

# BAWAG P.S.K. CONTINUES TO DELIVER STRONG RESULTS: EUR 320 MILLION NET PROFIT FOR FIRST THREE QUARTERS 2015, +22%

- ▶ Net profit EUR 320 million, +22% versus prior year
- ▶ Return on equity of 16.9%, +1.0pt
- ▶ Core revenues EUR 684 million, +6%
- ▶ Operating expenses down 8% to EUR 337 million
- ▶ Cost-income ratio improved to 46.7%, down 4.6pts
- ▶ Net interest margin up 28bps to 2.13%
- ▶ Fully loaded CET1 ratio of 14.9%, up 2.8pts versus year-end 2014
- ▶ Fully loaded total capital ratio of 17.9%, up 2.1pts versus year-end 2014

VIENNA, Austria – November 10, 2015 – BAWAG P.S.K. today reported a **net profit of EUR 320 million** for the first three quarters 2015, up 22% versus prior year. The increase was driven by higher net interest income, reduced operating expenses and lower risk costs. **Annualized return on equity** was 16.9%, up 1pt. **Net interest margin** improved 28bps to 2.13%. **Operating expenses** were down 8% and **cost-income ratio** down 4.6pts to 46.7%. **Risk costs** decreased by 40% with no impairments in the first three quarters 2015.

*“Our strong results in the first three quarters reiterate that BAWAG P.S.K. is well prepared to succeed in a competitive European banking landscape. Because of our efforts over the past few years, we are in a very good position enabling us to play offense both organically and inorganically. We are proud of our accomplishments, positioning BAWAG P.S.K. among the best-performing banks in Europe”* said Chief Executive Officer **Byron Haynes**.

*“On the back of another strong quarterly performance we will continue to execute on a variety of operational and strategic initiatives during the fourth quarter and running into 2016. Our focus continues to be on driving efficiency, operational excellence and 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. The Bank's **fully loaded CET1 ratio** further improved to **14.9%** (Dec 2014: 12.1%) and the **total capital ratio** to **17.9%** (Dec 2014: 15.8%) as of 30 September 2015. On a transitional basis, these ratios were 15.8% and 18.7%, respectively. At the same time we maintained a RWA density of 48%, a conservative ratio relative to other European peers.

## Closed the acquisition of former Volksbanken Leasing

Having a strong capital base enabled BAWAG P.S.K. to make a strategic acquisition of the former Volksbanken Leasing business, closing on October 5, 2015. This transaction enables BAWAG P.S.K. to obtain a stronger market position in the Austrian retail leasing business and to provide floor plan financing capabilities creating a strategic advantage for auto dealer relationships. Combined with *easybank's* existing auto leasing entity, BAWAG P.S.K. will become the #3 auto lessor in Austria with a market share of approximately 11%.

## Key business highlights in the first three quarters 2015

We continued to deliver strong results in the first three quarters, positioning us among the best-performing European banks.

**Core revenues** increased by 6% to EUR 684 million driven by strength in net interest income. Despite the continued low-interest rate environment, **net interest income** increased by 9% in the first three quarters 2015 versus the same period in 2014, driven primarily by lower funding costs and stable interest income. Net interest margin improved by 28bps to 2.13%, reflecting the Bank's dedicated focus on asset and liability pricing.

**Operating expenses** decreased by 8% to EUR 337 million, driven by sustainable long-term measures in personnel and non-personnel expenses. The **cost-income ratio** improved by 4.6 points to 46.7%.

**Total risk costs** decreased by 40% to EUR 31 million in the first three quarters 2015, 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 was 16bps and the NPL ratio improved to 2.2% (down 1pt versus previous year). There were no impairments in the first three quarters 2015, reiterating the low risk nature of our business.

**Net profit** increased by EUR 57 million, or 22%, to EUR 320 million in the first three quarters 2015. The increase was driven by improvements in Corporate Lending and Investments, with net profit up 34%. Net profit in Retail Banking and Small Business was up 14%, driven by greater operating efficiency. Overall, the net profit of the Bank was driven by higher net interest income, reduced operating expenses and lower risk costs, reflecting the continued high quality of earnings.

**Loans and receivables with customers** increased by EUR 265 million, or 1%, to EUR 22 billion at the end of September 2015, primarily driven by growth in the Retail Banking and Small Business segment. The total new origination volume in the first three quarters of 2015 was EUR 3.4 billion, reflecting positive growth in both our retail and international businesses. The overall customer loan book remained heavily weighed to our domestic market with over 70% of customer loans in Austria. At the same time, BAWAG P.S.K. continued to reduce its non-core legacy loan assets from CEE countries. The remaining loan exposure to CEE countries is now below 0.6% of total assets.

