

# BAWAG P.S.K. REPORTS STRONG H1 2016 NET PROFIT OF EUR 284 MILLION

- ▶ **Net profit of EUR 284 million, +25% versus prior year**
- ▶ **Return on equity of 19.3%, +1.2pts**
- ▶ **Return on tangible equity of 21.8%, +2.9pts**
- ▶ **Core revenues of EUR 473 million, +2%**
- ▶ **Net interest margin stable at 2.1%**
- ▶ **Operating expenses down 3%**
- ▶ **Cost-income ratio improved to 42.6%, -2.3pts**
- ▶ **Fully loaded CET1 ratio of 15.1%, +2.2pts versus year-end 2015**

VIENNA, Austria – August 10, 2016 – BAWAG P.S.K. today reports a **strong net profit of EUR 284 million** for the first half 2016, up 25% versus the prior year. The increase was driven by higher core revenues, lower operating expenses and reduced risk costs. The **return on equity** was 19.3% and the **return on tangible equity** 21.8%, up 1.2pts and 2.9pts, respectively. The **net interest margin** remained stable at 2.1%. **Operating expenses** were down 3% and the cost-income ratio down 2.3pts to 42.6%. **Risk costs** decreased by 36% to EUR 15.9 million.

*“BAWAG P.S.K. delivered a strong first half 2016, reporting a net profit of EUR 284 million. With a return on tangible equity of 22%, a cost-income ratio below 43% and a fully loaded CET1 ratio over 15%, BAWAG P.S.K. ranks among the most profitable, efficient and best capitalized banks across Europe. The continued strong results reiterate that BAWAG P.S.K. is well positioned to win in this competitive and evolving European banking landscape. 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. All our 2016 financial targets are expected to be outperformed from today’s perspective,”* 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 during the second half 2016 that will continue to drive efficiency, operational excellence and profitable growth,”* said Chief Financial Officer **Anas Abuzaakouk**.

## **Strong capital ratios and favorable stress test results**

The **fully loaded CET1 ratio** further improved by 2.2pts to **15.1%** (Dec 2015: 12.9%) and the **fully loaded total capital ratio** by 2.3pts to **18.1%** (Dec 2015: 15.8%). These ratios already take into account the deduction of a EUR 325 million dividend for 2015 which has not yet been fully distributed. At the same time, we maintained an RWA density of 45%, a conservative ratio relative to our European peers.

BAWAG P.S.K. was part of the recent **ECB Banking Supervision SREP stress test** exercise and delivered favorable results. The Bank’s **CET1 ratio in the adverse scenario** stands at **9.7%** and is not only well above the ECB’s minimum expectation but also above the 2016 SREP requirement of 9.0% for BAWAG P.S.K. In addition, the impact on the CET1 ratio in the adverse scenario is only 330bps.

## **Acquisition of start:bausparkasse and IMMO-Bank**

In June 2016, BAWAG P.S.K. announced to acquire start:bausparkasse (formerly ABV), a large Austrian savings & loan association, as well as IMMO-Bank from Volksbanken Group. Both banks combine the expertise and long-standing tradition of housing and real estate financing. This transaction will grow BAWAG P.S.K.’s domestic retail footprint, extend its expertise in building society savings & loans, and result in a significant increase in the financ-

ing volume with real estate companies and social housing associations. The transaction is expected to close in the fourth quarter 2016 and is still subject to customary closing conditions and regulatory approvals.

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

In April 2016, Moody's further 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." 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.

### **BAWAG P.S.K. awarded "Austria's Best Bank 2016" by Euromoney**

BAWAG P.S.K. was awarded "Austria's Best Bank 2016" by *Euromoney*, one of the world's leading special-interest magazines for banking, finance and capital market issues, in July 2016. This award underlines BAWAG P.S.K.'s successful strategic transformation in recent years and is the second important international recognition for the Bank after *The Banker's* "Bank of the Year 2015" award for Austria in December 2015.

### **Key business highlights H1 2016**

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

**Core revenues** increased by 2% to EUR 473 million, driven by strength in net interest income. Despite the continued low-interest rate environment, **net interest income** increased by 2% versus the first half 2015, driven by core product growth, pricing initiatives and lower funding costs. **Net interest margin** remained stable at 2.1%, reflecting the Bank's dedicated focus on risk-adjusted pricing and balance sheet efficiency.

**Operating expenses** decreased by 3% to EUR 215 million, driven by sustainable long-term measures in personnel and non-personnel expenses. The **cost-income ratio** further decreased by 2.3pts to 42.6%.

