CONSOLIDATED SEMI-ANNUAL REPORT

2011

BAWAG PSK

CONTENTS

PREFACE BY THE CHAIRMAN OF THE MANAGING BOARD

In the first half of 2011 BAWAG P.S.K. maintained good positive momentum. Operating performance was better than plan and 2010. BAWAG P.S.K.'s significant investment programmes for 2011 were delivered on schedule and within budget during the first half-year, including investment in building sustainable profitability across our businesses, continuation of our investment in the productivity and efficiency programme as well as investment in meeting new regulatory requirements.

BAWAG P.S.K.'s good overall performance has been realised in spite of the continued difficult macroeconomic environment and increased competition in the Austrian banking market. There have been significant degrees of uncertainty and market volatility, particularly resulting from the continuing and escalating EU sovereign debt crisis. The Bank's sovereign exposure to European high-deficit countries is limited due to prudent measures taken in the last years. The Austrian economy has grown strongly as trade exports in particular have recovered. Competition in the Austrian banking market further increased, resulting in lower margins. Investment volumes in Austria continue to be at a very low level.

Investment Programmes Supporting Growth

As announced last year, 2011 is a year of investment in BAWAG P.S.K. in order to deliver sustainable growth in the medium term. This investment supports all our businesses and relates to people, processes, IT systems, new products, enhanced service delivery and improved brand recognition through increased advertising.

The Retail and Small Business segment has focussed on execution of the "Filialoffensive" and the extension of our branch network. By the end of July 2011, over 130 new branches were opened and refurbished, providing a wide range of banking services. BAWAG P.S.K. has received good, positive feedback from our customers with this new, unique branch concept.

In parallel, our e-banking capabilities have been significantly improved, both in easybank as well as in BAWAG P.S.K. BAWAG P.S.K.'s new "Kontobox" was also developed and successfully launched, offering a new product concept to our retail customers, combining a current account with a savings account offering an attractive interest rate.

In the Corporate and Financial Markets Business segment, our Business Solution Partner concept was successfully launched, combining the strengths of our Corporate and Financial Markets capabilities and providing holistic solutions to our customers. This has been particularly well received by our customers during the recent, significant market volatility. There has also been a focus on enhancing our product offerings, including investment and launch of our new cash management tool and enhancement of our project finance capabilities.

The International Business segment (International Corporates and International Corporate Real Estate) continues to grow and perform well. Investment has focussed on expanding the business and further increasing our skills and market knowledge in this area.

BAWAG P.S.K. has also continued to invest to increase productivity and efficiency through our end-to-end processes resulting in improvements in our time to market and customer service.

A number of regulatory projects and investments have also been completed during the period, including preparation of our systems for the capital gains tax introduction and finalising SEPA.

Furthermore, during the first six months, the Bank has launched its new strong bank brand BAWAG P.S.K., combining the strengths of BAWAG and PSK Bank. BAWAG P.S.K.'s brand is now being repositioned under our Intuitive Banking philosophy. During the period, our new advertising campaign "Mitten im Leben" has been launched for our retail customers, supporting this Intuitive Banking brand image. A similar advertising campaign for our Corporate customers, Financial Markets customers and small business customers – "Mitten im Business" – will be launched in the second half of the year.

Sustainably Improved Operating Performance

Our continued focus on the needs of our customers has delivered good, sustainable results in the first six months of the year which were better than plan.

- Underlying revenues of EUR 411.8 million (comprising net interest income of EUR 322.4 million and net commission income of EUR 89.4 million) were increased compared to the first half of 2010 by 5 per cent (EUR 393.7 million). This growth has been achieved despite intense market competition on underlying volumes and lower margins. The total operating revenues for the first half of 2011 amounted to EUR 479.5 million.
- The Bank's tight cost management continues to show satisfactory results. Despite the significant investment made in the first half of 2011, total operating expenses (without bank levy) of EUR 309.2 million are in line with the costs in the first half of the previous year.
- The cost-income ratio remained stable since December 2010 at 64.5 per cent.
- Provisions and impairment losses amounted to EUR 78.9 million, which is 28 per cent lower than the amount for the first half of the previous year (EUR 110.3 million). The decrease in loan loss provisions and defaults, despite the difficult economic environment, shows the continued relatively conservative risk profile of the Bank's loan portfolio.

- Profit before tax (without bank levy) for the first half of 2011 of EUR 91.6 million compares very favourably with the profit before tax for the full year 2010 of EUR 138.1 million.
- Net profit for the first half of 2011 of EUR 78.5 million (including a bank levy charge of EUR 10.2 million) also compares favourably with the net profit for the full year 2010 of EUR 121.8 million (no bank levy charges were made in 2010).

Strengthened Capital and Liquidity

During the first six months of 2011, BAWAG P.S.K. has continued to focus on further strengthening its capital and liquidity position, despite making significant investments in support of our businesses. Our capital position has been strengthened through disciplined capital management and realisation of risk-weighted asset reductions while at the same time enhancing profitability. The Credit Risk Tier 1 ratio of 10.9 per cent has improved from 9.0 per cent in June 2010. The Group Tier 1 ratio (including total risk-weighted assets) of 9.5 per cent has also significantly improved from 8.0 per cent at the half-year 2010.

Total regulatory liquidity of EUR 5.8 billion as at 30 June 2011 remains strong (30 June 2010: EUR 4.6 billion).

During the period up to 30 June 2011, BAWAG P.S.K. participated in the annual stress tests of the Austrian National Bank. These stress tests were similar to the European Banking Authority (EBA) stress tests performed at the same time.

Although the Austrian National Bank stress tests were not published on a single bank result basis, I am pleased to say that BAWAG P.S.K. passed these stress tests comfortably.

BAWAG P.S.K. continues to prepare well for the introduction of Basel III and CRD IV. Measures have been identified and are in execution to meet all requirements. BAWAG P.S.K. continues to more than fulfil the Basel III criteria in 2011 and is confident that it will continue to remain compliant at the time of its introduction in 2013.

Changes in the Managing Board

In April 2011, Stephan Koren announced that he will not be available for an extension of his contract and that he will retire from his positions as Deputy CEO, Chief Risk Officer and Managing Board member of the Bank. As of 1 May, I have taken over the function of Chief Risk Officer. I would like to express my deepest thanks to Stephan Koren for all his efforts. I really appreciate his valuable and significant contributions to the Bank over many years and I would like to wish him all the best for the future.

Outlook

For the second half of 2011, we expect that the Austrian economy will be impacted by the current market turbulences and the accelerated inflation. This might hinder the development of real disposable household income and may lead to a further reduction of the savings rate. Nevertheless, the latest forecasts still believe in a very modest growth of the Austrian economy.

These developments have somewhat impacted business and consumer confidence, which was at a high level in the first half of the year. The Austrian economy will further be subject to external market shocks like the continued sovereign debt crisis.

BAWAG P.S.K. will continue to focus on its Retail and Corporate businesses and the ongoing execution of our investment programmes in support of further growth of our customer franchises.

Finally, I would like to take the opportunity to thank all employees of the Bank for their continued commitment and dedication through which the good performance of the Bank could be realised during the first six months of 2011.

Byron Haynes, CEO
Chairman of the Managing Board
Vienna, August 2011

GROUP MANAGEMENT REPORT

BAWAG P.S.K. GROUP MANAGEMENT REPORT

The Economy in the First Half of 2011

In the first quarter of the year, the Austrian economy continued the strong pace of growth seen during the second half of 2010: The real gross domestic product once again increased by about 1 per cent compared to the previous period. Important stimulus came from domestic demand – the export-oriented industrial sector benefited in particular from Germany's booming economy. Domestic demand was partly supported by investments in plant and equipment on the part of companies. The expansion of private consumption, on the other hand, remained subdued.

Most leading indicators pointed towards a slight downturn for Austria's economy in the second quarter. The European Commission's Economic Sentiment Indicator consistently fell starting at the beginning of the year due to a deterioration of the business climate in the industrial, retail and service sectors. Consumer sentiment also declined slightly.

On the labour market, the recovery has continued this year. The number of employed persons is increasing markedly and has already surpassed the pre-crisis level. However, the decline in the jobless rate has decelerated in recent months.

Inflation picked up considerably in the initial months of the year. The inflation rate as measured by the national consumer price index increased from around 2 per cent in the autumn of last year to more than 3 per cent. The rise in inflation was primarily caused by increasing energy prices, but higher prices for food and services also played a role.

The acceleration in consumer price growth and the increasing recovery of the economy in the Eurozone prompted the European Central Bank to alter the course of its monetary policy. In April, the bank raised the key interest rate for the first time in three years. Another interest rate action followed in July, bringing the refinancing rate to 1.50 per cent. On the capital markets, yield spreads widened further in response to the sovereign debt crisis. While yields on ten-year German government bonds, which are seen as the benchmark, stood at 3 per cent at the middle of the year, the yields for similar Greek bonds were at roughly 17 per cent and those for Irish and Portuguese bonds were at around 12 per cent. The premium for Austrian government bonds compared to the benchmark amounted to approximately 50 basis points.

Key Events during the First Half of 2011

Changes in the Managing Board

In April of 2011, Stephan Koren, Deputy Chairman of the Managing Board and Chief Risk Officer of BAWAG P.S.K., announced that after the successful turnaround of the Bank he would not be available for an extension of his Managing Board mandate as of 1 May. The function of Chief Risk Officer was taken over by CEO Byron Haynes.

Changes in the Supervisory Board

There were no changes in the Supervisory Board in the first half of 2011. All of the Supervisory Board members were reappointed at the Annual General Meeting on 15 March 2011.

Important Sales Initiatives in the First Half of 2011

Strengthening of BAWAG P.S.K.'s Retail Business

The goal of BAWAG P.S.K.'s retail strategy is to ensure that the Bank is easy to understand, fair and intuitive and that it is also available any time and any place – BAWAG P.S.K. is well on its way to becoming a successful multi-channel bank.

The Bank's single-brand strategy under the brand BAWAG P.S.K. was officially launched on 7 March 2011. Since that day, BAWAG P.S.K. has been presenting itself to the public under a single, strong brand – with a new logo and the new slogan "Mitten im Leben", gradually uniting the existing sales brands BAWAG and PSK Bank. The ongoing branch offensive, which is aimed at establishing a total of 520 BAWAG P.S.K. branches all over Austria by the end of 2012, is also a fixed part of this strategy. These branches will offer the Bank's entire range of products and services along with unrivalled business hours, an expanded line of advisory services and well equipped self-service areas for transactions after business hours. Up until the end of July, more than 130 of the new branches had been refurbished and opened. The Bank plans to convert approximately 100 branches in urban areas and to refurbish around 250 branches in rural areas in 2011.

The launch of the single-brand strategy at the beginning of March is also accompanied by the harmonisation of the product lines of the two previous sales brands, now offering the same descriptive product names, fees and conditions and the same level of availability and servicing of all products throughout Austria.

Business Solution Partner Concept for BAWAG P.S.K.'s Corporate Customers

With the successful consolidation of the Corporate Business and Financial Markets divisions at the Managing Board level, BAWAG P.S.K. is taking a new path in serving its corporate customers as well. The Bank has introduced a competence and quality offensive in the form of its Business Solution Partner concept. Under the motto "One Face to the Customer", our corporate business customers now have a single central contact who serves as a competent advisor for the development of comprehensive, individualised financial solutions. Through the business solution partners, BAWAG P.S.K. is incorporating all of the banking expertise and knowledge that is relevant for corporate customers into its service and advisory capabilities in a way that is oriented to meeting customers' needs.

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

Moody's rating for BAWAG P.S.K. was updated in April of 2011: The bank financial strength rating, or BFSR, was affirmed at D with a stable outlook, while the rating for long-term debt (deposits and bonds) was changed to Baa2 (previously Baa1) based on Moody's expectations of lower systemic support. The systemic support (from the Austrian government) contained in the rating was reduced from four notches to three during this period in line with rating actions for other Austrian banks.

In its statement, Moody's put positive emphasis on the Bank's improved earnings position and risk management capabilities and important strategic initiatives, in particular concerning our retail network.

Basel III (CRD IV / CRR I)

With Basel III and the CRD IV / CRR I proposal that was recently published by the European Commission, one of the most important reform packages for financial regulations is now in its final phase. Along with the strengthening of the capital adequacy requirements, the introduction of a leverage ratio and the adoption of stricter requirements for trading book transactions, and for structured products in particular, the banks also plan to implement new liquidity regulations. The new regulations will primarily be aimed at making the financial sector, and banks in particular, more resistant to crises by strengthening the key parameters of a bank, such as capitalisation. BAWAG P.S.K. is monitoring the developments regarding Basel III and the CRD IV / CRR I publications very closely and is developing appropriate implementation steps in the course of its planning process in order to integrate these regulations into the overall management of the Bank's operations. The Bank is developing measures that will have to be implemented on the technical side and that will also shape its business model in the medium term. BAWAG P.S.K. has identified the challenges that are to be expected and has already started to implement initial measures.

