Press release

Vienna, May 15th, 2014

BAWAG P.S.K. reports quarterly net profit of EUR 80.0 million

Q1 net profit driven by strong core revenues and reduced total operating expenses

- **Continued strong momentum on overall financial results**
  - Net profit of EUR 80.0 million, up 77% from Q1 2013
  - Operating income of EUR 235.6 million, down 2% from Q1 2013
  - Total operating expenses of EUR 127.0 million, down 16% from Q1 2013
  - Annualized return on equity of 15%, up 5.4pts from Q1 2013
  - Return on risk-weighted assets of 1.94%, up 1.05pts from Q1 2013

- **Strong increase in core revenues and stable customer loan development**
  - Core revenues of EUR 208.1 million, up 19% from Q1 2013
  - Net interest margin of 1.73%, up 51bps from Q1 2013
  - Market share in consumer lending up 0.9pts to 8.5% from Q1 2013

- **Operating efficiency increases resulting from restructuring initiatives**
  - Cost-income ratio of 53.9%, down 9.1pts from Q1 2013
  - On track for full-year target of < EUR 500 million of core operating expenses

- **Stable credit quality performance**
  - Risk costs of 0.30% (% of loans & receivables), down from 0.41% in Q1 2013
  - NPL ratio of 3.7%, down 130bps from Q1 2013
  - NPLs of EUR 926 million, down EUR 537 million from Q1 2013
  - NPL coverage ratio of 57.1%, down 2.7pts from Q1 2013

- **Enhanced capital position and actions**
  - Common Equity Tier 1 ratio of 10.6% under Basel 3 (fully loaded; pro-forma IFRS incl. Q1 2014 profit) as of 31 March 2014
  - Total capital ratio of 14.7% under Basel 3 (fully loaded; pro-forma IFRS incl. Q1 2014 profit) as of 31 March 2014
  - Leverage ratio of 5.2% as of 31 March 2014
  - Full redemption of remaining EUR 350 million of participation capital and payment of final dividends during the first quarter
  - Equity contribution of EUR 125 million raised from existing shareholders during the first quarter

- **Liquidity position remains strong**
  - Loan-to-deposit ratio of 98.8%
  - Liquidity coverage ratio of 112.9%

Vienna, May 15th, 2014

BAWAG P.S.K. reported net profit of EUR 80.0 million for the first quarter of 2014, up from EUR 45.1 million for the first quarter of 2013, and from EUR 73.3 million in the fourth quarter of 2013.

"Our strong first quarter results demonstrate the continued success from the strategic actions the Bank undertook in 2012 and 2013 to reposition BAWAG P.S.K within Austria as a leading, efficient retail and corporate bank for our customers", said Chief Executive Officer, **Byron Haynes**. *"Our cornerstones were to focus on our core retail and corporate lending franchises primarily in Austria, continue to deleverage non-core activities, materially increase our operating efficiency, and strengthen our capital base. All of our key financial metrics in the first quarter demonstrated that the successful execution by our employees in these areas combined with the continued support of our customers is producing strong results across our Bank. Additionally, during the first quarter, we were pleased to complete the full redemption of the remaining EUR 350 million of participation capital combined with EUR 125 million of new common capital raised from our existing shareholders. We look forward to continued strong financial performance in 2014 as we strive to efficiently deliver the leading products and services that our customers value across all of our physical and digital channels."*

As part of its efforts to provide greater transparency for its customers and stakeholders, BAWAG P.S.K. commences quarterly reporting for the first time with this earnings release and associated Consolidated Interim Report for the First Quarter of 2014.

Anas Abuzaakouk, Chief Financial Officer, commented: *"We were very pleased to see the positive financial and operational developments across the Bank stemming from prior years repositioning efforts translated into our first quarter results. Across all key areas driving fundamental earnings growth, we witnessed positive trends. When compared to the first quarter of 2013, core revenues increased by 19%, core operating expenses decreased by 12% and we have good line of sight to meeting our full year target of core operating expenses under EUR 500 million. Our risk costs decreased by 35% from Q1 2013 reflecting our strategy to focus on our core markets of Austria and other parts of Western Europe. Importantly, our Common Equity Tier 1 ratio of 10.6% under Basel 3 (fully loaded; pro-forma IFRS incl. Q1 2014 profit) at quarter-end reflected our continued pro-active capital actions and strong earnings. Overall, we remain confident in meeting our 2014 financial and operating goals that we communicated at the beginning of the year and continue to move our Bank to be even more efficient and transparent for our customers and stakeholders as we move forward."*

