was reached between representatives of the Republic of Austria, the Bank's owners and the Bank itself to raise capital consistent with the objectives of the Financial Market Stability Act.

The Republic of Austria will subscribe participation capital in BAWAG P.S.K. in the amount of EUR 550 million. The Bank is also to receive a guarantee from the Republic of Austria in the amount of EUR 400 million for the next five years against certain assets held in the balance sheet. The Bank's owners have agreed to make a capital contribution in the amount of EUR 205 million.

Since the balance sheet date on 30 June 2009, final contract terms have been agreed between representatives of the Republic of Austria, the Bank's owners and the Bank. These contracts are subject to EU Commission approval, which is expected before the end of the year.

In order to further strengthen its capital base, BAWAG P.S.K. successfully raised EUR 80 million Tier II qualifying capital in July 2009 through two issuances.

In August 2009, the Bank's owners paid a capital contribution of EUR 205 million into the Bank in accordance with the agreed terms.

Legal Aspects

SPhinX

In early March 2008, the liquidators of SPhinX Funds filed a suit with the Supreme Court of the State of New York against more than fifty defendants, including BAWAG P.S.K. No specific amounts are stated in this suit.

A number of motions have been filed to dismiss the case and are currently under review. In addition, documents are being collected and reviewed for evidence, and preparations for depositions are underway.

BAWAG P.S.K. has asserted its claims from non-redeemed investments in SPhinX Funds in the amount of roughly USD 29.4 million with the liquidators of SPhinX.

The status of this matter did not change in the first half of 2009, and the Bank's claims have still not been recognised. Preparations are being made to take corresponding legal action.

Preparations for the Payment Services Directive (PSD)

The Bank has made considerable progress in its extensive preparations for the new Payment Services Directive that will come into force on 1 November 2009. The new directive will require amendments to the Bank's general terms and conditions; these changes are currently being communicated to customers.

Equity Holdings

Sparda Bank Wien

SPARDA Bank Aktiengesellschaft (Sparda) was merged with BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG P.S.K.) retroactively as of 30 June 2008 by way of an upstream merger. The merger was entered in the register of companies on 23 January 2009, legally concluding the business combination process. The brand "Sparda Bank" is being continued.

Structured Credit Portfolio Companies

In order to hold parts of the structured credit portfolio, four indirect 100 per cent owned subsidiaries were established.

Partial Merger of ÖVKB Retail Operations

A decision was made in May 2009 to merge the retail operations of Österreichische Verkehrskreditbank (ÖVKB) into BAWAG P.S.K. The merger is planned to be completed by 1 October 2009.
This merger was decided to leverage synergies, especially in BAWAG P.S.K. Group's retail banking segment, and to optimise customer service.

Other Changes in the Bank's Equity Holdings

The liquidation of the Irish subsidiary BAWAG International Finance Ltd. was initiated in the first half of 2009. The liquidation of the companies BAWAG Jersey Capital and BAWAG Capital Advisors was also initiated in August 2009 as part of the streamlining of our business.

Notes to the Financial Statements for the First Half of 2009

The Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

All reports were made using the Guidelines on Financial Reporting (FINREP) framework required for reporting to Oesterreichische Nationalbank (the Austrian national bank, OeNB), which conforms to the framework recommended by the Committee of European Banking Supervisors (CEBS) for uniform financial reporting by internationally active banks. This framework stresses the measurement categories stipulated in IAS 39.

As of 30 June 2009, the Group comprised a total of 58 companies in Austria and abroad (48 on 31 December 2008). The following material changes occurred in the first half of 2009, including:

- BAWAG P.S.K. founded four indirect 100 per cent owned subsidiaries to hold parts of the structured credit portfolio. These companies are consolidated in the Group's financial statements.
- Due to the expansion of business activities, P.S.K. Zahlungsverkehrsabwicklungs GmbH and Vindobona Finance Beta S.A., a mortgage portfolio company, were consolidated as of 1 January 2009.

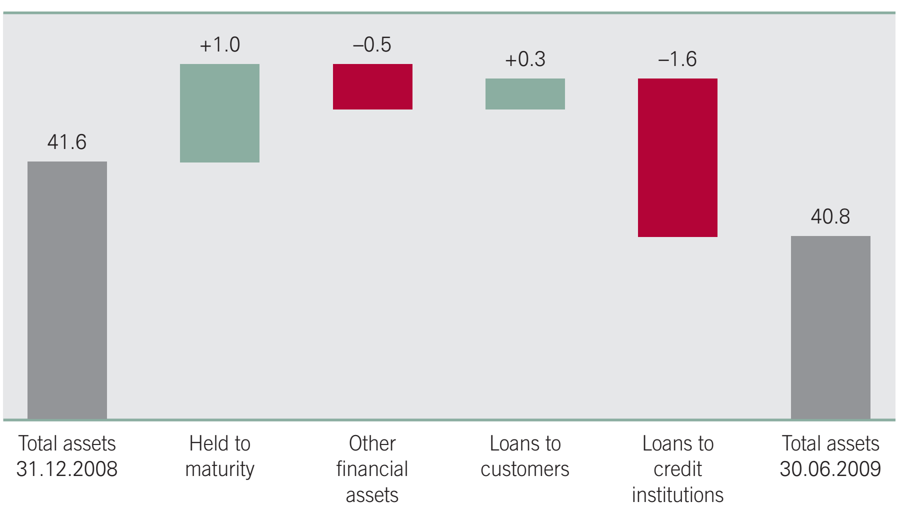
The key banks in the Group in addition to BAWAG P.S.K. are easybank, Österreichische Verkehrskreditbank, BAWAG P.S.K. Wohnbaubank, BAWAG P.S.K. Invest, the Slovenian bank BAWAG Banka dd, and BAWAG Malta Bank. Material non-credit institutions are the leasing group, the BAWAG P.S.K. real estate sub-group, the shoe retailer Stiefelkönig and the newly founded entities named above. BAWAG P.S.K. Versicherung has been recognised using the equity method since the majority stake in the company was sold to the co-owner in 2007.

The **Bank's consolidated assets** as of 30 June 2009 amounted to EUR 40,827 million, EUR 751 million or 1.8 per cent less than at the end of 2008. This decline can primarily be attributed to the disposal of short-term investments in credit institutions.

Assets

in millions of Euros	30.06.2009	31.12.2008	Change	
Cash reserves	753	717	+36	+5.0%
Financial assets	**14,892**	**14,367**	**+525**	**+3.7%**
Fair value through profit or loss	3,105	3,647	-542	-14.9%
Available for sale	2,860	2,492	+368	+14.8%
Held to maturity	6,740	5,767	+973	+16.9%
Held for trading	2,187	2,461	-274	-11.1%
Loans and receivables	**23,965**	**25,246**	**-1,281**	**-5.1%**
Customers	21,010	20,697	+313	+1.5%
Credit institutions	2,955	4,549	-1,594	-35.0%
Hedging instruments	33	27	+6	+22.2%
Tangible non-current assets	354	379	-25	-6.6%
Intangible non-current assets	283	295	-12	-4.1%
Other assets	547	547	–	–
Total assets	**40,827**	**41,578**	**-751**	**-1.8%**

Changes in assets in the first half of 2009



The item **Fair value through profit or loss** contains the securities and loans for which changes in fair value are recognised in the income statement. The financial instruments in this category fell by EUR 542 million or 14.9 per cent to EUR 3,105 million in the first half of 2009 mainly due to the maturity and sale of products in the structured credit portfolio.

The **available-for-sale financial assets** totalled EUR 2,860 million, up from EUR 2,492 million at the end of the year. This EUR 368 million or 14.8 per cent increase can be mainly attributed to investments in liquid European bank bonds.

A large share of the new investments made in the first half of the year comprises **financial assets (held to maturity).** Bonds issued by EU member state governments with an aggregate value of EUR 700 million were purchased to replace short-term interbank receivables. Highly rated national and international corporate bonds were also added to the portfolio. In total, this item grew by EUR 973 million or 16.9 per cent to EUR 6,740 million.

Held for trading not only covers the positions in the trading book, but also all positive fair values of derivatives, including those that are held as hedging instruments for the bank book where hedge accounting is not applied. The decrease in this item by EUR 274 million (–11.1 per cent) to EUR 2,187 million was due primarily to lower derivative instrument values, whereby the associated liabilities also changed accordingly.

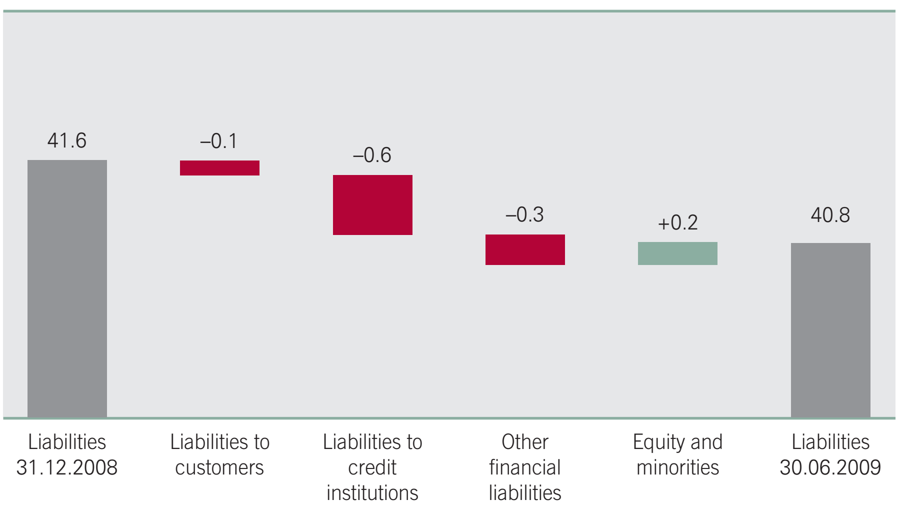
The item **Loans and receivables** contains the loans to customers and credit institutions that are valued at cost. **Receivables from customers** grew by EUR 313 million or 1.5 per cent to EUR 21,010 million in the first half of the year. The majority of this growth can be attributed to business with public-sector clients.

