

BAWAG GROUP REPORTS STRONG Q1 2017 PROFIT BEFORE TAX OF EUR 123 MILLION

- ▶ Profit before tax of EUR 123 million, +1% versus prior year
- ▶ Return on tangible equity (@12% CET1) of 17.2%
- ▶ Core revenues of EUR 247 million, +4%
- ▶ Operating income of EUR 265 million, +6%
- ▶ Operating expenses up 3% due to recent acquisitions
- ▶ Cost-income ratio improved to 40.5%, -1.1pts
- ▶ Net interest margin improved to 2.23%, +3bps versus Q4 2016
- ▶ Fully loaded CET1 ratio of 15.7%, +60bps versus year-end 2016

VIENNA, Austria – May 4, 2017 – BAWAG Group today reports a **strong profit before tax of EUR 123 million** for the first quarter 2017, up 1% versus the prior year and up 18% compared to the fourth quarter 2016, driven by higher operating income. The **return on tangible equity (@12% CET1)¹⁾** came in at 17.2%. Higher operating expenses and higher risk costs were driven by fully absorbing the Bank's recent acquisitions that were completed during the fourth quarter 2016. Nevertheless, the **cost-income ratio was down 1.1pts to 40.5%**. The **net interest margin was up 3bps to 2.23%** versus the fourth quarter 2016. The Bank has increased its **fully loaded CET1 ratio by 60bps to 15.7%** versus year-end 2016.

"After a record 2016, BAWAG P.S.K. is off to a strong start in 2017, delivering strong results in the first quarter 2017 backed by solid operational developments and progress on various strategic initiatives. We continue to maintain our low-risk strategy focused on the DACH region, with Austria as our foundation, while providing our customers with simple, transparent and best-in-class products and services. The most recent upgrades of our ratings by Moody's in April 2017 make BAWAG P.S.K. the best-rated Austrian bank and are a testament to the strength of the Bank, in particular its capitalization, asset quality and sustained profitability. Our first quarter results reiterate that BAWAG P.S.K. is well positioned to win in this competitive and evolving European banking landscape. We are well on track to meet or exceed our full-year 2017 targets," commented Chief Executive Officer **Anas Abuzaakouk**.

Strong capital ratios

The management team continues to run the Bank on a fully loaded basis from a capital standpoint. The **fully loaded CET1 ratio** improved by 60bps to **15.7%** (Dec 2016: 15.1%) and the **fully loaded total capital ratio** by 50bps to **18.5%** (Dec 2016: 18.0%), driven by organic earnings while at the same time funding acquisitions. Thereby, the capital position significantly exceeded both regulatory requirements and the Bank's CET1 target ratio of greater than 12%.

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

In April 2017, the **long-term senior unsecured debt, issuer and deposit ratings** were all raised by one notch to **A2** while the **positive outlook** on these ratings was maintained. At the same time, the Bank's **standalone rating** as well as its **subordinate debt rating** were also upgraded by one notch to **baa1** and **Baa2**, respectively. Taken together with our Fitch rating, this makes BAWAG P.S.K. one of the few banks across Europe with two ratings in the single A category.

BAWAG P.S.K. awarded “Austria’s Best Bank 2017” by *Global Finance*

In addition to the Moody’s upgrades, *Global Finance*, one of the leading magazines for finance and capital market issues, awarded BAWAG P.S.K. as “Austria’s Best Bank 2017” in March 2017. After having received *The Banker’s* “Bank of the Year 2016” award for Austria in December 2016, we are again proud to be recognized for the successful development of the Bank.

Acquisition of PayLife

In February 2017, *easybank* signed a purchase agreement to acquire the commercial card issuing business of SIX Payment Services Austria (PayLife). The acquisition of the PayLife business will not only be accretive day 1, but *easybank* will look to continue using their partnerships and distribution channels to further grow its customer franchise in Austria and abroad. The transaction is expected to close in the second half of 2017.

Key business highlights in the first quarter 2017

BAWAG P.S.K. successfully executed on its business plans in the first quarter 2017, delivering another quarter of strong results.

Operating income increased by 6% to EUR 265 million. Despite a continued low-interest rate environment, **net interest income** rose 6% to EUR 197 million in the first quarter 2017, primarily driven by net asset growth and lower funding costs. **Net commission income** decreased by 2% to EUR 50 million. The **net interest margin** increased by 3bps to 2.23% compared to the fourth quarter 2016, reflecting the Bank’s dedicated focus on risk-adjusted pricing and optimizing the liability structure.

