

BAWAG P.S.K. REPORTS RECORD NET PROFIT OF EUR 226 MILLION FOR H1 2015

- ▶ Net profit EUR 226 million, +29% versus prior year
- ▶ Annualized return on equity of 18.1%, +1.9pts
- ▶ Core revenues EUR 465 million, +9%
- ▶ Operating expenses down 8% to EUR 225 million
- ▶ Cost-income ratio improved to 45.8%, down 5.3pts
- ▶ Net interest margin improved by 33bps to 2.12%
- ▶ CET1 ratio (fully loaded) at 14.2%, up 2.1pts versus year-end 2014
- ▶ BAWAG P.S.K. well on track to outperform 2015 targets

VIENNA, Austria – August 11, 2015 – BAWAG P.S.K. today reported a **net profit of EUR 226 million** for the first half 2015, up 29% versus prior year. The increase was driven by higher net interest income, reduced operating expenses and lower risk costs. Annualized **return on equity** was 18.1%, up 1.9pts. **Net interest margin** improved 33bps to 2.12% with **business net interest margin** up 17bps to 2.37%. **Operating expenses** were down 7.6% and **cost-income ratio** also down 5.3pts to 45.8%. **Risk costs** decreased by 39% with no impairments in the first half 2015.

“These first half results reiterate the strength of BAWAG P.S.K. We continue to focus on growing our core franchises, maintaining disciplined pricing and credit quality and running an efficient balance sheet,” Chief Executive Officer **Byron Haynes** said. *“We are confident the strong performance will continue for the remainder of the year and BAWAG P.S.K. will outperform its 2015 targets.”*

“On the back of our record first half results, we will continue to execute on a variety of operational and strategic initiatives during the second half 2015 that will further drive efficiency, operational excellence and lead to continued profitable growth well into the future,” 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 final clean-up was completed by redeeming the last non-sustainable Tier 1 capital of EUR 83 million in June 2015.

The Bank's **fully loaded CET1 ratio** further improved to **14.2%** (Dec 2014: 12.1%) and the **total capital ratio** to **17.3%** (Dec 2014: 15.8%) as of 30 June 2015.

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

In early July, Moody's Investors Service raised the Bank's **long-term deposit, senior unsecured and issuer ratings** by one notch to **Baa1**. The **outlook** was changed to **“positive”**. The Bank's **stand-alone rating** (baseline credit assessment) was upgraded to **baa3** (investment grade for the first time) and its **senior subordinate rating** to **Ba1**. According to Moody's, the rating upgrades reflect *“the stronger and higher-quality capital adequacy ratios and the Bank's underlying recovery in profitability that have allowed the Bank to reduce on-balance sheet risks, as well as its significantly strengthened loss-absorption capacity.”* The rating agency indicated further upside potential over a 12-18 month outlook horizon.

Key business highlights H1 2015

BAWAG P.S.K. continued to successfully execute on its business plans in the first half 2015, recording once again strong results.

Core revenues of EUR 465 million increased by 9% due to strength in net interest income. Despite the continued low-interest rate environment, **net interest income** increased by 14% in H1 2015 versus the same period in 2014, driven primarily by lower funding costs and higher demand for core lending products. Net interest margin improved by 33bps to 2.12%, reflecting the Bank's dedicated focus on asset and liability re-pricing.

Operating expenses decreased by 7.6% to EUR 225 million, driven by sustainable long-term measures in personnel and other administrative expenses. The **cost-income ratio** improved by 5.3 points to 45.8%.

Total risk costs decreased by 39% to EUR 23 million in H1, resulting from the improved overall credit quality of the core businesses. The Bank maintained a conservative risk profile with disciplined risk-adjusted underwriting standards and a focus on stable and economically sound geographies. The risk cost ratio improved to 18bps (down 10bps) and the NPL ratio to 2.3% (down 1.1pts). There were no impairments in H1 2015.