## Segment reporting

**Retail Banking and Small Business** showed strong results in the first three quarters 2015 by continuing to grow its consumer loan franchise in absolute terms while also capturing market share. Overall, the segment achieved a EUR 142 million net profit, a 14% increase compared to the same period in 2014, driven by reduced operating expenses and lower 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 59%, 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 10%, up 1pt since year-end 2014 and 0.3pts since June 2015.

Total new business loan origination in the first three quarters 2015 was EUR 840 million. Retail assets stood at EUR 9.7 billion at the end of the third quarter 2015, up 1% compared to December 2014. This growth reflects the continued increase in our consumer and housing loans.

We maintained our 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 September 2015 we reported a blended interest rate on our retail deposits of 0.35%, down 15bps since the beginning of the year.

The direct banking subsidiary **easybank**'s client base grew to 545,000 accounts in the first three quarters 2015, up 8% since year-end 2014. Deposits grew by 13% to EUR 3.1 billion from September 2014. With the recent integration of the BAWAG P.S.K. auto leasing business and now the acquisition of the former Volksbanken Leasing business, *easybank* is well positioned to boost its asset origination capabilities going forward. *easybank* also entered into a new strategic partnership with "Unsere Wasserkraft" ("easy green energy") which provides *easybank* with yet another opportunity to expand its market presence, brand awareness and best-in-class service offering to new segments and customers.

**Corporate Lending and Investments** contributed EUR 143 million to the Bank's net profit in the first three quarters 2015 compared to EUR 107 million in the same period last year. This 34% increase was mainly driven by higher core revenues and lower risk costs. Core revenues were up 16% driven by higher net interest income due to continued deleveraging of non-core assets and reallocation of capital into more profitable and capital-efficient assets. Low risk costs of EUR 4 million (EUR 21 million in the first three quarters 2014) and an NPL ratio of 0.7% (down 1.2 points from September 2014) reflect positive impacts from our de-risking actions and the overall high credit quality of the assets.

Despite muted overall demand, flat domestic output and lower corporate investment the Austrian corporate business generated (in addition to normal renewals) a new business volume of EUR 300 million in the first three quarters 2015.

The international business continued to see strength with loan originations of EUR 2.6 billion in the first three quarters. The focus remained on stronger Western European countries (Germany, UK and France) and the United States.

**Treasury Services and Markets** reported core revenues up 7% and operating expenses down 9% due to increased operating efficiency. Selective new investments and strategic sales supported a decrease of risk-weighted assets by 18% in the first three quarters 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 in order to maintain solid diversification. The portfolio of CLO investments was disposed of in the third quarter 2015 based on evaluation of alternative investments and overall portfolio management.

### 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. 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*. 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 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 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	Q3 2015	Q3 2014	Change (%)	Jan-Sep 2015	Jan-Sep 2014	Change (%)
Interest income	256.5	274.4	(6.5)	789.2	814.3	(3.1)
Interest expense <sup>1)</sup>	(81.6)	(99.9)	(18.3)	(260.4)	(326.2)	(20.2)
Dividend income	0.8	1.4	(42.9)	10.2	5.8	75.9
<b>Net interest income</b>	<b>175.7</b>	<b>175.9</b>	<b>(0.1)</b>	<b>539.0</b>	<b>493.9</b>	<b>9.1</b>
Fee and commission income	67.3	71.8	(6.3)	216.9	230.6	(5.9)
Fee and commission expenses	(24.4)	(25.0)	(2.4)	(72.1)	(76.7)	(6.0)
<b>Net fee and commission income</b>	<b>42.9</b>	<b>46.8</b>	<b>(8.3)</b>	<b>144.8</b>	<b>153.8</b>	<b>(5.9)</b>
<b>Core revenues</b>	<b>218.6</b>	<b>222.7</b>	<b>(1.8)</b>	<b>683.8</b>	<b>647.8</b>	<b>5.6</b>
Gains and losses on financial instruments and other operating income and expenses <sup>2)</sup>	11.7	10.7	9.3	36.8	61.4	(40.1)
<b>Operating income</b>	<b>230.3</b>	<b>233.4</b>	<b>(1.3)</b>	<b>720.6</b>	<b>709.2</b>	<b>1.6</b>
<b>Operating expenses<sup>1)</sup></b>	<b>(111.9)</b>	<b>(120.8)</b>	<b>(7.4)</b>	<b>(336.7)</b>	<b>(364.0)</b>	<b>(7.5)</b>
Bank levy	(6.0)	(6.2)	(3.2)	(17.4)	(18.5)	(5.9)
<b>Operating profit</b>	<b>112.4</b>	<b>106.4</b>	<b>5.6</b>	<b>366.5</b>	<b>326.7</b>	<b>12.2</b>
Provisions and loan-loss provisions	(8.3)	(14.7)	(43.5)	(31.2)	(52.2)	(40.2)
Impairment losses	0.0	0.0	–	0.0	0.0	–
Share of the profit or loss of associates accounted for using the equity method	1.3	1.3	–	3.1	0.4	>(100)
<b>Profit before tax</b>	<b>105.4</b>	<b>93.0</b>	<b>13.3</b>	<b>338.4</b>	<b>275.0</b>	<b>23.1</b>
Income taxes	(11.1)	(4.5)	>100	(18.1)	(10.8)	67.6
<b>Profit after tax</b>	<b>94.3</b>	<b>88.5</b>	<b>6.6</b>	<b>320.3</b>	<b>264.1</b>	<b>21.3</b>
Non-controlling interests	0.0	0.0	–	0.0	(0.6)	100
<b>Net profit</b>	<b>94.3</b>	<b>88.5</b>	<b>6.6</b>	<b>320.3</b>	<b>263.5</b>	<b>21.6</b>

