

BAWAG P.S.K. REPORTS 2014 RECORD NET PROFIT OF EUR 333 MILLION, +45%

- ▶ Net profit EUR 333 million, +45% versus prior year
- ▶ Return on equity 14.9%, +3.3pts
- ▶ Core revenues EUR 890 million, +16%
- ▶ Operating expenses down 27% to EUR 499 million
- ▶ Cost-income ratio improved to 53.1%, down 12.7pts
- ▶ Net interest margin improved by 46bps to 1.95%
- ▶ CET1 ratio (fully loaded) at 12.1%, up 2.7pts
- ▶ Outperformed all 2014 goals published in 2013 annual report

VIENNA, Austria – March 5, 2015 – BAWAG P.S.K. today reported **record net profit of EUR 333 million** for 2014, up 45% compared to the year before. The increase was primarily driven by improvements in the Retail Banking and Small Business segment. **Return on equity** was 14.9%, up 3.3pts from last year. **Net interest margin** improved 46bps to 1.95% with **business net interest margin** up 27bps to 2.33%. **Operating expenses** were down 27% and the **cost-income ratio** down 12.7pts to 53.1%. **Risk costs** decreased by 24% with no material impairments. These strong results demonstrate the successful transformation of BAWAG P.S.K. over the last years.

"The continued focus on our core businesses and prior year de-risking activities drove outstanding financial results. Despite a low-interest rate and a slow-growth European macro environment, we generated record-breaking results and exceeded all our stated 2014 goals. Our Return on equity of 14.9% makes us the most profitable major Austrian bank and one of the top players across Europe", said Chief Executive Officer **Byron Haynes**. *"We are proud of our achievements, which stems from BAWAG P.S.K.'s strong core franchise. We expect another strong year in 2015, projecting a net profit of over EUR 400 million with all key metrics improving."*

"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. Given our current market positioning and focus, BAWAG P.S.K.'s best years are still ahead," said Chief Financial Officer **Anas Abuzaakouk**.

Strong Capital Ratios on a fully loaded basis

From a capital standpoint, the management of BAWAG P.S.K. runs the Bank on a fully loaded basis (i.e. not relying on any transitional capital under the CRR). In 2014, the Bank redeemed EUR 810 million of non-sustainable capital comprised of the remaining EUR 350 million of participation capital, minorities of approximately EUR 400 million and a remaining EUR 60 million of non-sustainable Tier 1 as well as other Tier 2 instruments. In addition, our shareholders continued to show support with a capital contribution of EUR 125 million as part of our final redemption of participation capital.

BAWAG P.S.K. reported a **fully loaded CET1 ratio of 12.1%** (2013: 9.4%) and a **total capital ratio of 15.8%** (2013: 13.9%) as of 31 December 2014, positioning the Bank among the top-tier banks when compared to both Austrian and European peers. In addition, BAWAG P.S.K. was highly successful in passing the ECB's stress test with capital ratios 50% higher than the minimum targets. The Asset Quality Review (AQR) demonstrated results that were best-in-class amongst the participating Austrian banks and confirmed the Bank's prudent and low risk profile and the conservative nature of its international lending activities.

Key Business Highlights 2014

BAWAG P.S.K. successfully executed on its business plans in 2014 and made substantial progress across all key financial, business and operational initiatives positioning the Bank well to support its retail and corporate customers over the long term.

Core revenues of EUR 890 million increased by 16% due to strength in net interest income. Despite a continued low-interest rate environment **net interest income** rose by 19% in 2014 due to a strong focus on key lending products, a disciplined approach to pricing and liability optimization measures. The significant improvements in both **net interest margin** and **business net interest margin**, by 46bps and by 27bps respectively, were a testament to the Bank's successful re-pricing efforts and focus on profitable business.

Operating expenses fell by 27% to EUR 499 million in 2014, reducing the **cost-income ratio** by 12.7pts to 53.1% and demonstrating the Bank's ability to address structural cost imbalances over the past few years and continue to drive efficiency.

Total risk costs substantially decreased by 24% to EUR 74 million in 2014, resulting from the improved credit quality of the core businesses and positive effects from the prior year de-risking activities.

Net profit increased by 45% to EUR 333 million largely driven by improvements in the Retail Banking and Small Business segment's net profit, which was up over 100%.

Loans and receivables from customers increased by EUR 799 million or 4%, to EUR 22 billion as of year-end 2014, primarily driven by growth in core retail and international business assets. BAWAG P.S.K. continued to proactively reduce its **loan exposure to CEE countries**, down 70% to EUR 212 million or 0.6% of total assets.

Segment Reporting

Retail Banking and Small Business was the key driver for the Bank's strong results. Core revenues improved by 14% driven by higher net interest income of 16% and increased net commission income of 9%. Continued operating efficiency improvements led to a decrease of 15% in operating expenses. The segment contributed EUR 157 million or 47%, of the Bank's net profit in 2014, more than doubling versus the prior year. The Bank's market share in consumer loans increased to 9%, up 1pt since year-end 2013. Funding costs continued to decrease as the Bank continued to manage the outflow, re-pricing and cross-selling of customer volumes from fixed-term deposits. Consumer loan volume grew 13% to EUR 1.6 billion in a contracting Austrian market.