Legal Aspects

City of Linz

According to a press release from 29 March 2011, the City of Linz intends to sue BAWAG P.S.K. for annulment regarding a swap transaction that was entered into in February 2007. So far, no legal proceedings have been instituted against the Bank. The transaction was examined by the Bank itself and two Austrian law offices, which confirmed the strong legal position of BAWAG P.S.K. against the accusations made by the City of Linz. Therefore, BAWAG P.S.K. is of the opinion that it has a valid contract.

SPhinX

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

The most important legal development during the reporting period was the fact that the New York court responsible for the lawsuit against BAWAG P.S.K. dismissed the case based on a suggestion made by the legal expert called in by the court. However, the decision is not yet final – the plaintiffs can still appeal it.

In addition, documents are being collected and reviewed to gather evidence for the case, and witnesses have already been questioned in hearings lasting several days.

BAWAG P.S.K. has filed claims with the liquidators of SPhinX for investments in SPhinX funds that have not been redeemed in the amount of roughly USD 29.4 million.

The proceedings are proving to be arduous. The Bank's claims still have not been recognised, and the liquidator's proposals for the distribution of the available assets are under discussion.

Equity Participations

Stiefelkönig

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

Stiefelkönig Schuhhandels Gesellschaft m.b.H. and Schuhquadrat GmbH & Co KG, a company owned by Salamander Austria, agreed on the sale of the distribution line Delka, which runs 35 shops. The asset transfer was carried out on 30 April 2011.

The sale process for Stiefelkönig Schuhhandels GmbH with its remaining 66 shops was initiated at the end of March. A purchase agreement was signed with Leder & Schuh International AG on 29 July 2011.

Leasing-CEE

As part of the restructuring of the CEE division of the BAWAG P.S.K. leasing group, all nine foreign leasing subsidiaries were combined under a holding company that is wholly owned by BAWAG P.S.K. Leasing GmbH at the beginning of 2011. Based on the Bank's continued focus on its activities in the core markets of Austria and Western Europe, the decision was made in June of 2011 to reduce the leasing activities in Central and Eastern Europe. A comprehensive evaluation is currently under way regarding possible strategies. Write-downs were made on these equity investments as needed.

Other Changes in the Group's Participations

The Bank continued to pursue its real estate strategy through the sale of properties with a carrying amount of roughly EUR 15.6 million. A total profit of around EUR 2.8 million was realised through these changes.
The liquidation of Austost Handels und Treuhand Ltd. was finalised.

Explanations about the Financial Statements for the First Half of 2011

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

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

The **Bank's consolidated assets** as of 30 June 2011 totalled EUR 40,007 million, and were EUR 1,451 million or 3.8 per cent higher than at the end of 2010, primarily due to increases in debt instruments and receivables from credit institutions.

Assets

in millions of Euros	30.06.2011	31.12.2010	Change	
Cash reserves	710	511	199	38.9%
Financial assets	**10,468**	**10,855**	**-387**	**-3.6%**
Fair value through profit or loss	1,909	2,284	-375	-16.4%
Available for sale	6,411	6,644	-233	-3.5%
Assets held for trading	2,148	1,927	221	11.5%
Loans and receivables	**27,877**	**26,173**	**1,704**	**6.5%**
Debt instruments	3,014	2,358	656	27.8%
Customers	22,395	22,288	107	0.5%
Credit institutions	2,468	1,527	941	61.6%
Hedging derivatives	24	55	-31	-56.4%
Tangible non-current assets	200	219	-19	-8.7%
Intangible non-current assets	202	229	-27	-11.8%
Other assets	496	478	18	3.8%
Assets held for sale	30	36	-6	-16.7%
Total assets	**40,007**	**38,556**	**1,451**	**3.8%**

The item **recognised at fair value through profit or loss** contains the securities and loans for which changes in fair value are recognised in the Profit or Loss Statement. The financial instruments in this category decreased by EUR 375 million or 16.4 per cent to EUR 1.9 billion in the first half of 2011, primarily as a result of redemptions and disposals.

The **available-for-sale financial assets** fell by 3.5 per cent from EUR 6.6 billion to EUR 6.4 billion. This decline is the result of scheduled redemptions and disposals that were only partially replaced with new investments in securities in the available-for-sale category. A higher proportion of investments in securities were made in the category of loans and receivables in 2011, as is evidenced by the marked increase in this item.

Held for trading covers not only the positions in the trading book, but also all positive fair values of derivative financial instruments, including those held to hedge positions in the banking book but for which hedge accounting is not applied. The increase of EUR 221 million (+11.5 per cent) to EUR 2.1 billion can be attributed to a rise in repurchase transactions compared to 31 December 2010.

The item **loans and receivables** contains the loans to customers and credit institutions that are recognised at amortised cost. Approximately EUR 941 million of the EUR 1.7 billion increase can be attributed to the rise in the Bank's **loans and advances to credit institutions**, and EUR 656 million to new investments in not actively traded **debt instruments**. **Receivables from customers** climbed slightly during the first half of 2011, increasing by EUR 107 million to EUR 22.4 billion. This can primarily be attributed to increased lending to non credit institutions.

Liabilities

in millions of Euros	30.06.2011	31.12.2010	Change	
Financial liabilities	**36,603**	**35,194**	**1,409**	**4.0%**
Fair value through profit or loss	4,443	4,900	-457	-9.3%
Customers	114	117	-3	-2.6%
Issued securities	4,329	4,783	-454	-9.5%
Liabilities held for trading	2,960	2,271	689	30.3%
At amortised cost	29,200	28,023	1,177	4.2%
Customers	22,143	21,733	410	1.9%
Credit institutions	2,778	2,205	573	26.0%
Issued securities	4,279	4,085	194	4.7%
Hedging derivatives	52	40	12	30.0%
Provisions	437	436	1	0.2%
Other obligations	481	462	19	4.1%
Obligations in disposal groups held for sale	32	38	-6	-15.8%
Equity	2,025	2,016	9	0.4%
Non-controlling interests	377	370	7	1.9%
Total equity and liabilities	**40,007**	**38,556**	**1,451**	**3.8%**

The item **fair value through profit or loss** under financial liabilities comprises the Bank's issued securities and deposits that are reported at fair value and that are not assigned to the category held for trading. These liabilities totalled EUR 4.3 billion on 30 June 2011, a decrease of EUR 454 million or 9.5 per cent compared to the end of the prior year. This resulted from the redemption of securities issued by the Bank for which no new securities were issued due to the unattractive conditions on the international financial markets. Investment products measured at their fair values remained virtually unchanged at EUR 114 million. The interest paid on these products 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. Because these products are hedged against the relevant risks using derivative financial instruments, they are recognised at fair value through profit or loss in line with the underlying hedging instruments.

The item **held for trading** increased by EUR 0.7 billion to EUR 3.0 billion in the first half of 2011. This increase can be attributed to a rise in repurchase transactions compared to 31 December 2010.

Payables to customers rose by EUR 410 million or 1.9 per cent to EUR 22.1 billion. Savings deposits decreased by EUR 245 million, but this was more than offset by a EUR 295 million increase in savings through savings card accounts. Together with the investment products measured at their fair values mentioned above, savings and investment deposits totalled EUR 12.9 billion as of 30 June 2011, or approximately one third of the Bank's consolidated assets. Other deposits (including savings card accounts) grew nicely by EUR 655 million to reach EUR 9.4 billion.

Payables to credit institutions increased by EUR 573 million or 26.0 per cent to EUR 2.8 billion.

The **issued securities** recognised at amortised cost rose by EUR 192 million or 4.7 per cent to EUR 4.3 billion, which can primarily be attributed to new bond issues in the retail segment.

The EUR 9 million increase in IFRS **equity capital** to EUR 2,025 million results from the total comprehensive income for the first half of 2011 in the amount of EUR 60 million (this comprises the profit for the period attributable to owners of the parent in the amount of EUR 78 million and the other comprehensive income in the amount of EUR –18 million) less the dividend payment for the government's participation capital for 2010, which amounted to EUR 51 million.

Non-controlling interests increased by EUR 7 million to EUR 377 million, primarily due to positive valuation results from securities whose risk is borne by owners of non-controlling interests.

Profit or Loss Statement (adjusted for valuation results attributable to non-controlling interests and the bank levy)

in millions of Euros	1–6/2011	1–6/2010	Change	
Net interest income	322.4	309.3	13.1	4.2%
Net fee and commission income	89.4	84.4	5.0	5.9%
Core revenues	**411.8**	**393.7**	**18.1**	**4.6%**
Gains and losses on financial assets and liabilities adjusted for non-controlling interests[1)]	58.6	130.4	-71.8	-55.1%
Other operating income and expensess[2)]	9.1	8.7	0.4	4.6%
Operating income	**479.5**	**532.8**	**-53.3**	**-10.0%**
Administrative expenses	278.7	276.0	2.7	1.0%
Depreciation and amortisation on tangible and intangible non-current assets	30.5	34.2	-3.7	-10.8%
Operating expenses	**309.2**	**310.2**	**-1.0**	**-0.3%**
Operating profit before bank levy	**170.3**	**222.6**	**-52.3**	**-23.5%**
Bank levy	10.2	0.0	10.2	n/a
Operating profit before risk costs	**160.1**	**222.6**	**-62.5**	**-28.1%**
Provisions and impairment losses	-78.9	-110.3	31.4	-28.5%
Share of the profit or loss of associates accounted for using the equity method	0.2	-4.9	5.1	>+100%
Profit before tax adjusted for non-controlling interests [1)]	**81.4**	**107.4**	**-26.0**	**-24.2%**
Income taxes	-0.9	-9.0	8.1	-90.0%
Profit after tax (without gains and losses on financial assets attributable to non-controlling interests)	**80.5**	**98.4**	**-17.9**	**-18.2%**

Profit after tax (without gains and losses on financial assets attributable to non-controlling interests)	**80.5**	**98.4**	**-17.9**	**-18.2%**
Gains and losses on financial assets attributable to non-controlling interests[1)]	5.0	-3.8	8.8	>+100%
Profit after tax	**85.5**	**94.6**	**-9.1**	**-9.6%**
Thereof attributable to non-controlling interests	7.0	-2.2	-4.8	>-100%
Thereof attributable to owners of the parent	**78.5**	**96.8**	**-18.3**	**-18.9%**

1) Under IFRS, the item Gains and losses on financial assets and liabilities also includes the valuation of securities whose risk is borne by owners of non-controlling interests. These securities are subject to substantial fair value fluctuations. In order to improve the comparability of the results, the valuation results attributable to owners of non-controlling interests are shown in a separate line. Compared to the Profit or Loss Statement presented in the Consolidated Financial Report according to IFRS, the item Gains and losses on financial assets and liabilities is EUR 5.0 million lower (2010: EUR 3.8 million higher). Accordingly, the item Profit before tax presented above is EUR 5.0 million lower (2010: EUR 3.8 million higher) than the Profit before tax presented in the Consolidated Financial Report according to IFRS.

2) In accordance with IFRS, the item Other operating income (expenses) also includes the bank levy in the amount of EUR 10.2 million. However, the Bank's management sees the bank levy as part of the operating expenses. Accordingly, it is shown in the expense line and is not included in the Bank's operating income in the management report.

Net interest income came in 4.2 per cent higher in the first half of 2011, increasing from EUR 309 million to EUR 322 million. This was achieved thanks to the further improvement in the profitability of our retail and small business and corporate customer segments in Austria as well as the selective expansion of our international activities.

Commission income came to EUR 89 million (plus EUR 5 million or +5.9 per cent), and improved slightly compared to the prior year.

Overall, **core revenues**, which comprise net interest income and commission income, increased by EUR 18.1 million compared to the prior year, coming in at EUR 411.8 million. This represents an increase of 4.6 per cent that was generated despite the difficult market conditions characterised by low interest rates and strong competition.

The item **gains and losses on financial assets and liabilities** was influenced primarily by our net trading income and the valuation of our investments.

The Bank achieved a result of EUR 17 million in the first half of 2011 by trading in securities and derivatives.

The decline in risk premiums on the capital markets and pull-to-par effects led to positive valuation results in the structured credit portfolio amounting to EUR 9 million. In addition, a profit of EUR 11 million was realised through selective disposals. Redemptions of securities in the structured credit portfolio resulted in additional accounting profits in the amount of EUR 8 million.

The other valuation results and realised earnings from securities and derivative instruments led to a positive net profit contribution in the amount of EUR 14 million. This includes valuation losses from the Greek government bonds held by BAWAG P.S.K., which were written down to their fair values as of 30 June 2011 (nominal value: EUR 53 million; fair value: EUR 31 million) in the financial statements presented in this report.