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 17.4 million for the first three quarters 2015. However, the Bank's management considers the bank levy as a separate expense.

## Total assets

in EUR million	Sep 2015	Dec 2014	Change (%)	Sep 2014	Change (%)
Cash reserves	520	684	(24.0)	553	(6.0)
Financial assets	6,484	7,488	(13.4)	7,782	(16.7)
Available-for-sale	2,993	3,833	(21.9)	4,061	(26.3)
Held-to-maturity	2,227	2,042	9.1	1,962	13.5
Held for trading	965	1,163	(17.0)	1,199	(19.5)
Fair value through profit or loss	299	450	(33.6)	561	(46.7)
Loans and receivables	24,713	25,280	(2.2)	25,438	(2.9)
Customers	22,044	21,779	1.2	21,997	0.2
Debt instruments	1,089	1,983	(45.1)	2,120	(48.6)
Credit institutions	1,580	1,518	4.1	1,321	19.6
Hedging derivatives	485	546	(11.2)	489	(0.8)
Tangible non-current assets	63	84	(25.0)	80	(21.3)
Intangible non-current assets	104	103	1.0	98	6.1
Tax assets for current taxes	7	7	–	6	16.7
Tax assets for deferred taxes	248	243	2.1	238	4.2
Other assets	123	148	(16.9)	113	8.8
Assets held for sale	125	68	83.8	68	83.8
<b>Total assets</b>	<b>32,872</b>	<b>34,651</b>	<b>(5.1)</b>	<b>34,866</b>	<b>(5.7)</b>

### Total liabilities and equity

in EUR million	Sep 2015	Dec 2014	Change (%)	Sep 2014	Change (%)
<b>Total liabilities</b>	<b>30,212</b>	<b>32,246</b>	<b>(6.3)</b>	<b>32,507</b>	<b>(7.1)</b>
Financial liabilities	29,008	30,842	(5.9)	31,144	(6.9)
Fair value through profit or loss	1,578	1,675	(5.8)	1,952	(19.2)
Issued securities	1,578	1,675	(5.8)	1,952	(19.2)
Held for trading	1,184	1,174	0.9	1,213	(2.4)
At amortized cost	26,246	27,993	(6.2)	27,979	(6.2)
Customers	20,919	21,135	(1.0)	20,603	1.5
Issued securities	3,255	4,438	(26.7)	4,467	(27.1)
Credit institutions	2,072	2,420	(14.4)	2,561	(19.1)
Financial liabilities associated with transferred assets	–	–	–	348	(100)
Valuation adjustment on interest rate risk hedged portfolios	166	196	(15.3)	163	1.8
Hedging derivatives	124	160	(22.5)	150	(17.3)
Provisions	429	522	(17.8)	503	(14.7)
Tax liabilities for deferred taxes	3	3	–	9	(66.7)
Other obligations	479	517	(7.4)	535	(10.5)
Obligations in disposal groups held for sale	3	6	(50.0)	5	(40.0)
<b>Total equity</b>	<b>2,660</b>	<b>2,405</b>	<b>10.6</b>	<b>2,359</b>	<b>12.8</b>
Shareholders' equity	2,660	2,405	10.6	2,359	12.8
<b>Total liabilities and equity</b>	<b>32,872</b>	<b>34,651</b>	<b>(5.1)</b>	<b>34,866</b>	<b>(5.7)</b>