Operating income

Operating income was EUR 235.6 million in the first quarter of 2014 compared to EUR 317.8 million in the fourth quarter of 2013, and 240.9 million in the first quarter of 2013. Operating income was significantly lower compared to the fourth quarter as a result of strategic one-off sales captured in gains and losses and other income in the fourth quarter of 2013 and not reflective of the core operating performance of the Bank. Core revenues of EUR 208.1 million were flat compared to EUR 208.4 million in the fourth quarter of 2013 and up 19.2% compared to the first quarter of 2013. Overall, the stronger core revenues in the first quarter was driven by positive developments in net interest income due to strategic balance sheet actions, liability optimization measures, stable customer loans in core markets and continued growth in Retail net fee and commission income.

Core revenues

Net interest income in the first quarter decreased by EUR 8.1 million to EUR 153.0 million from EUR 161.1 million in the fourth quarter 2013 and increased by EUR 30.3 million from EUR 122.7 million in first quarter of 2013. Compared to the fourth quarter of 2013, net interest income remained relatively stable and was impacted by fewer days due to interest day count as well as dividend payments in the fourth quarter. The impact of both items accounted for approximately EUR 10 million less net interest income and would otherwise demonstrate a modest positive development. When compared to the first quarter of 2013, interest expense materially decreased as a result of liability optimization measures related to the redemption of wholesale funding as well as improved pricing from the shift of certain retail deposits from fixed to variable rate savings products and hedging activities. Lastly, positive developments in core market loans, primarily consumer and international loans, and re-pricing of domestic corporate loans positively impacted gross interest income offsetting deleveraging measures of non-core assets.

Overall, net interest margin during the quarter slightly decreased by 4 basis points to 1.73% on an annualized basis from 1.77% during the fourth quarter of 2013 and increased by 51 basis points from 1.22% during the first quarter of 2013. Business net interest margin (excludes the impact from the Corporate Center segment) improved to 2.23% from 1.90% in the first quarter of 2013 (2.06% for the full year 2013).

Net fee and commission income increased to EUR 55.1 million in the first quarter of 2014 compared to EUR 47.3 million in the fourth quarter of 2013 and EUR 51.9 million in first quarter of 2013. Positive developments were a result of continued growth of fee income from our Retail business as well as positive impacts from partnership agreements.

Gains and losses and other income

Gains and losses and other income totaled EUR 27.5 million for the first quarter of 2014 compared to EUR 109.4 million in the fourth quarter of 2013 and EUR 66.3 million in first quarter 2013. The net gains and losses on financial instruments and other income in the quarter were primarily related to sales of available-for-sale securities as well as gains from the sale of non-core subsidiaries.

The majority of gains and losses and other income in both the fourth quarter and first quarter of 2013 were driven by execution of a variety of strategic measures including the sale of the Bank's legacy structured credit book, the sale and long-term lease-back of the Bank's headquarters building, sale of non-core subsidiaries, sale of non-performing loan portfolios, and from the sale of a portion of the Bank's available-for-sale securities portfolio.

Operating expenses

Total operating expenses decreased to EUR 127.0 million in the first quarter of 2014 vs. EUR 215.1 million in the fourth quarter of 2013 and EUR 151.7 million in first quarter of 2013. Core operating expenses were EUR 127.0 million in the first quarter compared to EUR 138.2 million in the fourth quarter and EUR 144.4 million in first quarter 2013. The first quarter expenses reflect both the decrease in personnel costs and other expenses from the accelerated restructuring actions taken throughout 2013 to increase bank-wide operating efficiency as well the impact of significantly reduced net one-off items primarily related to restructuring reserves.

Personnel expenses totaled EUR 73.6 million in the first quarter of 2014 with all operating divisions either on or ahead of scheduled plans related to execution of organization efficiency plans.

Other expenses were EUR 53.4 million in the first quarter and reflect disciplined cost management across all non-personnel related costs across the Bank.