**Risk costs** decreased by 36% to EUR 16 million in the first half 2016, resulting from the improved credit quality of the individual business segments 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, Western Europe and the United States. This is best reflected in a low risk cost ratio of 12bps and a stable NPL ratio of 2.3%.

**Profit before tax** was EUR 244 million in the first half 2016, up 5% versus prior year. **Net profit** increased by 25% to EUR 284 million, driven by higher operating income, lower operating expenses and risk costs as well as tax income resulting from the recognition of deferred tax assets on tax loss carryforwards. These positive developments offset the doubling of regulatory charges.

**Loans and receivables with customers** decreased by 4% to EUR 23.7 billion compared to year-end 2015. The total new origination volume in the first half 2016 was EUR 2.0 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. The investments in the Bank's Austrian retail franchise continue to pay off. The market share in consumer loans, one of the Bank's core retail products, grew to 11.0%, up 80bps from year-end 2015, representing net asset growth of 8.4%.

**Deposits from customers** increased by 2% to EUR 22.1 billion compared to year-end 2015, mainly resulting from higher deposit account balances. Funding costs continued to decrease as the product mix, volume and pricing were optimized. At the end of the first half 2016, the blended overall retail deposit rate stood at 0.27% versus 0.39% in year-on-year comparison.

### Segment reporting

As of June 2016, the business segmentation and the related reporting have been changed to provide greater insight and transparency and to better reflect our strategic focus and the progress of the business units going forward. The former Retail Banking and Small Business segment was split into two segments, BAWAG P.S.K. Retail and *easygroup*. Similarly, the former Corporate Lending and Investments segment was split into DACH Corporates & Public Sector and International Business.

The **BAWAG P.S.K. Retail** segment, consisting of the Bank's retail and small business lending to domestic customers, social housing activities as well as real estate leasing, achieved a net profit of EUR 80 million in the first half 2016, down 3.4% compared to the same period last year, while also delivering a return on equity of 18.8% and a cost-income ratio of 55.3%. Stable core revenues and lower operating expenses offset the increased regulatory charges stemming from the deposit guarantee scheme, which represented full-year expenses even though they were booked in the first half. Accounting for regulatory charges on a pro-rata basis throughout the year would have resulted in a net profit of EUR 86.3 million, or an 8.4% increase compared to the same period last year, with a return on equity of 20.3%. New loan originations were EUR 560 million, while moderately increasing margins and maintaining the disciplined underwriting standards. Overall risk metrics reflect the high credit quality of the retail business, with a risk cost ratio of 0.38% and an NPL ratio of 2.2%.

The ***easygroup*** segment, comprising Austria's leading direct bank *easybank*, our auto and mobile leasing platforms as well as our international residential mortgage portfolio, showed strong results by more than doubling net profit to EUR 45 million compared to the first half 2015, with a return on equity of 27.3% and a cost-income ratio of 24.2%. The underlying performance reflects 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. During the first half 2016, the segment recorded new business originations of EUR 240 million, thereof EUR 187 million in consumer auto leasing (up 15% from the first half 2015). In July, we entered into a partnership with *Autogott*, Austria's leading online car sales channel, which will increase *easybank's* brand awareness and further grow the segment's current customer base of approximately 380,000 clients in Austria. Overall, *easygroup* is well positioned to further build out its asset origination capabilities in auto leasing and consumer loans both domestically and internationally.

The **DACH Corporates & Public Sector** segment includes corporate and public lending activities and other fee-driven financial services for mainly Austrian customers and select client relationships in Germany and Switzerland. The segment contributed EUR 36 million to the Bank's net profit in the first half 2016, a decrease of 19% compared to the same period last year, but still delivered a return on equity of 13.5%. Core revenues were down 16%, driven by early redemptions, margin pressures and low new business volume. This was offset by the improvement in operating expenses (down 8%) and positive risks costs. In the first half 2016, the business segment recorded EUR 170 million of new lending in addition to regular renewals. The overall quality of the portfolio remained stable with an NPL ratio of 1.0%, being a reflection of prior years' de-risking activities.

The **International Business** segment comprises international corporate, real estate and portfolio lending outside the DACH region primarily in Western Europe and the United States. In the first half 2016, the Bank continued to focus on loan origination opportunities in select developed Western countries, generating new business

volume of EUR 1.0 billion. The segment contributed EUR 56 million to the Bank's net profit in the first half 2016, up 1.6% from the same period last year, and delivered a return on equity of 19.5% despite higher than anticipated early redemptions. Operating income was down 2.7%, offset by positive risk costs. Similar to the DACH business, the international business is characterized by high credit quality assets, with no non-performing loans.

