

BAWAG P.S.K. REPORTS STRONG NET PROFIT OF EUR 380 MILLION FOR Q1-3 2016

- ▶ **Net profit of EUR 380 million, +19% versus prior year**
- ▶ **Return on tangible equity of 19.0%, +1.4pts**
- ▶ **Operating income of EUR 743 million, +2%**
- ▶ **Core revenues of EUR 690 million, +1%**
- ▶ **Net interest margin stable at 2.1%**
- ▶ **Operating expenses down 4%**
- ▶ **Cost-income ratio improved to 42.8%, -2.6pts**
- ▶ **Fully loaded CET1 ratio of 15.7%, +2.8pts versus year-end 2015**

VIENNA, Austria – November 9, 2016 – BAWAG P.S.K. today reports a **strong net profit of EUR 380 million** for the first three quarters 2016, up 19% versus the prior year. The increase was driven by higher operating income, lower operating expenses and reduced risk costs. The **return on tangible equity** came in at 19.0%, up 1.4pts. The **net interest margin** remained stable at 2.1%. **Operating expenses** were down 4% and the **cost-income ratio** down 2.6pts to 42.8%. **Risk costs** decreased by 28% to EUR 25 million.

“BAWAG P.S.K. delivered strong results in the first three quarters 2016, reporting a net profit of EUR 380 million. With a return on tangible equity of 19.0%, a cost-income ratio of 42.8% and a fully loaded CET1 ratio of 15.7%, 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 achieved or exceeded 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 fourth quarter 2016 and going forward into 2017. Our focus continues to be on driving efficiency, operational excellence and profitable growth,” said Chief Financial Officer **Anas Abuzaakouk**.

Strong capital ratios

The **fully loaded CET1 ratio** further improved by 2.8pts to **15.7%** (Dec 2015: 12.9%) and the **fully loaded total capital ratio** by 3.0pts to **18.8%** (Dec 2015: 15.8%). At the same time, we maintained an RWA density of 46%, a conservative ratio relative to our European peers.

BAWAG P.S.K. rated by Fitch for the first time

On November 7, 2016, BAWAG P.S.K. was rated by Fitch for the first time. The long-term issuer rating and the standalone rating were both set at “A-” with a stable outlook. The main rating drivers were, amongst others, a strong and experienced management team with a demonstrated track record in realigning the Bank’s business model following its restructuring, the conservative risk appetite and strong asset quality reflecting the focus on high-quality assets in developed markets, an established brand and strong retail franchise in Austria with a good performance record supported by a focus on cost control, pricing discipline as well as a strong capitalization and performance in regulatory stress tests. This rating makes BAWAG P.S.K. the highest rated bank in Austria by Fitch and Moody’s as well as one of the few banks across Europe with two ratings in the single A category.

BAWAG P.S.K. awarded “Austria’s Best Bank 2016” by *Euromoney*

In July 2016, 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. 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 in the first three quarters 2016

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

Operating income increased by 2% to EUR 743 million, driven by strong net interest income. Despite the continued low-interest rate environment, **net interest income** increased by 1% versus the first three quarters 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 optimizing the liability structure.

Operating expenses decreased by 4% to EUR 318 million, driven by sustainable long-term measures in personnel and non-personnel expenses. The **cost-income ratio** further decreased by 2.6pts to 42.8%.

Risk costs decreased by 28% to EUR 25 million in the first three quarters 2016, resulting from the improved overall 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 low and stable NPL ratio of 2.3%.

Profit before tax was EUR 367 million, up 8% versus the prior year. **Net profit** increased by 19% to EUR 380 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 in the first quarter. These positive developments offset the increase in regulatory charges.

Loans and receivables with customers decreased by 3% to EUR 23.9 billion compared to year-end 2015 but increased by 1% compared to the second quarter 2016. The total new origination volume in the first three quarters 2016 was EUR 3.2 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 11.4%, up 120bps from year-end 2015, representing net asset growth of 10.0%.