Overall, Gains and losses on financial assets and liabilities totalled EUR 59 million, a decrease of EUR 72 million compared to the prior year. The decline in this item can primarily be attributed to one-off income generated through the sale of securities in the first half of 2010. Investment strategy changes and interest rate position changes resulted in significant sales of securities in the 2010 financial year, and the profits that were generated were used to cover expenses from the valuation of issued securities recognised at fair value through profit or loss and other effects of hedging measures and valuations. These measures resulted in a net surplus of approximately EUR 92 million in the first half of 2010. An additional EUR 22 million in income was generated by the sale of associated companies and subsidiaries.

Other operating income and expenses remained at the same level as the prior year at EUR 9 million. This result is primarily made up of profits from the sale of land and buildings that are not required for Bank operations as well as one-off income from the settlement of legal proceedings. Other operating income and expenses were negatively impacted by losses from subsidiaries that are not active in the financial sector.

Operating expenses totalled EUR 309 million in the first half of 2011, which is slightly lower (EUR -1 million or -0.3 per cent) than in the previous year. This development shows the positive effects of our efficiency improvement programme, which was launched in 2010 and is being implemented on an ongoing basis in the current year.

The **operating result before the bank levy** fell by EUR 52 million compared to the first half of 2010 to EUR 170 million. This can be fully attributed to the lower profit contribution from gains and losses on financial assets and liabilities, which were influenced by the above-mentioned one-off effects of EUR 92 million in the prior year.

The **operating result before risk costs** is produced by deducting the newly adopted bank levy, which reduced the operating result by approximately EUR 10 million.

Expenses for **provisions and impairment losses** declined by EUR 31 million to EUR 79 million in the first half of 2011. Provisions for loans totalled EUR 61 million, compared to EUR 86 million in the prior year, which represents a 29.1 per cent decline and reflects the consistent improvement of the risk profile of our loans and investments. Impairment losses for equity investments and goodwill came to EUR 18 million, a decrease of EUR 6 million or 25 per cent compared to the first half of 2010. As in the prior year, no significant write-downs were recorded for the structured credit portfolio in the first half of 2011.

Profit before taxes amounts to EUR 81 million, which is EUR 26 million less than the profit for the first half of 2010. This difference can primarily be attributed to the one-off effects mentioned above as well as the newly adopted bank levy, which amounted to EUR 10 million (see footnote 2). However, these effects were largely offset by an increase in net interest income and a reduction of risk costs, which reflects the consistent improvement of the profitability of our business as well as our efficiency programme efforts.

The EUR 8 million decrease in **tax expenses** to EUR 1 million was primarily caused by changes in deferred taxes resulting from differences in values according to Austrian tax law and IFRS. No additional deferred taxes were capitalised in 2010 or in 2011 for BAWAG P.S.K.'s existing tax loss carryforwards.

The **gains on financial assets attributable to non-controlling interests** pertain to fair value fluctuations that are borne by owners of non-controlling interests. The IFRS Profit or Loss Statement in the Notes shows these fair value fluctuations under the item Gains and losses on financial assets and liabilities (see footnote 1).

The net profit attributable to the **owners** of the parent company totals EUR 79 million for the first half of 2011, compared to EUR 97 million in 2010.

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

in millions of Euros	30.06.2011	31.12.2010
Share and participation capital	800	800
Reserves (including fund for general banking risks, goodwill and deductions)	662	637
Less shareholdings held for investment purposes	-35	-35
Core Tier I (Tier I capital excluding minorities and hybrids)	**1,428**	**1,402**
Minorities	390	384
Hybrid capital	404	404
Tier I (Tier I capital including minorities and hybrids)	**2,222**	**2,190**
Reserve under § 57 BWG, revaluation reserve	43	49
Supplementary and subordinated debt capital	592	593
Additional items (Tier II)	**635**	**642**
Less shareholdings held for investment purposes	-35	-35
Eligible own funds	**2,822**	**2,797**
Tier III	103	115
Own funds	**2,924**	**2,912**

Own funds requirement

in millions of Euros	30.06.2011	31.12.2010
Credit risk	1,635	1,714
Market risk	103	115
Operational risk	139	146
Capital requirements	**1,877**	**1,976**

The Tier I capital ratio based on total risk of 9.5 per cent (2010: 8.9 per cent based on total risk) and an own funds ratio of 12.5 per cent (2010: 11.8 per cent based on total risk) are well above the minimum legal standards, which amount to 4 per cent and 8 per cent, respectively. The Tier I capital ratio based on credit risk increased from 10.2 per cent as of 31 December 2010 to 10.9 per cent as of 30 June 2011.

Non-Financial Performance Indicators

Corporate Governance

Supervisory Board

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

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

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

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

While the Nomination Committee deals with succession planning and selecting suitable candidates for the Managing Board, the Remuneration Committee deals with relationships between the Bank and the members of the Managing Board as well as the relevant top executives. For example, it decides the performance targets for the Managing Board and also the remuneration paid to and contracts signed with the members of the Managing Board. The Remuneration Committee also approves transactions with members of the Supervisory Board and Managing Board and determines the Remuneration Policy according to CRD III and the Austrian Banking Act.

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

Managing Board

As of the end of the reporting period, the Managing Board consisted of five members.

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

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

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

- The Exposure Review Committee, for the ongoing analysis of certain credit exposures;
- The Capital Management Meeting, which monitors the development of the regulatory capital ratios, risk-weighted assets, ICAAP limit utilisation and its coverage both in the economic and regulatory management areas,
- The Capital Expenditure Committee, which decides on investments above a certain threshold.

Corporate Governance Code

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

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

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

Compliance

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

The key responsibilities of the Compliance Office are preventing money laundering and combating terrorism, monitoring compliance with sanctions, securities compliance, as well as the prevention of insider trading, market abuse and conflicts of interest. A series of detailed guidelines, which must be followed by all employees and Managing Board members, have been put into place to ensure compliance with all legal requirements.

In addition, all employees and Managing Board members are also bound by a Group-wide 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 Group-wide gift policy and corresponding approval and reporting processes are aimed at preventing corruption and conflicts of interest.

Personnel Development

Management Development

Two new management development programmes were launched in the spring of 2011 which round out the leadership development landscape at BAWAG P.S.K.

The so-called LEAD Toolbox offers experienced managers (in middle and lower management) a series of seminars and workshops that is being conducted under the motto "Management Demands Active Leadership – Tools for Management in Times of Change" ("Führen fordert – aktives Gestalten [Werkzeuge für das Führen im Change]") in 2011.

Since April, members of senior management (managers who report directly to the Managing Board) have been going through the Senior Leadership Development Programme, which was initiated by the Managing Board. Additional sessions of the existing curriculum for managers who are entering into their first managerial positions, LEAD – New Managers (LEAD – Neue Führungskräfte), are also being conducted in 2011.

Talent Development and Succession and Career Planning

Top Team Vertrieb, the programme for future managers in retail sales, entered its second run in the spring of 2011 and is particularly important in light of the branch offensive.

The third run of the Sales Talent Management process is being conducted over the summer. This process allows for a structured survey and discussion of the existing competence and potential of Retail employees and managers in all regions with the support of e-tools.

A structured, Bank-wide succession planning process is currently being developed. The process will be rolled out according to uniform standards throughout the Bank starting in the autumn of 2011 and will cover all levels of BAWAG P.S.K.'s hierarchy starting in 2012.

Training

In February of 2011, the "viP" virtual learning portal was launched. The portal offers a modern, comprehensive platform for all of the activities, guidelines and forms related to the topic of personnel development and training that can be used by all employees and managers. Access to all self-directed learning programmes and the registration process for seminars are also handled by the virtual learning portal.

In light of the branch offensive, the training programme for branch sales is being updated, which means that new competence profiles and corresponding training plans are being developed and that the employees of Österreichische Post AG are being more deeply incorporated into the BAWAG P.S.K. training system.

The basic banking curriculum is gradually being converted into self-directed learning programmes and integrated into the training programme.

In addition to numerous division-specific training initiatives, an open seminar programme that is geared towards the Bank's current needs was introduced once again in 2011.

Corporate Social Responsibility

New CSR Report 2010

BAWAG P.S.K. released its third corporate social responsibility report in April 2011. A new layout and a colour coding system help to make the CSR Report even easier to read for all of the Bank's stakeholders. This report discusses the measures BAWAG P.S.K. has implemented and the progress we have made in our efforts to conduct our core business in a sustainable manner. It also contains measures for further improvements. In addition, the report includes the Communication on Progress (COP) required due to our membership in the UN Global Compact. The Bank joined the UN Global Compact in April of 2009.

New Chance Account

As part of our proactive commitment to human rights, we introduced the New Chance Account (Neue Chance Konto) as a way to counter discrimination and social exclusion in April 2009. We are the first bank in the country to offer a basic current account without access limitations on a non-borrowing basis to any customer regardless of their credit rating. This product is designed for approximately 50,000 people in Austria who otherwise have no access to one of the most important banking services, electronic payment transactions, because of their credit history.

This account was previously only offered at PSK Bank. Since May 2011, however, the account has also been available at all BAWAG branches and all of the new BAWAG P.S.K. branches. The New Chance Account has generated a great deal of positive response: At the end of May 2011, over 10,000 customers were already using the New Chance Account.

150 Days of Corporate Volunteering

The year 2011 is the European Year of Volunteering. More than 3.3 million Austrians donate approximately 15 million volunteer hours to social and charitable causes in their free time each week. With this in mind, BAWAG P.S.K. started supporting the volunteer efforts of its employees in June 2011 by offering them an annual allotment of 150 "volunteer days" in addition to their normal holiday entitlement.

Environment and IT

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

Sponsoring

BAWAG P.S.K.'s key sponsoring areas in 2011 are again the arts, education and social issues. In order to support the nationwide branch offensive, we are increasing our presence in the provinces through the sponsorship of festivals. For instance, we are sponsoring the Theatersommer Haag in Lower Austria for the first time this year, continuing our long-time sponsorship of the Salzkammergut Festwochen in Gmunden, Upper Austria, sponsoring this year's Liszt Festival in Burgenland and sponsoring the Musikforum Viktring near Klagenfurt in Carinthia for the first time. In Styria, we have been the main sponsor of the Diagonale film festival for many years, and in Salzburg, we recently started a cooperation with the jazz club Jazzit aimed at presenting young musicians.

In Vienna, the focus of our cultural activities lies in the operation of our own art gallery, BAWAG Contemporary, which is located near the Bank's headquarters, as well as the WAGNER:WERK Museum housed in the Austrian Postal Savings Bank building designed by Otto Wagner. The spring exhibition was dedicated to the Werkstätte Hagenauer metalworking company, whose works were publicly shown for the first time in 40 years.

This year, the Bank's activities are more strongly focused on the area of education: Along with the endowment of the Fairness Award, which is conferred on schools that support fair interaction among students, we will be starting a cooperation with the Vienna English Theatre in the area of school tours starting in the autumn. The actors at the theatre will tour all over Austria and perform English plays that the teachers cover with the students in class prior to the performance. BAWAG P.S.K. is sponsoring both the tour itself and the production of the text booklets and is also providing discounted admission for children from disadvantaged families. Since education is the key to upward social mobility, particularly among young immigrants, we support the so-called Biber Academy in cooperation with the magazine *Das Biber*. The academy offers scholarships for young immigrants to complete a one-year training programme focused on Austrian media.

In the area of social issues, the Bank's focus is on promoting the free donation platform for NGOs and charitable organisations, www.meinespende.at, which is being presented together with Fundraisingverband Austria and has been linked with social media activities following a relaunch.

The Bank's sponsoring activities are aimed at supporting the national positioning of the BAWAG P.S.K. brand as a bank that is close to its customers, that is "in the midst of life", as well as at promoting and cementing business relationships.

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

Events after the Reporting Date

Equity Participations

The sale process for Stiefelkönig Schuhhandels GmbH with its remaining 66 shops was initiated at the end of March. A purchase agreement was signed with Leder & Schuh International AG on 29 July 2011.

Outlook

The economic upswing in Austria will continue in the second half of the year, albeit at a slower pace than in the first half. Positive stimulus is coming in particular from German export demand. Domestic demand is mainly being driven by investments on the part of companies. The accelerated inflation is hindering the development of real disposable household income; therefore, a substantial expansion of private consumption can hardly be expected.

The development of capital market rates is highly dependent on whether a permanent solution can be found for the sovereign debt crisis in the Eurozone. After having adopted the aid package for Greece in July, the governments of the Eurozone members are still facing a massive lack of confidence. It remains to be seen whether the current plans and initiatives to return to a sustainable fiscal policy will put an end to the debt debate that pulled Ireland, Portugal, Spain and finally Italy into its wake.

