

BAWAG P.S.K. REPORTS STRONG QUARTERLY NET PROFIT OF EUR 182 MILLION

- ▶ **Net profit EUR 182 million, +51% versus prior year**
- ▶ **Annualized return on equity of 25.2%, +5.6pts**
- ▶ **Core revenues EUR 233 million, +1%**
- ▶ **Net interest margin stable at 2.05%**
- ▶ **Operating expenses down 11%**
- ▶ **Cost-income ratio improved to 41.7%, -2.7pts**
- ▶ **Fully loaded CET1 ratio of 14%, +90bps versus year-end 2015**

VIENNA, Austria – May 10, 2016 – BAWAG P.S.K. today reported a **record net profit of EUR 182 million** for the first quarter 2016, up 51% versus prior year. The increase was driven by higher core revenues, reduced operating expenses, lower risk costs and a positive one-time net tax benefit of EUR 61 million booked in the first quarter. The **annualized return on equity** was 25.2%, up 5.6pts. **Net interest margin** remained stable at 2.05%. **Operating expenses** were down 11% and the **cost-income ratio** down 2.7pts to 41.7%. **Risk costs** decreased by 26% to EUR 8.7 million.

“BAWAG P.S.K. delivered a strong first quarter reporting a net profit of EUR 182 million. With a return on equity of 25% and a cost-income ratio of 42%, BAWAG P.S.K. ranks amongst the most profitable and efficient banks across Europe. We will continue to maintain our Austria and developed market focused low-risk strategy while providing our customers with simple, transparent and best-in-class products and services. We are well on track to achieve or exceed our 2016 goals,” said Chief Executive Officer **Byron Haynes**.

“Over the past four years we have simplified our business model by focusing on core products, cost efficiency, low leverage and a conservative risk profile. We will continue to execute on a variety of operational and strategic initiatives in 2016 that will continue to drive efficiency, operational excellence and profitable growth,” said Chief Financial Officer **Anas Abuzaakouk**.

Strong capital ratios

The **fully loaded CET1 ratio** further improved to **14.0%** (Dec 2015: 13.1%) and the **fully loaded total capital ratio to 16.9%** (Dec 2015: 16.0%). These ratios already take into account the deduction of a EUR 325 million dividend for 2015 which has not yet been fully distributed. The SREP requirement of the regulated parent company for December 2015 and 2016 is 8.75%. At the same time, we maintained an RWA density of 46%, a conservative ratio relative to our European peers.

BAWAG P.S.K. upgraded by Moody's

In April 2016, Moody's again upgraded BAWAG P.S.K.'s **long-term deposit, senior unsecured and issuer ratings** by one notch to **A3** and the **outlook** was maintained as **“positive”**. In addition, the Bank's **standalone rating** (baseline credit assessment) as well as its **senior subordinate rating** were upgraded to **baa2** and **Baa3** (investment grade for the first time), respectively. This rating action, which is the second rating upgrade over the past year, is further validation of the successful transformation of BAWAG P.S.K. in recent years.

The current rating upgrades make BAWAG P.S.K. the highest rated bank in Austria by Moody's as well as one of the few "A" rated banks across Europe. According to Moody's, the rating upgrades reflect the stronger-than-anticipated recovery in profitability, the continued de-risking of the Bank's balance sheet as well as the continued build-up of its capital adequacy ratios. The rating assessment indicates further upside potential for the stand-alone rating over a 12-18 month outlook horizon.

Key business highlights Q1 2016

BAWAG P.S.K. successfully executed on its business plans in the first quarter 2016 delivering another quarter of strong results.

Core revenues increased by 1% to EUR 233 million, driven by strength in net interest income. Despite the continued low-interest rate environment, **net interest income** increased by 1% versus the first quarter 2015, driven by core product growth, pricing initiatives and lower funding costs. **Net interest margin** remained stable at 2.05%, reflecting the Bank's dedicated focus on risk-adjusted pricing and optimizing the liability structure.

Operating expenses decreased by 11% to EUR 104 million, driven by sustainable long-term measures in personnel and non-personnel expenses. The **cost-income ratio** further improved by 2.7pts to 41.7%.

