P r e s s   r e l e a s e

Vienna, March 13th, 2014

BAWAG P.S.K. announces net profit of EUR 229.1 million in 2013

Strong operating momentum and improved capital position from strategic initiatives

- Operating income increased by 11.0 % to EUR 1,034.0 million in a very challenging environment with stronger core revenue momentum developing in the second half 2013
- Core operating expenses successfully reduced by EUR 30.6 million (-5.1%), demonstrating early results from material cost reduction program
- Capital position substantially improved – fully-loaded Basel 3 CET I capital ratio at 9.4% at year-end 2013
- Risk costs decreased to EUR 98.2 million for 2013 with a NPL ratio of 3.4% reflecting the material de-risking activities from non-core assets and businesses
- Provisions taken for restructuring of EUR 75.3 million in 2013 in order to achieve a lower cost base on a sustainable basis
- Redemption of EUR 200 million of participation capital from the Republic of Austria in 2013 as part of plan for full redemption in the near term

"2013 was a transformative year for BAWAG P.S.K. as the Bank successfully executed on several strategic initiatives while delivering strong financial results," commented CEO **Byron Haynes**. *"The Bank continued to reposition its balance sheet by exiting non-core businesses and assets, executed aggressively to improve cost efficiency, and materially increased its capital base.*

BAWAG P.S.K. is well positioned in 2014 to take advantage of the positive momentum of core earnings improvement particularly in the second half of 2013 through the continued execution of its operating plans. Further, the Bank's capital position should continue to strengthen and BAWAG P.S.K. looks forward to the opportunity for the potential full redemption of the remaining EUR 350 million of participation capital in the near term. All of these actions and results support our goal to be the most efficient centrally managed bank in Austria focused on serving our retail, small business, and corporate customers in all of our core markets."

The strong financial results in 2013 were driven from the **Bank's strategy** which was based on four key pillars:

- Investing in the Bank's core businesses with focus on Austria
- Repositioning of the balance sheet while de-risking from non-core assets
- Improving the Bank's cost base through acceleration of the efficiency and productivity program
- Significantly strengthening the capital base and maintaining strong liquidity

Vienna, March 13th, 2014

Continued focus on the Bank's core business in Austria

BAWAG P.S.K. is focused predominantly on customer relationships in Austria and currently services 1.6 million private customers, 2,500 corporate and 39,000 small business customers. More than 78% of the loans and receivables of the Bank represent exposures to customers in Austria.

- **Retail Banking and Small Business**: Based on a multi-channel approach the Bank's investments during 2013 focused on providing its customers with enhanced products and services across all physical as well as digital platforms.

  BAWAG P.S.K.'s retail customer base increased by more than 21,000 current accounts (+1.7%) on a net basis during 2013 through its full suite of "box" products that are understandable, fair, and available "anytime and anywhere". The "Sparbox" variable savings card increased deposits to EUR 3.2 billion after its launch at the beginning of 2013, while new consumer loan volume through "Kreditbox" increased the total consumer loan volume to EUR 1.4 billion in 2013, representing an 8% total market share in Austria.

  The branch initiative "Filialoffensive", was also successfully completed in 2013. The cooperation with Austrian Post, the traditional partner of BAWAG P.S.K., allows the Bank to now provide customers a network of 477 branches for bank and postal services, based on a centrally managed flexible operating and cost infrastructure.

  The digital distribution channels e-banking (including the app for iPad and tablet-user) and direct banking platforms were expanded by a newly designed online platform at the end of 2013. It offers an easy, modern, and interactive access to all products and services of the Bank. E-banking and mobile transactions now account for approximately 56% of all banking transactions and are expected to further increase in 2014. Overall the bank invested EUR 45 million in IT systems and other retail initiatives to increase the product capabilities, services, and security within the retail franchise.

  The Bank's 100% subsidiary easybank, a leading direct bank in Austria, is complimentary to the BAWAG P.S.K. franchise and has its focus on simple and innovative products, lean processes and high service quality. easybank shares the scale of a single operating and technology platform with BAWAG P.S.K. Overall customer deposits grew 23% to a record EUR 2.7 billion at year-end 2013.