Net profit increased by EUR 51 million, or 29%, to EUR 226 million in H1 2015. The increase was driven by improvements in Corporate Lending and Investments with net profit up 72%. Net profit in Retail Banking and Small Business was up 15%, driven by greater operating efficiency. Overall, the net profit of the Bank was influenced by higher net interest income, reduced operating expenses and lower risk costs, reflecting the continued high quality of earnings.

Loans and receivables to customers increased by EUR 139 million, or 1%, to EUR 22 billion at the end of June 2015, primarily driven by growth in the Retail Banking and Small Business segment. The total new origination volume in the H1 2015 was over EUR 2 billion, reflecting positive growth in both our Retail and International businesses. At the same time, BAWAG P.S.K. has further managed down non-core legacy loan assets from CEE countries. The remaining loan exposure to CEE countries is below 0.6% of balance sheet total.

Segment reporting

Retail Banking and Small Business showed strong results in H1 2015 by continuing to grow its consumer loan franchise in absolute terms while also capturing market share. Overall, the segment achieved a EUR 99 million net profit, a 15% increase compared to H1 2014 driven by reduced operating expenses and risk costs. The continued efficiency improvements resulted in an 11% decrease in operating expenses versus prior year. The segment's cost-income ratio further improved to 58%, representing a 5pts decrease from the previous year.

Despite a slow growth market, BAWAG P.S.K. was able to increase its consumer lending market share to 9.7% at the end of June, up 70bps since year-end 2014 and 100bps since June 2014.

Total new business loan origination during the first half 2015 was EUR 550 million, driven primarily by consumer loans (up +7.1%), with total Retail Banking and Small Business net asset growth of 2%.

We continued disciplined underwriting and pricing standards, which were reflected in our stable margins and low risk costs. Overall funding costs also continued to decrease as we optimized product mix, volume and pricing. At the end of H1 2015 we reported a blended interest rate on our retail deposits of 0.39%, down 11bps since the beginning of the year.

The direct banking subsidiary **easybank**'s client base grew to 533,000 accounts in H1 2015, up 5% since year-end 2014. Deposits grew by 7% to EUR 3.1 billion. For the fifth year in a row, *easybank* was awarded the Recommender Award of "Finanz-Marketing Verband Österreich" for Austrian direct, special and private banks in 2015, reaching the highest score in its peer group.

Corporate Lending and Investments was able to increase its net profit from EUR 57 million to EUR 98 million, up 72% versus H1 2014. Core revenues were up 24% driven by a 31% higher net interest income due to continued deleveraging of non-core assets and reallocation of capital into more profitable and capital-efficient assets. Core business assets continued to see strength with EUR 600 million net assets growth versus H1 2014.

The Austrian corporate business continued to be restrained with new business volume unchanged compared to H1 2014. This was mainly due to flat domestic output, lower corporate investment and continued concerns rising from CEE, Ukraine and Russia as well as other macro risks across Europe.

The international business continued to see strength with new investment volume of EUR 1.4 billion in the first six months. The focus remained on stronger Western European countries (Germany, UK and France) and the United States. Low risk costs and an NPL ratio of 0.65% 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 core revenues up 9% and operating expenses down 15% due to increased operating efficiency. Selective new investments and strategic sales supported a decrease of risk-weighted assets by 22% in H1 2015. The investment strategy continues to focus on investment grade securities predominantly representing unsecured and secured bonds of financial institutions in core Europe and the United States as well as select sovereign bond exposures and high-quality CLOs (100% AAA-rated) in order to maintain solid diversification.

The total investment portfolio amounted to EUR 5.2 billion with an average duration of 3.9 years, comprising of 99% of investment grade-rated securities, 83% rated single "A" or higher. Exposure to CEE in this segment represented less than 5% of the portfolio and was limited to select bonds (90% rate single "A" equivalent category or better). The portfolio had no exposure to HETA and no direct exposure to Russia, Hungary or South-Eastern Europe as of 30 June 2015.

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 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.