Negative effects on the real economy resulting from the debt crisis are still seen as the biggest risk to the recovery in the Eurozone. Furthermore, the economic slowdown in the United States could be stronger than expected. The European banking sector will continue to be confronted with a number of challenges.
The capital markets will remain volatile, banks' refinancing costs will likely increase and credit demand is lagging behind the economic upswing considerably. In anticipation of the implementation of the Basel III regulations, banks will continue to concentrate on strengthening their capitalisation and on their regulatory liquidity position.

BAWAG P.S.K. will continue to focus on its Retail and Corporate businesses and the ongoing execution of our investment programmes in support of further growth of our customer franchise.

Vienna, 16 August 2011

Byron Haynes
Chairman of the Managing Board

Andreas Arndt
Member of the Managing Board

Wolfgang Klein
Member of the Managing Board

Christoph Raninger
Member of the Managing Board

Sanjay Sharma
Member of the Managing Board

CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS

Consolidated Accounts

Consolidated Statement of Financial Position as of 30 June 2011

Assets

in millions of Euros	(Notes)	30.06.2011	31.12.2010
Cash reserves	(1)	710	511
Financial assets designated at fair value through profit or loss	(2)	1,909	2,284
Available-for-sale financial assets	(3)	6,411	6,644
Assets held for trading	(4)	2,148	1,927
Loans and receivables	(5)	27,877	26,173
Debt instruments		3,014	2,358
Customers		22,395	22,288
Credit institutions		2,468	1,527
Hedging derivatives	(14)	24	55
Tangible non-current assets		200	219
Intangible non-current assets		202	229
Other assets	(7)	496	478
Assets held for sale	(15)	30	36
Total assets		**40,007**	**38,556**

Equity and liabilities

in millions of Euros	(Notes)	30.06.2011	31.12.2010
Financial liabilities designated at fair value through profit or loss	(8)	4,443	4,900
Liabilities held for trading	(9)	2,960	2,271
Financial liabilities at amortised cost	(10)	29,200	28,023
Customers		22,143	21,733
Credit institutions		2,778	2,205
Issued bonds, subordinated and supplementary capital		4,279	4,085
Hedging derivatives	(14)	52	40
Provisions	(12)	437	436
Other obligations	(13)	481	462
Obligations in disposal groups held for sale	(15)	32	38
Equity		2,025	2,016
Non-controlling interests		377	370
Total equity and liabilities		**40,007**	**38,556**

Consolidated Profit or Loss Statement for the period 1 January to 30 June 2011

in millions of Euros	(Notes)	1–6/2011	1–6/2010
Net interest income	(16)	322.4	309.3
Net fee and commission income	(17)	89.4	84.4
Gains and losses on financial assets and liabilities	(18)	63.6	126.6
Other operating income and expenses	(19)	-1.1	8.7
Administrative expenses	(20)	-278.7	-276.0
Depreciation and amortisation on tangible and intangible non-current assets	(21)	-30.5	-34.2
Provisions and impairment losses	(22)	-78.9	-110.3
Share of the profit or loss of associates accounted for using the equity method		0.2	-4.9
Profit before tax		**86.4**	**103.6**
Income taxes	(23)	-0.9	-9.0
Profit after tax		**85.5**	**94.6**
Thereof attributable to non-controlling interests		7.0	-2.2
Thereof attributable to owners of the parent		**78.5**	**96.8**

The item Gains and losses on financial assets and liabilities also includes fair value adjustments of securities whose risk is borne by shareholders of non-controlling interests. In the first half of 2011, valuation gains of EUR 5.0 million that have been shown in the item Gains and losses on financial assets and liabilities have been passed on to non-controlling interests in the item Profit attributable to non-controlling interests. In the first half of 2010, valuation losses in the amount of EUR 3.8 million had been included in the item Gains and losses on financial assets and liabilities.

Excluding the valuation results borne by shareholders of non-controlling interests, the item Gains and losses on financial assets and liabilities would amount to EUR 58.6 million (2010: EUR 130.4 million.). The item Profit before tax would amount to EUR 81.4 million (2010: EUR 107.4 million).

In accordance with IFRS, the item Other operating income (expenses) also includes the bank levy in the amount of EUR 10.2 million. However, the Bank's management sees the bank levy as part of the operating expenses. Accordingly, it is shown in the expense line and is not included in the Bank's operating income in the management report.

Consolidated statement of comprehensive income for the period 1 January to 30 June 2011

in millions of Euros	(Notes)	1–6/2011	1–6/2010
Profit recognised in the Profit or Loss Statement		**85.5**	**94.6**
Other comprehensive income			
Foreign exchange differences		-0.2	0.4
AFS reserve		-19.6	39.7
Actuarial losses on defined benefit pension plans		-0.8	–
Deferred taxes on items recognised directly in equity		3.4	-20.0
Income and expenses recognised directly in equity		**-17.2**	**20.1**
Total comprehensive income		**68.3**	**114.7**
Thereof attributable to non-controlling interests		7.9	-17.1
Thereof attributable to owners of the parent		**60.4**	**131.8**

Consolidated statements of changes in equity

in millions of Euros	Subscribed capital	Participation capital 1)	Capital reserves	Retained reserves 2)	AFS reserve	Foreign exchange differences	Actuarial gains / losses 2)	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Balance as of 1.1.2010	**250.0**	**550**	**1,247.4**	**-174.1**	**18.1**	**–**	**27.4**	**1,918.8**	**373.0**	**2,291.8**
Transactions with owners	–	–	–	–	–	–	–	–	-1.6	-1.6
Dividends to minority shareholders	–	–	–	–	–	–	–	–	-1.6	-1.6
Dividend on participation capital	–	–	–	-25.6	–	–	–	-25.6	–	-25.6
Total comprehensive income	–	–	–	96.8	34.6	0.4	–	131.8	-17.1	114.7
Balance as of 31.12.2010	**250.0**	**550.0**	**1,247.4**	**-102.9**	**52.7**	**0.4**	**27.4**	**2,025.0**	**354.3**	**2,379.3**
Balance as of 1.1.2011	**250.0**	**550.0**	**1,247.4**	**-77.9**	**24.2**	**0.1**	**22.4**	**2,016.2**	**370.4**	**2,386.6**
Transactions with owners	–	–	–	–	–	–	–	–	-1.9	-1.9
Dividends to minority shareholders	–	–	–	–	–	–	–	–	-1.9	-1.9
Dividend on participation capital	–	–	–	-51.2	–	–	–	-51.2	–	-51.2
Total comprehensive income	–	–	–	78.5	-17.3	-0.2	-0.6	60.4	7.9	68.3
Balance as of 30.06.2011	**250.0**	**550.0**	**1,247.4**	**-50.6**	**6.9**	**-0.1**	**21.8**	**2,025.4**	**376.4**	**2,401.8**

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

2) Retained reserves have been restated due to the change in the accounting method for actuarial gains and losses for defined benefit plans as required by IFRS.

Cash flow statement

in millions of Euros	01–06/2011	01–06/2010
Cash and cash equivalents at end of previous period	**511**	**615**
Net cash from operating activities	145	-3,406
Net cash used in investing activities	176	3,362
Net cash from financing activities	-122	-55
Cash and cash equivalents at end of period	**710**	**516**

Notes to the Interim Financial Statements 2011

The consolidated interim financial statements of BAWAG P.S.K. Group were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB), and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC). All standards contained in the International Financial Reporting Standards published by the IASB and adopted by the EU and mandatory with respect to the consolidated interim financial statements as of 30 June 2011 were applied.

These unaudited interim financial statements for the first half of 2011 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 2010. The valuation principles as of 31 December 2010 were applied again.

The Group consists of 54 fully consolidated entities in Austria and abroad (2010: 55). One entity, RF elf Realitätenverwertungsgesellschaft m.b.H., has been deconsolidated due to immateriality.

The semi-annual financial statements for the first half of 2011 were not audited or reviewed by the external auditor.

Key Events in the First Half of 2011

Please refer to the management report for information on significant events in the first half of 2011.

Details of the Consolidated Statement of Financial Position

1 | Cash reserves

in millions of Euros	30.06.2011	31.12.2010
Cash on hand	313	230
Balances at central banks	397	281
Cash reserves	**710**	**511**

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

in millions of Euros	30.06.2011	31.12.2010
Bonds and other fixed income securities	**923**	**1,207**
Public sector debt instruments	9	9
Bonds of other issuers	914	1,198
Shares and other variable rate securities	**79**	**69**
Investment certificates	68	54
Other	11	15
Loans and advances to customers	**907**	**1,008**
Customers	907	1,008
Designated at fair value through profit or loss	**1,909**	**2,284**

3 | Available-for-sale financial assets

in millions of Euros	30.06.2011	31.12.2010
Debt instruments	**6,169**	**6,399**
Bonds and other fixed income securities	6,166	6,396
Public sector debt instruments	1,194	1,286
Bonds of other issuers	4,972	5,110
Other variable rate securities	3	3
Equity investments	**242**	**245**
Recognised at cost		
Investments in non-consolidated subsidiaries	37	39
Interests in associates	67	67
Other shareholdings	138	139
Available-for-sale financial assets	**6,411**	**6,644**

4 | Assets held for trading

in millions of Euros	30.06.2011	31.12.2010
Bonds and other fixed income securities	**28**	**71**
Bonds of other issuers	28	71
Positive fair values of derivative financial instruments	**1,708**	**1,856**
Derivatives in trading book	**1,112**	**1,169**
Foreign currency derivatives	847	726
Interest rate derivatives	253	436
Credit related derivatives	12	7
Derivatives in banking book	**596**	**687**
Foreign currency derivatives	29	45
Interest rate derivatives	537	601
Credit related derivatives	29	41
Other derivatives	1	–
Other trading assets	**412**	**–**
Thereof repurchase agreements	412	–
Assets held for trading	**2,148**	**1,927**

5 | Loans and receivables

30.06.2011 in millions of Euros	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets [1]	Total net carrying amount
Securities	**3,014**	**–**	**–**	**–**	**3,014**
Public sector debt instruments	263	–	–	–	263
Debt instruments of other issuers	2,751	–	–	–	2,751
Receivables from credit institutions	**2,468**	**23**	**-23**	**–**	**2,468**
Receivables from customers	**22,140**	**1,017**	**-613**	**-149**	**22,395**
Central governments	177	–	–	–	177
Corporates	11,995	290	-181	-8	12,096
Retail	6,876	727	-432	-96	7,075
Other customers	3,092	–	–	–	3,092
Portfolio impairment provision	–	–	–	-45	-45
Total	**27,622**	**1,040**	**-636**	**-149**	**27,877**

1) Includes allowances for incurred but not reported losses.

31.12.2010 in millions of Euros	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets [1]	Total net carrying amount
Securities	**2,358**	**–**	**–**	**–**	**2,358**
Public sector debt instruments	164	–	–	–	164
Debt instruments of other issuers	2,194	–	–	–	2,194
Receivables from credit institutions	**1,527**	**25**	**-25**	**–**	**1,527**
Receivables from customers	**22,004**	**1,014**	**-580**	**-150**	**22,288**
Central governments	146	–	–	–	146
Corporates	12,407	326	-174	-4	12,555
Retail	6,488	688	-406	-109	6,661
Other customers	2,963	–	–	–	2,963
Portfolio impairment provision	–	–	–	-37	-37
Total	**25,889**	**1,039**	**-605**	**-150**	**26,173**

1) Includes allowances for incurred but not reported losses.

6 | 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	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Austria	**–**	**–**	**687**	**292**	**687**	**292**
Abroad	**–**	**–**	**1,781**	**1,235**	**1,781**	**1,235**
Western Europe	–	–	1,568	1,012	1,568	1,012
Central and Eastern Europe	–	–	108	93	108	93
North America	–	–	16	13	16	13
Asia/Pacific	–	–	65	80	65	80
Rest of the world	–	–	24	37	24	37
Receivables from credit institutions	**–**	**–**	**2,468**	**1,527**	**2,468**	**1,527**

Receivables from customers – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Austria	**907**	**1,008**	**17,202**	**17,125**	**18,109**	**18,133**
Abroad	**–**	**–**	**5,193**	**5,163**	**5,193**	**5,163**
Western Europe	–	–	2,889	2,748	2,889	2,748
Central and Eastern Europe	–	–	1,509	1,560	1,509	1,560
North America	–	–	393	456	393	456
Asia/Pacific	–	–	6	6	6	6
Rest of the world	–	–	396	393	396	393
Receivables from customers	**907**	**1,008**	**22,395**	**22,288**	**23,302**	**23,296**

Receivables from credit institutions – Breakdown by credit type

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Demand deposits	–	–	168	188	168	188
Time deposits	–	–	2,087	1,055	2,087	1,055
Loans	–	–	204	277	204	277
Other	–	–	9	7	9	7
Receivables from credit institutions	**–**	**–**	**2,468**	**1,527**	**2,468**	**1,527**

Receivables from customers – Breakdown by credit type

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Current accounts	**–**	**–**	**1,583**	**1,236**	**1,583**	**1,236**
Cash advances	**–**	**–**	**627**	**553**	**627**	**553**
Loans	**907**	**1,008**	**19,169**	**19,445**	**20,076**	**20,453**
One-off loans	907	1,008	19,014	19,278	19,921	20,286
Current account loans	–	–	4	7	4	7
Other	–	–	151	160	151	160
Debt instruments[1)]	**–**	**–**	**–**	**–**	**–**	**–**
Leasing	**–**	**–**	**1,016**	**1,054**	**1,016**	**1,054**
Receivables from customers	**907**	**1,008**	**22,395**	**22,288**	**23,302**	**23,296**

1) Not traded on an active market.