  Overall operating income in retail banking and small business increased by 2.7% in 2013 to EUR 528.3 million despite very challenging market conditions. Core revenues of net interest income and net commission income were slightly down to EUR 490.7 million. Risk costs of EUR 23.5 million were significantly lower compared to 2012 (25bps risk costs). The NPL ratio in the Retail Banking and Small Business segment was reduced from 6.6% to 3.2% and further demonstrates the improved credit quality of the business. Profit before Tax therefore materially improved for year 2013 to EUR 77.2 million compared to EUR 13.0 million for year 2012. Customer deposits remained flat at EUR 19.6 billion and there was an increase in variable rate savings to 70% of the overall customer deposit base.

- **Corporate Lending and Investments**: BAWAG P.S.K. remains a strong provider for Austrian corporate and public sector customers. Although the business segment continues to face competitive margin pressure, the Bank has maintained stable operating income within its core client businesses. In addition to lending, BAWAG P.S.K. primarily focuses on its payments and treasury services products.

  The international business lending strategy focuses primarily on Germany, the UK and selected areas of Western Europe. The international platform has been a key driver of earnings diversification and is focused on investments in both corporate and commercial real estate transactions. Despite high redemptions over the past twelve months, the outstanding asset balances of this segment have remained stable, while volume has increased in the International Commercial Real Estate segment.

  During 2013 total new volume in Corporate Lending and Investments totalled EUR 2.3 billion. Combined with proactive de-leveraging and de-risking on non-core exposures led to total asset balances of EUR 12.9 billion at year-end 2013, a reduction of EUR 2.1 billion from 2012. Risk-weighted assets were reduced by almost EUR 1.9 billion.

  Overall, operating income amounted to EUR 251.8 million in 2013 (+1% from EUR 249.9 million in 2012). Net interest income remained quite stable despite early redemptions, tightening of new business margins in the international segment and de-leveraging of certain Austrian and CEE exposures. This strong result was based on strict pricing discipline, re-pricing efforts and reduced funding costs for the businesses.

  Net fee and commission income fell from EUR 58.6 million to EUR 44.2 million primarily as a result of certain de-leveraging activities but was stable in the core customer areas despite continued competition in the payment business. Corporate Lending and Investments realised a profit before tax of EUR 106.8 million for 2013.

  The share of non-performing loans in the Corporate Lending and Investments segment remained almost unchanged at 2.8%, demonstrating stability and a good performance from a risk perspective.

- **Treasury Service and Markets:** This segment was transformed in 2013 into an integrated centre for the Bank's customers, subsidiaries and the Bank's asset/liability management team by providing market advice and execution services. Further, this segment has management responsibility for a substantial portion of the Bank's portfolio of investment securities. The segment organization allows the activities in the Treasury Services and Markets division to be optimally tailored to the needs of the customers and the Bank overall.

The investment portfolio, managed by Treasury Services and Markets, is primarily comprised of high quality bank senior unsecured and covered bonds, and select sovereign exposures. This portfolio amounted to EUR 5.1 billion as of December 31, 2013. The average maturity was 2.9 years, and 81% of the portfolio was rated single “A” and above.

In 2013, the Bank actively sold and reinvested select positions of its investment portfolio. These sales were executed to take advantage of overall performance, maintain diversification requirements and manage impacts of future fair value volatility in the Bank’s capital position. The segment team also executed the strategic disposition of the Bank’s legacy structured credit portfolio.

Treasury Services and Markets realised a profit before tax of EUR 62.5 million for 2013.

Repositioning and de-risking the balance sheet

Part of the strategy for repositioning the balance sheet over the last years has been deleveraging non-core activities as well as low-yielding assets with higher risk. As a result, capital is free for future investments and allocations will be made diligently across businesses and assets which meet strict risk-adjusted return requirements.

