

BAWAG P.S.K. REPORTS STRONG QUARTERLY NET PROFIT OF EUR 121 MILLION, +51% FROM Q1 2014

- ▶ Net profit EUR 121 million, +51% versus prior year
- ▶ Annualized return on equity of 19.6%, +4.6pts
- ▶ Core revenues EUR 230 million, +13%
- ▶ Operating expenses down 4% to EUR 118 million
- ▶ Cost-income ratio improved to 45.3%, down 7.9pts
- ▶ Net interest margin improved by 38bps to 2.07%
- ▶ CET1 ratio (fully loaded) at 13.5%, up 1.4pts versus year-end 2014
- ▶ Reiterate confidence in meeting or exceeding 2015 targets

VIENNA, Austria – May 12, 2015 – BAWAG P.S.K. today reported **net profit of EUR 121 million** for the first quarter 2015, up 51% versus prior year. The increase was driven by higher net interest income, reduced operating expenses and lower risk costs. Annualized **return on equity** was 19.6%, up 4.6pts. **Net interest margin** improved 38bps to 2.07% with **business net interest margin** up 20bps to 2.33%. **Operating expenses** were down by 4% and the **cost-income ratio** down 7.9pts to 45.3%. **Risk costs** decreased by 44% with no impairments in the first quarter 2015. These strong results demonstrate the continued success from the strategic actions the Bank undertook over the last years.

“As we closed out the first quarter 2015 we continued to see strong momentum across all our business segments. Our continued strength and results reiterate the success of our transformation and the sustainability of our focused low risk business model”, said Chief Executive Officer **Byron Haynes**. *“Over the past five quarters, our core revenues have continuously grown and we expect this positive development to continue throughout 2015. We are confident in our targets and see no issue in meeting or exceeding those we have communicated earlier this year.”*

“We will continue to execute on a variety of operational and strategic initiatives during the course of 2015 that will further drive operational excellence, greater efficiency and lead to continued profitable growth”, said Chief Financial Officer **Anas Abuzaakouk**.

Strong capital ratios on a fully loaded basis

The management team continues to run the Bank on a fully loaded basis from a capital standpoint. After having already eliminated most of the non-sustainable capital instruments in 2014, the last non-sustainable Tier 1 capital of EUR 83 million has been called in April 2015 and will be redeemed in the second quarter 2015. The Bank's **fully loaded CET1 ratio** further improved to **13.5%** (Dec 2014: 12.1%) and the **total capital ratio** to **17.1%** (Dec 2014: 15.8%) as of 31 March 2015.

Key business highlights Q1 2015

BAWAG P.S.K. continued to successfully execute on its strategy showing a very strong performance in the first three months of 2015, positioning BAWAG P.S.K. as one of the best performing banks in Austria and across all Europe.

Core revenues of EUR 230 million increased by 13% due to strength in net interest income. Despite the continued low-interest rate environment, **net interest income** rose 20% in Q1 versus the same period in 2014. The increase came from our continued strong focus on liability optimization measures. The **net interest margin** improved by 38bps to 2.07%, while the **business net interest margin** increased 20bps to 2.33%, reflecting the continuous efforts in asset and liability re-pricing.

Operating expenses decreased by EUR 5 million, or 4%, to EUR 118 million driven by a reduction in personnel and other administrative expenses. The **cost-income ratio** improved by 7.9pts to an all-time low of 45.3% compared to last year's reporting period.

Risk costs decreased by 44% to EUR 11 million. This was mainly driven by positive effects from de-risking actions and improved overall credit quality of the core businesses. The portfolio continues to be strong with **no impairments** in Q1 2015, just as in Q1 2014.

Net profit increased by EUR 41 million, or 51%, to EUR 121 million in Q1 2015. The increase was driven by improvements in Corporate Lending and Investments with its net profit up over 100% and in Retail Banking and Small Business up 16%. In addition we had higher net interest income, reduced operating expenses and lower risk costs.

Loans and receivables with customers increased by EUR 280 million or 1% to EUR 22 billion at the end of March 2015, primarily driven by growing Retail and the International business segments. At the same time, the Bank has further reduced its exposure in non-core legacy loan assets from CEE countries: Overall, the remaining CEE-loan exposure is less than 0.6% of total assets.