Loans and receivables from credit institutions amounted to EUR 2,955 million at the end of the reporting period, EUR 1,594 million less than at the end of 2008. This contraction is the result of changes made in the investment policy due to the development of interest rates.

Liabilities

in millions of Euros	30.06.2009	31.12.2008	Change	
Financial liabilities	**38,337**	**39,336**	**-999**	**-2.5%**
Fair value through profit or loss	6,094	6,854	-760	-11.1%
Held for trading	3,133	2,526	+607	+24.0%
At amortised cost	29,110	29,956	-846	-2.8%
Customers	22,469	22,585	-116	-0.5%
Credit institutions	3,095	3,668	-573	-15.6%
Issued securities	3,546	3,703	-157	-4.2%
Hedging instruments	62	50	+12	+24.0%
Provisions	496	462	+34	+7.4%
Other obligations	396	404	-8	-2.0%
Equity	1,181	1,138	+43	+3.8%
Minorities	355	188	+167	+88.8%
Total equity and liabilities	**40,827**	**41,578**	**-751**	**-1.8%**

Changes in liabilities in the first half of 2009



The item **Fair value through profit or loss** under Financial liabilities comprises the Bank's issued securities and deposits that are reported at fair value and are not assigned to the item Held for trading. At the end of June 2009, these liabilities totalled EUR 6,094 million, EUR 760 million or 11.1 per cent less than at the end of the prior year. The reason for this lower figure was the redemption of bank securities and the decision not to issue new securities because of the adverse conditions on the international financial markets.

Structured savings products grew by EUR 42 million or 12.1 per cent to EUR 388 million. The interest paid on these deposits depends not only on the general interest rate level, but also on other factors such as the inflation rate or the development of specific indexes. As the risks to which BAWAG P.S.K. is exposed in connection with these products is hedged with derivative instruments, these products are reported under Fair value through profit or loss to ensure that they are presented fairly and accurately.

The item **Held for trading** increased by EUR 607 million or 24.0 per cent to EUR 3,133 million in the first half of 2009. While the fair values of derivatives fell considerably, as on the assets side, repo transactions grew by EUR 831 million.

Payables to customers fell marginally by EUR 116 million or 0.5 per cent to EUR 22,469 million. BAWAG P.S.K.'s rather conservative terms and conditions over the past months as well as some shifts of assets into securities and other bank deposits resulted in a decrease in savings deposits in the amount of EUR 529 million. Together with the structured savings products mentioned above, savings deposits as of 30 June 2009 amounted to EUR 14,944 million, over one third of the Bank's total assets. Significant growth was achieved with the other deposits (+EUR 413 million to EUR 7,913 million).

Equity increased by EUR 43 million (+3.8 per cent) to EUR 1,181 million, and **Minorities** by EUR 167 million (+88.8 per cent) to EUR 355 million. The increase in minorities can be attributed to valuation gains from the elimination of derivative elements of a security as part of its restructuring in agreement with the issuer.

Income statement

in millions of Euros	1-6/2009	1-6/2008	Change	
Net interest income	302.4	321.7	-19.3	-6.0%
Net fee and commission income	74.6	73.0	+1.6	+2.2%
Gains and losses on financial assets and liabilities[1)]	133.1	-62.6	+195.7	–
Other operating income (expenses)	-3.7	6.8	-10.5	–
Operating income	**506.4**	**338.9**	**+167.5**	**+49.4%**
Administrative expenses	-265.9	-313.2	+47.3	+15.1%
Depreciation and amortisation on tangible and intangible non-current assets	-40.5	-45.6	+5.1	+11.2%
Operating expenses	**-306.4**	**-358.8**	**+52.4**	**+14.6%**
Operating profit	**200.0**	**-19.9**	**+219.9**	**–**
Provisions and impairment losses	-125.8	-54.4	-71.4	>-100%
Share of the profit or loss of associates accounted for using the equity method	-8.3	0.1	-8.4	–
Profit/Loss before tax	**65.9**	**-74.2**	**+140.1**	**–**
Income taxes	-43.3	42.5	-85.8	–
Profit/Loss after tax	**22.6**	**-31.7**	**+54.3**	**–**
Minority interests[1)]	-9.3	-8.8	-0.5	-5.7%
Consolidated profit/loss	**13.3**	**-40.5**	**+53.8**	**–**

1) Under IFRS, the item Gains and losses on financial assets and liabilities also includes the valuation of securities whose risk is borne by minority shareholders. These securities are subject to substantial fair value fluctuations. In order to improve the comparability of the results, the valuation results attributable to minority shareholders are netted out in the item Minority interests. Compared to the income statement presented in the Notes, the item Gains and losses on financial assets and liabilities is EUR 165 million lower (2008: +EUR 53 million), while the item Minority interests in profit is EUR 165 million higher (2008: –EUR 53 million).

Net interest income was EUR 302 million in the first half of 2009, EUR 19 million or 6.0 per cent lower than in the same period of 2008. This decline can be attributed to a significant decrease in interest rates as a result of the global economic crisis negatively impacting both saving deposit margins and the overall net interest income earned from assets.

Net fee and commission income totalled EUR 75 million (+EUR 2 million or +2.2 per cent) and improved compared to last year especially in lending and other services. Commissions from payment transactions declined slightly.

The item **Gains and losses on financial assets and liabilities** includes the valuation and sale proceeds from the Bank's financial assets, but not the results of asset impairments or impairment provisions and write-downs on lending. The risk spreads on the capital market narrowed in the first half of 2009, causing a positive valuation result for financial assets designated at fair value through profit or loss. In 2009, this item consists entirely of the result from the valuation and sale of securities and derivatives. In comparison, this item also included gains from the disposal of equity investments in the amount of EUR 247 million in the first half of 2008.

The EUR 11 million decline in **Other operating income (expenses)** to –EUR 4 million in the reporting period can primarily be attributed to the losses of a non-financial-sector subsidiary.

Administrative expenses decreased by EUR 47.3 million or 15.1 per cent to EUR 266 million in the first half of 2009. This change is the result of a programme initiated to cut administrative costs on the one hand, and of one-off costs incurred in the prior period for the repositioning or elimination of existing business areas and the establishment of new business areas on the other. Staff costs remained virtually unchanged compared to the same period 2008.

Depreciation and amortisation on tangible and intangible non-current assets fell by EUR 5 million or 11.2 per cent to EUR 41 million.

Provisions and impairment losses increased by EUR 71 million to EUR 126 million in the first half of 2009. Provisions for lending business increased by approximately EUR 42 million compared to the same period in 2008 due to the poorer economic conditions. Non-scheduled write-downs on held-to-maturity securities in the structured credit portfolio caused an increase of EUR 29 million.

The **Income taxes** in the amount of EUR 43 million are primarily the result of deferred taxes from the difference between valuations according to prevailing tax law and IFRS. The elimination of deferred tax assets in the first half of 2009 resulted in additional tax expenses. BAWAG P.S.K. applied no deferred taxes to tax loss carryforwards in 2009.

Deducting taxes and minority interest shares, the Group achieved a **net profit** of EUR 13 million for the period, compared to losses in the prior year of EUR 41 million.

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

in millions of Euros	30.06.2009	31.12.2008
Share capital	250	250
Reserves (including fund for general banking risks)	977	1,007
Goodwill, minorities and deductions	228	232
Core capital (Tier I)	**1,455**	**1,489**
Less shareholdings held for investment purposes	-56	-56
Core capital (Tier I) after deductions	**1,399**	**1,433**
Reserve under § 57 BWG, revaluation reserve	13	13
Supplementary and subordinated debt capital	795	790
Additional items (Tier II)	**808**	**803**
Less shareholdings held for investment purposes	-56	-56
Eligible own funds	**2,151**	**2,180**
Tier III	64	55
Own funds	**2,215**	**2,235**

Own funds requirement

in millions of Euros	30.06.2009	31.12.2008
Credit risk	1,676	1,667
Market risk	64	55
Operational risk	150	131
Capital requirements	**1,890**	**1,853**

The core capital ratio and the own funds ratio as of 30 June 2009 remained stable compared to the end of 2008 at 6.3 per cent and 9.6 per cent, respectively. The Tier I capital ratio based on credit risk (excluding operational risk) amounted to 6.7 per cent (31 December 2008: 6.9 per cent).

Since 30 June 2009 the shareholders have contributed EUR 205 million of capital and the Bank has successfully raised EUR 80 million Tier II qualifying capital. In addition, subject to EU Commission approval, EUR 550 million of participation capital will be issued by the Republic of Austria in the second half of the year. Subsequently, the equity of the Bank and the capital ratios will have been substantially improved.

Non-Financial Performance Indicators

Corporate Governance

Supervisory Board

BAWAG P.S.K.'s Supervisory Board, which has the task of supervising and assisting the Managing Board, consists of six international and national experts who are nominated by the Annual General Meeting. Three additional members of the Supervisory Board are delegated by the works council.