Total risk costs decreased by 26% to EUR 9 million in the first quarter 2016, resulting from the improved credit quality of the core businesses and positive effects from the prior years' de-risking activities. The Bank continues to maintain a conservative risk profile with disciplined underwriting and a focus on developed markets in Austria and Western Europe. This is best reflected in a risk cost ratio of 13bps and an NPL ratio of 2.3%.

Net profit increased by EUR 62 million, or 51%, to EUR 182 million in the first quarter 2016, driven by higher core revenues (+1%) as well as lower operating expenses (-11%) and risk costs (-26%). In addition, a positive one-time net tax benefit of EUR 61 million was recorded during the first quarter, which is expected to reverse over the course of the year.

Loans and receivables with customers remained stable at EUR 24.6 billion compared to year-end 2015. The total new origination volume in the first quarter 2016 was EUR 1.1 billion. The overall customer loan book continued to be comprised of two-thirds exposure to Austria and one-third to Western Europe and the United States.

Segment reporting

The **Retail Banking and Small Business** segment showed strong results by continuing to grow its domestic consumer loan franchise in absolute terms while also capturing market share. Overall, the segment achieved a EUR 69 million net profit, a 27% increase compared to the first quarter 2015, driven by higher core revenues and lower operating expenses. The core revenues benefited from the acquisition of the Volksbank leasing business as well as the purchase of a high-quality performing residential mortgage portfolio during the fourth quarter 2015. The cost-income ratio improved to 49.5% and overall risk costs reflect the high credit quality of the segment assets with an NPL ratio of 2.2% and a risk cost ratio of 0.26%.

The investments in the Bank's retail franchise continue to pay off. The market share in consumer lending grew to 10.7%, up 50bps from year-end 2015 with new business volume of EUR 140 million and net asset growth of 6%. On the funding side, retail deposits decreased by 2% to EUR 18.5 billion as the outflow of high-cost fixed-rate, non-core products was actively managed while further focusing on variable-rate savings cards linked to current accounts as a basis for growing long-term client relationships. Funding costs continued to decrease as product mix, volume and pricing was optimized. At the end of the first quarter 2016, the blended interest rate on retail deposits stood at 0.29%.

easybank, our 100% direct banking subsidiary, grew its client base to 566,000 accounts, up 2% compared to December 2015. Deposits increased to EUR 3.2 billion. The integration of the auto leasing businesses, together with its strategic partnerships, enables *easybank* to expand its market presence, brand awareness and best-in-

class service offering to a range of new customers and segments. *easybank* is well positioned to build out its asset origination capabilities in auto leasing and consumer loans both domestically and internationally.

Corporate Lending and Investments contributed EUR 40 million to the Bank's net profit in the first quarter 2016, a 26% decrease compared to the first quarter 2015, driven by lower core revenues due to higher redemptions and deleveraging unprofitable exposures and lower gains and losses on financial instruments. Low risk costs of EUR 0.3 million and an NPL ratio of 0.6% (down 40bps compared to the first quarter 2015) reflect positive impacts from de-risking actions and the overall high credit quality of the portfolio.

New business volume in the Austrian corporate business followed the market trend. In the first quarter 2016 the business recorded EUR 50 million of new lending in addition to regular renewals. In the international business, the Bank continued to focus on loan origination opportunities primarily in Western Europe and the United States, generating new business volume of EUR 730 million in the first quarter 2016.

Treasury Services and Markets reported core revenues up 9% and operating expenses down 18% due to increased operating efficiency. The total investment portfolio stood at EUR 4.4 billion as of March 2016. The investment strategy continues to focus on investment grade securities primarily representing secured and unsecured bonds of financial institutions in core Europe and the United States as well as select sovereign bond exposures in order to maintain a solid diversification. The portfolio's average maturity was 3.8 years, comprising 98% investment grade-rated securities, of which 78% were rated in the single "A" category or higher.

Exposure to CEE in this segment represented less than 3% of the portfolio and was limited to select bonds (80% rated in the single "A" equivalent category or better). The Bank had no exposure to HETA in its security portfolio and no direct exposure to China, Russia, Hungary or South-Eastern Europe as of March 31, 2016.