Deposits from customers increased by 5% to EUR 22.7 billion compared to year-end 2015 and by 3% compared to the second quarter 2016, 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 third quarter 2016, the blended overall retail deposit rate stood at 0.24%, down 11bps versus a year ago.

The **funding** of BAWAG P.S.K. continued to be based on stable customer deposits representing two thirds of the funding base. Additionally, the Bank issued two Swiss franc senior unsecured bonds with a total of CHF 275 million in October in order to replace the derivative CHF funding used so far with direct CHF funding, with one issuance accounting for the lowest ever recorded yield of a newly issued financial bond on the Swiss financial market (minus 25bps). Furthermore, to gain access to direct GBP funding, BAWAG P.S.K. placed a GBP 500 million RMBS¹⁾ transaction backed by high-quality performing UK retail mortgages in early November (settlement on November 11) representing the first ever RMBS transaction by an Austrian bank.

Segment reporting

The **BAWAG P.S.K. Retail** segment, consisting of the Bank's retail and small business lending to domestic customers, social housing activities and real estate leasing, achieved a net profit of EUR 126 million in the first three quarters 2016, up 14% compared to the same period last year, while also delivering a return on equity of 19.6% and a cost-income ratio of 55.0%. Higher core revenues and lower operating expenses offset in particular the increased regulatory charges. New loan originations were EUR 880 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 2.3%.

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 69 million compared to the first three quarters 2015, with a return on equity of 24.9% and a cost-income ratio of 24.1%. The underlying performance reflects the acquisition of the Volksbank Leasing business as well as the purchase of a high-quality performing international residential mortgage portfolio during the fourth quarter 2015. During the first three quarters 2016, the segment recorded new business originations of EUR 360 million, including EUR 277 million in consumer auto leasing, which was up 12% from the first three quarters 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. In addition, we successfully launched our new brand *easyleasing* in September. *easyleasing* will become our "one brand and one face" to the leasing market 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 54 million to the Bank's net profit in the first three quarters 2016, a decrease of 16% compared to the same period last year, but still delivered a return on equity of 13.2%. Core revenues were down 17%, driven by early redemptions, margin pressure and low new business volume. This was offset by an improvement in operating expenses (down 8%) and positive risk costs. In the first three quarters 2016, the business segment recorded EUR 390 million of new lending in addition to regular renewals. The overall quality of the portfolio further improved with an NPL ratio of 0.7%, down 0.3pts versus the prior year and 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 three quarters 2016, the Bank continued to focus on loan origination opportunities in select developed Western countries, generating new business volume of EUR 1.6 billion. The segment contributed EUR 82 million to the Bank's net profit in the first three quarters 2016, up 1% from the same period last year, and delivered a return on equity of 19.1% despite higher-than-anticipated early redemptions. Similar to the DACH business, the international business is characterized by high-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 0.8 billion at the end of September 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 4.1 years, comprising 97% investment grade-rated securities, of which 80% were rated in the single "A" category or higher. The segment contributed EUR 41 million to the Bank's net profit in the first three quarters 2016, up 39% compared to the same period in 2015, and delivered a return on equity of 15.3%. Overall core revenues were down 3.9%, with higher gains and losses on financial instruments and 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.