The Rules of Procedure of the Supervisory Board comprise the rights and obligations of this board. They also define the individual committees of the Supervisory Board and their responsibilities.

The Supervisory Board established a Credit Committee that is responsible for evaluating financing commitments above a certain volume, particularly with regard to credit risk. The Audit Committee is responsible for reviewing the Bank's accounts and the annual financial statements, and monitoring the Bank's risk management and internal control systems. This committee is also in regular contact with the external auditor, the Internal Auditing division and the Compliance Office.

While the Nomination Committee deals with selecting suitable candidates for Managing Board posts and preparations for nomination when existing members will be stepping down, the Remuneration Committee deals with relationships between the Bank and the members of the Managing Board. 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 Related Parties Special Audit Committee was set up to complete the corporate governance structure and deals with all financing agreements and transactions above a certain limit that involve companies related to the Bank's shareholders.

Managing Board

No changes were made in the composition of or assignment of responsibilities on the Managing Board in the first half of 2009.

The Rules of Procedure of the Managing Board define the responsibilities and tasks of this board. According to these terms of reference, the Managing Board has the right to form committees and to issue statutes for these committees. The following executive committees have been formed: the Credit Approval Committee, which decides on financing commitments above a certain amount; the Credit Policy Committee, which focuses on credit guidelines and strategies; and the Enterprise Risk Meeting for risk management for the entire Bank. The Managing Board also created the Retail and SME Committee, the Asset Liability Committee and the Operations Committee.

A new executive committee was formed in June 2009, the Strategic Asset and Liability Committee. The objective of this committee, on which all Managing Board members sit, is to place an increased strategic focus on asset liability management.

Code of Corporate Governance

BAWAG P.S.K. voluntarily adopted the Austrian Code of Corporate Governance for listed enterprises in 2006. The changes made to the general Code of Corporate Governance in 2008 also led to changes in the Bank's internal code. Compliance with this Code was audited by independent third parties in 2008 and revealed that all key provisions of the Code were fulfilled with the exception of those that do not apply to a bank with a closed shareholder structure.

Compliance

The Compliance Office is a sub-unit of BAWAG P.S.K.'s Legal division but reports directly to the Managing Board. Regular reports are also submitted to the Audit Committee. A new head of the Compliance Office was appointed in February 2009.

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. A company agreement has also been signed that governs transactions between the Bank and employees.

Corporate Social Responsibility

BAWAG P.S.K. published its first Corporate Social Responsibility Report in April 2009. This report presents the progress that BAWAG P.S.K. is making in its efforts to live up to its responsibility to society. A plan of measures for further improvements is also included.

BAWAG P.S.K. joined the UN Global Compact in the first half of 2009. The Global Compact is a value-oriented platform that aims to promote institutional learning. To do this, it creates transparency and avenues for dialogue to disseminate and support good practices that are based on globally valid basic principles. The corporate social responsibility officer at BAWAG P.S.K. also became a member of the steering committee of Global Compact's Austria Network.

The "P.S.K. Neue Chance Konto" account was introduced in February to provide access to basic financial services for Austrians who have not been able to open accounts with domestic banks in the past. This account does not offer credit or overdraft features.

Events after the Balance Sheet Date

Supervisory Board

The composition of the Supervisory Board changed in July 2009. As Mike Rossi has stepped down from the Board, Cees Maas, former Chief Financial Officer, Chief Risk Officer and Vice Chairman of the Board of Directors of ING Group NV, was appointed to the Supervisory Board of BAWAG P.S.K. on 27 July 2009.

Outlook

The outlook for the remainder of 2009 is expected to remain challenging. Risk costs are expected to increase as the full impact of the global economic crisis filters into the Austrian economy. Consumer confidence and credit demand should continue to be weak. The legacy structured credit portfolio continues to be conservatively valued but further fair value changes could still result in a negative impact.

BAWAG P.S.K., however, continues to be uniquely positioned to help its customers through these difficult economic times, supporting our strategy to grow the Austrian commercial and retail banking franchise through deployment of our liquidity while at the same time adhering to strict risk management practices.

Our focus for the second half of 2009 includes

- the continuation of our pro-active risk management approach under the prevailing difficult market environment,
- the continuous improvement of our productivity levels and strict cost optimisation.
- the further expansion of our domestic retail and commercial banking business to sustainably boost our earnings, and
- deploying our liquidity to meet the financing needs of our private, SME and commercial customers and our municipal customers.

Vienna, 25 August 2009

CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS

Consolidated Accounts

Consolidated balance sheet as of 30 June 2009

Assets

in millions of Euros	(Notes)	30.06.2009	31.12.2008
Cash reserves	(1)	753	717
Financial assets designated at fair value through profit or loss	(2)	3,105	3,647
Available-for-sale financial assets	(3)	2,860	2,492
Held-to-maturity investments	(4)	6,740	5,767
Assets held for trading	(5)	2,187	2,461
Loans and receivables	(6)	23,965	25,246
Customers		21,010	20,697
Credit institutions		2,955	4,549
Hedging instruments	(15)	33	27
Tangible non-current assets		354	379
Intangible non-current assets		283	295
Other assets	(8)	547	547
Total assets		**40,827**	**41,578**

Equity and liabilities

in millions of Euros	(Notes)	30.06.2009	31.12.2008
Financial liabilities designated at fair value through profit or loss	(9)	6,094	6,854
Liabilities held for trading	(10)	3,133	2,526
Financial liabilities at amortised cost	(11)	29,110	29,956
Customers		22,469	22,585
Credit institutions		3,095	3,668
Issued bonds, subordinated and supplementary capital		3,546	3,703
Hedging instruments	(15)	62	50
Provisions	(13)	496	462
Other obligations	(14)	396	404
Equity		1,181	1,138
Minorities		355	188
Total equity and liabilities		**40,827**	**41,578**

Consolidated income statement for the period 1 January to 30 June 2009

in millions of Euros	(Notes)	1-6/2009	1-6/2008
Net interest income	(16)	302.4	321.7
Net fee and commission income	(17)	74.6	73.0
Gains and losses on financial assets and liabilities	(18)	298.1	-115.5
Other operating income (expenses)	(19)	-3.7	6.8
Administrative expenses	(20)	-265.9	-313.2
Depreciation and amortisation on tangible and intangible non-current assets	(21)	-40.5	-45.6
Provisions and impairment losses	(22)	-125.8	-54.4
Share of the profit or loss of associates accounted for using the equity method		-8.3	0.1
Profit/Loss before tax		**230.9**	**-127.1**
Income taxes	(23)	-43.3	42.5
Profit/Loss after tax		**187.6**	**-84.6**
Minority interests		-174.3	44.1
Consolidated profit/loss		**13.3**	**-40.5**

Under IFRS, the item Gains and losses on financial assets and liabilities also includes fair value adjustments of securities whose risk is borne by minorities. In the first half of 2009, valuation gains of EUR 165 million that have been shown in the item Gains and losses on financial assets and liabilities have been passed on to minorities in the item Minority interests. In 2008, valuation losses which were borne by minorities in the amount of EUR 53 million have been included in the item Gains and losses on financial assets and liabilities.

Income and expenses recognised directly in equity

in millions of Euros	1-6/2009	1-6/2008
Profit/Loss after tax	**187.6**	**-84.6**
Foreign exchange differences	0.1	1.9
AFS reserve	44.4	–
Share of other income of associates accounted for using the equity method	-3.9	–
Deferred taxes on items recognised directly in equity	-11.1	–
Income and expenses recognised directly in equity	**29.5**	**1.9**
Total income	**217.1**	**-82.7**
Equity without minorities	42.8	-38.6
Minority interests	174.3	-44.1

Consolidated statements of changes in equity

in millions of Euros	Subscribed capital	Capital reserves	Retained reserves[1)]	AFS reserve	Foreign exchange differences	Equity w/o minorities	Minority interests	Equity including minorities
Balance as of 01.01.2008	**250.0**	**1,498.9**	**-33.0**	**6.7**	**29.2**	**1,751.8**	**378.3**	**2,130.1**
Dividends	–	–	–	–	–	–	-8.7	-8.7
Total income	–	–	-40.5	–	30.1	-10.4	-44.1	-54.5
Change in scope of consolidation	–	–	–	–	-28.2	-28.2	–	-28.2
Balance as of 30.06.2008	**250.0**	**1,498.9**	**-73.5**	**6.7**	**31.1**	**1,713.2**	**325.5**	**2,038.7**
Balance as of 01.01.2009	**250.0**	**1,042.4**	**-124.5**	**-30.1**	**–**	**1,137.8**	**188.5**	**1,326.3**
Dividends	–	–	–	–	–	–	-7.8	-7.8
Total income	–	–	13.3	29.4	0.1	42.8	174.3	217.1
Balance as of 30.06.2009	**250.0**	**1,042.4**	**-111.2**	**-0.7**	**0.1**	**1,180.6**	**355.0**	**1,535.6**

1) Thereof revaluation reserve in accordance with IFRS 3: EUR 1.3 million

Cash flow statement

in millions of Euros	1-6/2009	1-6/2008
Cash and cash equivalents at end of previous period	**717**	**945**
Net cash from operating activities	1,330	-299
Net cash used in investing activities	-1,300	326
Net cash from financing activities	6	-48
Effect of exchange rate changes	–	–
Cash and cash equivalents at end of period	**753**	**923**

Notes

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

These unaudited interim financial statements for the first half of 2009 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in the preparation of this interim financial report are the same as those used for the preparation of the consolidated financial statements as of 31 December 2008, except for the first time application of IFRS 8 (Operating Segments). The valuation principles as of 31 December 2008 were applied again.