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Profit or loss statement

in EUR million	Q2 2015	Q2 2014	Change (%)	Jan–Jun 2015	Jan–Jun 2014	Change (%)
Interest income	259.5	272.9	(4.9)	532.7	539.9	(1.3)
Interest expense ¹⁾	(82.5)	(108.5)	(24.0)	(178.9)	(226.3)	(20.9)
Dividend income	6.8	4.4	54.5	9.4	4.4	>100
Net interest income	183.8	168.8	8.9	363.2	318.0	14.2
Fee and commission income	74.7	76.6	(2.5)	149.6	158.8	(5.8)
Fee and commission expenses	(23.3)	(24.7)	(5.7)	(47.7)	(51.7)	(7.7)
Net fee and commission income	51.4	51.9	(1.0)	101.9	107.1	(4.9)
Core revenues	235.2	220.7	6.6	465.1	425.1	9.4
Gains and losses on financial instruments and other operating income and expenses ²⁾	(6.3)	23.3	–	25.3	50.7	(50.1)
Operating income	228.9	244.0	(6.2)	490.4	475.8	3.1
Operating expenses¹⁾	(106.3)	(119.8)	(11.3)	(224.8)	(243.2)	(7.6)
Bank levy	(5.7)	(6.2)	(8.1)	(11.5)	(12.3)	(6.5)
Operating profit	116.9	118.0	(0.9)	254.1	220.3	15.3
Provisions and loan-loss provisions	(11.9)	(17.9)	(33.5)	(22.9)	(37.5)	(38.9)
Impairment losses	0.0	0.0	–	0.0	0.0	–
Share of the profit or loss of associates accounted for using the equity method	0.5	(0.3)	–	1.8	(0.9)	–
Profit before tax	105.5	99.8	5.7	233.0	181.9	28.1
Income taxes	(0.1)	(4.4)	(97.7)	(6.9)	(6.3)	9.5
Profit after tax	105.4	95.4	10.5	226.1	175.6	28.8
Non-controlling interests	0.0	0.3	(100)	0.0	0.6	(100)
Net profit	105.4	95.1	10.8	226.1	175.0	29.2

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” in the Consolidated Interim Report.

2) In accordance with IFRS, the item Other operating income and expenses also includes the bank levy in the amount of EUR 11.5 million for the first half 2015. However, the Bank’s management considers the bank levy as a separate expense.

Total assets

in EUR million	Jun 2015	Dec 2014	Change (%)	Jun 2014	Change (%)
Cash reserves	446	684	(34.8)	783	(43.0)
Financial assets	6,620	7,488	(11.6)	7,759	(14.7)
Available-for-sale	3,080	3,833	(19.6)	4,192	(26.5)
Held-to-maturity	2,210	2,042	8.2	1,841	20.0
Held for trading	1,022	1,163	(12.1)	1,115	(8.3)
Fair value through profit or loss	308	450	(31.6)	611	(49.6)
Loans and receivables	25,523	25,280	1.0	24,975	2.2
Customers	21,918	21,779	0.6	21,337	2.7
Debt instruments	1,372	1,983	(30.8)	2,104	(34.8)
Credit institutions	2,233	1,518	47.1	1,534	45.6
Hedging derivatives	445	546	(18.5)	402	10.7
Tangible non-current assets	75	84	(10.7)	81	(7.4)
Intangible non-current assets	102	103	(1.0)	153	(33.3)
Tax assets for current taxes	7	7	-	6	16.7
Tax assets for deferred taxes	255	243	4.9	244	4.5
Other assets	151	148	2.0	124	21.8
Assets held for sale	173	68	>100	-	100
Total assets	33,797	34,651	(2.5)	34,527	(2.1)