Higher **operating expenses** and **risk costs** in the first quarter 2017 were driven by fully absorbing the recent acquisitions that were completed during the fourth quarter 2016. Despite higher operating expenses, the **cost-income ratio** in the first quarter 2017 further improved by 1.1pts to 40.5%. The operating expenses are expected to decrease as integration efforts from our recent acquisitions are realized through the course of the year.

The Bank continues to maintain a conservative risk profile characterized by disciplined underwriting, low leverage and a business model focused on developed markets in Austria and Western Europe. This is best reflected in a **risk cost ratio** of 14bps and a stable **NPL ratio** of 2.1% as of March 2017.

Regulatory charges increased by 53% to EUR 25 million as we had to front-load approximately 80% of the total regulatory charges anticipated for the full year during the first quarter.

For comparison purposes, BAWAG P.S.K. focuses on **profit before tax** as net profit last year was significantly impacted by a one-time tax benefit booked in the first quarter 2016. Profit before tax was EUR 123 million, up 1% compared to the first quarter 2016 and up 18% compared to the fourth quarter 2016 driven by higher operating income.

Loans and receivables with customers remained stable and stood at EUR 28.2 billion as of 31 March 2017. 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 total new origination volume in the first quarter was more than EUR 900 million.

The **funding** of BAWAG P.S.K. continues to be based on stable customer deposits of EUR 25.5 billion, representing two-thirds of the overall funding base. The increase compared to the first quarter 2016 mainly results from the acquisition of start:bausparkasse and IMMO-BANK. The funding costs continued to decrease as the product mix, volume and pricing were optimized. At the end of the first quarter 2017, the blended overall retail deposit rate stood at 0.22%, down 7bps versus a year ago.

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, also includes start:bausparkasse and parts of IMMO-BANK. The segment achieved a profit before tax of EUR 43 million in the first quarter 2017, up 11% compared to the same period last year, while delivering a pre-tax return on equity (@12% CET1) of 20.9% and a cost-income ratio of 51.1%. Higher core revenues deriving from the recent acquisitions of start:bausparkasse and IMMO-BANK more than offset the increase in regulatory charges, reflecting the already booked full-year contribution to the deposit guarantee scheme. Overall risk metrics reflect the high credit quality of the retail business, with a risk cost ratio of 37bps and an NPL ratio of 1.9% (down 30bps versus the first quarter 2016).

The **easygroup** segment, comprising Austria's leading direct bank *easybank*, the auto and mobile leasing platforms as well as residential mortgage portfolios in Western Europe, achieved a profit before tax of EUR 31 million in the first quarter 2017, up 33% compared to the first quarter 2016, with a pre-tax return on equity (@12% CET1) of 37.4% and a cost-income ratio of 20.8%. The underlying performance reflects the purchase of a high-quality performing residential mortgage portfolio in Western Europe in December 2016. The segment will largely benefit from the announced acquisition of the PayLife card issuing business, bringing over half a million new customers, an elite credit card team and important distribution partnerships.

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 21 million to the Bank's profit before tax, up 31% compared to the first quarter 2016 and delivering a pre-tax return on equity (@12% CET1) of 19.1%. Core revenues were up 3%, driven by the acquisition of IMMO-BANK in December 2016. The overall quality of the portfolio further improved compared to the first quarter 2016 with an NPL ratio of 0.7%, down 40bps versus the prior year. This is a reflection of the prior years' de-risking activities and the overall high asset quality.

The **International Business** segment comprises international corporate, real estate and portfolio lending outside the DACH region, primarily in Western Europe and the United States. The segment contributed EUR 22 million to the Bank's profit before tax in the first quarter 2017, down 13% compared to the same period last year due to higher operating expenses and risk costs, while still delivering a pre-tax return on equity (@12% CET1) of 19.5%. Despite higher-than-anticipated early redemptions and a general pressure on margins, core revenues remained stable. Similar to the DACH corporate lending business, the international business is characterized by high-quality assets and a low NPL ratio of 0.3%.

Treasury Services & Markets manages the Bank's investment portfolio of financial securities of EUR 5.6 billion and a liquidity reserve of EUR 2.8 billion. The investment portfolio's average maturity was five years, comprising 96% of investment grade rated securities, of which 85% were rated single A or higher. As of 31 March 2017, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK is moderate and focuses on internationally diversified issuers with solid credit quality. The segment contributed EUR 14 million to the Bank's profit before tax in the first quarter 2017, up 45% compared to the same period in 2016, delivering a pre-tax return on equity (@12% CET1) of 17.1%. Operating income was up 30%, supported by higher gains from financial instruments.