Application of IFRS 8 (Operating Segments) is mandatory from 1 January 2009 and replaces IAS 14. According to IFRS 8 segment reporting is based on operating segments. Operating segments are defined as those components of an entity for which separate financial information is available that is regularly reviewed by the entity's chief operating decision maker (a definition based upon the so-called "management approach").
The annual financial statements for the first half of 2009 were not audited or reviewed by the external auditor.

Changes in the Scope of Consolidation

P.S.K. Zahlungsverkehrsabwicklungs GmbH and Vindobona Finance Beta S.A., a mortgage portfolio company, were fully consolidated on 1 January 2009 and are now included in the consolidated group report.

Key Events in the First Half of 2009

Please refer to the management report for information on significant events in the first half of 2009.

Details of the Consolidated Balance Sheet

1 | Cash reserves

in millions of Euros	30.06.2009	31.12.2008
Cash on hand	323	279
Balances at central banks	430	438
Cash reserves	**753**	**717**

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

in millions of Euros	30.06.2009	31.12.2008
Bonds and other fixed income securities	**1,619**	**1,995**
Public sector debt instruments	18	53
Bonds of other issuers	1,601	1,942
Shares and other variable rate securities	**198**	**218**
Shares	–	–
Investment certificates	51	55
Other	147	163
Loans and advances to credit institutions and customers	**1,288**	**1,434**
Customers	1,288	1,434
Designated at fair value through profit or loss	**3,105**	**3,647**

3 | Available-for-sale financial assets

in millions of Euros	30.06.2009	31.12.2008
Debt instruments	**2,570**	**2,208**
Bonds and other fixed income securities	2,552	2,189
Public sector debt instruments	–	104
Bonds of other issuers	2,552	2,085
Other variable rate securities	18	19
Equity investments	**290**	**284**
Investments in non-consolidated subsidiaries		
Valued at cost	60	61
Interests in associates	79	79
Valued at cost	43	48
Measured at fair value (not through profit or loss)	36	31
Other shareholdings		
Valued at cost	151	144
Available-for-sale financial assets	**2,860**	**2,492**

4 | Held-to-maturity investments

in millions of Euros	30.06.2009	31.12.2008
Bonds and other fixed income securities		
Public sector debt instruments	3,240	2,553
Bonds of other issuers	3,500	3,214
Held-to-maturity investments	**6,740**	**5,767**

5 | Assets held for trading

in millions of Euros	30.06.2009	31.12.2008
Bonds and other fixed income securities	**199**	**248**
Public sector debt instruments	20	32
Bonds of other issuers	179	216
Positive fair values of derivative financial instruments	**1,982**	**2,213**
Derivatives trading book	**861**	**871**
Foreign currency derivatives	167	325
Interest rate derivatives	667	505
Credit related derivatives	27	41
Derivatives banking book	**1,121**	**1,342**
Foreign currency derivatives	53	157
Interest rate derivatives	1,010	723
Credit related derivatives	58	462
Other trading assets	**6**	**–**
Of which repurchase agreements	6	–
Assets held for trading	**2,187**	**2,461**

6 | Loans and receivables

30.06.2009 in millions of Euros	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets[1)]	**Total net carrying amount**
Receivables from credit institutions	**2,952**	**37**	**-34**	**–**	**2,955**
Receivables from customers	**20,662**	**1,062**	**-387**	**-327**	**21,010**
Central governments	537	–	–	–	537
Corporates	10,413	263	-144	-1	10,531
Retail	6,760	799	-243	-299	7,017
Other customers	2,952	–	–	–	2,952
Portfolio impairment provision	–	–	–	-27	-27
Total	**23,614**	**1,099**	**-421**	**-327**	**23,965**

1) Includes allowances for incurred but not reported losses.

31.12.2008 in millions of Euros	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets[1)]	**Total net carrying amount**
Receivables from credit institutions	**4,546**	**37**	**-34**	**–**	**4,549**
Receivables from customers	**20,444**	**926**	**-359**	**-314**	**20,697**
Central governments	337	–	–	–	337
Corporates	10,599	187	-126	-1	10,659
Retail	6,825	739	-233	-284	7,047
Other customers	2,683	–	–	–	2,683
Portfolio impairment provision	–	–	–	-29	-29
Total	**24,990**	**963**	**-393**	**-314**	**25,246**

1) Includes allowances for incurred but not reported losses.

7 | Receivables from credit institutions and customers

Receivables from credit institutions – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Austria	**–**	**–**	**669**	**3,073**	**669**	**3,073**
Abroad	**–**	**–**	**2,286**	**1,476**	**2,286**	**1,476**
Western Europe	–	–	1,908	970	1,908	970
Central and Eastern Europe	–	–	162	211	162	211
North America	–	–	100	137	100	137
Asia/Pacific	–	–	44	50	44	50
Rest of the world	–	–	72	108	72	108
Receivables from credit institutions	**–**	**–**	**2,955**	**4,549**	**2,955**	**4,549**

Receivables from customers – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Austria	**1,288**	**1,434**	**17,474**	**17,395**	**18,762**	**18,829**
Abroad	**–**	**–**	**3,536**	**3,302**	**3,536**	**3,302**
Western Europe	–	–	1,724	1,329	1,724	1,329
Central and Eastern Europe	–	–	1,424	1,516	1,424	1,516
North America	–	–	169	221	169	221
Asia/Pacific	–	–	9	9	9	9
Rest of the world	–	–	210	227	210	227
Receivables from customers	**1,288**	**1,434**	**21,010**	**20,697**	**22,298**	**22,131**

Receivables from credit institutions – Breakdown by credit type

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Demand deposits	–	–	99	117	99	117
Time deposits	–	–	2,347	3,786	2.347	3,786
Loans	–	–	501	637	501	637
Other	–	–	8	9	8	9
Receivables from credit institutions	**–**	**–**	**2,955**	**4,549**	**2,955**	**4,549**

Receivables from customers – Breakdown by credit type

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Current accounts	**–**	**–**	**1,769**	**1,967**	**1,769**	**1,967**
Cash advances	**–**	**–**	**1,116**	**745**	**1,116**	**745**
Loans	**1,288**	**1,434**	**16,746**	**16,568**	**18,034**	**18,002**
One-off loans	1,288	1,434	16,520	16,351	17,808	17,785
Current account loans	–	–	30	26	30	26
Other	–	–	196	191	196	191
Debt instruments[1)]	**–**	**–**	**6**	**5**	**6**	**5**
Leasing	**–**	**–**	**1,373**	**1,412**	**1,373**	**1,412**
Receivables from customers	**1,288**	**1,434**	**21,010**	**20,697**	**22,298**	**22,131**

1) Not traded on an active market

8 | Other assets

in millions of Euros	30.06.2009	31.12.2008
Tax assets	313	366
Thereof for current taxes	27	27
Thereof for deferred taxes	286	339
Associates accounted for using the equity method	17	24
Accruals	37	41
Other items	150	81
Merchandise inventories	30	35
Other assets	**547**	**547**

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

in millions of Euros	30.06.2009	31.12.2008
Payables to customers	**388**	**441**
Savings deposits	388	346
Other deposits	–	95
Issued bonds, subordinated and supplementary capital	**5,706**	**6,413**
Issued bonds	3,511	4,321
Subordinated capital	812	836
Supplementary capital	33	29
Other obligations evidenced by paper	1,350	1,227
Financial liabilities designated at fair value through profit or loss	**6,094**	**6,854**

10 | Liabilities held for trading

in millions of Euros	30.06.2009	31.12.2008
Negative fair values of derivative financial instruments	**1,659**	**1,878**
Derivatives trading book	**809**	**903**
Foreign currency derivatives	153	326
Interest rate derivatives	620	528
Credit related derivatives	36	49
Derivatives banking book	**850**	**975**
Foreign currency derivatives	120	231
Interest rate derivatives	614	284
Credit related derivatives	116	460
Other trading liabilities	**1,474**	**648**
Of which repurchase agreements	1,474	643
Liabilities held for trading	**3,133**	**2,526**

11 | Financial liabilities designated at amortised cost

in millions of Euros	30.06.2009	31.12.2008
Payables to credit institutions	**3,095**	**3,668**
Payables to customers	**22,469**	**22,585**
Savings deposits [1)]	14,556	15,085
Other deposits	7,913	7,500
Issued bonds, subordinated and supplementary capital	**3,546**	**3,703**
Issued bonds	1,935	1,919
Subordinated capital	176	175
Supplementary capital	344	316
Other obligations evidenced by paper	1,091	1,293
Financial liabilities at amortised cost	**29,110**	**29,956**

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

12 | Payables to credit institutions and customers

Payables to credit institutions – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Austria	**–**	**–**	**2,177**	**2,209**	**2,177**	**2,209**
Abroad	**–**	**–**	**918**	**1,459**	**918**	**1,459**
Western Europe	–	–	402	567	402	567
Central and Eastern Europe	–	–	6	6	6	6
North America	–	–	58	238	58	238
Asia/Pacific	–	–	23	88	23	88
Rest of the world	–	–	429	560	429	560
Payables to credit institutions	**–**	**–**	**3,095**	**3,668**	**3,095**	**3,668**