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 include lending, savings, payment, card, investment, insurance and leasing products for private and small business customers. These products and services are available through our branches all over Austria which are complemented by our digital sales channels and 100% owned direct bank *easybank*. The Austrian and international corporate business is 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 primarily in Western Europe and the United States. **Treasury Services and Markets** includes all activities associated with providing hedging 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 profitable and efficient 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.

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Note: In this press release, any data for the first quarter 2016 is presented on BAWAG Holding Group level (throughout the document referred to as BAWAG P.S.K.). Any data for the first quarter 2015 (adjusted) or year-end 2015 is presented on BAWAG P.S.K. Group level.

Profit or loss statement

in EUR million	Q1 2016	Q1 2015	Change (%)	Q4 2015	Change (%)
Interest income	263.0	273.2	(3.7)	262.1	0.3
Interest expense	(81.4)	(96.4)	(15.6)	(78.8)	3.3
Dividend income	0.1	2.6	(96.2)	0.1	–
Net interest income	181.7	179.4	1.3	183.4	(0.9)
Fee and commission income	73.6	74.9	(1.7)	75.6	(2.6)
Fee and commission expenses	(22.7)	(24.4)	(7.0)	(34.5)	(34.2)
Net fee and commission income	50.9	50.5	0.8	41.1	23.8
Core revenues	232.6	229.9	1.2	224.5	3.6
Gains and losses on financial instruments and other operating income and expenses ¹⁾	17.7	34.8	(49.1)	27.7	(36.1)
Operating income	250.3	264.7	(5.4)	252.2	(0.8)
Operating expenses	(104.4)	(117.6)	(11.2)	(126.0)	(17.1)
Regulatory charges	(16.0)	(9.1)	75.8	(6.6)	>100
Operating profit	129.9	138.0	(5.9)	119.6	8.6
Provisions and loan-loss provisions	(7.1)	(11.0)	(35.5)	(5.7)	24.6
Impairment losses	0.0	0.0	–	(1.1)	(100)
Operational risk	(1.6)	(0.8)		(4.5)	
Share of the profit or loss of associates accounted for using the equity method	0.4	1.3	69.2	1.5	73.3
Profit before tax	121.6	127.5	(4.6)	109.8	10.7
Income taxes	60.8	(6.8)	–	(12.2)	–
Profit after tax	182.4	120.7	51.1	97.6	86.9
Non-controlling interests	(0.1)	0.0	(100)	0.0	(100)
Net profit	182.3	120.7	51.0	97.6	86.8

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 16.0 million for the first quarter 2016. However, the Bank's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line.

Total assets

in EUR million	Mar 2016	Dec 2015	Change (%)	Mar 2015	Change (%)
Cash reserves	634	809	(21.6)	516	22.9
Financial assets	6,686	6,275	6.5	7,472	(10.5)
Available-for-sale	3,001	2,732	9.8	3,620	(17.1)
Held-to-maturity	2,313	2,290	1.0	2,187	5.8
Held for trading	1,119	950	17.8	1,288	(13.1)
Fair value through profit or loss	253	303	(16.5)	377	(32.9)
Loans and receivables	26,495	27,396	(3.3)	25,428	4.2
Customers	24,568	24,713	(0.6)	22,059	11.4
Debt instruments	912	973	(6.3)	1,791	(49.1)
Credit institutions	1,015	1,710	(40.6)	1,578	(35.7)
Hedging derivatives	685	468	46.4	574	19.3
Tangible non-current assets	61	63	(3.2)	77	(20.8)
Intangible non-current assets	329	104	>100	101	>100
Tax assets for current taxes	18	9	100	7	>100
Tax assets for deferred taxes	252	238	5.9	247	2.0
Other assets	166	144	15.3	153	8.5
Assets held for sale	–	9	(100)	–	–
Total assets	35,326	35,515	(0.5)	34,575	2.2