- **CEE exposure**: During 2013, the Bank further reduced its CEE loan exposure to EUR 0.7 billion at year-end 2013, or less than 2% of total assets.
- **MKB, Hungary**: By February 2014, the Bank also successfully sold its remaining shares in MKB, a Hungarian bank.
- **Restructuring of leasing operations**: BAWAG P.S.K. focuses on consumer based vehicle financing in its strategic business activities. The sale of the Polish leasing subsidiary and sale of the Austrian fleet management subsidiary were completed during the year. The Bank is currently under agreement for the sale of the Hungarian lease subsidiary.
- **Legacy structured credit portfolio**: The sale of the legacy structured credit portfolio de-risked the balance sheet credit exposure substantially, reduced risk-weighted assets by EUR 1.2 billion, and resulted in a material profit upon sale.

Portfolio Management Activities: Corporate and commercial real estate exposures that did not meet risk-adjusted return requirements were reviewed in detail and then optimized based on discussions with the customer and completion of agreed appropriate measures (ie: adjustment of terms including re-pricing and collateral management, as well as refinancing). Through these disciplined processes, BAWAG P.S.K. was able to decrease the risk-weighted asset consumption of the target portfolio by 41% to EUR 1.2 billion. Impact on overall net interest income was lowered by successful re-pricing measures and reducing unprofitable positions.

Improving the Bank's cost base – efficiency and productivity program largely completed

The comprehensive restructuring program has been accelerated over the last years and largely completed by year-end 2013. Significantly, investments tied to this program, will put the Bank in a position to benefit from a material reduction in the core cost base in 2014. A restructuring charge of EUR 75.3 million was recorded in 2013 for these actions and the overall restructuring provisions taken since year-end 2011 has been EUR 142 million.

As mentioned, the Bank in 2013 continued to invest in its core businesses with EUR 45 million investments primarely made in IT systems and other parts of the retail business with the focus on new releases of the core banking system, product rollouts, and material investment to expand and update the digital platform. Overall, this investment supports increased operational excellence, maintained system stability and increased data security.

Furthermore, the Bank's focus in 2013 remained on additional initiatives to increase productivity by process optimisation and leveraging end-to-end capabilities.

Personnel expenses were significantly reduced, showing a decrease of EUR 24.3 million in 2013 (-7.0% versus 2012).

BAWAG P.S.K. sees developing opportunities to create an even more flexible operating infrastructure as the Bank rationalizes its products, services and operating locations in order to maintain sustainable profitability in a further challenging economic environment.

Significant strengthening of capital ratios

In addition to successful capital actions completed in 2012, including the EUR 200 million common equity capital raise, the Bank completed further aggressive measures to significantly improve its capital ratios in 2013.

- In April 2013 the Bank was granted regulatory approval to use **the Internal Ratings-Based ("IRB") approach** in the retail and corporate businesses.
- The **reduction of non-core assets** and further de-risking of the balance sheet, in addition to the impact of IRB, reduced risk-weighted assets by a further EUR 4.6 billion (-22%) to EUR 16.0 billion .
- Taking advantage of the strong market conditions the Bank closed out or sold the entire remaining **legacy structured credit portfolio** in October 2013.

- In the 4th quarter 2013 the Bank successfully issued EUR 300 million of **Basel 3 compliant Tier 2 capital** to institutional investors and EUR 43 million to retail customers.

These measures led to a **significant strengthening of the capital position** of BAWAG P.S.K. as of 31 December 2013:

- The Common Equity Tier I ratio (CET I capital ratio, Basel 3 fully loaded) is reported at **9.4%.**
- This equates to a CET I capital ratio (Basel 2.5) of **14.4%** and shows an increase of 3.4 percentage points compared to 11.0% as of 31 December 2012.
- The Tier I capital ratio (Basel 2.5) improved from 11.7% to **15.3%.**
- The total capital ratio (Basel 2.5) increased from 13.8% to **18.7%**.

The Bank has therefore delivered improved capital ratios by over 3.0 percentage points over the last 12 months and 5.0 percentage points over the last 24 months.