Payables to customers – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Austria	**383**	**337**	**21,953**	**22,029**	**22,336**	**22,366**
Abroad	**5**	**104**	**516**	**556**	**521**	**660**
Western Europe	4	103	307	341	311	444
Central and Eastern Europe	1	1	139	146	140	147
North America	–	–	23	22	23	22
Asia/Pacific	–	–	11	11	11	11
Rest of the world	–	–	36	36	36	36
Payables to customers	**388**	**441**	**22,469**	**22,585**	**22,857**	**23,026**

Payables to customers – Breakdown by sector

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Savings deposits	**388**	**346**	**14,556**	**15,085**	**14,944**	**15,431**
Savings accounts	–	–	7,017	6,681	7,017	6,681
Savings associations	–	–	464	402	464	402
Fixed-term investment savings accounts	388	346	7,075	8,002	7,463	8,348
Other deposits	**–**	**95**	**7,913**	**7,500**	**7,913**	**7,595**
Central governments	–	–	349	377	349	377
Non credit institutions	–	–	445	583	445	583
Corporates	–	95	3,055	2,909	3,055	3,004
Customers	–	–	4,064	3,631	4,064	3,631
Payables to customers	**388**	**441**	**22,469**	**22,585**	**22,857**	**23,026**

13 | Provisions

in millions of Euros	30.06.2009	31.12.2008
Severance payments	93	92
Pension provision	243	240
Jubilee benefits	30	30
Tax provisions	22	22
Thereof for current taxes	5	5
Thereof for deferred taxes	17	17
Anticipated losses on pending business	47	27
Credit promises and guarantees	32	12
Provisions for troubled contracts	15	15
Other items	61	51
Provisions for pending litigation	43	45
Other	18	6
Provisions	**496**	**462**

14 | Other obligations

in millions of Euros	30.06.2009	31.12.2008
Other liabilities	371	372
Accruals	25	32
Other obligations	**396**	**404**

15 | Hedging instruments

in millions of Euros	30.06.2009	31.12.2008
Hedging instruments in fair value hedges		
Positive market values	33	27
Negative market values	62	50

Details of the Consolidated Income Statement

16 | Net interest income

in millions of Euros	1-6/2009	1-6/2008
Interest income	**845.1**	**1,114.9**
Cash reserves	3.7	9.0
Financial assets held for trading	89.7	121.3
Financial assets designated at fair value through profit or loss	101.8	109.3
Available-for-sale financial assets	50.0	0.9
Loans and receivables	491.1	708.3
Held-to-maturity investments	108.8	166.1
Interest expenses	**-544.8**	**-799.3**
Financial liabilities held for trading	-44.3	-136.0
Financial liabilities designated at fair value through profit or loss	-146.0	-161.0
Financial liabilities measured at amortised cost	-354.5	-500.7
Other liabilities	–	-1.6
Dividend income	**2.1**	**6.1**
Available-for-sale financial assets	2.1	6.1
Net interest income	**302.4**	**321.7**

17 | Net fee and commission income

in millions of Euros	1-6/2009	1-6/2008
Payment transfers	72.0	73.2
Lending	13.7	11.5
Securities and custody business	17.5	18.9
Foreign business, currency and notes-and-coin business	0.2	0.7
Payments to Österreichische Post AG	-39.6	-40.4
Other services	10.9	9.1
Net fee and commission income	**74.6**	**73.0**

18 | Gains and losses on financial assets and liabilities

in millions of Euros	1-6/2009	1-6/2008
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**-15.6**	**248.0**
Available-for-sale financial assets	-3.4	1.2
Loans and receivables (including finance leases)	-2.1	–
Held-to-maturity investments	-10.3	-0.2
Financial liabilities measured at amortised cost	0.2	–
Gain from the sale of consolidated subsidiaries	–	247.0
Gains (losses) on financial assets and liabilities held for trading, net	**124.7**	**-208.2**
Interest rate instruments and related derivatives	19.2	-112.3
Foreign exchange trading	3.0	0.5
Credit risk instruments and related derivatives	102.5	-96.4
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	**194.1**	**-169.1**
Gains (losses) from fair value hedge accounting	**-4.0**	**–**
Fair value adjustment of hedged item	0.8	–
Fair value adjustment of hedging instrument	-4.8	–
Exchange differences revaluations, net	**-1.1**	**13.8**
Gains and losses on financial assets and liabilities	**298.1**	**-115.5**

19 | Other operating income (expenses)

in millions of Euros	1-6/2009	1-6/2008
Net income from investment properties	2.3	2.9
Net income from the sale of tangible and intangible non-current assets	-0.8	-0.9
Net income from operating leasing	–	0.3
Net income from retailing	-7.7	-2.8
Other income (expenses)	2.5	7.3
Other operating income (expenses)	**-3.7**	**6.8**

20 | Administrative expenses

in millions of Euros	1-6/2009	1-6/2008
Staff costs	**-180.5**	**-180.6**
Wages and salaries	-131.7	-127.5
Statutory social security contributions	-32.2	-34.6
Voluntary fringe benefits	-2.0	-2.4
Post-employment benefit costs	-9.5	-8.8
(Increase) decrease of pension provision	-2.7	-3.2
(Increase) decrease of provision for severance payments	-0.8	-3.4
(Increase) decrease of provision for jubilee benefits	-0.9	-0.4
Staff benefit fund costs	-0.7	-0.3
Other administrative expenses	**-85.4**	**-132.6**
Administrative expenses	**-265.9**	**-313.2**

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

in millions of Euros	1-6/2009	1-6/2008
Depreciation and amortisation		
Intangible non-current assets	-18.8	-19.1
Tangible non-current assets	-21.7	-26.5
Scheduled write-downs	**-40.5**	**-45.6**

22 | Provisions and impairment provisions

in millions of Euros	1-6/2009	1-6/2008
Changes in provisions	-32.2	-12.8
Impairment losses on financial assets	-91.6	-41.9
Impairment losses on non-financial assets	-2.0	0.3
Provisions and impairment losses	**-125.8**	**-54.4**

23 | Income taxes

in millions of Euros	1-6/2009	1-6/2008
Current income tax	-1.2	0.6
Deferred income tax	-42.1	41.9
Income taxes	**-43.3**	**42.5**

Other Information

24 | Contingent assets, contingent liabilities and commitments

in millions of Euros	30.06.2009	31.12.2008
Contingent assets	**11**	**–**
Contingent liabilities	**2,391**	**1,600**
Arising from guarantees	2,194	1,586
Other contingent liabilities	197	14
Commitments	**8,436**	**10,300**

25 | Human resources

Headcount	30.06.2009	31.12.2008[1)]
Human resources, end of period	5,920	6,103
Human resources, average	6,002	6,673

1) End of period headcounts excluding Istrobanka, average headcounts including Istrobanka.

26 | Segment reporting

Primary segmentation by business segment – Semi-annual comparison

in millions of Euros		Retail customers	Corporate customers	Financial markets	Real estate and leasing	Discontinued business and others	Total
Net interest income	2009	194.2	66.9	-3.3	25.2	19.4	**302.4**
	2008	207.9	62.2	14.4	18.7	18.5	**321.7**
Net fee and commission income	2009	49.3	37.5	1.4	2.3	-16.0	**74.6**
	2008	42.0	28.7	-1.5	1.8	2.0	**73.0**
Gains and losses on financial assets and liabilities	2009	1.6	-2.9	298.1	0.2	1.2	**298.1**
	2008	8.3	-3.1	-371.3	5.2	245.4	**-115.5**
Other operating income (expenses)	2009	-0.1	-0.1	-0.2	5.1	-8.4	**-3.7**
	2008	0.3	0.1	–	7.5	-1.1	**6.8**
Administrative expenses	2009	-185.4	-42.0	-13.8	-9.6	-15.1	**-265.9**
	2008	-192.2	-31.9	-12.3	-13.1	-63.7	**-313.2**
Depreciation and amortisation on tangible and intangible non-current assets	2009	-20.7	-4.6	-1.5	-3.1	-10.7	**-40.5**
	2008	-21.2	-3.3	-1.4	-3.1	-16.6	**-45.6**
Provisions and impairment losses	2009	-35.4	-35.9	-30.3	-4.6	-19.6	**-125.8**
	2008	-33.5	-14.0	–	-3.5	-3.4	**-54.4**
Share of the profit or loss of associates accounted for using the equity method	2009	–	–	–	–	-8.3	**-8.3**
	2008	–	–	–	–	0.1	**0.1**
Profit/Loss before tax	**2009**	**3.5**	**18.9**	**250.4**	**15.5**	**-57.5**	**230.9**
	2008	**11.6**	**38.7**	**-372.1**	**13.5**	**181.2**	**-127.1**
Risk-weighted assets	2009	3,789.1	6,633.9	6,446.3	2,232.3	1,851.8	**20,953.5**
	2008	4,710.3	9,469.2	4,193.0	1,051.1	3,116.5	**22,540.1**

The previous year's values have been partially adjusted (the results of Istrobanka a.s. and BAWAG Bank CZ a.s., which were sold in 2008, were transferred into the segment "Discontinued business and others"). The results of Retail and Corporate customers and Real estate and leasing are not fully comparable, because customer segmentation has been changed.

27 | Capital management

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

As part of our managing process ICAAP ensures adequate internal capital to cover significant risks. Executing adequate ICAAP methods, systems and processes are the aims of the Bank.

The supervisory authority for the Austrian banking sector verifies compliance with these funds requirements for BAWAG P.S.K. AG as an individual company and for the credit institution group as a whole.