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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	Q3 2016	Q3 2015	Change (%)	Jan-Sep 2016	Jan-Sep 2015	Change (%)
Interest income	252.3	256.5	(1.6)	775.0	789.2	(1.8)
Interest expense	(78.3)	(81.5)	(3.9)	(232.6)	(260.4)	(10.7)
Dividend income	0.0	0.8	(100)	1.9	10.2	(81.4)
Net interest income	174.0	175.8	(1.0)	544.3	539.0	1.0
Fee and commission income	64.4	67.3	(4.3)	205.2	216.9	(5.4)
Fee and commission expenses	(21.3)	(24.4)	(12.7)	(59.1)	(72.1)	(18.0)
Net fee and commission income	43.1	42.9	0.5	146.1	144.8	0.9
Core revenues	217.1	218.7	(0.7)	690.4	683.8	1.0
Gains and losses on financial instruments and other operating income and expenses ¹⁾	21.0	18.3	14.8	52.7	48.0	9.8
Operating income	238.1	237.0	0.5	743.1	731.8	1.5
Operating expenses¹⁾	(102.9)	(110.0)	(6.5)	(318.1)	(332.1)	(4.2)
Regulatory charges	(5.9)	(12.9)	(54.3)	(39.8)	(29.7)	34.0
Operating profit	129.3	114.1	13.3	385.2	370.0	4.1
Provisions and loan-loss provisions	(8.2)	(8.3)	(1.2)	(20.9)	(31.2)	(33.0)
Impairment losses	0.0	0.0	–	(0.8)	0.0	100
Operational risk	(0.8)	(1.6)		(3.2)	(3.4)	(5.9)
Share of the profit or loss of associates accounted for using the equity method	1.9	1.3	46.2	6.2	3.1	100
Profit before tax	122.2	105.5	15.8	366.5	338.5	8.3
Income taxes	(25.9)	(11.1)	>100	13.5	(18.1)	–
Profit after tax	96.3	94.4	2.0	380.0	320.4	18.6
Non-controlling interests	0.0	0.0	–	(0.2)	0.0	100
Net profit	96.3	94.4	2.0	379.8	320.4	18.5

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 38.5 million for the first three quarters 2016. The item Operating expenses includes regulatory charges in the amount of EUR 1.3 million for the first three quarters 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	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Cash reserves	836	809	3.3	520	60.8
Financial assets	6,169	6,275	(1.7)	6,484	(4.9)
Available-for-sale	2,986	2,732	9.3	2,993	(0.2)
Held-to-maturity	2,163	2,290	(5.5)	2,227	(2.9)
Held for trading	817	950	(14.0)	965	(15.3)
Fair value through profit or loss	203	303	(33.0)	299	(32.1)
Loans and receivables	25,815	27,396	(5.8)	24,713	4.5
Customers	23,915	24,713	(3.2)	22,044	8.5
Debt instruments	815	973	(16.2)	1,089	(25.2)
Credit institutions	1,085	1,710	(36.5)	1,580	(31.3)
Hedging derivatives	841	469	79.3	485	73.4
Tangible non-current assets	58	63	(7.9)	63	(7.9)
Intangible non-current assets	337	104	>100	104	>100
Tax assets for current taxes	7	9	(22.2)	7	–
Tax assets for deferred taxes	204	238	(14.3)	248	(17.7)
Other assets	130	143	(9.1)	123	5.7
Assets held for sale	–	9	(100)	125.0	(100)
Total assets	34,397	35,515	(3.1)	32,872	4.6

Total liabilities and equity

in EUR million	Sep 2016	Dec 2015	Change (%)	Sep 2015	Change (%)
Total liabilities	31,368	32,755	(4.2)	30,212	3.8
Financial liabilities	29,828	31,478	(5.2)	29,008	2.8
Fair value through profit or loss	1,068	1,269	(15.8)	1,578	(32.3)
Customers	0	0	–	0	–
Issued securities	1,068	1,269	(15.8)	1,578	(32.3)
Held for trading	807	1,071	(24.6)	1,184	(31.8)
At amortized cost	27,953	29,138	(4.1)	26,246	6.5
Customers	22,722	21,695	4.7	20,919	8.6
Issued securities	3,644	3,236	12.6	3,255	12.0
Credit institutions	1,587	3,586	(55.7)	2,072	(23.4)
Financial liabilities associated with transferred assets	–	621	(100)	–	–
Valuation adjustment on interest rate risk hedged portfolios	327	169	93.5	166	97.0
Hedging derivatives	217	106	>100	124	75.0
Provisions	421	419	0.5	429	(1.9)
Tax liabilities for current taxes	5	3	66.7	0	100
Tax liabilities for deferred taxes	0	3	(100)	3	(100)
Other obligations	570	577	(1.2)	479	19.0
Obligations in disposal groups held for sale	–	0	–	3.0	(100)
Total equity	3,029	2,760	9.7	2,660	13.9
Shareholders' equity	3,027	2,759	9.7	2,660	13.8
Non-controlling interests	2	1	100	0	100
Total liabilities and equity	34,397	35,515	(3.1)	32,872	4.6