Based on this strong capital position, the Bank redeemed EUR 200 million of **participation capital** held by the Republic of Austria in March and December 2013. According to the current plans the Bank intends the total redemption of the remaining EUR 350 million in March 2014 including full payment of the outstanding dividend payments for 2013 and 2014.

Solid liquidity position maintained

The liquidity position continues to be a source of strength for the Bank. The **regulatory surplus liquidity** stands at EUR 6.3 billion as of 31 December 2013. This position does result in some compression on the overall net interest margins due to the very low interest rate landscape. However, the Bank recognises the value to maintaining a more robust liquidity position.

BAWAG P.S.K. will continue to maintain a high percentage of deposit funding. The Bank’s customer loan-to-deposit ratio was 95% at year-end 2013. Further, the secured funding ratio at year-end was under 10%, highlighting the very low level of encumbrance of the asset base and low reliance on wholesale funding.

Strong Operating Results in a Challenged Market Environment

Due to the continued low interest rate landscape, increased negative carry from select deleveraging, and reduced dividend income from subsidiaries**, net interest income** decreased by EUR 17.2 million (-2.9%) to EUR 580.2 million in 2013. Net interest income demonstrated material improvement in the second half of the year as a result of balance sheet repositioning and investment activities in the strategic businesses as well as reduced impact from the reduction or re-pricing of low yielding assets.

Net fee and commission income decreased by EUR 6.7 million (-3.4%) compared with the prior year to EUR 188.0 million in 2013. The main driver of the decline was due to the impact of certain positive one-off items in 2012. The main component of net fee and commission income is monetary transactions, which remained largely stable.

The item **gains and losses on financial instruments** was positively influenced primarily by sales from securities and subsidiaries and amounted to EUR 216.1 million, showing an increase of EUR 87.2 million (+67.6%). The sale of entire remaining legacy structured credit portfolio resulted in a material profit for the Bank. In addition, the Bank also sold select positions of its bond portfolio, which generated a net profit of EUR 115.6 million. This item also includes sales of non-core subsidiaries and a non-performing loan portfolio, which resulted in one-time gains.

Other operating income and expenses increased mainly driven by the profit from the sale and leaseback of the headquarters building in Vienna to EUR 49.7 million (+EUR 38.9 million).

The Bank's disciplined cost management led to a favourable reduction of **core operating expenses** by EUR 30.6 million (-5.1%) to EUR 573.9 million. This represents approximately 30% of the annual cost reduction estimated from these efficiency improving measures going forward.

Personnel expenses, the largest component in operating expenses, were reduced by EUR 24.3 million (-7.0%) to EUR 320.9 million due to headcount reduction.

The active employees' headcount was reduced by 478 staff members over the course of 2013 and stands at 3,181 FTEs as of 1 January 2014 compared to 3,711 two years before.

Furthermore, the Bank invested EUR 75.3 million in **restructuring reserves** in 2013 to continue to improve structural cost issues, which supports the Bank's goal to achieve a core cost base under EUR 500 million in 2014 and to continue driving operating efficiencies across the Bank in future years to come.

Risk costs (provisions and impairment losses) showed a continued positive trend during the reporting period and were significantly reduced by EUR 51.9 million (-34.6%) to EUR 98.2 million in 2013. In the financial year 2013 individual loan loss provisions decreased significantly. This resulted from improved credit quality of the Bank's core businesses and the sale of non-performing loans. The **NPL ratio** decreased from 4.9% to 3.4%.

The **cost-income ratio** improved from 69.5% to 65.8% in 2013.

Press release

Vienna, March 13th, 2014

Due to increased gains on financial instruments, lower core operating expenses and substantially reduced risk costs, **the Bank delivered a net profit of EUR 229.1 million compared to EUR 107.3 million in 2012 –** despite significantly higher restructuring expenses.