Segment reporting

Retail Banking and Small Business showed strong results as we continued to focus our strategy on offering simple, fair and transparent products and services through our multi-channel franchise. Core revenues remained stable in Q1 2015 compared to the same period in 2014. The continued efficiency improvements resulted in a 10% decrease in operating expenses compared to previous year. The segment's cost-income ratio further improved to 58%, representing a 6pt decrease from the previous year. Overall, the segment achieved EUR 48 million net profits in the reporting period, a 16% increase compared to Q1 2014. Despite a slow growth market, BAWAG P.S.K. was able to increase its consumer lending market share to 9.4%, up 40bps since year-end 2014 and 90bps since first quarter 2014. Our new business lending volume during the quarter was above EUR 100 million with net asset growth of 4.9% against an overall market growth of 0.7%. We maintained disciplined underwriting and pricing standards, which was reflected in our stable margins. Overall funding costs also continued to decrease as we optimized product mix, volume and pricing. At the end of Q1 we had a blended rate of 0.42% versus 0.5% at year-end 2014 and 0.69% in Q1 last year.

The direct banking subsidiary **easybank** continued to increase the number of customer accounts by +3% to a total of 522,000 accounts since year-end 2014. Deposits grew by 7% to EUR 2.9 billion versus Q1 2014.

Corporate Lending and Investments was able to more than double its net profit from EUR 25 million to EUR 54 million year over year. Core revenues were up by 26% driven by higher net interest income of 37% due to continued deleveraging of non-core products and reallocation of capital into more profitable, capital-efficient assets. Core business assets continued to see strength with EUR 800 million net asset growth versus Q1 2014. The Austrian corporate business continued to be restrained with new business volume flat compared to Q1 2014. This was mainly due to flat domestic output, lower corporate investment and continued concerns rising from CEE, Ukraine and Russia. International business continued to see strength with new investment volume of more than EUR 800 million in the first three months. The focus remained on stronger Western European countries and the United States. The international new business volume primarily consists of investment grade loans with a general focus on more defensive industries and on traditional real estate financings with attractive loan-to-value (LTV), strong cash flow, shorter weighted expected maturities and solid covenant characteristics. Low

risk costs and a NPL ratio of 1.0% reflect positive impacts from de-risking actions and pro-active risk management of the overall Corporate Lending and Investments portfolio.

Treasury Services and Markets reported stable core revenues, operating income and net profit. Selective new investments and strategic sales decreased our risk-weighted assets by 23%. The investment strategy continues to focus on investment grade securities predominantly representing unsecured and secured bonds of financials in core Europe and the United States as well as select sovereign bond exposures and high-quality CLOs (100% AAA-rated at quarter end) in order to maintain solid diversification. The total investment portfolio amounted to EUR 5.4 billion with an average duration of 3.9 years comprising 100% of investment grade securities, 87% rated single “A” or higher. Exposure to CEE countries represented less than 5% of the portfolio limited to select bonds (95% rate single “A” or better). The portfolio has no direct exposures to Russia, Ukraine, other South-Eastern European countries or HETA Asset Resolution AG.

About BAWAG P.S.K.

BAWAG P.S.K. is one of Austria’s largest banking institutions with 1.6 million customers and a well-recognized national brand. The Bank focuses on three business segments: **Retail Banking and Small Business** offers simple, fair and transparent products and services which includes lending, savings, payment, card, investment and insurance services for private and small business customers. Based on a long term and traditional cooperation with Österreichische Post AG (Austrian Post) these products and services are available through our branches all over Austria which are complemented by our digital sales channels. Austrian corporate businesses as well as international activities are managed within the **Corporate Lending and Investments** segment. The majority of the Bank’s lending activities are within Austria. The international business is focused on corporate, commercial real estate and portfolio financing transactions primarily in Western Europe and the United States of America. **Treasury Services and Markets** includes all activities associated with providing trading and investment services for the Group’s treasury activities and the management of the Bank’s portfolio of financial securities.

BAWAG P.S.K. focuses on a capital efficient, low risk and low leverage business model while targeting to be one of the most efficient, centrally managed banks across Europe. Delivering simple, transparent and best-in-class products and services to our customers is the core of our strategy.

BAWAG P.S.K.’s Investor Relations website <https://www.bawagpsk.com/BAWAGPSK/IR/EN> contains further information about the Bank, including financial and other information for investors.