The Treasury division is responsible for conducting the Bank’s capital management (management of assets and liabilities). This unit’s central responsibility is to continually monitor the development of the Bank’s business and to compare the changes in the risk-weighted assets with the available regulatory own funds. The budgeted business volumes are also compared with the expected changes in the eligible own funds at the beginning of every financial year. In this, compliance with the minimum requirements is not only simulated, fulfilment of the ratios specified by BAWAG P.S.K. is also monitored to ensure that it reaches and maintains its target rating. In addition to the risk-weighted assets, the own funds requirement for the securities trading book is included in the calculation using an internal value-at-risk (VaR) model. Planned changes in the Bank’s equity holdings (changes in the scope of consolidation) are also simulated.

The results of these analyses are discussed by the Asset Liability Committee (ALCO), which then gives recommendations to the Managing Board for increasing the own funds coverage when necessary.

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

The core capital ratio (Tier I) of 6.3 per cent and the own funds ratio of 9.6 per cent are both well above the legally stipulated minimum requirements. The Tier I capital ratio based on credit risk (excluding operational risk) is 6.7 per cent.

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

in millions of Euros	30.06.2009	31.12.2008
Share capital	**250**	**250**
Reserves (including fund for general banking risks)	977	1,007
Goodwill, minorities and deductions	228	232
Core capital (Tier I)	**1,455**	**1,489**
Less shareholdings held for investment purposes	-56	-56
Core capital (Tier I) after deductions	**1,399**	**1,433**
Reserve under § 57 BWG, revaluation reserve	13	13
Supplementary and subordinated debt capital	795	790
Additional items (Tier II)	**808**	**803**
Less shareholdings held for investment purposes	-56	-56
Eligible own funds	**2,151**	**2,180**
Tier III	**64**	**55**
Own funds	**2,215**	**2,235**

Our own funds compared with the following own funds requirement:

in millions of Euros	30.06.2009	31.12.2008
Credit risk	1,676	1,667
Market risk	64	55
Operational risk	150	131
Capital requirements	**1,890**	**1,853**

Since 30 June 2009 the shareholders have contributed EUR 205 million of capital and the Bank has successfully raised EUR 80 million Tier II qualifying capital. In addition, subject to EU Commission approval, EUR 550 million of participation capital will be issued by the Republic of Austria in the second half of the year.

Semi-Annual Risk Report

Introduction and Overview

BAWAG P.S.K. identifies, measures, monitors and manages all risks to which BAWAG P.S.K. Group is exposed. As a result of the Bank's transactions with financial instruments, it is subject to the following risks that are addressed by means of different monitoring and management processes within its risk management system:

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

This risk report provides information on the Group's exposure to each of the risks listed above.

Risk Management Framework – Risk Organisation

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

The risk management organisation comprises the following units:

- Corporate & Institutional Risk
- Market Risk
- Operational Risk
- Retail & SME Risk
- Risk Reporting
- Risk Sciences
- Workout Group
- Special Projects

Specific Risks of BAWAG P.S.K. Group

28 | Credit risk

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

In the retail segment, the creditworthiness of private 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 ratings 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 method is based on a series of quantitative and qualitative factors. The specific risk categories from the uniform BAWAG P.S.K. master scale are assigned to the customer on this basis and represent its individual estimated probability of default.

All non-consumer exposure components that exist in BAWAG P.S.K. are aggregated at the customer and customer group level using a specific software application. Reporting duties for collateralised and uncollateralised exposures are defined for customers/groups of affiliated customers by risk grades to identify the concentration of risk exposure.

Portfolio Development in the First Half of 2009

The portfolio remained virtually unchanged in the first half of 2009. The volume of loans to private customers remained nearly identical, while loans to commercial customers, credit institutions and the public sector increased only marginally, mainly due to weak demand from the market.

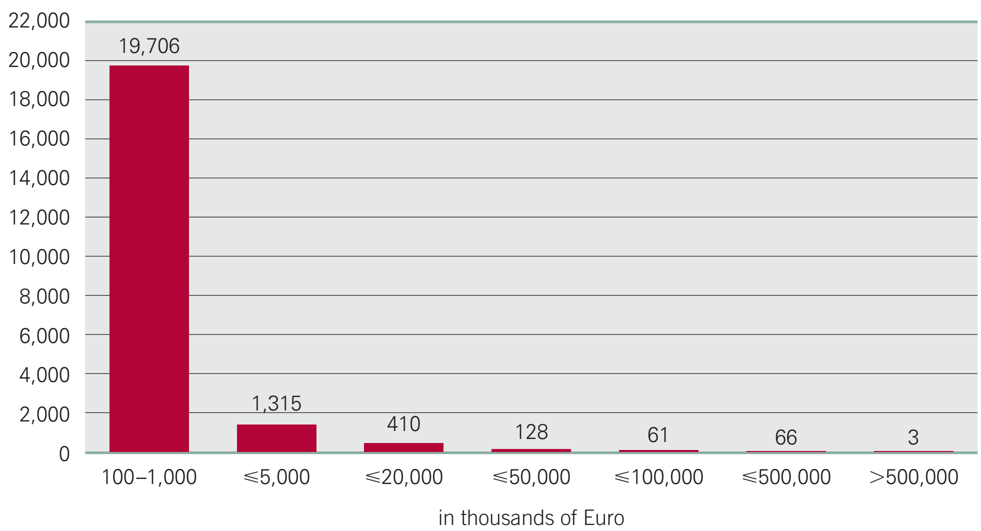
Credit risk by customer segment, in millions of Euros[1)]

Segment	Book value credits[2)]		Bonds		Off-balance business		Total risk	
	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008	30.06.2009	31.12.2008
Banks	3,074	2,382	4,171	4,384	2,121	2,264	9,366	9,030
Public sector	4,473	6,542	3,258	2,717	262	723	7,993	9,982
Corporates	10,767	10,553	3,464	2,725	1,708	1,590	15,939	14,869
Small business	1,390	1,487	4	0	123	75	1,517	1,562
Retail private customers	5,544	5,661	0	–	120	63	5,664	5,724
Others	5	55	32	145	0	661	37	861
Total	**25,253**	**26,680**	**10,929**	**9,972**	**4,334**	**5,377**	**40,516**	**42,028**

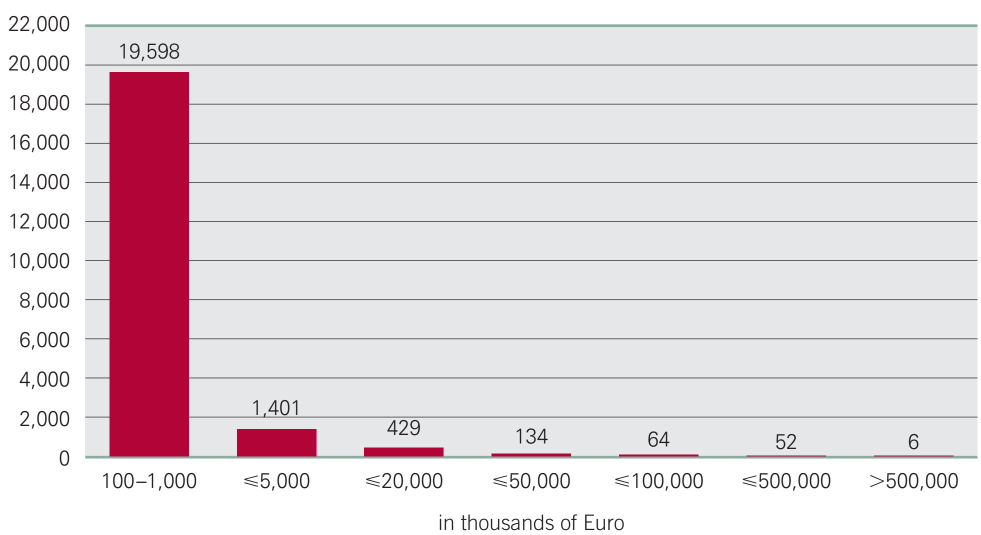
1) Total risk includes book values and off balance sheet items like guarantees and committed but currently unutilised limits.

2) Including fair value assets.