Total liabilities and equity

in EUR million	Jun 2015	Dec 2014	Change (%)	Jun 2014	Change (%)
Total liabilities	31,202	32,246	(3.2)	32,252	(3.3)
Financial liabilities	29,994	30,842	(2.7)	30,883	(2.9)
Fair value through profit or loss	1,609	1,675	(3.9)	2,026	(20.6)
Issued securities	1,609	1,675	(3.9)	2,026	(20.6)
Held for trading	1,393	1,174	18.7	1,045	33.3
At amortized cost	26,992	27,993	(3.6)	27,812	(2.9)
Customers	20,843	21,135	(1.4)	21,174	(1.6)
Issued securities	4,103	4,438	(7.5)	4,578	(10.4)
Credit institutions	2,046	2,420	(15.5)	1,839	11.3
Valuation adjustment on interest rate risk hedged portfolios	119	196	(39.3)	115	3.5
Hedging derivatives	132	160	(17.5)	132	–
Provisions	443	522	(15.1)	495	(10.5)
Tax liabilities for current taxes	0	0	–	0	–
Tax liabilities for deferred taxes	2	3	(33.3)	9	(77.8)
Other obligations	511	517	(1.2)	618	(17.3)
Obligations in disposal groups held for sale	1	6	(83.3)	–	100
Total equity	2,595	2,405	7.9	2,276	14.0
Shareholders' equity	2,595	2,405	7.9	2,276	14.0
Total liabilities and equity	33,797	34,651	(2.5)	34,527	(2.1)

Key performance indicators over five quarters

in %	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Return on equity	16.5%	19.6%	11.7%	15.3%	17.0%
Return on tangible equity	17.2%	20.5%	12.2%	16.1%	18.2%
Return on risk-weighted assets	2.63%	2.92%	1.64%	2.09%	2.25%
Return on total assets	1.23%	1.39%	0.80%	1.02%	1.10%
Net interest margin	2.15%	2.07%	2.11%	2.03%	1.96%
Business net interest margin	2.40%	2.33%	2.36%	2.30%	2.25%
Cost-income ratio	46.4%	45.3%	55.8%	51.8%	49.1%
Risk costs / loans and receivables	0.18%	0.17%	0.35%	0.23%	0.28%

Business segment performance

in EUR million	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total	
	Jan-Jun 2015	Jan-Jun 2014	Jan-Jun 2015	Jan-Jun 2014	Jan-Jun 2015	Jan-Jun 2014	Jan-Jun 2015	Jan-Jun 2014 ¹⁾	Jan-Jun 2015	Jan-Jun 2014 ¹⁾
Net interest income	190.7	196.0	124.4	95.0	27.0	24.7	21.1	2.3	363.2	318.0
Net fee and commission income	83.4	87.4	19.9	21.3	0.0	0.0	(1.4)	(1.6)	101.9	107.1
Core revenues	274.1	283.3	144.3	116.3	27.0	24.7	19.7	0.8	465.1	425.1
Gains and losses on financial instruments	0.8	0.8	(0.4)	(0.4)	6.9	17.9	16.4	21.2	23.7	39.5
Other operating income and expenses	1.3	1.6	0.0	0.0	0.0	0.0	0.3	9.7	1.6	11.2
Operating income	276.2	285.7	143.9	115.9	33.9	42.6	36.4	31.6	490.4	475.8
Operating expenses	(159.4)	(178.8)	(42.6)	(39.6)	(9.5)	(11.2)	(13.3)	(13.6)	(224.8)	(243.2)
Bank levy	–	–	–	–	–	–	(11.5)	(12.3)	(11.5)	(12.3)
Total risk costs	(18.1)	(21.1)	(3.2)	(19.1)	0.0	0.0	(1.6)	2.7	(22.9)	(37.5)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	1.8	(0.9)	1.8	(0.9)
Profit before tax	98.7	85.8	98.1	57.2	24.4	31.4	11.8	7.5	233.0	181.9
Income taxes	–	–	–	–	–	–	(6.9)	(6.3)	(6.9)	(6.3)
Profit after tax	98.7	85.8	98.1	57.2	24.4	31.4	4.9	1.2	226.1	175.6
Non-controlling interests	–	–	–	–	–	–	0.0	(0.6)	0.0	(0.6)
Net profit	98.7	85.8	98.1	57.2	24.4	31.4	4.9	0.7	226.1	175.0
Business volumes										
Assets	9,756	9,630	13,644	13,054	5,171	5,695	5,225	6,148	33,797	34,527
Risk-weighted assets ²⁾	3,404	3,624	7,345	7,421	1,703	2,041	3,315	3,683	15,766	16,769

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

2) Based on a fully loaded basis.