About BAWAG Group

BAWAG Group AG is the holding company of BAWAG P.S.K., with its headquarters in Vienna.

About BAWAG P.S.K.

With more than 2.2 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 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, building society and insurance products and services. Our Austrian business is complemented by international activities focused on retail, corporate, commercial real estate and portfolio lending in Western developed countries. 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.

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

Profit or loss statement

in EUR million	Q1 2017	Q1 2016	Change (%)	Q4 2016	Change (%)
Interest income	282.0	266.5	5.8	241.4	16.8
Interest expense	(85.2)	(81.4)	4.7	(65.1)	30.9
Dividend income	0.0	0.1	(100)	1.3	(100)
Net interest income	196.8	185.2	6.3	177.6	10.8
Fee and commission income	71.8	73.6	(2.4)	71.1	1.0
Fee and commission expenses	(22.0)	(22.7)	(3.1)	(24.2)	(9.1)
Net fee and commission income	49.8	50.9	(2.2)	46.9	6.2
Core revenues	246.6	236.1	4.4	224.5	9.8
Gains and losses on financial instruments and other operating income and expenses ¹⁾	18.4	14.2	29.6	22.9	(19.7)
Operating income	265.0	250.3	5.9	247.4	7.1
Operating expenses¹⁾	(107.2)	(104.0)	3.1	(121.3)	(11.6)
Regulatory charges	(25.2)	(16.5)	52.7	(6.2)	>100
Operating profit	132.6	129.8	2.2	119.9	10.6
Provisions and loan-loss provisions	(10.4)	(7.0)	48.6	(8.8)	18.2
Impairment losses	0.0	0.0	–	0.4	100
Operational risk	(0.7)	(1.6)	(56.3)	(9.4)	(92.6)
Share of the profit or loss of associates accounted for using the equity method	1.1	0.4	>100	1.8	(38.9)
Profit before tax	122.6	121.6	0.8	103.9	18.0
Income taxes	(26.5)	60.8	–	(0.1)	>100
Profit after tax	96.1	182.4	(47.3)	103.8	(7.4)
Non-controlling interests	0.0	(0.1)	(100)	0.0	–
Net profit	96.1	182.3	(47.3)	103.8	(7.4)

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 24.7 million for the first quarter 2017. The item Operating expenses includes regulatory charges in the amount of EUR 0.5 million for the first quarter 2017 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	Mar 2017	Dec 2016	Change (%)	Mar 2016	Change (%)
Cash reserves	760	1,020	(25.5)	634	19.9
Financial assets	6,144	6,416	(4.2)	6,686	(8.1)
Available-for-sale	3,104	3,209	(3.3)	3,001	3.4
Held-to-maturity	2,300	2,353	(2.3)	2,313	(0.6)
Held for trading	546	652	(16.3)	1,119	(51.2)
Fair value through profit or loss	194	202	(4.0)	253	(23.3)
Loans and receivables	32,252	30,821	4.6	26,495	21.7
Customers	28,193	28,494	(1.1)	24,568	14.8
Debt instruments	1,066	692	54.0	912	16.9
Credit institutions	2,993	1,635	83.1	1,015	>100
Hedging derivatives	583	677	(13.9)	685	(14.9)
Tangible non-current assets	54	56	(3.6)	61	(11.5)
Intangible non-current assets	365	360	1.4	329	10.9
Tax assets for current taxes	11	10	10.0	18	(38.9)
Tax assets for deferred taxes	182	203	(10.3)	252	(27.8)
Other assets	192	180	6.7	166	15.7
Total assets	40,542	39,743	2.0	35,326	14.8

Total liabilities and equity

in EUR million	Mar 2017	Dec 2016	Change (%)	Mar 2016	Change (%)
Total liabilities	37,314	36,607	1.9	32,192	15.9
Financial liabilities	35,782	34,694	3.1	30,384	17.8
Fair value through profit or loss	964	1,115	(13.5)	1,185	(18.6)
Issued securities	964	1,115	(13.5)	1,185	(18.6)
Held for trading	505	617	(18.2)	1,033	(51.1)
At amortized cost	34,313	32,962	4.1	28,166	21.8
Customers	25,448	25,998	(2.1)	21,075	20.7
Issued securities	5,210	4,900	6.3	3,768	38.3
Credit institutions	3,655	2,064	77.1	3,323	10.0
Financial liabilities associated with transferred assets	90	300	(70.0)	472	(80.9)
Valuation adjustment on interest rate risk hedged portfolios	175	223	(21.5)	273	(35.9)
Hedging derivatives	210	260	(19.2)	113	85.8
Provisions	397	404	(1.7)	422	(5.9)
Tax liabilities for current taxes	20	19	5.3	6	>100
Tax liabilities for deferred taxes	30	27	11.1	0	100
Other obligations	610	680	(10.3)	522	16.9
Total equity	3,228	3,136	2.9	3,134	3.0
Shareholders' equity	3,227	3,134	3.0	3,133	3.0
Non-controlling interests	1	2	(50.0)	1	–
Total liabilities and equity	40,542	39,743	2.0	35,326	14.8