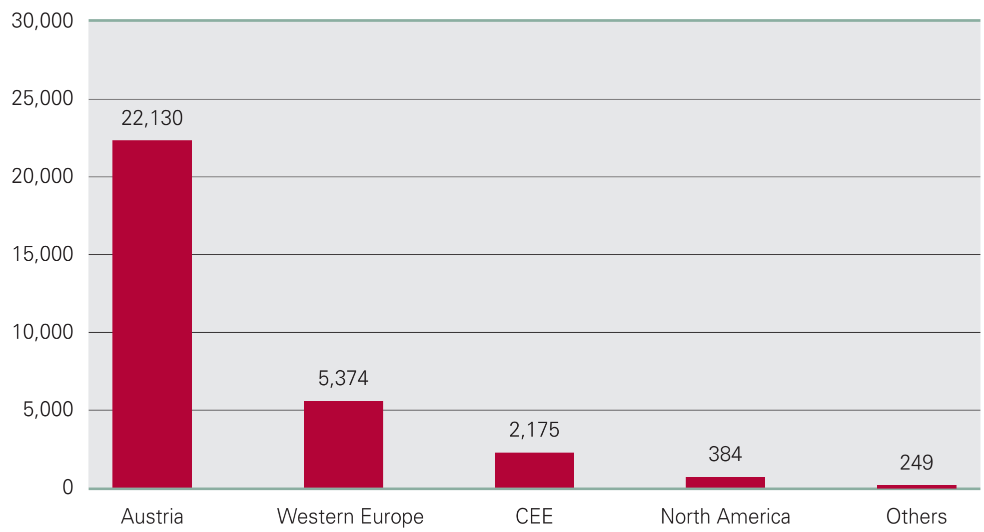
Number of customers by size as of 30.06.2009



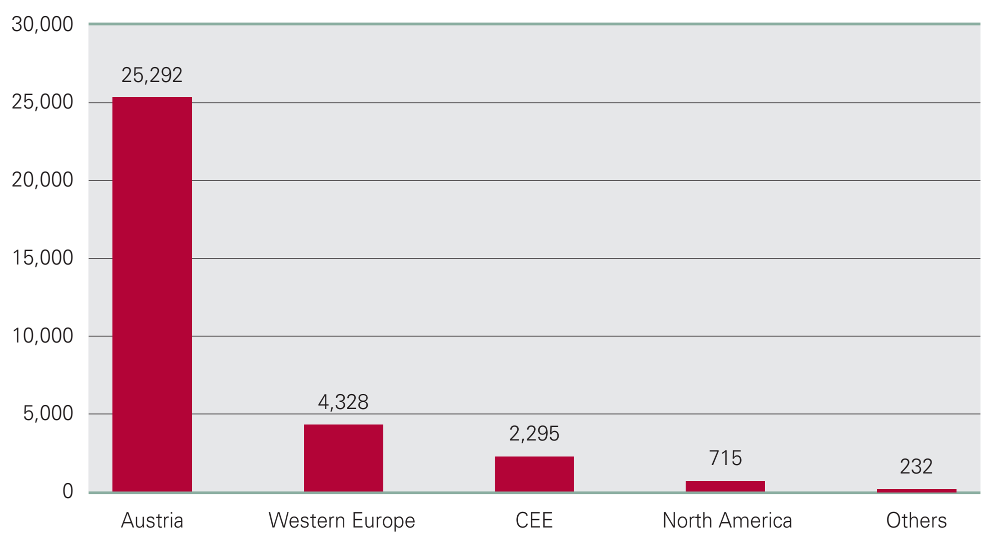
Number of customers by size as of 31.12.2008



Geographical distribution of the loan portfolio as of 30.06.2009, in millions of Euros



Geographical distribution of the loan portfolio as of 31.12.2008, in millions of Euros



Impaired Loans

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

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

IFRS Portfolio Impairments pursuant to IAS 39 AG 89

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

To calculate these loss provisions, the receivables are grouped into homogenous portfolios with comparable risk characteristics. The provisions are quantified on the basis of the expected loss, taking into account the loss identification period. This is assumed to be three months for all receivables and is assessed regularly. As of 30 June 2009, loss provisions according to IFRS amounted to EUR 27.2 million (31 December 2008: EUR 28.8 million).

Structured Credit Portfolio

BAWAG P.S.K.'s securities portfolio includes a portfolio of structured credit instruments with a nominal value of EUR 2.42 billion and a current carrying value according to IFRS of EUR 1.47 billion (excluding shares attributable to minority interests). During the first six months of the year, EUR 190 million (notional) of Corporate CDOs were successfully redeemed on the respective due dates. The resulting risk position is detailed in the following tables by rating, maturity and origin.

Structured credit portfolio as of 30.06.2009 – Breakdown by rating (IFRS book value)

in millions of Euros	AAA	AA	A	BBB	BB and below	Total
CDO-of-ABS	–	29	3	–	1	**33**
CDO-of-ABS w/ subprime	11	2	3	26	39	**79**
CLO	158	224	3	4	1	**391**
CLO²	–	–	–	–	0	**0**
CMBS	8	16	1	–	4	**29**
Consumer CDO	–	5	–	–	–	**5**
Corporate CDO	46	40	8	–	111	**205**
Corporate CDO²	–	88	125	–	178	**391**
Corporate CPDO	–	–	10	–	51	**61**
Corporate LSS	42	72	–	–	87	**200**
European RMBS	30	15	8	–	–	**53**
Non performing loans CDO	–	–	1	–	–	**1**
US RMBS	–	–	–	–	16	**16**
Total	**294**	**490**	**162**	**30**	**489**	**1,465**

Structured credit portfolio as of 30.06.2009 – Breakdown by maturity (IFRS book value)

in millions of Euros	until end of 2010	2011-2013	2014-2016	2017 and later	Total
CDO-of-ABS	–	10	1	23	**33**
CDO-of-ABS w/ subprime	7	9	15	48	**79**
CLO	10	203	178	–	**391**
CLO²	0	–	0	–	**0**
CMBS	18	11	–	–	**29**
Consumer CDO	–	5	–	–	**5**
Corporate CDO	56	57	48	44	**205**
Corporate CDO²	338	53	–	–	**391**
Corporate CPDO	–	–	36	25	**61**
Corporate LSS	82	47	–	72	**200**
European RMBS	35	9	–	8	**53**
Non performing loans CDO	1	–	–	–	**1**
US RMBS	1	–	14	–	**16**
Total	**550**	**403**	**292**	**220**	**1,465**

Structured credit portfolio as of 30.06.2009 – Breakdown by origin (IFRS book value)

in millions of Euros	USA	Continental Europe	UK	Other	Total
CDO-of-ABS	1	26	6	0	**33**
CDO-of-ABS w/ subprime	52	7	20	0	**79**
CLO	184	169	37	2	**391**
CLO²	0	0	–	0	**0**
CMBS	18	10	0	0	**29**
Consumer CDO	–	5	–	0	**5**
Corporate CDO	84	101	21	0	**205**
Corporate CDO²	193	149	49	0	**391**
Corporate CPDO	28	29	4	0	**61**
Corporate LSS	115	56	30	0	**200**
European RMBS	–	49	3	0	**53**
Non performing loans CDO	–	1	–	0	**1**
US RMBS	16	–	–	–	**16**
Total	**691**	**601**	**172**	**2**	**1,465**

Abbreviations:

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

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

29 | Market risk

Market risk is the risk of financial losses arising from changes in market prices (such as interest rates, exchange rates and stock prices). Market risks are encountered in trading and non-trading activities.

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

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

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

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

Market Risk in the Trading Book

Since 1998, BAWAG P.S.K. has used the value-at-risk (VaR) of an internal model that has been assessed by Oesterreichische Nationalbank (the Austrian national bank) and approved by the Federal Ministry of Finance in accordance with § 26b BWG to control and limit the market risk arising from trading activities. It includes the risk categories interest rate, equity market and foreign exchange risk and the linear and non-linear gamma and vega risks broken down by risk type.

Because of the uniform depiction of the market risk, the VaR results are used for internal risk control purposes and are also included in the reports to the supervisory authorities.

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

On 30 June 2009, the value-at-risk (with gamma and vega risk included) was measured at EUR 1.37 million (31 December 2008: EUR 1.48 million), based on a confidence level of 99 per cent and a holding period of one day.

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

VaR in the trading book (99 per cent, one-day holding period), first half of 2009, in millions of Euros

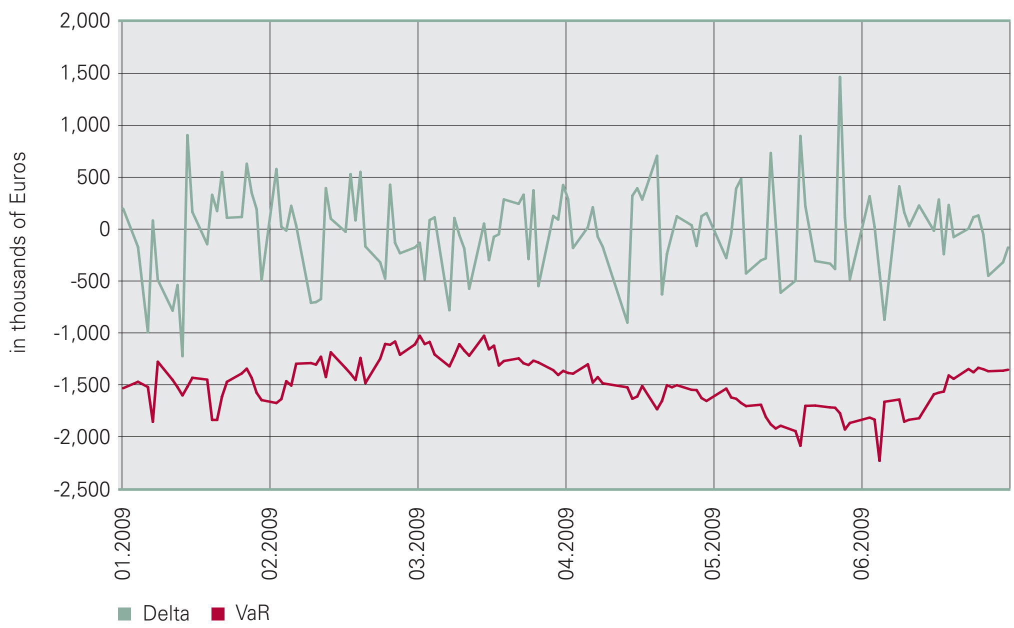
Risk class	Minimum	Maximum	Average	30.06.2009
FX risk	0.34	1.22	0.69	0.93
Interest rate risk	0.81	1.96	1.12	0.92
Total (without correlations)	1.20	2.72	1.81	1.86
Total (with correlations)	**1.05**	**2.24**	**1.51**	**1.37**
Diversification	n/a	n/a	-0.30	-0.48

Note: The minimum, maximum and average risk values of the specific risk categories may have occurred on different trading days, making it impossible to aggregate the values.