### Key performance indicators over five quarters

in %	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Return on equity	14.4%	16.5%	19.6%	11.7%	15.3%
Return on tangible equity	14.9%	17.2%	20.5%	12.2%	16.1%
Return on risk-weighted assets	2.40%	2.63%	2.92%	1.64%	2.09%
Return on total assets	1.13%	1.23%	1.39%	0.80%	1.02%
Net interest margin	2.11%	2.15%	2.07%	2.11%	2.03%
Business net interest margin	2.39%	2.40%	2.33%	2.36%	2.30%
Cost-income ratio	48.6%	46.4%	45.3%	55.8%	51.8%
Risk costs / loans and receivables	0.13%	0.18%	0.17%	0.35%	0.23%

## Business segment performance

in EUR million	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total	
	Jan-Sep 2015	Jan-Sep 2014	Jan-Sep 2015	Jan-Sep 2014	Jan-Sep 2015	Jan-Sep 2014	Jan-Sep 2015	Jan-Sep 2014 <sup>1)</sup>	Jan-Sep 2015	Jan-Sep 2014 <sup>1)</sup>
Net interest income	287.5	294.6	182.4	151.6	42.1	39.5	27.0	8.2	539.0	493.9
Net fee and commission income	117.7	125.5	29.4	31.7	0.0	0.0	(2.3)	(3.3)	144.8	153.8
<b>Core revenues</b>	<b>405.2</b>	<b>420.1</b>	<b>211.8</b>	<b>183.3</b>	<b>42.1</b>	<b>39.5</b>	<b>24.7</b>	<b>4.9</b>	<b>683.8</b>	<b>647.8</b>
Gains and losses on financial instruments	0.8	0.8	(2.8)	3.3	0.9	21.4	41.5	23.4	40.4	48.9
Other operating income and expenses	0.8	2.3	0.0	0.0	0.0	0.0	(4.4)	10.2	(3.6)	12.6
<b>Operating income</b>	<b>406.8</b>	<b>423.3</b>	<b>209.0</b>	<b>186.6</b>	<b>43.0</b>	<b>60.8</b>	<b>61.8</b>	<b>38.5</b>	<b>720.6</b>	<b>709.2</b>
<b>Operating expenses</b>	<b>(238.0)</b>	<b>(267.2)</b>	<b>(62.0)</b>	<b>(58.2)</b>	<b>(14.8)</b>	<b>(16.2)</b>	<b>(21.9)</b>	<b>(22.5)</b>	<b>(336.7)</b>	<b>(364.0)</b>
Bank levy	–	–	–	–	–	–	(17.5)	(18.5)	(17.4)	(18.5)
Total risk costs	(27.1)	(32.0)	(3.6)	(21.0)	0.0	0.0	(0.4)	0.7	(31.2)	(52.2)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	3.1	0.4	3.1	0.4
<b>Profit before tax</b>	<b>141.7</b>	<b>124.1</b>	<b>143.4</b>	<b>107.4</b>	<b>28.2</b>	<b>44.6</b>	<b>25.1</b>	<b>(1.2)</b>	<b>338.4</b>	<b>275.0</b>
Income taxes	–	–	–	–	–	–	(18.1)	(10.8)	(18.1)	(10.8)
<b>Profit after tax</b>	<b>141.7</b>	<b>124.1</b>	<b>143.4</b>	<b>107.4</b>	<b>28.2</b>	<b>44.6</b>	<b>7.0</b>	<b>(12.0)</b>	<b>320.3</b>	<b>264.1</b>
Non-controlling interests	–	–	–	–	–	–	0.0	(0.6)	0.0	(0.6)
<b>Net profit</b>	<b>141.7</b>	<b>124.1</b>	<b>143.4</b>	<b>107.4</b>	<b>28.2</b>	<b>44.6</b>	<b>7.0</b>	<b>(12.7)</b>	<b>320.3</b>	<b>263.5</b>
<b>Business volumes</b>										
Assets	9,674	9,636	13,643	14,109	4,957	5,833	4,598	5,289	32,872	34,867
Risk-weighted assets <sup>2)</sup>	3,394	3,605	7,370	8,027	1,774	1,961	3,139	3,505	15,677	17,098

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.