Key performance indicators over five quarters

in %	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Return on equity	13.0%	14.1%	25.2%	14.4%	14.4%
Return on tangible equity	14.6%	16.0%	28.5%	15.0%	15.0%
Return on risk-weighted assets	2.44%	2.52%	4.43%	2.42%	2.39%
Return on total assets	1.11%	1.16%	2.05%	1.14%	1.13%
Net interest margin	2.01%	2.15%	2.05%	2.14%	2.11%
Cost-income ratio	43.2%	43.7%	41.6%	49.8%	46.4%
Risk costs / loans and receivables	0.14%	0.11%	0.13%	0.17%	0.16%

Business segment performance

Jan–Sep 2016 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	258.6	81.8	58.9	101.7	41.4	1.9	544.3
Net fee and commission income	106.3	6.9	29.7	(0.1)	0.0	3.3	146.1
Core revenues	364.9	88.7	88.6	101.6	41.4	5.2	690.4
Gains and losses on financial instruments	0.8	8.0	1.1	(2.3)	11.1	31.9	50.6
Other operating income and expenses	1.0	(0.1)	0.0	0.0	0.0	1.2	2.1
Operating income	366.7	96.6	89.7	99.3	52.5	38.3	743.1
Operating expenses	(201.8)	(23.3)	(38.7)	(20.0)	(12.0)	(22.3)	(318.1)
Regulatory charges	(12.4)	(2.5)				(24.9)	(39.8)
Total risk costs	(26.6)	(1.9)	2.7	3.1	0.0	(2.2)	(24.9)
Share of the profit or loss of associates accounted for using the equity method						6.2	6.2
Profit before tax	125.9	68.9	53.7	82.4	40.5	(4.9)	366.5
Income taxes						13.5	13.5
Profit after tax	125.9	68.9	53.7	82.4	40.5	8.6	380.0
Non-controlling interests						(0.2)	(0.2)
Net profit	125.9	68.9	53.7	82.4	40.5	8.4	379.8
Business volumes							
Assets	9,293	3,053	7,647	4,954	5,905	3,545	34,397
Risk-weighted assets ¹⁾	3,676	2,541	2,868	3,731	1,868	1,269	15,953

1) Based on a fully loaded basis.

	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Jan–Sep 2015 in EUR million							
Net interest income	248.7	35.3	77.0	105.4	43.1	29.5	539.0
Net fee and commission income	113.1	5.8	29.5	0.0	0.0	(3.6)	144.8
Core revenues	361.8	41.1	106.4	105.3	43.1	26.1	683.8
Gains and losses on financial instruments	4.5	0.0	3.7	(6.4)	0.9	37.7	40.4
Other operating income and expenses	1.0	0.3	0.0	0.0	0.0	6.2	7.5
Operating income	367.3	41.4	110.1	98.9	44.0	70.0	731.7
Operating expenses	(224.7)	(17.2)	(42.1)	(17.7)	(14.8)	(15.6)	(332.1)
Regulatory charges	(6.6)	0.0				(23.2)	(29.8)
Total risk costs	(25.4)	(1.8)	(3.9)	0.2	0.0	(3.7)	(34.6)
Share of the profit or loss of associates accounted for using the equity method						3.1	3.1
Profit before tax	110.6	22.3	64.2	81.4	29.3	30.6	338.4
Income taxes						(18.1)	(18.1)
Profit after tax	110.6	22.3	64.2	81.4	29.3	12.5	320.3
Non-controlling interests						0.0	0.0
Net profit	110.6	22.3	64.2	81.4	29.3	12.5	320.3
Business volumes							
Assets	9,255	418	8,415	5,317	6,519	3,948	33,872
Risk-weighted assets ¹⁾	3,971	390	3,478	4,565	1,908	1,478	15,790

1) Based on a fully loaded basis.