The cost-income ratio for the quarter was 53.9% demonstrating the substantial improvements in the operating cost base from the previous restructuring initiatives and the ability for the Bank to generate revenues more efficiently.

in € m	Q1 2014	Q1 2013	Change %	Q4 2013	Change %
Net interest income	153.0	122.7	24.7%	161.1	(5.0%)
Net fee and commission income	55.1	51.9	6.2%	47.3	16.5%
Core revenues	**208.1**	**174.6**	**19.2%**	**208.4**	**(0.1%)**
Gains and losses on financial instruments	18.2	65.1	(72.0%)	63.7	(71.4%)
Other operating income and expenses	9.3	1.2	>100%	45.7	(79.6%)
Operating income	**235.6**	**240.9**	**(2.2%)**	**317.8**	**(25.9%)**
Personnel expenses	(73.6)	(84.9)	(13.3%)	(68.3)	(7.8%)
Other expenses	(53.4)	(59.5)	(10.3%)	(70.0)	(23.7%)
Core operating expenses	**(127.0)**	**(144.4)**	**(12.0%)**	**(138.2)**	**(8.1%)**
Restructuring expenses and other one-off items	0.0	(7.3)	(100%)	(76.9)	(100%)
Total operating expenses	**(127.0)**	**(151.7)**	**(16.3%)**	**(215.1)**	**(41.0%)**
Bank levy	(6.1)	(6.3)	(3.2%)	(6.3)	(3.2%)
Operating profit	**102.5**	**82.9**	**23.6%**	**96.3**	**6.4%**
Provisions for risk costs	(19.6)	(27.4)	(28.5%)	(16.1)	21.8%
Impairment losses	0.0	(2.7)	100%	(11.7)	100%
At-equity	(0.6)	(0.4)	50.0%	1.0	-
Profit before tax	**82.3**	**52.4**	**57.1%**	**69.6**	**18.3%**
Income taxes	(2.0)	(7.1)	(71.8%)	4.2	-
Profit after tax	**80.3**	**45.3**	**77.3%**	**73.8**	**8.9%**
Non-controlling interests	(0.3)	(0.2)	50.0%	(0.4)	(25.0%)
Net profit	**80.0**	**45.1**	**77.4%**	**73.3**	**9.2%**

Balance sheet highlights

Total assets

Total assets were EUR 34.4 billion at the end of the first quarter down EUR 2.0 billion from EUR 36.4 billion at year-end 2013. The primary reduction was in loans and receivables to credit institutions mainly in the form of money-market positions (EUR 1.8 billion at end of the first quarter, down EUR 2.0 billion from year-end 2013). This was a result of the continued balance sheet repositioning to improve overall capital efficiency, leverage, profitability and risk profile.

Customer loans were EUR 20.9 billion at the end of the first quarter, which were almost flat vs. year-end 2013 (down EUR 32 million or 0.1%). Overall, the securities portfolio was EUR 9.0 billion at the end of the first quarter (+2% or EUR 0.2 billion higher than year-end 2013) with an increase in the held-to-maturity category of EUR 938 million to EUR 1.7 billion at the end of the quarter and a decrease of available-for-sale securities of EUR 702 million to EUR 4.4 billion. These actions are a result of measures to optimize the securities portfolio.

Total liabilities and equity

Customer deposits were EUR 21.2 billion at the end of the first quarter of 2014, flat compared to year-end 2013. Overall development in core retail deposits was stable. Variable retail deposits were EUR 13.9 billion at the end of the first quarter of 2014, up EUR 0.2 billion from year-end 2013, reflecting the continued pro-active shift of certain customer deposit accounts from fixed to variable. Total average retail deposit costs during the quarter were 69 basis points, down 9 basis points from the fourth quarter of 2013, and down 24 basis points from the first quarter of 2013.

Own issues decreased by EUR 976 million during the quarter primarily resulting from the maturity of a single EUR 960 million issue that matured in February 2014.

IFRS equity (equity attributable to the owners of the parent) was EUR 2.2 billion at the end of the first quarter as the result of comprehensive income of EUR 81.6 million and a shareholder capital contribution of EUR 125 million, offset by the final dividend payment on the participation capital of EUR 55 million.

Capital

Capital levels increased further during the first quarter as a result of earnings growth, a shareholder capital contribution and continued focus on risk-weighted asset optimization. BAWAG P.S.K's Common Equity Tier 1 ratio at the end of the first quarter was 10.6% under Basel 3 (fully loaded; pro-forma IFRS incl. Q1 2014 profit), and increased by 120 basis points from 9.4% at year-end 2013.

As previously mentioned, the Bank fully redeemed the remaining EUR 350 million of participation capital held by the Republic of Austria on March 14, 2014 including final dividend payments.

The total capital ratio at the end of the first quarter was 14.7% under Basel 3 (fully loaded; pro-forma IFRS incl. Q1 2014 profit), an increase of 150 basis points from 13.2% at year-end 2013. The Bank continues to focus on simplifying its capital structure with no reliance on transitional elements.