**Treasury Services & Markets** manages the Bank's investment portfolio of financial securities in the amount of EUR 5.1 billion as well as the liquidity reserve of EUR 1.2 billion at the end of June 2016. The investment strategy continues to focus on investment grade securities primarily representing secured and unsecured bonds of financial institutions in Western Europe and the United States as well as select sovereign bond exposures in order to maintain a solid diversification. The investment portfolio's average maturity was 3.9 years, comprising 98% investment grade-rated securities, of which 78% were rated in the single "A" category or higher. The segment contributed EUR 20.9 million to the Bank's net profit in the first half 2016, down 1.4% versus the first half 2015, and delivered a return on equity of 11.9%. Overall core revenues were flat, with lower gains and losses from financial instruments offset by lower operating expenses.

### About BAWAG P.S.K.

With more than 1.7 million customers, BAWAG P.S.K. is one of Austria's largest, most profitable and best capitalized banks operating under a well-recognized national brand. We apply a low-risk, highly efficient, simple and transparent business model focused on Austria and other developed markets – with two-thirds of our customer loans and receivables within Austria. The remaining customer loans are predominantly in Western Europe and the United States. We serve Austrian retail, small business and corporate customers across the country, offering comprehensive savings, payment, lending, leasing, investment and insurance services. Our Austrian business is complemented by international activities focused on retail, corporate, commercial real estate and portfolio lending in Western economies. This strategy provides us with earnings diversification and growth opportunities while maintaining a conservative risk profile with disciplined underwriting.

We run the Bank in a safe and secure manner with a strong balance sheet, low leverage and solid capitalization. Delivering simple, transparent and best-in-class products and services that meet our customers' needs is our consistent strategy across all business units.

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

BAWAG P.S.K. contacts:

---

#### Financial Community:

Benjamin del Fabro (Head of Investor Relations & Communications)

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

E-mail: [investor.relations@bawagpsk.com](mailto:investor.relations@bawagpsk.com)

#### Media:

Georgia Schütz-Spörl (Press Officer)

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

E-mail: [press@bawagpsk.com](mailto:press@bawagpsk.com)

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

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

## Profit or loss statement

in EUR million	Q2 2016	Q2 2015	Change (%)	Jan–Jun 2016	Jan–Jun 2015	Change (%)
Interest income	259.7	259.5	0.1	522.7	532.7	(1.9)
Interest expense	(73.0)	(82.5)	(11.5)	(154.3)	(178.9)	(13.8)
Dividend income	1.9	6.8	(72.1)	2.0	9.4	(78.7)
<b>Net interest income</b>	<b>188.6</b>	<b>183.8</b>	<b>2.6</b>	<b>370.4</b>	<b>363.2</b>	<b>2.0</b>
Fee and commission income	67.2	74.7	(10.0)	140.8	149.6	(5.9)
Fee and commission expenses	(15.1)	(23.3)	(35.2)	(37.8)	(47.7)	(20.8)
<b>Net fee and commission income</b>	<b>52.1</b>	<b>51.4</b>	<b>1.4</b>	<b>103.0</b>	<b>101.9</b>	<b>1.1</b>
<b>Core revenues</b>	<b>240.7</b>	<b>235.2</b>	<b>2.3</b>	<b>473.4</b>	<b>465.1</b>	<b>1.8</b>
Gains and losses on financial instruments and other operating income and expenses <sup>1)</sup>	14.0	(5.1)	–	31.7	29.9	6.0
<b>Operating income</b>	<b>254.7</b>	<b>230.1</b>	<b>10.7</b>	<b>505.1</b>	<b>495.0</b>	<b>2.0</b>
<b>Operating expenses<sup>1)</sup></b>	<b>(111.2)</b>	<b>(104.9)</b>	<b>6.0</b>	<b>(215.2)</b>	<b>(222.2)</b>	<b>(3.2)</b>
Regulatory charges	(17.5)	(7.3)	>100	(34.0)	(16.8)	>100
<b>Operating profit</b>	<b>126.0</b>	<b>117.9</b>	<b>6.9</b>	<b>255.9</b>	<b>255.9</b>	<b>–</b>
Provisions and loan-loss provisions	(5.6)	(11.9)	(52.9)	(12.7)	(22.9)	(44.5)
Impairment losses	(0.8)	0.0	100	(0.8)	0.0	100
Operational risk	(0.8)	(1.1)		(2.4)	(1.8)	33.3
Share of the profit or loss of associates accounted for using the equity method	3.9	0.5	>100	4.3	1.8	>100
<b>Profit before tax</b>	<b>122.7</b>	<b>105.4</b>	<b>16.4</b>	<b>244.4</b>	<b>233.0</b>	<b>4.9</b>
Income taxes	(21.4)	(0.1)	>100	39.3	(6.9)	–
<b>Profit after tax</b>	<b>101.3</b>	<b>105.3</b>	<b>(3.8)</b>	<b>283.7</b>	<b>226.1</b>	<b>25.5</b>
Non-controlling interests	(0.1)	0.0	100	(0.2)	0.0	100
<b>Net profit</b>	<b>101.2</b>	<b>105.3</b>	<b>(3.9)</b>	<b>283.5</b>	<b>226.1</b>	<b>25.4</b>