Total liabilities and equity

in EUR million	Mar 2016	Dec 2015	Change (%)	Mar 2015	Change (%)
Total liabilities	32,192	32,755	(1.7)	32,064	0.4
Financial liabilities	30,384	31,478	(3.5)	30,646	(0.9)
Fair value through profit or loss	1,185	1,269	(6.6)	1,682	(29.5)
Issued securities	1,185	1,269	(6.6)	1,682	(29.5)
Held for trading	1,033	1,071	(3.5)	1,713	(39.7)
At amortized cost	28,166	29,138	(3.3)	27,251	3.4
Customers	21,075	21,695	(2.9)	20,617	2.2
Issued securities	3,768	3,236	16.4	4,312	(12.6)
Credit institutions	3,323	3,586	(7.3)	2,322	43.1
Financial liabilities associated with transferred assets	472	621	(24)	–	100
Valuation adjustment on interest rate risk hedged portfolios	273	169	61.5	214	27.6
Hedging derivatives	113	106	6.6	161	(29.8)
Provisions	422	419	0.7	534	(21.0)
Tax liabilities for current taxes	6	3	100	0	100
Other obligations	522	577	(9.5)	506	3.2
Total equity	3,134	2,760	13.6	2,511	24.8
Shareholders' equity	3,133	2,759	13.6	2,511	24.8
Non-controlling interests	1	1	–	0	100
Total liabilities and equity	35,326	35,515	(0.5)	34,575	2.2

Key performance indicators over five quarters

in %	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Return on equity	25.2%	14.4%	14.4%	16.5%	19.6%
Return on tangible equity	28.5%	15.0%	15.0%	17.2%	20.5%
Return on risk-weighted assets	4.50%	2.44%	2.40%	2.63%	2.92%
Return on total assets	2.05%	1.14%	1.13%	1.23%	1.39%
Net interest margin	2.05%	2.15%	2.11%	2.15%	2.07%
Cost-income ratio	41.7%	50.0%	46.6%	45.8%	44.4%
Risk costs / loans and receivables	0.13%	0.17%	0.16%	0.20%	0.18%

Business segment performance

in EUR million	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Net interest income	109.9	94.1	53.2	61.1	14.1	12.9	4.5	11.3	181.7	179.4
Net fee and commission income	37.8	43.2	9.7	9.8	0.0	0.0	3.4	(2.6)	50.9	50.4
Core revenues	147.7	137.4	62.9	70.9	14.1	12.9	7.9	8.8	232.6	230.0
Gains and losses on financial instruments	4.4	7.5	(1.4)	6.3	(0.8)	1.2	14.8	15.0	17.0	30.0
Other operating income and expenses	0.5	1.6	0.0	0.0	0.0	0.0	0.2	3.2	0.7	4.8
Operating income	152.6	146.5	61.5	77.2	13.3	14.1	22.9	26.8	250.3	264.6
Operating expenses	(75.6)	(81.8)	(21.2)	(21.7)	(4.2)	(5.1)	(3.4)	(9.1)	(104.4)	(117.7)
Regulatory charges	0.0		0.0		0.0		(16.0)	(9.1)	(16.0)	(9.1)
Total risk costs	(8.4)	(10.5)	(0.3)	(1.4)	0.0	0.0	0.0	0.2	(8.7)	(11.7)
Share of the profit or loss of associates accounted for using the equity method	0.0		0.0		0.0		0.4	1.3	0.4	1.3
Profit before tax	68.6	54.2	40.0	54.1	9.1	9.0	3.9	10.2	121.6	127.5
Income taxes	0.0		0.0		0.0		60.8	(6.8)	60.8	(6.8)
Profit after tax	68.6	54.2	40.0	54.1	9.1	9.0	64.7	3.4	182.4	120.7
Non-controlling interests	0.0		0.0		0.0		(0.1)	0.0	(0.1)	0.0
Net profit	68.6	54.2	40.0	54.1	9.1	9.0	64.6	3.4	182.3	120.7
Business volumes										
Assets	12,600	9,792	13,087	13,827	4,440	5,402	5,199	5,554	35,326	34,575
Risk-weighted assets ¹⁾	4,708	3,492	6,595	7,630	1,652	1,678	3,213	3,467	16,168	16,267

1) Based on a fully loaded basis.