BAWAG P.S.K. contacts:

Financial Community:

Benjamin del Fabro (Investor Relations)

Tel: +43 (0) 5 99 05-22456

E-mail: investor.relations@bawagpsk.com

Media:

Georgia Schütz-Spörl (Press Office)

Tel: +43 (0) 5 99 05-31210

E-mail: presse@bawagpsk.com

This text can also be downloaded from our website: <https://www.bawagpsk.com>

Profit or loss statement

in EUR million	Q1 2015	Q1 2014	Change (%)	Q4 2014	Change (%)
Interest income	273.2	267.1	2.3	275.6	(0.9)
Interest expense ¹⁾	(96.4)	(117.8)	(18.2)	(96.5)	(0.1)
Dividend income	2.6	0.0	100	4.0	(35.0)
Net interest income	179.4	149.3	20.2	183.1	(2.0)
Fee and commission income	74.9	82.1	(8.8)	71.4	4.9
Fee and commission expenses	(24.4)	(27.0)	(9.6)	(27.5)	(11.3)
Net fee and commission income	50.5	55.1	(8.3)	43.9	15.0
Core revenues	229.9	204.4	12.5	227.0	1.3
Gains and losses on financial instruments and other operating income and expenses ²⁾	31.5	27.5	14.5	(11.2)	–
Operating income	261.4	231.9	12.7	215.8	21.1
Operating expenses¹⁾	(118.4)	(123.3)	(4.0)	(120.4)	(1.7)
Bank levy	(5.8)	(6.1)	(4.9)	(6.1)	(4.9)
Operating profit	137.2	102.5	33.9	89.3	53.6
Provisions and loan-loss provisions	(11.0)	(19.6)	(43.9)	(20.3)	(45.8)
Impairment losses	0.0	0.0	–	(1.9)	(100)
Share of the profit or loss of associates accounted for using the equity method	1.3	(0.6)	–	0.5	>(100)
Profit before tax	127.5	82.3	54.9	67.6	88.6
Income taxes	(6.8)	(2.0)	>100	2.0	–
Profit after tax	120.7	80.3	50.3	69.6	73.4
Non-controlling interests	0.0	0.3	(100)	0.0	–
Net profit	120.7	80.0	50.9	69.6	73.4

1) Prior-year-figures were adjusted. For further details, please refer to the Notes under “Change in presentation of interest expense within IAS 19 – employee benefits.”

2) In accordance with IFRS, the item Other operating income and expenses also includes the bank levy in the amount of EUR 5.8 million for the first quarter 2015. However, the Bank’s management considers the bank levy as a separate expense. Accordingly, it is shown in a separate expense line in the Interim Group Management Report.

Total assets

in EUR million	Mar 2015	Dec 2014	Change (%)	Mar 2014	Change (%)
Cash reserves	516	684	(24.6)	474	8.9
Financial assets	7,472	7,488	(0.2)	7,890	(5.3)
Available-for-sale	3,620	3,833	(5.6)	4,424	(18.2)
Held-to-maturity	2,187	2,042	7.1	1,711	27.8
Held for trading	1,288	1,163	10.7	1,143	12.7
Fair value through profit or loss	377	450	(16.2)	612	(38.4)
Loans and receivables	25,428	25,280	0.6	25,245	0.7
Customers	22,059	21,779	1.3	20,948	5.3
Debt instruments	1,791	1,983	(9.7)	2,502	(28.4)
Credit institutions	1,578	1,518	4.0	1,795	(12.1)
Hedging derivatives	574	546	5.1	202	>100
Tangible non-current assets	77	84	(8.3)	84	(8.3)
Intangible non-current assets	101	103	(1.9)	148	(31.8)
Tax assets for current taxes	7	7	–	6	16.7
Tax assets for deferred taxes	247	243	1.6	243	1.6
Other assets	153	148	3.4	139	10.1
Assets held for sale	–	68	(100)	–	–
Total assets	34,575	34,651	(0.2)	34,431	0.4