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 33.1 million for the first half 2016. The item Operating expenses includes regulatory charges in the amount of EUR 0.9 million for the first half 2016 as well. 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	Jun 2016	Dec 2015	Change (%)	Jun 2015	Change (%)
Cash reserves	533	809	(34.1)	446	19.5
Financial assets	6,586	6,275	5.0	6,620	(0.5)
Available-for-sale	2,990	2,732	9.4	3,080	(2.9)
Held-to-maturity	2,328	2,290	1.7	2,210	5.3
Held for trading	1,036	950	9.1	1,022	1.4
Fair value through profit or loss	232	303	(23.4)	308	(24.7)
Loans and receivables	25,967	27,396	(5.2)	25,523	1.7
Customers	23,728	24,713	(4.0)	21,918	8.3
Debt instruments	903	973	(7.2)	1,372	(34.2)
Credit institutions	1,336	1,710	(21.9)	2,233	(40.2)
Hedging derivatives	820	468	75.2	445	84.3
Tangible non-current assets	59	63	(6.3)	75	(21.3)
Intangible non-current assets	333	104	>100	102	>100
Tax assets for current taxes	6	9	(33.3)	7	(14.3)
Tax assets for deferred taxes	234	238	(1.7)	255	(8.2)
Other assets	191	144	32.6	151	26.5
Assets held for sale	–	9	(100)	173.0	(100)
<b>Total assets</b>	<b>34,729</b>	<b>35,515</b>	<b>(2.2)</b>	<b>33,797</b>	<b>2.8</b>

## Total liabilities and equity

in EUR million	Jun 2016	Dec 2015	Change (%)	Jun 2015	Change (%)
<b>Total liabilities</b>	<b>31,503</b>	<b>32,755</b>	<b>(3.8)</b>	<b>31,202</b>	<b>1.0</b>
Financial liabilities	29,981	31,478	(4.8)	29,994	(0.0)
Fair value through profit or loss	1,141	1,269	(10.1)	1,609	(29.1)
Issued securities	1,141	1,269	(10.1)	1,609	(29.1)
Held for trading	965	1,071	(9.9)	1,393	(30.7)
At amortized cost	27,875	29,138	(4.3)	26,992	3.3
Customers	22,131	21,695	2.0	20,843	6.2
Issued securities	3,741	3,236	15.6	4,103	(8.8)
Credit institutions	2,003	3,586	(44.1)	2,046	(2.1)
Financial liabilities associated with transferred assets	–	621	(100)	–	–
Valuation adjustment on interest rate risk hedged portfolios	314	169	85.8	119	>100
Hedging derivatives	214	106	>100	132	62.1
Provisions	431	419	2.9	443	(2.7)
Tax liabilities for current taxes	7	3	>100	0	100
Tax liabilities for deferred taxes	0	3	(100)	2	(100)
Other obligations	556	577	(3.6)	511	8.8
Obligations in disposal groups held for sale	–	0	–	1.0	(100)
<b>Total equity</b>	<b>3,226</b>	<b>2,760</b>	<b>16.9</b>	<b>2,595</b>	<b>24.3</b>
Shareholders' equity	3,224	2,759	16.9	2,595	24.2
Non-controlling interests	2	1	100	0	100
<b>Total liabilities and equity</b>	<b>34,729</b>	<b>35,515</b>	<b>(2.2)</b>	<b>33,797</b>	<b>2.8</b>

## Key performance indicators over five quarters

in %	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Return on equity	14.1%	25.2%	14.4%	14.4%	16.5%
Return on tangible equity	16.0%	28.5%	15.0%	15.0%	17.2%
Return on risk-weighted assets	2.52%	4.42%	2.42%	2.39%	2.63%
Return on total assets	1.16%	2.05%	1.14%	1.13%	1.23%
Net interest margin	2.15%	2.05%	2.15%	2.11%	2.15%
Cost-income ratio	43.7%	41.6%	49.8%	46.4%	45.6%
Risk costs / loans and receivables	0.11%	0.13%	0.17%	0.16%	0.20%