Key performance indicators over five quarters

in %	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Return on equity	12.1%	13.5%	13.0%	14.1%	25.2%
Return on equity (@12% CET1)	14.8%	16.5%	15.9%	16.4%	27.4%
Return on tangible equity	13.6%	15.2%	14.6%	16.0%	28.5%
Return on tangible equity (@12% CET1)	17.2%	19.2%	18.4%	18.9%	31.3%
Net interest margin	2.23%	2.20%	2.30%	2.44%	2.32%
Cost-income ratio	40.5%	49.0%	43.2%	43.7%	41.6%
Risk costs / loans and receivables	0.14%	0.25%	0.14%	0.11%	0.13%

Business segment performance

Q1 2017 in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	98.5	35.3	20.7	33.4	12.6	(3.7)	196.8
Net fee and commission income	37.7	2.7	10.0	0.0	0.0	(0.6)	49.8
Core revenues	136.2	38.0	30.7	33.4	12.6	(4.3)	246.6
Gains and losses on financial instruments	0.8	0.0	0.5	0.3	5.1	11.3	18.0
Other operating income and expenses	0.5	(0.1)	0.0	0.0	0.0	0.0	0.4
Operating income	137.5	37.9	31.2	33.7	17.7	7.0	265.0
Operating expenses	(70.2)	(7.9)	(11.7)	(8.4)	(4.0)	(5.0)	(107.2)
Regulatory charges	(13.4)	(1.2)	–	–	–	(10.6)	(25.2)
Total risk costs	(10.8)	2.0	1.7	(3.0)	(0.1)	(0.9)	(11.1)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	1.1	1.1
Profit before tax	43.1	30.8	21.2	22.3	13.6	(8.4)	122.6
Income taxes	–	–	–	–	–	(26.5)	(26.5)
Profit after tax	43.1	30.8	21.2	22.3	13.6	(34.9)	96.1
Non-controlling interests	–	–	–	–	–	0.0	0.0
Net profit	43.1	30.8	21.2	22.3	13.6	(34.9)	96.1
Business volumes							
Assets	11,634	4,284	7,891	5,327	8,405	3,001	40,542
Risk-weighted assets	4,609	2,354	2,790	4,112	2,024	1,236	17,125

	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Q1 2016 in EUR million							
Net interest income	82.9	30.6	19.9	33.3	14.4	4.1	185.2
Net fee and commission income	35.6	2.1	9.8	0.0	0.0	3.4	50.9
Core revenues	118.5	32.7	29.7	33.3	14.4	7.5	236.1
Gains and losses on financial instruments	0.8	0.0	(0.5)	(0.9)	(0.8)	14.9	13.5
Other operating income and expenses	0.7	(0.2)	0.0	0.0	0.0	0.2	0.7
Operating income	120.0	32.5	29.2	32.4	13.6	22.6	250.3
Operating expenses	(69.0)	(8.2)	(12.7)	(6.9)	(4.2)	(3.0)	(104.0)
Regulatory charges	(4.1)	(0.8)	–	–	–	(11.5)	(16.4)
Total risk costs	(7.9)	(0.4)	(0.3)	0.0	0.0	0.0	(8.6)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	0.3	0.3
Profit before tax	39.0	23.1	16.2	25.5	9.4	8.4	121.6
Income taxes	–	–	–	–	–	60.8	60.8
Profit after tax	39.0	23.1	16.2	25.5	9.4	69.2	182.4
Non-controlling interests	–	–	–	–	–	(0.1)	(0.1)
Net profit	39.0	23.1	16.2	25.5	9.4	69.1	182.3
Business volumes							
Assets	9,207	3,392	7,757	5,414	5,984	3,572	35,326
Risk-weighted assets	3,790	1,936	3,001	4,393	1,828	1,461	16,409