Total liabilities and equity

in EUR million	Mar 2015	Dec 2014	Change (%)	Mar 2014	Change (%)
Total liabilities	32,064	32,246	(0.6)	31,927	0.4
Financial liabilities	30,646	30,842	(0.6)	30,702	(0.2)
Fair value through profit or loss	1,682	1,675	0.4	1,992	(15.6)
Issued securities	1,682	1,675	0.4	1,992	(15.6)
Held for trading	1,713	1,174	45.9	1,057	62.1
At amortized cost	27,251	27,993	(2.7)	27,653	(1.5)
Customers	20,617	21,135	(2.5)	21,212	(2.8)
Issued securities	4,312	4,438	(2.8)	4,577	(5.8)
Credit institutions	2,322	2,420	(4.0)	1,864	24.6
Valuation adjustment on interest rate risk hedged portfolios	214	196	9.2	51	>100
Hedging derivatives	161	160	0.6	94	71.3
Provisions	534	522	2.3	474	12.7
Tax liabilities for current taxes	0	0	–	1	(100)
Tax liabilities for deferred taxes	3	3	–	10	(70.0)
Other obligations	506	517	(2.1)	595	(15.0)
Obligations in disposal groups held for sale	0	6	(100)	–	–
Total equity	2,511	2,405	4.4	2,504	0.3
Shareholders' equity	2,511	2,405	4.4	2,209	13.7
Non-controlling interests	–	–	–	295	(100)
Total liabilities and equity	34,575	34,651	(0.2)	34,431	0.4

Key performance indicators over five quarters

in %	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Return on equity	19.6%	11.7%	15.3%	17.0%	15.0%
Return on tangible equity	20.5%	12.2%	16.1%	18.2%	16.1%
Return on risk-weighted assets	2.92%	1.64%	2.09%	2.25%	1.94%
Return on total assets	1.39%	0.80%	1.02%	1.10%	0.90%
Net interest margin	2.07%	2.11%	2.03%	1.96%	1.69%
Business net interest margin	2.33%	2.36%	2.30%	2.25%	2.13%
Cost-income ratio	45.3%	55.8%	51.8%	49.1%	53.2%
Risk costs / loans and receivables	0.17%	0.35%	0.23%	0.28%	0.29%

Business segment performance

in EUR million	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total	
	Q1 2015	Q1 2014	Q1 2015	Q1 2014	Q1 2015	Q1 2014	Q1 2015	Q1 2014 ¹⁾	Q1 2015	Q1 2014 ¹⁾
Net interest income	95.3	94.9	61.1	44.6	12.9	13.2	10.1	(3.4)	179.4	149.3
Net fee and commission income	42.9	46.0	9.8	11.7	0.0	0.1	(2.2)	(2.7)	50.5	55.1
Core revenues	138.2	140.9	70.9	56.3	12.9	13.3	7.9	(6.1)	229.9	204.4
Gains and losses on financial instruments	0.8	0.3	6.3	0.4	1.2	0.2	21.6	17.3	29.9	18.2
Other operating income and expenses	1.5	0.7	0.0	0.0	0.0	0.0	0.1	8.6	1.6	9.3
Operating income	140.5	141.9	77.2	56.7	14.1	13.5	29.6	19.8	261.4	231.9
Operating expenses	(81.8)	(91.1)	(21.7)	(20.2)	(5.1)	(5.5)	(9.8)	(6.6)	(118.4)	(123.3)
Bank levy	–	–	–	–	–	–	(5.8)	(6.1)	(5.8)	(6.1)
Total risk costs	(10.5)	(9.1)	(1.4)	(12.0)	0.0	0.0	0.9	1.5	(11.0)	(19.6)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	1.3	(0.6)	1.3	(0.6)
Profit before tax	48.2	41.7	54.1	24.5	9.0	8.0	16.2	8.0	127.5	82.3
Income taxes	–	–	–	–	–	–	(6.8)	(2.0)	(6.8)	(2.0)
Profit after tax	48.2	41.7	54.1	24.5	9.0	8.0	9.4	6.0	120.7	80.3
Non-controlling interests	–	–	–	–	–	–	0.0	(0.3)	0.0	(0.3)
Net profit	48.2	41.7	54.1	24.5	9.0	8.0	9.4	5.7	120.7	80.0
Business volumes										
Assets	9,792	9,536	13,827	13,022	5,402	5,719	5,553	6,153	34,575	34,431
Risk-weighted assets ²⁾	3,492	3,272	7,630	7,205	1,678	2,180	3,467	4,385	16,267	17,042

1) Adjusted figures. For details, please see "Change in presentation of interest expense within IAS 19 – employee benefits."

2) Based on a fully loaded basis; Q1 2014: pro-forma IFRS calculation.