## Business segment performance

<b>Jan–Jun 2016</b> in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	169.4	54.3	40.3	67.8	28.2	10.4	370.4
Net fee and commission income	74.6	4.6	20.1	0.0	0.0	3.7	103.0
<b>Core revenues</b>	<b>244.0</b>	<b>58.9</b>	<b>60.4</b>	<b>67.8</b>	<b>28.2</b>	<b>14.1</b>	<b>473.4</b>
Gains and losses on financial instruments	0.8	5.9	(0.1)	(1.7)	0.7	22.9	28.5
Other operating income and expenses	1.0	0.1	0.0	0.0	0.0	2.1	3.2
<b>Operating income</b>	<b>245.8</b>	<b>64.9</b>	<b>60.3</b>	<b>66.1</b>	<b>28.9</b>	<b>39.1</b>	<b>505.1</b>
<b>Operating expenses</b>	<b>(136.0)</b>	<b>(15.7)</b>	<b>(25.7)</b>	<b>(13.3)</b>	<b>(8.0)</b>	<b>(16.5)</b>	<b>(215.2)</b>
Regulatory charges	(12.4)	(2.5)				(19.1)	(34.0)
Total risk costs	(17.3)	(2.1)	1.4	3.0	0.0	(0.9)	(15.9)
Share of the profit or loss of associates accounted for using the equity method						4.3	4.3
<b>Profit before tax</b>	<b>80.1</b>	<b>44.6</b>	<b>36.0</b>	<b>55.8</b>	<b>20.9</b>	<b>7.0</b>	<b>244.4</b>
Income taxes						39.3	39.3
<b>Profit after tax</b>	<b>80.1</b>	<b>44.6</b>	<b>36.0</b>	<b>55.8</b>	<b>20.9</b>	<b>46.3</b>	<b>283.7</b>
Non-controlling interests						(0.2)	(0.2)
<b>Net profit</b>	<b>80.1</b>	<b>44.6</b>	<b>36.0</b>	<b>55.8</b>	<b>20.9</b>	<b>46.1</b>	<b>283.5</b>
<b>Business volumes</b>							
Assets	9,256	3,247	7,437	5,040	6,302	3,447	34,729
Risk-weighted assets <sup>1)</sup>	3,785	1,849	2,893	3,890	1,842	1,404	15,663

1) Based on a fully loaded basis.

<b>Jan–Jun 2015</b> in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	165.3	23.2	51.6	72.8	28.1	22.3	363.3
Net fee and commission income	79.9	4.2	19.9	0.0	0.0	(2.1)	101.9
<b>Core revenues</b>	<b>245.1</b>	<b>27.4</b>	<b>71.5</b>	<b>72.8</b>	<b>28.1</b>	<b>20.2</b>	<b>465.1</b>
Gains and losses on financial instruments	5.6	0.0	4.5	(4.9)	2.6	15.8	23.6
Other operating income and expenses	1.4	0.2	0.0	0.0	0.0	4.5	6.1
<b>Operating income</b>	<b>252.1</b>	<b>27.6</b>	<b>76.0</b>	<b>67.9</b>	<b>30.7</b>	<b>40.6</b>	<b>494.9</b>
<b>Operating expenses</b>	<b>(150.5)</b>	<b>(11.5)</b>	<b>(28.0)</b>	<b>(13.2)</b>	<b>(9.5)</b>	<b>(9.6)</b>	<b>(222.3)</b>
Regulatory charges	0.0	0.0				(16.8)	(16.8)
Total risk costs	(18.8)	0.7	(3.4)	0.2	0.0	(3.4)	(24.7)
Share of the profit or loss of associates accounted for using the equity method						1.8	1.8
<b>Profit before tax</b>	<b>82.8</b>	<b>16.8</b>	<b>44.6</b>	<b>55.0</b>	<b>21.2</b>	<b>12.6</b>	<b>233.0</b>
Income taxes						(6.9)	(6.9)
<b>Profit after tax</b>	<b>82.8</b>	<b>16.8</b>	<b>44.6</b>	<b>55.0</b>	<b>21.2</b>	<b>5.7</b>	<b>226.1</b>
Non-controlling interests						0.0	0.0
<b>Net profit</b>	<b>82.8</b>	<b>16.8</b>	<b>44.6</b>	<b>55.0</b>	<b>21.2</b>	<b>5.7</b>	<b>226.1</b>
<b>Business volumes</b>							
Assets	9,361	396	8,578	5,151	7,402	2,910	33,798
Risk-weighted assets <sup>1)</sup>	3,966	405	3,545	4,359	1,843	1,648	15,766

1) Based on a fully loaded basis.