The direct banking subsidiary **easybank** continued its strong performance in 2014, growing deposits by 7%, opening 47,000 (+10%) new customer accounts and reaching 507,000 client accounts at the end of the year.

Corporate Lending and Investments continued to improve its overall results in 2014 with a focus on disciplined pricing and profitable growth. Deleveraging of non-core assets, repricing and reallocation of capital to more profitable and capital-efficient assets resulted in an increase of net interest income of 6%. Operating expenses decreased by 12% and risks costs significantly decreased by 36%. The segment contributed EUR 143 million of net profit, up 23% from the prior year. Despite muted loan demand, Austrian Corporate new lending volumes were up 11%. The International Business reported net investment growth of EUR 1.8 billion, ending the year at EUR 6.0 billion assets. The international new business volume primarily reflected an increase in investment grade loans in more defensive industries, diversification across international commercial real estate lending, and portfolio financing transactions. Proactive risk management and improving credit quality of the portfolio

resulted in an NPL ratio of 1.2%, down 1.7pts from the prior year. There were no losses in the international business at year-end 2014, reiterating our conservative lending approach in this space.

Treasury Services and Markets reported net interest income up 6%, a decrease in operating expenses of 39% and net profit of EUR 56 million, up 6% from prior year. The investment strategy continues to focus on investment grade securities of financial institutions in core Europe and the United States as well as in select sovereign bonds. The total investment portfolio amounted to EUR 5.7 billion with an average duration of 3.7 years comprising 100% of investment grade securities of which 85% were rated in the single “A” category or higher. Exposure to CEE securities represented less than 5% of the portfolio limited to select bonds (95% rated single “A” or better). The portfolio had no direct exposure to Russia, Ukraine, Hungary or South-Eastern Europe as of 31 December 2014.

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** which includes lending, savings, payment, card, investment and insurance services for private and small business customers. Austrian corporate lending activities and other fee-driven financial services 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 and commercial real estate financing primarily in Western Europe. **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 being the most efficient, centrally managed bank across Austria. Delivering competitive, transparent and simple products and services to our customers is the core of our strategy.

BAWAG P.S.K.’s Investor Relations website <http://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	2014	2013	Change	Change (%)
Interest income	1,089.9	1,112.4	(22.5)	(2.0)
Interest expense	(407.9)	(541.6)	133.7	(24.7)
Dividend income	9.8	9.4	0.4	4.3
Net interest income	691.8	580.2	111.6	19.2
Fee and commission income	302.0	288.8	13.2	4.6
Fee and commission expenses	(104.2)	(100.8)	(3.4)	3.4
Net fee and commission income	197.8	188.0	9.8	5.2
Core revenues	889.6	768.2	121.4	15.8
Gains and losses on financial instruments ¹⁾ and other operating income and expenses ²⁾	50.2	265.8	(215.6)	(81.1)
Operating income	939.8	1,034.0	(94.2)	(9.1)
Operating expenses	(499.2)	(680.8)	181.6	(26.7)
Bank levy	(24.6)	(25.3)	0.7	(2.8)
Operating profit	416.0	327.9	88.1	26.9
Provisions and loan-loss provisions	(72.6)	(78.0)	5.4	(6.9)
Impairment losses	(1.8)	(20.2)	18.4	(91.1)
Share of the profit or loss of associates accounted for using the equity method	0.9	(0.9)	1.8	–
Profit before tax	342.5	228.8	113.7	49.7
Income taxes	(8.8)	1.7	(10.5)	–
Profit after tax	333.7	230.5	103.2	44.8
Non-controlling interests	0.6	1.4	(0.8)	(57.1)
Net profit	333.1	229.1	104.0	45.4

1) Excluding valuation results attributable to shareholders of non-controlling interests. Compared to the profit or loss statement presented in the Consolidated Financial Report according to IFRS, the item gains and losses on financial instruments is EUR 2.7 million lower (2013: EUR 8.7 million higher). Accordingly, the item profit after tax presented above is EUR 2.7 million lower (2013: EUR 8.7 million higher) than the profit after tax presented in the Consolidated Financial Report according to IFRS.

2) In accordance with IFRS, the item other operating income and expenses also includes the bank levy in the amount of EUR 24.6 million for 2014. However, the Bank's management considers the bank levy as a separate expense. Accordingly, it is shown in a separate expense line in the Group Management Report.