7 | Other assets

in millions of Euros	30.06.2011	31.12.2010
Tax assets	277	277
Thereof for current taxes	14	16
Thereof for deferred taxes	263	261
Associates accounted for using the equity method	17	17
Accruals	39	36
Leasing objects not in operation	22	21
Other items	141	127
Other assets	**496**	**478**

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

in millions of Euros	30.06.2011	31.12.2010
Payables to customers	**114**	**117**
Investment products	114	117
Issued bonds, subordinated and supplementary capital	**4,329**	**4,783**
Issued bonds (own issues)	2,320	2,774
Subordinated capital	608	601
Supplementary capital	32	32
Other obligations evidenced by paper	1,369	1,376
Financial liabilities designated at fair value through profit or loss	**4,443**	**4,900**

9 | Liabilities held for trading

in millions of Euros	30.06.2011	31.12.2010
Negative fair values of derivative financial instruments	**1,885**	**1,938**
Derivatives in trading book	**1,321**	**1,356**
Foreign currency derivatives	800	704
Interest rate derivatives	495	625
Credit related derivatives	26	27
Derivatives in banking book	**564**	**582**
Foreign currency derivatives	477	419
Interest rate derivatives	54	120
Credit related derivatives	33	43
Other trading liabilities	**1,075**	**333**
Thereof repurchase agreements	1,075	333
Liabilities held for trading	**2,960**	**2,271**

10 | Financial liabilities measured at amortised cost

in millions of Euros	30.06.2011	31.12.2010
Payables to credit institutions	**2,778**	**2,205**
Payables to customers	**22,143**	**21,733**
Savings deposits[1)]	12,757	13,001
Other deposits	9,386	8,732
Issued bonds, subordinated and supplementary capital	**4,279**	**4,085**
Issued bonds	2,569	2,331
Subordinated capital	254	251
Supplementary capital	183	277
Other obligations evidenced by paper	1,273	1,226
Financial liabilities at amortised cost	**29,200**	**28,023**

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

11 | 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	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Austria	**–**	**–**	**1,823**	**1,252**	**1,823**	**1,252**
Abroad	**–**	**–**	**955**	**953**	**955**	**953**
Western Europe	–	–	437	378	437	378
Central and Eastern Europe	–	–	2	2	2	2
North America	–	–	2	13	2	13
Asia/Pacific	–	–	–	–	–	–
Rest of the world	–	–	514	560	514	560
Payables to credit institutions	**–**	**–**	**2,778**	**2,205**	**2,778**	**2,205**

Payables to customers – Regional breakdown

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Austria	**112**	**115**	**21,742**	**21,291**	**21,854**	**21,406**
Abroad	**2**	**2**	**401**	**442**	**403**	**444**
Western Europe	1	1	244	281	245	282
Central and Eastern Europe	1	1	95	99	96	100
North America	–	–	16	19	16	19
Asia/Pacific	–	–	8	8	8	8
Rest of the world	–	–	38	35	38	35
Payables to customers	**114**	**117**	**22,143**	**21,733**	**22,257**	**21,850**

Payables to customers – Breakdown by sector

in millions of Euros	Designated at fair value through profit or loss		At amortised cost		Total	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Savings deposits	**–**	**–**	**12,756**	**13,001**	**12,756**	**13,001**
Savings accounts	–	–	4,728	5,238	4,728	5,238
Savings associations	–	–	397	379	397	379
Fixed-term investment savings accounts	–	–	7,631	7,384	7,631	7,384
Investment products	**114**	**117**	**–**	**–**	**114**	**117**
Other deposits	**–**	**–**	**9,387**	**8,732**	**9,387**	**8,732**
Central governments	–	–	374	393	374	393
Non credit institutions	–	–	480	356	480	356
Corporates	–	–	2,828	2,655	2,828	2,655
Retail	–	–	5,705	5,328	5,705	5,328
Payables to customers	**114**	**117**	**22,143**	**21,733**	**22,257**	**21,850**

12 | Provisions

in millions of Euros	30.06.2011	31.12.2010
Provisions for social capital	366	362
Thereof for severance payments	88	86
Thereof for pension provisions	247	246
Thereof for jubilee benefits	31	30
Tax provisions	16	18
Thereof for current taxes	2	3
Thereof for deferred taxes	14	15
Anticipated losses on pending business	18	18
Credit promises and guarantees	3	3
Provisions for troubled contracts	15	15
Other items	37	38
Provisions for pending litigation	37	38
Provisions	**437**	**436**

13 | Other obligations

in millions of Euros	30.06.2011	31.12.2010
Other liabilities	460	441
Accruals	21	21
Other obligations	**481**	**462**

14 | Hedging derivatives

in millions of Euros	30.06.2011	31.12.2010
Hedging derivatives in fair value hedges		
Positive fair values	24	55
Negative fair values	52	40

15 | Disclosures in compliance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

The approval granted to the Bank for the acceptance of participation capital from the Republic of Austria included certain conditions and compensation measures imposed by the EU Commission. These compensatory measures cover the sale of certain non-core holdings, such as the shoe retailer Stiefelkönig Schuhhandels Gesellschaft mbH.

According to IFRS 5, subsidiaries (disposal groups consisting of assets and liabilities) are to be classified as held for sale when the associated carrying amount stems primarily from a sale transaction and not from continued usage, and the sale is expected to be effected within twelve months. For this reason, the carrying amounts of the assets and liabilities of Stiefelkönig Schuhhandels Gesellschaft mbH are reported on the consolidated Statement of Financial Position under the item Non-current assets and disposal groups classified as held for sale. The following table shows a breakdown of this item.

Non-current assets and disposal groups classified as held for sale

in millions of Euros	30.06.2011	thereof consolidated on 30.06.2011	thereof not consolidated on 30.06.2011
Assets in disposal groups classified as held for sale	**30**	**–**	**30**
Available-for-sale financial assets	2	–	2
Loans and receivables	14	–	14
Customers	14	–	14
Credit institutions	–	–	–
Tangible non-current assets	3	–	3
Other assets	11	–	11
Obligations in disposal groups classified as held for sale	**75**	**43**	**32**
Financial liabilities	35	30	5
Valued at amortised cost	35	30	5
Customers	5	–	5
Credit institutions	28	28	–
Issued bonds, subordinated and supplementary capital	2	2	–
Provisions	4	–	4
Other obligations	36	13	23

Details of the Consolidated Profit or Loss Statement

16 | Net interest income

in millions of Euros	01–06/2011	01–06/2010
Interest income	**717.0**	**709.2**
Cash reserves	2.1	2.0
Financial assets held for trading	134.2	147.8
Financial assets designated at fair value through profit or loss	44.1	53.6
Available-for-sale financial assets	111.3	75.6
Loans and receivables	425.3	378.7
Held-to-maturity investments	–	51.5
Interest expenses	**-397.1**	**-405.9**
Financial liabilities held for trading	-101.2	-59.4
Financial liabilities designated at fair value through profit or loss	-97.0	-139.6
Financial liabilities measured at amortised cost	-198.9	-206.9
Dividend income	**2.5**	**6.0**
Available-for-sale financial assets	2.5	6.0
Net interest income	**322.4**	**309.3**

17 | Net fee and commission income

in millions of Euros	01–06/2011	01–06/2010
Payment transfers	74.3	77.1
Lending	15.9	16.4
Securities and custody business	17.7	19.6
Foreign business, currency and notes-and-coin business	0.2	0.2
Payments to Österreichische Post AG	-33.1	-37.5
Other services	14.4	14.3
Fee relating to guarantee granted by the Republic of Austria	–	-5.7
Net fee and commission income	**89.4**	**84.4**

18 | Gains and losses on financial assets and liabilities

in millions of Euros	01–06/2011	01–06/2010
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**-7.7**	**176.4**
Available-for-sale financial assets	-11.3	24.4
Loans and receivables (including finance leases)	3.6	–
Held-to-maturity investments	–	130.7
Financial liabilities measured at amortised cost	–	0.1
Gain from the sale of consolidated subsidiaries	–	21.2
Gains (losses) on financial assets and liabilities held for trading, net	**-22.7**	**70.0**
Interest rate instruments and related derivatives	-35.4	66.3
Foreign exchange trading	8.0	14.1
Credit risk instruments and related derivatives	4.7	-10.4
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	**90.9**	**-127.6**
Gains (losses) from fair value hedge accounting	**-1.3**	**11.0**
Fair value adjustment of hedged item	41.4	-86.2
Fair value adjustment of hedging instrument	-42.7	97.2
Exchange differences revaluations, net	**4.4**	**-3.2**
Gains and losses on financial assets and liabilities	**63.6**	**126.6**

The item Gains and losses on financial assets and liabilities also includes fair value adjustments of securities whose risk is borne by shareholders of non-controlling interests. In the first half of 2011, valuation gains of EUR 5.0 million that have been shown in the item Gains and losses on financial assets and liabilities have been passed on to non-controlling interests in the item Profit attributable to non-controlling interests. In the first half of 2010, valuation losses in the amount of EUR 3.8 million have been included in the item Gains and losses on financial assets and liabilities.

Excluding the valuation results borne by shareholders of non-controlling interests, the item Gains and losses on financial assets and liabilities would amount to EUR 58.6 million (2010: EUR 130.4 million.). The item Profit before tax would amount to EUR 81.4 million (2010: EUR 107.4 million).

19 | Other operating income and expenses

in millions of Euros	01–06/2011	01–06/2010
Net income from investment properties	0.5	1.9
Net income from the sale of tangible and intangible non-current assets	2.8	1.8
Net income from operating leasing	0.3	–
Net income from retailing	-7.7	-2.8
Bank levy	-10.2	–
Other income and expenses	13.2	7.8
Other operating income and expenses	**-1.1**	**8.7**

20 | Administrative expenses

in millions of Euros	01–06/2011	01–06/2010
Staff costs	**-180.6**	**-189.9**
Wages and salaries	-135.9	-137.8
Statutory social security contributions	-31.6	-31.3
Voluntary fringe benefits	-2.1	-2.1
Post-employment benefit costs	-9.9	-9.6
(Increase) decrease of pension provision	0.6	-6.6
(Increase) decrease of provision for severance payments	-1.2	-1.4
(Increase) decrease of provision for jubilee benefits	0.1	-0.5
Staff benefit fund costs	-0.6	-0.6
Other administrative expenses	**-98.1**	**-86.1**
Administrative expenses	**-278.7**	**-276.0**

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

in millions of Euros	01–06/2011	01–06/2010
Depreciation and amortisation		
Intangible non-current assets	-17.4	-18.0
Tangible non-current assets	-13.1	-16.2
Depreciation and amortisation	**-30.5**	**-34.2**

22 | Provisions and impairment losses

in millions of Euros	01–06/2011	01–06/2010
Changes in provisions for credit risk	0.6	3.6
Impairment losses on financial assets	-64.5	-105.9
Impairment losses on non-financial assets	-15.0	-8.0
Provisions and impairment losses	**-78.9**	**-110.3**

23 | Income taxes

in millions of Euros	01–06/2011	01–06/2010
Current tax expense	-0.9	-12.2
Deferred tax income	–	3.2
Income taxes	**-0.9**	**-9.0**

Other Information

24 | Contingent assets, contingent liabilities and commitments

in millions of Euros	30.06.2011	31.12.2010
Contingent assets	**–**	**1**
Contingent liabilities	**872**	**938**
Arising from guarantees	864	929
Other contingent liabilities	8	9
Commitments	**10,048**	**9,729**

25 | Human resources

Headcount	30.6.2011	31.12.2010
Number of employees on reporting date	4,999	5,534
Average number of employees	5,062	5,595

Full time equivalents	30.6.2011	31.12.2010
Number of employees on reporting date	4,394	4,812
Average number of employees	4,453	4,889

26 | Segment reporting

This information is based on the Group structure as of 30 June 2011.

The segment reporting presents the results of the operating business segments of BAWAG P.S.K. Group. The following segment information is based on IFRS 8 Operating Segments, which follows the so-called management approach. In this, the segment information is prepared on the basis of the internal reports used by the Managing Board to assess the performance of the segments and to make decisions on allocating resources to the segments.