Income Statement in EUR million	**2013**	**2012**	**Change**	
Net interest income	580.2	597.4	(17.2)	(2.9%)
Net fee and commission income	188.0	194.7	(6.7)	(3.4%)
Core revenues	**768.2**	**792.1**	**(23.9)**	**(3.0%)**
Gains and losses on financial instruments	216.1	128.9	87.2	67.6%
Other operating income	49.7	10.8	38.9	>100%
Operating income	**1,034.0**	**931.8**	**102.2**	**11.0%**
Personnel expenses	(320.9)	(345.2)	(24.3)	(7.0%)
Other administrative expenses	(198.5)	(203.8)	(5.3)	(2.6%)
Depreciation and amortisation	(54.5)	(55.5)	(1.0)	(1.8%)
Core operating expenses	**(573.9)**	**(604.5)**	**(30.6)**	**(5.1%)**
Restructuring expenses and other one-off items	(106.9)	(43.2)	63.7	>100%
Operating expenses	**(680.8)**	**(647.7)**	**33.1**	**5.1%**
Operating profit before bank levy	**353.2**	**284.1**	**69.1**	**24.3%**
Bank levy	(25.3)	(25.3)	-	-
Operating profit	**327.9**	**258.8**	**69.1**	**26.7%**
Risk costs	(98.2)	(150.1)	(51.9)	(34.6%)
Valuation results of associates at equity	(0.9)	1.5	2.4	-
Profit before tax	**228.8**	**110.2**	**118.6**	**>100%**
Income taxes	1.7	(0.2)	(1.9)	-
Profit after tax	**230.5**	**110.0**	**120.5**	**>100%**
Minorities	(1.4)	(2.7)	(1.3)	(48.1%)
Net profit	**229.1**	**107.3**	**121.8**	**>100%**

Key KPIs (in %)	2013	2012
CET I capital ratio (Basel 3)	9.4%	n/a
CET I capital ratio (Basel 2.5)	14.4%	11.0%
Tier I capital ratio (Basel 2.5)	15.3%	11.7%
Total capital ratio (Basel 2.5)	18.7%	13.8%
Return on equity	11.61%	6.49%
Return on risk-weighted assets	1.25%	0.49%
Cost-income ratio	65.84%	69.51%
NPL ratio	3.37%	4.86%
Risk costs / loans and receivables	0.34%	0.50%
Loan-to-deposit ratio	95.3%	101.3%

Balance sheet development

The Bank's **total assets** as of 31 December 2013 totalled EUR 36.4 billion, and were EUR 4.9 billion (-11.8%) lower than at the end of 2012. The main cause for this development is a decrease in financial assets mainly due to non-core assets disposals as well as the optimisation of risk-weighted assets.

Assets

Financial assets fell by EUR 2.3 billion to EUR 7.7 billion (-23.1%) due to a decreased volume of derivatives as a result of a discontinued proprietary trading activities and disposals of available-for-sale bonds.

The item **loans and receivables** totalled EUR 27.3 billion and was EUR 2.5 billion (-8.4%) lower compared to last year. The reasons for this decrease were high redemptions of corporate loans, overall reduced corporate loans from non-core customers, an optimisation of risk-weighted assets and – corresponding to items on the liability side – decreased loans receivables from credit institutions.

The already mentioned sale of the entire remaining **legacy structured credit portfolio**, carrying high capital requirements de-risked the balance sheet credit exposure substantially and reduced risk-weighted assets by EUR 1.2 billion.

The **risk-weighted assets** were reduced in total by EUR 4.6 billion (-22.4%) to EUR 16.0 billion in 2013 due to the repositioning of the balance sheet, sale of non-core assets, further de-risking actions and approval to use the IRB approach in 2013.

During 2013, BAWAG P.S.K. further reduced its total **CEE loan exposure** which amounted to EUR 0.7 billion of total assets at year-end, or less than 2% of the total assets.