Total Assets

in EUR million	2014	2013	Change	Change (%)
Cash reserves	684	481	203	42.2
Financial assets	7,488	7,733	(245)	(3.2)
Available-for-sale	3,833	5,126	(1,293)	(25.2)
Held-to-maturity	2,042	773	1,269	>100
Held for trading	1,163	1,081	82	7.6
Fair value through profit or loss	450	753	(303)	(40.2)
Loans and receivables	25,280	27,256	(1,976)	(7.2)
Customers	21,779	20,980	799	3.8
Debt instruments	1,983	2,485	(502)	(20.2)
Credit institutions	1,518	3,791	(2,273)	(60.0)
Hedging derivatives	546	164	382	>100
Tangible non-current assets	84	85	(1)	(1.2)
Intangible non-current assets	103	142	(39)	(27.5)
Tax assets for current taxes	7	5	2	40.0
Tax assets for deferred taxes	243	245	(2)	(0.8)
Other assets	148	291	(143)	(49.1)
Assets held for sale	68	–	68	100
Total assets	34,651	36,402	(1,751)	(4.8)

Total Liabilities and Equity

in EUR million	2014	2013	Change	Change (%)
Total liabilities	32,246	33,603	(1,357)	(4.0)
Financial liabilities	30,842	32,488	(1,646)	(5.1)
Fair value through profit or loss	1,675	2,968	(1,293)	(43.6)
Issued securities	1,675	2,968	(1,293)	(43.6)
Held for trading	1,174	1,298	(124)	(9.6)
At amortized cost	27,993	28,222	(229)	(0.8)
Customers	21,135	22,013	(878)	(4.0)
Issued securities	4,438	4,563	(125)	(2.7)
Credit institutions	2,420	1,646	774	47.0
Valuation adjustment on interest rate risk hedged portfolios	196	(2)	198	–
Hedging derivatives	160	126	34	27.0
Provisions	522	504	18	3.6
Tax liabilities for current taxes	0	1	(1)	(100)
Tax liabilities for deferred taxes	3	10	(7)	(70.0)
Other obligations	517	477	40	8.4
Obligations in disposal groups held for sale	6	–	6	100
Total equity	2,405	2,798	(393)	(14.0)
Shareholders' equity	2,405	2,053	352	17.1
Participation capital	–	350	(350)	(100)
Non-controlling interests	–	395	(395)	(100)
Total liabilities and equity	34,651	36,402	(1,751)	(4.8)

Key Performance Indicators over Five Quarters

in %	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Return on equity	11.7%	15.3%	17.0%	15.0%	14.7%
Return on tangible equity	12.2%	16.1%	18.2%	16.1%	15.9%
Return on risk-weighted assets	1.64%	2.09%	2.25%	1.94%	1.76%
Return on total assets	0.80%	1.02%	1.10%	0.90%	0.80%
Net interest margin	2.15%	2.07%	2.00%	1.73%	1.77%
Business net interest margin	2.41%	2.35%	2.30%	2.19%	2.15%
Cost-income ratio	56.5%	52.5%	49.9%	53.9%	67.7%
Risk costs / loans and receivables	0.35%	0.23%	0.28%	0.29%	0.41%

Business Segment Performance

in EUR million	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net interest income	398.0	343.6	212.6	200.6	52.6	49.6	28.8	(13.7)	691.8	580.2
Net fee and commission income	159.8	147.1	42.4	51.5	0.0	0.0	(4.5)	(10.5)	197.8	188.0
Core revenues	557.8	490.7	255.0	252.1	52.6	49.6	24.3	(24.2)	889.6	768.2
Gains and losses on financial instruments	0.8	35.0	3.4	10.1	24.8	38.8	6.8	132.2	35.9	216.1
Other operating income and expenses	3.3	2.6	0.0	0.0	0.0	0.0	11.0	47.0	14.3	49.7
Operating income	561.9	528.3	258.4	262.3	77.4	88.4	42.1	155.0	939.8	1,034.0
Operating expenses	(363.5)	(427.6)	(80.9)	(91.9)	(21.6)	(35.6)	(33.2)	(125.7)	(499.2)	(680.8)
Bank levy	–	–	–	–	–	–	(24.6)	(25.3)	(24.6)	(25.3)
Total risk costs	(41.5)	(23.5)	(34.5)	(53.9)	0.0	0.0	1.6	(20.9)	(74.4)	(98.2)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	0.9	(0.9)	0.9	(0.9)
Profit before tax	156.9	77.2	143.0	116.5	55.8	52.8	(13.2)	(17.7)	342.5	228.8
Income taxes	–	–	–	–	–	–	(8.8)	1.7	(8.8)	1.7
Profit after tax	156.9	77.2	143.0	116.5	55.8	52.8	(22.0)	(16.0)	333.7	230.5
Non-controlling interests	–	–	–	–	–	–	(0.6)	(1.4)	(0.6)	(1.4)
Net profit	156.9	77.2	143.0	116.5	55.8	52.8	(22.7)	(17.4)	333.1	229.1
Business volumes										
Assets	9,579	9,525	13,885	12,938	5,755	5,124	5,432	8,815	34,651	36,402
Refinancing of business	18,746	19,559	3,230	3,289	0	448	12,675	13,106	34,651	36,402
Risk-weighted assets	3,420	3,102	7,643	6,993	2,172	1,407	3,557	4,499	16,792	16,001
Return on risk-weighted assets	4.81%	1.81%	1.95%	1.47%	3.12%	3.46%	n/a	n/a	2.03%	1.25%
Net interest margin	4.17%	3.56%	1.59%	1.43%	0.97%	0.95%	n/a	n/a	1.95%	1.49%
Cost-income ratio	64.7%	80.9%	31.3%	35.0%	27.9%	40.3%	n/a	n/a	53.1%	65.8%