In the management reporting, net interest income is allocated to the individual segments using the market interest rate method. According to this method, it is assumed that assets and liabilities are refinanced by money and capital market transactions with corresponding maturities, leading to no interest rate risk.

Changes in the segment structure can result from organisational changes or from altered management responsibilities. The following reorganisations that had a material effect on the segment reporting took place in the reporting period:

- The former Treasury segment was extensively restructured. The result from trading and investments is now allocated to the Financial Markets segment, while equity investments, funding and all asset liability management are within the responsibility of Corporate Center.
- The assignment of subsidiaries to the segments was modified accordingly as part of these organisational and management responsibility changes.
- The results presented here include the liquidity costs and premiums charged between the segments; the cost rates applied for the first half of 2011 were adjusted based on the current market conditions.

Comparison periods were adjusted for all of the changes mentioned above.

The segments in detail:

in millions of Euros		Retail and Small Business	Corporates	International Business	Financial Markets	Core activities	Corporate Center/ALM	Total
Net interest income	2011	160.6	103.0	34.3	19.5	317.4	5.0	**322.4**
	2010	153.7	92.6	34.4	24.2	304.9	4.4	**309.3**
Net fee and commission income	2011	63.6	43.7	5.9	0.8	114.0	-24.6	**89.4**
	2010	64.3	41.1	2.8	0.8	109.0	-24.6	**84.4**
Core revenues	2011	**224.2**	**146.7**	**40.2**	**20.3**	**431.4**	**-19.6**	**411.8**
	2010	**218.0**	**133.7**	**37.2**	**25.0**	**413.9**	**-20.2**	**393.7**
Gains and losses on financial assets and liabilities	2011	–	5.6	0.3	30.5	36.4	22.2	**58.6**
	2010	2.0	17.9	–	9.3	29.2	101.2	**130.4**
Other operating income (expenses)	2011	-0.8	0.1	–	–	-0.7	9.8	**9.1**
	2010	0.2	1.4	–	–	1.6	7.1	**8.7**
Operating income	2011	**223.4**	**152.4**	**40.5**	**50.8**	**467.1**	**12.4**	**479.5**
	2010	**220.2**	**153.0**	**37.2**	**34.3**	**444.7**	**88.1**	**532.8**
Administrative expenses	2011	-175.4	-50.0	-8.9	-15.4	-249.7	-29.0	**-278.7**
	2010	-174.6	-51.1	-6.5	-14.2	-246.4	-29.6	**-276.0**
Depreciation and amortisation on tangible and intangible non-current assets	2011	-18.5	-5.5	-1.0	-1.7	-26.7	-3.8	**-30.5**
	2010	-19.9	-6.3	-0.5	-1.4	-28.1	-6.1	**-34.2**
Operating expenses	2011	**-193.9**	**-55.5**	**-9.9**	**-17.1**	**-276.4**	**-32.8**	**-309.2**
	2010	**-194.5**	**-57.4**	**-7.0**	**-15.6**	**-274.5**	**-35.7**	**-310.2**
Operating profit before bank levy	2011	**29.5**	**96.9**	**30.6**	**33.7**	**190.7**	**-20.4**	**170.3**
	2010	**25.7**	**95.6**	**30.2**	**18.7**	**170.2**	**52.4**	**222.6**
Bank levy	2011	–	–	–	–	–	-10.2	**-10.2**
	2010	–	–	–	–	–	–	**–**
Operating profit before risk costs	2011	**29.5**	**96.9**	**30.6**	**33.7**	**190.7**	**-30.6**	**160.1**
	2010	**25.7**	**95.6**	**30.2**	**18.7**	**170.2**	**52.4**	**222.6**
Provisions and impairment losses	2011	-24.0	-10.6	–	–	-34.6	-44.3	**-78.9**
	2010	-38.1	-7.0	–	0.4	-44.7	-65.6	**-110.3**
Share of the profit or loss of associates accounted for using the equity method	2011	–	–	–	–	–	0.2	**0.2**
	2010	–	–	–	–	–	-4.9	**-4.9**
Profit (loss) before tax	**2011**	**5.5**	**86.3**	**30.6**	**33.7**	**156.1**	**-74.7**	**81.4**
	2010	**-12.4**	**88.6**	**30.2**	**19.1**	**125.5**	**-18.1**	**107.4**
Risk-weighted assets	2011	4,001.7	9,548.6	2,212.4	1,769.0	17,531.7	5,939.1	**23,470.8**
	2010	3,949.0	9,637.5	2,160.5	1,741.0	17,488.0	8,310.0	**25,798.0**

The **Retail and Small Business** segment covers banking services provided by branches, the alternative sales channel, the mobile sales channel and the small business and liberal professions unit.

It also covers the direct bank easybank and the investment fund company BAWAG P.S.K. Invest.

Although the reporting period saw continued fierce competition and sustained margin pressure, the Bank was able to increase net interest income compared to the prior year. The interest income in the Retail and Small Business segment is influenced positively by revenues from the deposit-taking business. The good level of new lending business in this segment partially compensated for the declining margins. The need for loan loss provisions is much more encouraging than in the prior year.

The **Corporates** segment includes the profit centres commercial customers, public sector, project finance, social housing, institutional customers and financial institutions. Most of the customers in this segment are located in Austria, and BAWAG P.S.K. offers a broad range of products to meet their needs. These include standard products as well as tailor-made financing and investment solutions that make BAWAG P.S.K. a particularly valuable and reliable partner for Austria's economy.

The leasing sub-group has been assigned to this segment since 2010.

The interest income of the Corporates segment improved considerably compared to the prior year, and commission income increased slightly. This was the result of a new widening of interest rate margins as well as increased cross-selling.

The Bank's **International Business** includes two units, International Corporates and International Commercial Real Estate.

While strictly adhering to the restrictive risk guidelines, International Corporates invests primarily in investment grade and non-investment grade corporate bonds and loans denominated in Euros and, to a limited extent, US dollars. This portfolio had a value of approximately EUR 2.0 billion on a committed basis at the end of June 2011 (June 2010: roughly EUR 1.6 billion).

The structure of the **Financial Markets** segment was adapted in 2010 to better account for the market and customer requirements. Funding and equity capital investments were carved out, and are now under the responsibility of Corporate Center/ALM. Financial Markets manages the Group's investment and trading activities. While substantial gains were made in operational investment activities, net interest income fell as a result of higher liquidity costs.

The **Corporate Center/ALM** segment primarily covers asset and liability management, funding portfolios, investments of our equity capital, securities portfolios and the structured credit portfolio. It also includes the result of equity investments outside of the Bank's core business as well as consolidation effects and translation items to compensate for valuation and reporting differences between the segment reporting and the Profit or Loss Statement.

The item Gains and losses on financial assets and liabilities comprises strategic positions and positive valuation effects from the structured credit portfolio, among other items. In addition, this item also contains negative valuation effects from securities issued by BAWAG P.S.K. The impairments include write-downs on subsidiaries and valuation losses on equity investments and goodwill. The segment's administrative expenses include outlay for the subsidiaries assigned to it as well as central items such as from overall Bank projects.

The segment result is reconciled with the consolidated Profit or Loss Statement as follows:

in millions of Euros	2011	2010
Gains and losses on financial assets and liabilities according to segment report	58.6	130.4
Gains and losses on financial assets attributable to non-controlling interests	5.0	-3.8
Gains and losses on financial assets and liabilities according to consolidated Profit or Loss Statement	**63.6**	**126.6**

in millions of Euros	2011	2010
Profit before tax according to segment report	81.4	107.4
Gains and losses on financial assets attributable to non-controlling interests	5.0	-3.8
Profit before tax according to consolidated Profit or Loss Statement	**86.4**	**103.6**

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 BWG and the Internal Capital Adequacy Assessment Process (ICAAP) capital management approach.

The ICAAP of BAWAG P.S.K. is modeled taking into account the Bank's business and risk profile and is an integral part of the planning and the control system. In the course of the ICAAP, the risk-bearing capacity and the capital for risk coverage according to pillar 2 of the Basel framework are monitored. Equity according to IFRS, certain hidden reserves and the nominal value of Tier II issues are used for the ICAAP. Furthermore, stress tests are conducted under ICAAP.

The regulatory own funds are currently broken down into the three categories Tier I to III, whereby there are recognition limits for Tier II and III. In respect of Basel III, BAWAG P.S.K. has decided to monitor the core Tier I ratio, the Tier I ratio and the total capital ratio (all based on total RWAs) within its capital management to address upcoming requirements accordingly.

BAWAG P.S.K. continually monitors its compliance with the stipulated own funds ratios on the basis of the returns as of the end of every month sent to Oesterreichische Nationalbank (the Austrian National Bank) and on the basis of current business developments.

The budgeted business volumes are also compared with the expected changes in the eligible own funds at the beginning of every financial year. In addition to the risk-weighted assets, the calculation also includes the own funds requirement for the securities trading book (using an internal value-at-risk model) and the own funds requirement to cover operational risk. Besides regulatory capital management, capital limits are assigned to the business segments based on their planning as part of the ICAAP process.

The Bank employs a centralised capital management system based on a monthly Capital Management Meeting. The main responsibilities of this function are to continuously monitor the development of the Bank's business, to analyse changes in its risk-weighted assets and to reconcile these assets with the available regulatory own funds or the ICAAP limit and utilisations per segment. The implementation of the Basel III regulations is also discussed at the meetings; BAWAG P.S.K. has already included the Basel III criteria in its capital management. The Capital Management Meeting gives recommendations to the Managing Board for increasing the own funds coverage when necessary and reports to the Managing Board and the Enterprise Risk Meeting once a month.

The following table shows the breakdown of the Group's own funds and its own funds requirement pursuant to BWG:

in millions of Euros	**30.06.2011**	**31.12.2010**
Share capital, participation capital	**800**	**800**
Reserves (including fund for general banking risks, goodwill and deductions)	662	637
Less shareholdings held for investment purposes	-35	-35
Core Tier I (Tier I capital excluding minorities and hybrids)	**1,428**	**1,402**
Minorities	390	384
Hybrid capital	404	404
Tier I (Tier I capital including minorities and hybrids)	**2,222**	**2,190**
Reserve under § 57 BWG, revaluation reserve	43	49
Supplementary and subordinated debt capital	592	593
Additional items (Tier II)	**635**	**642**
Less shareholdings held for investment purposes	-35	-35
Eligible own funds	**2,822**	**2,797**
Tier III	**103**	**115**
Own funds	**2,924**	**2,912**

Our own funds compared with the following own funds requirement:

Credit risk	1,635	1,714
Market risk	103	115
Operational risk	139	146
Capital requirements	**1,877**	**1,976**

The Tier I capital ratio based on total risk of 9.5 per cent (2010: 8.9 per cent based on total risk) and an own funds ratio of 12.5 per cent (2010: 11.8 per cent based on total risk) are well above the minimum legal standards, which amount to 4 per cent and 8 per cent, respectively. The Tier I capital ratio based on credit risk increased from 10.2 per cent as of 31 December 2010 to 10.9 per cent as of 30 June 2011.

Semi-Annual Risk Report

Introduction and Overview

Risk Management and the corresponding committees of BAWAG P.S.K. identify, measure, monitor and manage all risks to which BAWAG P.S.K. Group is exposed. At all organisational levels of the Bank, Market and Risk are strictly separated. The Group is subject to the following risks that are addressed in risk management through clear monitoring and control processes:

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

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

Risk Management – Risk Organisation

BAWAG P.S.K.'s Managing Board defines the Bank's risk strategy and the principles of risk management. The determination of limits for all relevant risks as well as the 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. Quarterly risk reports are submitted to the Supervisory Board's monitoring and control committees.

The risk management guidelines and risk systems are reviewed regularly to reflect changes in market conditions and in the products and services offered. BAWAG P.S.K. Group's risk management system was concentrated into the following four divisions as part of a Bank-wide project aimed at improving the Bank's efficiency and productivity:

- Commercial and Institutional Risk
- Credit Risk Retail and SME (credit risk of the segments and operational risk)
- Market Risk (market-specific risks and liquidity risks)
- Risk Reporting

Specific Risks of BAWAG P.S.K. Group

28 | Credit risk

Credit risk is the general risk that a customer will not be able to meet its payment obligations. Within the framework of its risk management, BAWAG P.S.K. considers and consolidates all elements of credit risk, such as counterparty default risk, country risk and industry risk.

A separate functional specialisation in risk control exists for the specific customer segments Commercial and Institutional and Retail, Small Business and SME. The aggregation of specific risk indicators and periodical reporting is covered by a consistent process under the responsibility of the organisational unit Risk Reporting.

Creditworthiness within the customer segment Retail, which includes retail private and small business customers, is assessed by means of an automated scoring method. This consists of an 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. On this basis, the customer's creditworthiness is updated every month.

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

All risk components (with the exception of small-scale private customers) are aggregated at the customer and customer group level. Depending on risk class and the amount of the outstanding claim, certain exposures must be reported to the Managing Board and Supervisory Board for decision.