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. from January to June 2009. No exceptions occurred over a period of 250 business days, which confirms the high quality of the model and which means that the best-possible multiplier of 3 for the calculation of own funds as specified by the Federal Ministry of Finance can be maintained.

The daily VaR values are compared with the backtesting results (delta) for January to June 2009 in the following chart:

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



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

Stress tests are performed, in the course of which the trading book is stressed by scenarios simulating extreme market conditions which are not covered by the confidence interval.

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 used. The results are reported to the Managing Board, the Asset Liability Committee (ALCO), trading management and the responsible group heads.

Market Risk in the Bank Book

The material components of the market risk to which BAWAG P.S.K. Group is exposed result from interest rate risk, foreign currency risk, risk from alternative investments, and liquidity risk.

Interest Rate Risk in the Bank Book

Interest rate risk in the bank 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 has assigned interest rate risk limits to the Treasury division to manage the risk arising from interest rate changes so that the Bank achieves an optimal risk-return ratio. The Market Risk division reports to the ALCO on the utilisation of limits and the distributions of risks at the Group level to the ALCO on a daily or monthly basis depending on the specific area.

The ALCO meets every fourteen days (alternating with the Strategic ALCO with its additional participants). The market risk and the potential effects of this risk are analysed on the basis of the risk reports and using stress tests, and steering measures are then adopted for the Bank as a whole to mitigate risk and optimise earnings.

The risks are also included in the overall risk report that is presented to the Managing Board by 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).

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 shows the interest rate risk for the Group as of 30 June 2009 on the basis of the PVBP concept and shows that the Group is subject to the risk of rising interest rates. The net asset value changes of all financial positions in the Group's bank book due to a yield curve shift of one basis point are assigned to the corresponding time buckets as follows:

PVBP

in thousands of Euros	< 1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	225	-261	-121	-176	-227	290	-269
USD	-3	5	-5	-1	-22	-23	-50
CHF	31	-5	-3	-11	-17	-57	-62
JPY	2	0	-1	-1	-1	10	9
Other currencies	2	0	8	0	0	2	12
Total 30.06.2009	**257**	**-261**	**-122**	**-188**	**-267**	**222**	**-359**
Total 31.12.2008	84	193	-109	57	0	-64	162

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

Fair value PVBP

in thousands of Euros	< 1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
30.06.2009	**139**	**-405**	**45**	**-11**	**-61**	**39**	**-255**
31.12.2008	-4	-62	104	43	-70	1	12

In addition to the traditional approaches to measuring interest rate risk, a value-at-risk calculation for the Group as a whole and for the individual banks within the Group is conducted within the framework of the capital and risk-bearing capacity process on a monthly basis (ICAAP).

For a particular portfolio, the value-at-risk measures the worst expected future loss (in terms of market value) over a given time horizon with a specific confidence level. The calculation of value-at-risk is based on the variance-covariance approach and uses a confidence level of 99 per cent and a time horizon of ten days. As of 30 June 2009, the VaR for the interest rate risk in the Group's bank book was EUR 18.9 million (31 December 2008: EUR 9.6 million).

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

Software-based dynamic interest rate simulation models are used to determine the interest income and expenses on the basis of the individual contracts and the interest rate characteristics. The expected future product margins, estimates about the extension of contracts that are customarily extended (such as capital savings accounts) and assumptions about the interest rate parameters for products for which the interest rate terms are not contractually specified must also be input into the model.

Using this basic projection, standardised shifts in the yield curve (so-called alternative rate scenarios) were extrapolated to assess changes in net interest income over the simulation period caused by changes in market interest rates. Net interest income is currently calculated based on assumptions about various parallel and non-parallel upward and downward shifts, and the results are presented monthly to the Asset Liability Committee and to the Managing Board's Enterprise Risk Committee as part of the overall risk report.

This allows changes in net interest income as a result of changes in market interest rates and changes in Bank assets and liabilities to be projected at the position level.

FX Risk in the Bank Book

The extent of the open foreign exchange positions in BAWAG P.S.K. Group's bank book is constrained by conservative limits that are approved by the ALCO to ensure that the FX risk in the bank book remains low.

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.

Alternative Investments

The alternative investments portfolio is broadly diversified and employs a range of management strategies such as relative value, event-driven and directional approaches. The alternative investments portfolio is structured to achieve an annual performance of 4 per cent above funding cost while maintaining low volatility and low correlation to the equity and bond markets. The main target is to avoid large drawdowns even in difficult market environments. The investment process is designed to ensure capital preservation.

Due diligence represents the process for selecting favourable risk and excluding unwanted risk in the portfolio. The portfolio construction combines a top-down and bottom-up approach framed by portfolio objectives and constraints.

As of 30 June 2009, the invested value of the portfolio was EUR 146 million. This value was reduced by EUR 22 million by means of active management and redemptions during the first six months of the year. The historical volatility was below 4.5 per cent. The market volatility in the first half of the year caused mixed portfolio development, but an overall result of over +2 per cent was achieved.

30 | Liquidity risk

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

As part of its operational management of liquidity risk, BAWAG P.S.K.'s treasury divisions continuously monitor liquidity inflows and outflows and base their management measures on these changes.

In addition, a long-term liquidity plan is created every month and includes the liquidity needs of each of the Bank's individual operations. Various scenarios (such as significant outflows of savings deposits) are also simulated in this to ensure that BAWAG P.S.K. maintains significant liquidity in such cases as well.

Compliance with the legal liquidity requirements (pursuant to § 25 BWG) is also simulated. The results are presented to the Strategic ALCO, which is responsible for adopting any necessary steering measures.

BAWAG P.S.K. still has a considerable liquidity surplus and had free, fungible collateral worth over EUR 4 billion that can be used to raise liquidity on short notice if necessary as of 30 June 2009.

31 | Participation risk

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

Shares in non-consolidated companies

in millions of Euros	30.06.2009	31.12.2008
Shares categorised as "Available-for-sale assets"	**290**	**284**
Shares in credit institutions	176	169
Subsidiaries	–	–
Associates	36	36
Other shares	140	133
Shares in other companies	114	115
Subsidiaries	61	61
Associates	42	43
Other shares	11	11
Shares accounted for using the equity method	**17**	**24**
Associates	17	24
Total shares in non-consolidated companies	**307**	**308**

32 | Operational risk

BAWAG P.S.K. defines operational risk as the risk of loss resulting from insufficient or failed internal processes and systems, external events and staff errors or misconduct.

The strategic requirements for managing operational risk are defined with the objective of minimising operational risk to the greatest possible extent through suitable measures.

BAWAG P.S.K.'s Managing Board specifies Group-wide principles for managing operational risk in its Enterprise Risk Meeting. In order to ensure that measures and principles are applied uniformly throughout the Group, these activities are coordinated by the central Operational Risk unit.

The detailed management of operational risks in the individual business segments is completed locally in the respective units by the division heads and their operational risk agents.

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 are designed to allow the Bank to maintain a controlled risk situation.

Risk Outlook for the Second Half of 2009

The financial and economic crisis has precipitated a decline in demand for loans, considerably increased refinancing costs and a notable rise in the need to form loss provisions. Private and business bankruptcies are expected to increase in the coming months.

No bank is immune to the current worldwide turbulence on the financial markets or to the continuing worldwide credit and liquidity crisis. BAWAG P.S.K. continues to monitor changes in the market's valuation of assets, where such a market exists, and compares this against separately carried out fundamental value analysis, based on predicted cash flows and underlying credit quality. After the encouraging rise in the fair values of investments in the first half of 2009, changes in fair values may again have negative effects in the second half of the year. BAWAG P.S.K. is well placed to cope with any potential future deterioration of market conditions with a strong capital base and good liquidity.

The Group's credit portfolio is now primarily made up of domestic customers, and this means that its future performance will depend to a large extent on the development of the Austrian economy.

Vienna, 25 August 2009

David Roberts
Chairman of the Managing Board

Stephan Koren
Deputy Chairman of the Managing Board

Byron Haynes
Member of the Managing Board

Joseph Laughlin
Member of the Managing Board

Regina Prehofer
Member of the Managing Board

Carsten Samusch
Member of the Managing Board

Statement of All Legal Representatives

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

Vienna, 25 August 2009

David Roberts
Chairman of the Managing Board

Stephan Koren
Deputy Chairman of the Managing Board

Byron Haynes
Member of the Managing Board

Joseph Laughlin
Member of the Managing Board

Regina Prehofer
Member of the Managing Board

Carsten Samusch
Member of the Managing Board

Owner and Publisher

BAWAG P.S.K.
Bank für Arbeit und Wirtschaft und
Österreichische Postsparkasse Aktiengesellschaft
Georg-Coch-Platz 2, A-1018 Vienna, Austria
Companies Registry number: 205340x
Data Protection Authority number: 1075217
EU VAT number: ATU51286308
Telephone: +43 (0)5 99 05-0
E-mail: info@bawagpsk.com
Internet: www.bawagpsk.com

Editors: Karin Mattes, Stefan Rossmanith, Caroline Pranzl, Christian Mader, Julia Wiesinger-Knie (BAWAG P.S.K.)
Translation: LanguageLink Sprachdienste, Vienna
Layout and production: Gottfried Neubauer, Helmut Wernbacher (BAWAG P.S.K., Strategic Marketing)
Typesetting and prepress: AV+Astoria Druckzentrum, Vienna