Assets in EUR million	**2013**	**2012**	**Change**	
Cash reserves	481	481	-	-
Financial assets	7,733	10,050	(2,317)	(23.1%)
Loans and receivables	27,256	29,744	(2,488)	(8.4%)
Debt instruments	2,485	2,283	202	8.8%
Customers	20,980	22,275	(1,295)	(5.8%)
Credit institutions	3,791	5,186	(1,395)	(26.9%)
Hedging derivatives	164	192	(28)	(14.6%)
Tangible non-current assets	85	181	(96)	(53.0%)
Intangible non-current assets	142	173	(31)	(17.9%)
Tax assets	250	221	29	13.1%
Other assets	291	223	68	30.5%
Total assets	**36,402**	**41,265**	**(4,863)**	**(11.8%)**

Liabilities

Liabilities to customers in the amount of EUR 22.0 billion remained stable in the financial year, whereas financing volume via banks decreased by EUR 2.1 billion (-56.1%) to EUR 1.6 billion due to the full repayment (EUR 2.25 billion) of the tender facility offered by the European Central Bank (LTRO program by ECB).

Redemptions of **own issues** led to a reduction in liabilities at amortised cost by EUR 206 million (-4.3%) to EUR 4.6 billion.

IFRS equity excluding participation capital (EUR 550 million in 2012; EUR 350 million in 2013) and non-controlling interests increased by EUR 158 million to EUR 2,053 million as of 31 December 2013, supported by the significant net profit achieved in 2013.

Liabilities in EUR million	2013	2012	Change	
Financial liabilities	32,488	37,195	(4,707)	(12.7%)
At amortised cost	28,222	30,602	(2,380)	(7.8%)
Customers	22,013	21,999	14	0.1%
Credit institutions	1,646	3,748	(2,102)	(56.1%)
Issued securities	4,563	4,769	(206)	(4.3%)
Financial liabilities associated with transferred assets	-	86	(86)	(100.0%)
Valuation adjustment on interest rate risk hedged portfolios	(2)	-	(2)	-
Hedging derivatives	126	164	(38)	(23.2%)
Provisions	504	484	20	4.1%
Tax liabilities	11	19	(8)	(50.0%)
Other obligations	477	565	(88)	(15.6%)
Total equity	2,798	2,838	(40)	(1.4%)
Total equity and liabilities	**36,402**	**41,265**	**(4,863)**	**(11.8%)**

City of Linz

The legal case with the City of Linz continued in 2013. The Bank sees itself having a strong legal position and is confident that it will prevail in this litigation. If necessary, BAWAG P.S.K. will also pursue the legal case through all court instances.

Outlook

Despite the economic, regulatory, and competitive challenges facing both Austrian and European banks overall, BAWAG P.S.K. will continue to position itself in the market with a business strategy aimed to be the most efficient bank in Austria and focused in its core markets, products, and services. This is all supported on the fundamental requirements of maintaining strong and conservative capital and liquidity positions.
"The Bank's successful results and repositioning in 2013 lays the groundwork for the execution of our strategic plans in 2014 and beyond," commented **Anas Abuzaakouk**, Chief Financial Officer. *"As a result, we are pleased to begin communicating key financial and operati ng goals for BAWAG P.S.K."*

Press release

Vienna, March 13th, 2014

2014 Goals

- BAWAG P.S.K. will further develop and deliver its product and service range for retail and corporate customers across digital and physical channels – Key Targets 2014: retail consumer lending share to 8.5% and variable savings deposit ratio of 73% of total deposits.

- The Bank will continue to invest in core businesses and meet its overall profitability targets – Target 2014: Bank-wide Return on Equity of greater than 10% resulting primarily from increased core revenues and reduced core expenses, with very low positive impact from gains and losses or other one off items.

- The Bank will continue to increase its bank-wide operational efficiency – Target 2014: core operating expenses less than EUR 500 million.

- The Bank will retain a prudent risk strategy and projects a stable risk profile – Target 2014: projected risk costs as a percentage of loans and receivables of less than 30bps.

BAWAG P.S.K. will focus and maintain its strong capital position, deposit funding, and solid liquidity position – Targets 2014: CET I capital ratio in excess of 10% and a total capital ratio of 14%, both under a full Basel 3 approach.

Further inquiries:
BAWAG P.S.K. group press office
Tel. 0043 (0) 5 99 05 – 31210
E-Mail: presse@bawagpsk.com

This text can also be downloaded from our homepage:
http://www.bawagpsk.com