Portfolio Development in the First Half of 2011

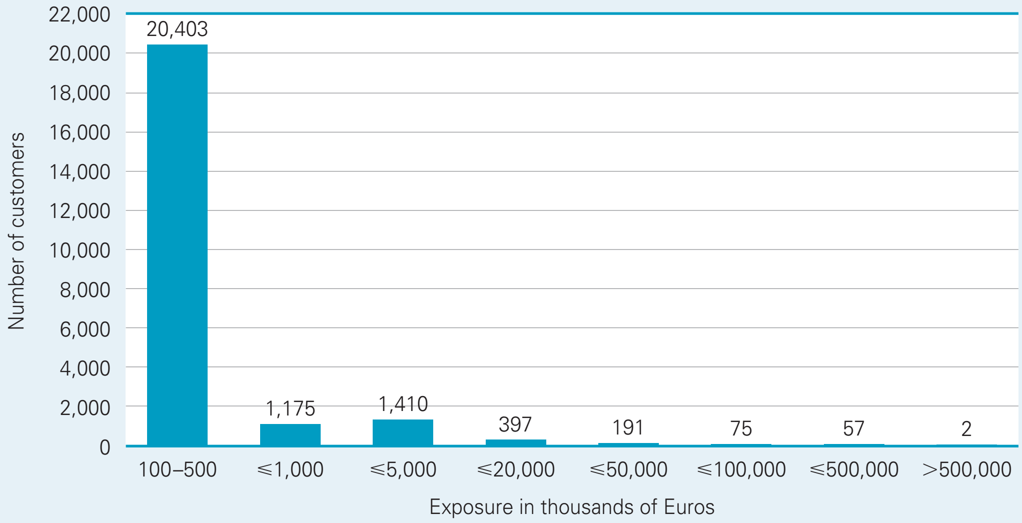
The overall volume of the portfolio grew in the first half of 2011. Increases in loans to credit institutions, public sector lending and retail receivables offset the decrease in lending to commercial customers.

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

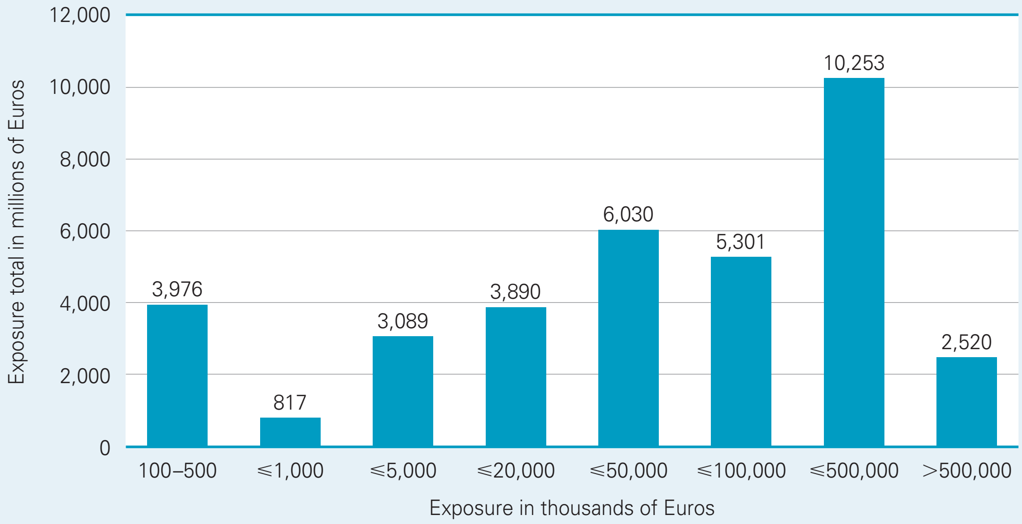
Segment	Book value credits[2)]		Bonds		Off-balance business		Total risk	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Banks	2,676	1,502	4,854	4,646	455	754	7,985	6,902
Public sector	4,748	4,697	1,466	1,459	910	746	7,124	6,902
Corporates	11,285	11,608	3,797	3,912	2,442	2,654	17,524	18,174
Small business	1,317	1,352	–	18	105	139	1,422	1,509
Retail private customers	5,744	5,664	–	–	157	213	5,901	5,877
Others	–	–	17	–	–	1	17	1
Total	**25,770**	**24,823**	**10,134**	**10,035**	**4,069**	**4,507**	**39,973**	**39,365**

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

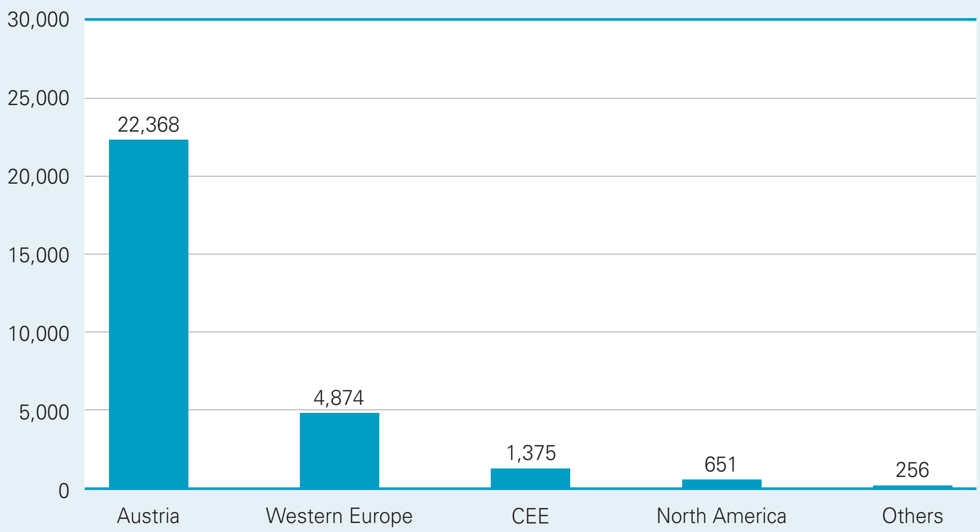
Number of customers by size as of 30 June 2011



Exposure total by size as of 30 June 2011



Geographical distribution of the loan portfolio as of 30 June 2011, in millions of Euros



The overview shows the net exposure in each region by ultimate risk. The outstanding volumes are assigned to the actual country of risk (e.g. an export promotion loan that is guaranteed by the Republic of Austria is allocated to Austria).

The majority of BAWAG P.S.K. Group's outstanding loans can be attributed to Austrian customers, followed by outstanding loans to Western European borrowers. Included within these are a small number of loans to borrowers in European countries with high deficits, which are shown in the following overview.

Credit portfolio in states with high budget deficits and substantial risk

in millions of Euros	Net exposure		Bank		Non-bank		Sovereign[1)]	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Greece	31	41	–	–	–	–	31	41
Ireland	62	68	–	–	62	68	–	–
Italy	772	648	630	559	142	90	–	–
Portugal	–	–	–	–	–	–	–	–
Spain	653	532	489	457	152	63	12	12

1) Classified as available for sale

The European (and American) sovereign debt crisis worsened further over the first half of the year, especially in the final weeks of the period. There is still a great deal of uncertainty, especially with regard to how the governments will handle the situation in countries with massive levels of debt and high budget deficits. As it has now become apparent that private investors will be called on to bear part of the resolution of the Greek sovereign debt crisis (but at terms that are still not clear at this time), BAWAG P.S.K. has formed an impairment provision for its exposure to Greek government debt. In this, the Greek government bonds that are held by BAWAG P.S.K., which are classified as available for sale and which have amortised costs of EUR 54 million (nominal values of EUR 53 million) were written down to to their current fair value of EUR 31 million (as of 30 June 2011).

Impaired Loans

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

- Specific loan 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 Legal Collection, and
- Loan 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.

Non Performing Loans (NPLs)

Exposures relating to all customers in default risk class "8" are categorised as non performing loans, regardless of whether a limit has been exceeded or a payment missed on an individual account or not. Once a customer exposure is more than ninety days past due or a customer-related criterion applies, the customer and all products with exposure are set to default and are assigned to default risk class "8".

After the volume of NPLs was reduced significantly in 2010, their level remained stable in the first half of 2011.

Development of and impairment provisions for NPLs

in millions of Euros	Exposure		Provisions		Collateral		Net position		Coverage[1)]	
	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010	30.06.2011	31.12.2010
Banks	29	30	23	25	–	–	6	5	79.3%	83.3%
State/Public sector	–	–	–	–	–	–	–	–	–	–
Corporates	402	435	211	201	79	92	112	142	72.1%	67.4%
Retail SME	263	245	160	145	67	69	36	31	86.3%	87.3%
Retail private customers	508	506	356	331	84	83	68	92	86.6%	81.8%
Others	5	5	32	40	–	–	-27	-35	648.0%	800.0%
Total	**1,207**	**1,221**	**782**	**742**	**230**	**244**	**195**	**235**	**83.9%**	**80.8%**

1) (Provisions+Collateral)/Exposure

IFRS Portfolio Impairments pursuant to IAS 39 AG 89

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

To calculate these loss provisions, the receivables are grouped into homogeneous portfolios with comparable risk characteristics. The provisions are quantified on the basis of the expected loss, taking into account the loss identification period. This is determined individually for each customer segment on the basis of the average time until the next expected payment. As of 30 June 2011, the IFRS portfolio impairment amounted to EUR 44.5 million, compared to EUR 36.5 million on 31 December 2010. The EUR 8 million increase was caused by the anticipation of the expected effects of the implementation of improved rating sytems on risk parameters in the second half-year.

Structured Credit Portfolio

BAWAG P.S.K.'s securities portfolio includes a portfolio of structured credit instruments with a nominal value of EUR 1.2 billion and a current book value pursuant to IFRS of EUR 697 million (excluding portions attributable to non-controlling interests; 31 December 2010: EUR 842 million). EUR 77 million (nominal) were redeemed in the first six months of the year, generating an accounting profit of EUR 8 million. Disposals and restructuring measures reduced the nominal value by EUR 124 million in the first half of 2011 while also generating an accounting profit of EUR 11 million. As a result, book gains of EUR 19 million were achieved through redemptions and sales.

Fair value changes of the structured credit portfolio in the amount of EUR 9 million were recognised on the Profit or Loss Statement under Gains and losses on financial assets and liabilities in the first half of 2011.

The resulting risk position is detailed in the following tables by rating, maturity and origin.

Structured credit portfolio as of 30 June 2011 – Breakdown by rating (IFRS book value)

in millions of Euros	AAA	AA	A	BBB	BB and below	Not rated	Total
CDO-of-ABS	–	11	3	5	5	–	**24**
CDO-of-ABS w/ subprime	10	–	–	16	27	–	**53**
CLO	19	79	76	78	18	–	**271**
CMBS	3	11	–	3	13	–	**30**
Corporate CDO	–	–	1	–	65	43	**109**
Corporate CDO²	–	–	–	–	–	89	**89**
Corporate CPDO	–	–	20	–	12	48	**80**
European RMBS	24	5	2	–	–	–	**31**
US RMBS	–	–	–	–	11	–	**11**
Total	**56**	**106**	**101**	**102**	**152**	**180**	**697**

Structured credit portfolio as of 31 December 2010 – Breakdown by rating (IFRS book value)

in millions of Euros	AAA	AA	A	BBB	BB and below	Not rated	Total
CDO-of-ABS	–	12	3	5	3	–	**23**
CDO-of-ABS w/ subprime	10	–	–	16	38	–	**65**
CLO	17	81	100	76	21	–	**296**
CMBS	6	14	2	5	–	5	**32**
Corporate CDO	–	1	1	–	79	45	**126**
Corporate CDO²	–	–	–	–	–	84	**84**
Corporate CPDO	–	–	20	–	11	42	**74**
Corporate LSS	–	–	–	–	–	90	**90**
European RMBS	27	5	9	–	–	–	**41**
US RMBS	–	–	–	–	13	–	**13**
Total	**60**	**114**	**134**	**102**	**165**	**266**	**842**

Structured credit portfolio as of 30 June 2011 – Breakdown by economic maturity (IFRS book value)

in millions of Euros	until end of 2011	2012–2014	2015–2017	2018 and later	Total
CDO-of-ABS	–	18	5	–	**24**
CDO-of-ABS w/ subprime	–	19	4	29	**53**
CLO	–	116	155	–	**271**
CMBS	1	8	21	–	**30**
Corporate CDO	–	39	70	–	**109**
Corporate CDO²	–	89	–	–	**89**
Corporate CPDO	–	–	80	–	**80**
European RMBS	–	7	7	16	**31**
US RMBS	–	3	5	3	**11**
Total	**1**	**299**	**348**	**48**	**697**

Structured credit portfolio as of 31 December 2010 – Breakdown by economic maturity (IFRS book value)

in millions of Euros	until end of 2011	2012–2014	2015–2017	2018 and later	Total
CDO-of-ABS	–	21	3	–	**23**
CDO-of-ABS w/ subprime	2	3	26	33	**65**
CLO	–	146	149	–	**296**
CMBS	–	12	20	–	**32**
Corporate CDO	5	80	41	–	**126**
Corporate CDO²	–	84	–	–	**84**
Corporate CPDO	–	–	74	–	**74**
Corporate LSS	–	90	–	–	**90**
European RMBS	–	16	7	17	**41**
US RMBS	–	3	9	–	**13**
Total	**7**	**455**	**330**	**50**	**842**

Structured credit portfolio as of 30 June 2011 – Breakdown by origin (IFRS book value)

in millions of Euros	USA	Continental Europe	UK	Total
CDO-of-ABS	3	15	6	**24**
CDO-of-ABS w/ subprime	35	1	16	**53**
CLO	109	118	43	**271**
CMBS	19	10	–	**30**
Corporate CDO	50	51	8	**109**
Corporate CDO^2	48	32	10	**89**
Corporate CPDO	37	38	5	**80**
European RMBS	–	26	5	**31**
US RMBS	11	–	–	**11**
Total	**313**	**291**	**93**	**697**

Structured credit portfolio as of 31 December 2010 – Breakdown by origin (IFRS book value)

in millions of Euros	USA	Continental Europe	UK	Total
CDO-of-ABS	3	17	3	**23**
CDO-of-ABS w/ subprime	45	1	18	**65**
CLO	137	130	28	**296**
CMBS	22	10	–	**32**
Corporate CDO	51	68	6	**126**
Corporate CDO^2	45	30	9	**84**
Corporate CPDO	34	35	5	**74**
Corporate LSS	60	17	12	**90**
European RMBS	–	35	6	**41**
US RMBS	13	–	–	**13**
Total	**410**	**344**	**88**	**842**

Abbreviations:

ABS Asset backed security
CDO Collateralised debt obligation
CDO^2 Collateralised debt obligation on 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 CDO^2, corporate CPDOs, CLOs, US RMBS 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, loan prices, etc.) as inputs.

Stress Tests and Sensitivity Analysis of the Structured Credit Portfolio

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

All assumptions apply in addition to the losses already incurred in the portfolio. Downgrades that have already occurred are also considered.

To assess the effects that the stress scenarios could have on the fair values, the current implied discount margins are increased depending on the level of risk in the scenario and the expected market reaction. The following tables show the effects that the stress scenarios have on the IFRS value of the portfolio. The depicted stress scenarios are defined as follows:

- Default scenario 1: The default and arrears rates are increased by 20 per cent (investment grade, retail) or 30 per cent (non investment grade).
- Combined scenario: the simultaneous worsening of the default, arrears, LGD and prepayment rates by 20 per cent (non investment grade 30 per cent) and a 20 per cent worsening of the correlation

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

in millions of Euros	Scenario 1 (defaults)	Combined scenario
CDO-of-ABS	-3	-6
CDO-of-ABS w/ subprime	-7	-11
CLO	-2	-5
CMBS	-4	-8
Corporate CDO	-6	-11
Corporate CDO^2	–	–
Corporate CPDO	-7	-14
European RMBS	-1	-2
US RMBS	–	–
Total	**-30**	**-57**

29 | Market risk

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

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

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

For risk management purposes, the Managing Board is informed of the Bank's current market risk position, the utilisation of limits and the profit and loss situation. These reports are provided on a daily basis 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 as well as market risk limits approved by the Managing Board are documented in an internal Group Market Risk Manual and in a specific BAWAG P.S.K. Financial Markets Manual.

Market Risk in the Trading Book

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

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

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

On 30 June 2011, the value-at-risk (with gamma and vega risk included) was measured at EUR 4.98 million (31 December 2010: EUR 4.51 million), based on a confidence interval of 99 per cent and a holding period of one day.

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

Value-at-risk (99 per cent, one-day holding period), first half of 2011, in millions of Euros

Risk class	Minimum	Maximum	Average	30.06.2011
FX risk	2.3	4.9	3.3	4.4
Interest rate risk	0.5	1.7	0.9	0.7
Total (without correlations)	2.9	5.9	4.2	5.1
Total (with correlations)	**2.7**	**5.7**	**4.0**	**5.0**
Diversification	n/a	n/a	-0.2	-0.2

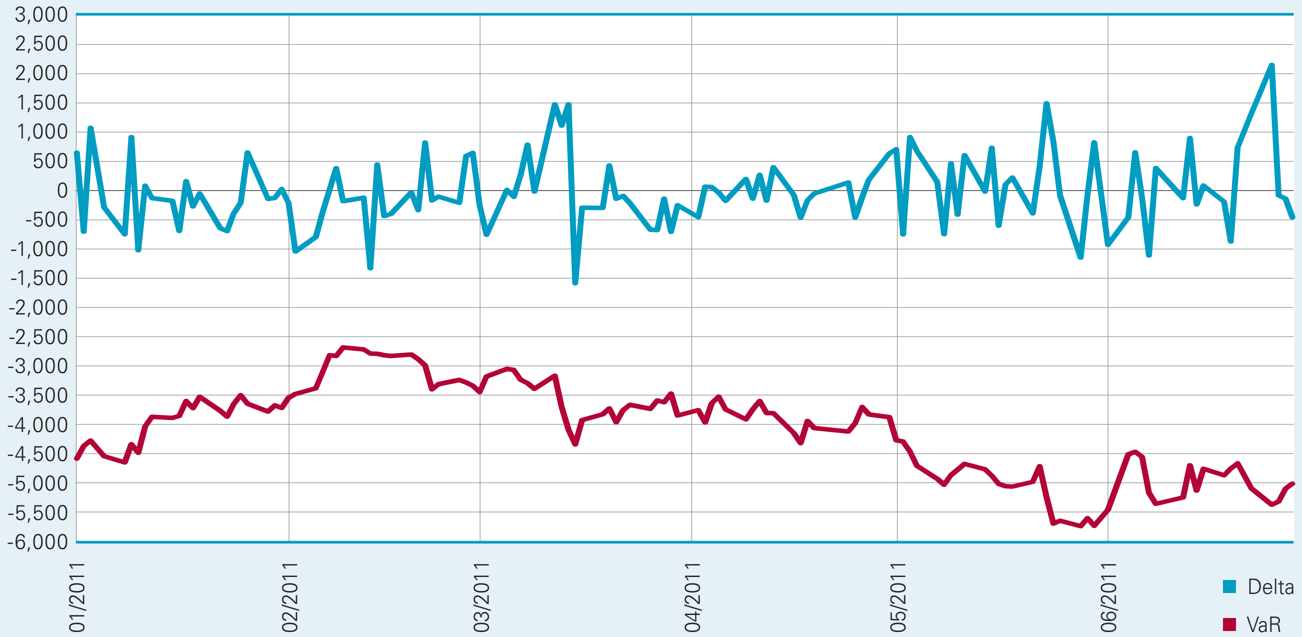
The rise in the average value-at-risk can be attributed to a customer-induced position. With regard to this increased risk position, an appropriate provision was formed for parts of the position.

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

No exceptions occurred at BAWAG P.S.K. in the reporting period from January to June 2011. There were no exceptions for a total period of 250 business days, which confirms the high quality of the model and which means that the best-possible multiplier of 3 for the calculation of own funds as specified by the Federal Ministry of Finance can be maintained.

The daily VaR values are compared with the backtesting results (delta) for the reporting period from January to June 2011 in the following chart:

Value-at-risk (99 per cent, one-day holding period) compared to the back tests, first half of 2011, in thousands of Euros



As a measure of risk, the 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 assess losses in conjunction with unexpected market movements. The valuation is covered by additional stress tests.

In the course of such stress tests the trading book is stressed by scenarios simulating extreme market conditions which are not covered by the confidence interval.

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

Market Risk in the Banking Book

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

Interest Rate Risk in the Banking Book

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

Asset Liability Management controls interest rate risk by transferring the interest rate risk, which is constantly monitored, to the Financial Markets divisions using risk transformation, thus making the transactions in the customer segments of the Bank risk-neutral. In addition, the Bank's Asset Liability Committee (ALCO) assigns interest rate risk limits in which strategic positions can be taken in order to optimise earnings (according to the guidelines). The Market Risk division reports on limit utilisation as well as on the distribution of risk on a daily basis for selected areas and on a monthly basis to the Strategic ALCO at the Group level.

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

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

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

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

The following table depicts the Group's interest rate risk as of 30 June 2011 on the basis of the PVBP concept. The net asset value changes of all financial positions in the Group's banking book due to a yield curve shift of one basis point are assigned to the corresponding time buckets as follows:

PVBP

in thousands of Euros	< 1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	> 10Y	Total
EUR	-8	18	193	-95	115	202	424
USD	13	-14	-1	1	-13	-15	-29
CHF	15	-1	-14	-8	-14	-36	-59
JPY	2	–	-3	1	2	14	16
Other currencies	1	-1	21	-9	-2	-22	-11
Total 30.06.2011	**23**	**1**	**196**	**-111**	**89**	**142**	**341**
Total 31.12.2010	-56	21	-152	-35	558	58	394

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

P&L and equity-relevant PVBP

in thousands of Euros	< 1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	> 10Y	Total
30.06.2011	**180**	**-20**	**251**	**182**	**-263**	**189**	**518**
31.12.2010	60	27	-133	316	113	78	460

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

For a particular portfolio, the value-at-risk measures the worst expected future loss (in terms of market value) over a given time horizon with a specific confidence level. The calculation of value-at-risk is based on the variance-covariance approach and uses a confidence level of 99 per cent and a time horizon of ten days. As of 30 June 2011, the value-at-risk for interest rate risk in the Group's banking book amounted to EUR 9.7 million (compared to EUR 12.4 million as of 31 December 2010).

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

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

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

FX Risk in the Banking Book

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

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

30 | Liquidity risk

In addition to the risk of not being able to fulfil payment obligations when they become due (dispositive liquidity risk), liquidity risk also includes the danger of increased refinancing costs, which can influence the Bank's earnings situation (structural liquidity risk). Liquidity risk also includes the risk that transactions cannot be closed or sold, or that they can only be closed or sold at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The Risk Manual for Liquidity Risks specifies how liquidity risks are to be handled and includes a contingency liquidity plan.

Asset Liability Management is responsible for daily liquidity management as well as for liquidity planning, while Controlling is responsible for the liquidity forecast and for conducting stress test scenario analyses. The scenarios (e.g. the default of a funding measure) are created based on the risk profile of the current business plan, and the data are updated continuously with current information from the market segments. Monthly reports on this are submitted to the Strategic Asset Liability Committee, which discusses the developments and takes appropriate measures when necessary.

Market Risk prepares a monthly liquidity gap report that includes scenario calculations for changes in the balance sheet structure and various assumptions about customer behaviour and presents it to the ALCO to facilitate structural liquidity management.

As of mid-2011, BAWAG P.S.K. boasts a solid liquidity position – in particular due to the stable level of primary funds[1)]. In 2011, the Bank is in a position to refinance its current portfolio of assets on the capital markets without additional funding measures while meeting all of the regulatory requirements.

1) Primary funds comprise deposits from customers and debt certificates including bonds. Primary funds are generally made available to a bank by non-banks. The amount of primary funds is an indicator of the stability of the funding base.

31 | Participation risk

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

Impairment tests are conducted every year to validate the values of the equity investments in the Bank's portfolio.

Shares in non-consolidated companies

in millions of Euros	30.06.2011	31.12.2010
Shares categorised as available-for-sale assets	**244**	**247**
Shares in credit institutions	145	145
Associates	36	36
Other shares	109	109
Shares in other companies	99	102
Subsidiaries[1)]	39	41
Associates	31	31
Other shares	29	30
Shares accounted for using the equity method	**17**	**17**
Associates	17	17
Total shares in non-consolidated companies	**261**	**264**

1) Including other variable rate securities in the amount of EUR 3.0 million, which are included with participation risk

32 | Operational risk

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

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

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

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

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

The regulatory own funds for operational risk are calculated using the basis-indicator approach pursuant to §§ 182 ff. SolvaV. The standard approach has been in use since 1 July 2011.

Vienna, 16 August 2011

Byron Haynes
Chairman of the Managing Board

Andreas Arndt
Member of the Managing Board

Wolfgang Klein
Member of the Managing Board

Christoph Raninger
Member of the Managing Board

Sanjay Sharma
Member of the Managing Board

Statement of All Legal Representatives

“We confirm to the best of our knowledge that the 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, 16 August 2011

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Andreas Arndt
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Christoph Raninger
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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: Christian Mader, Caroline Pranzl, Julia Wiesinger-Knie, Sebastian Witek (BAWAG P.S.K.)
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