Credit quality

Credit performance continued to be stable for the Bank in the first quarter with total risk costs of EUR 19.6 million, compared to EUR 27.8 million in the fourth quarter of 2013 and EUR 30.1 million in the first quarter of 2013. The reduction in total risks costs reflects the material decrease in impairment losses stemming from prior year de-risking activities.

Risk costs were 0.30% of loans and receivables during the first quarter, compared to 0.41% in the fourth quarter of 2013 as well as in the first quarter of 2013. Overall, the credit performance continues to reflect the focus of the majority of the balance sheet on Austria credit exposure and selected areas of Western Europe and continued de-risking of legacy exposures in CEE and other areas. Overall CEE loan exposure was reduced by EUR 353 million to EUR 662 million at the end of the first quarter of 2014 compared to the first quarter of 2013. The Bank does not have any direct exposure to the Ukraine.

The NPL ratio at the end of the first quarter was 3.7% compared to 5.0% at the end of the first quarter of 2013, and 3.4% at year-end 2013. The slight increase in NPL ratio at quarter end on a sequential basis reflected a decrease in the amount of loans and receivables on the balance sheet and does not represent a deterioration of credit quality. Nominal NPL volumes decreased during first quarter 2014 while total loan loss provisions increased by 1.9% during the same period.

Business segment performance

in € m	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total	
	Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013
Net interest income	94.9	79.6	44.6	47.2	13.2	12.8	0.3	(17.0)	153.0	122.7
Net fee and commission income	46.0	41.0	11.7	13.6	0.1	0.1	(2.7)	(2.8)	55.1	51.9
Core revenues	**140.9**	**120.7**	**56.3**	**60.8**	**13.3**	**12.9**	**(2.4)**	**(19.8)**	**208.1**	**174.6**
Gains and losses on financial instruments	0.3	0.5	0.4	5.7	0.2	8.8	17.4	50.1	18.2	65.1
Other operating income and expenses	0.7	0.1	0.0	0.0	0.0	0.0	8.6	1.1	9.3	1.2
Operating income	**141.9**	**121.2**	**56.7**	**66.5**	**13.5**	**21.8**	**23.6**	**31.4**	**235.6**	**240.9**
Core operating expenses	(91.0)	(103.7)	(20.1)	(23.3)	(5.5)	(9.9)	(10.4)	(7.6)	(127.0)	(144.4)
Restructuring expenses and other one-off items	-	-	-	-	-	-	0.0	(7.3)	0.0	(7.3)
Total operating expenses	**(91.0)**	**(103.7)**	**(20.1)**	**(23.3)**	**(5.5)**	**(9.9)**	**(10.4)**	**(14.9)**	**(127.0)**	**(151.7)**
Bank levy	-	-	-	-	-	-	(6.1)	(6.3)	(6.1)	(6.3)
Total risk costs	(9.1)	(9.1)	(12.0)	(20.0)	0.0	0.0	1.5	(1.1)	(19.6)	(30.1)
At-equity	-	-	-	-	-	-	(0.6)	(0.5)	(0.6)	(0.5)
Profit before tax	**41.7**	**8.5**	**24.5**	**23.3**	**8.0**	**11.9**	**8.1**	**8.7**	**82.3**	**52.3**
Income taxes	-	-	-	-	-	-	(2.0)	(7.1)	(2.0)	(7.1)
Profit after tax	**41.7**	**8.5**	**24.5**	**23.3**	**8.0**	**11.9**	**6.1**	**1.6**	**80.3**	**45.3**
Non-controlling interests	-	-	-	-	-	-	(0.3)	(0.2)	(0.3)	(0.2)
Net profit	**41.7**	**8.5**	**24.5**	**23.3**	**8.0**	**11.9**	**5.8**	**1.4**	**80.0**	**45.1**
Business volumes (in € bn)										
Assets	9.5	9.6	13.0	14.5	5.7	4.8	6.2	10.5	34.4	39.4
Risk-weighted assets	3.3	3.5	7.2	8.1	2.2	1.3	4.3	7.2	17.0	20.1
Customer deposits, other funding and equity	19.0	19.8	3.2	3.7	0.0	0.0	12.2	15.8	34.4	39.4
Key ratios (in %)										
Cost-income ratio	64.17%	85.51%	35.53%	34.99%	40.72%	45.31%	n/a	n/a	53.90%	63.00%
Return on risk-weighted assets	5.23%	0.76%	1.38%	1.09%	1.79%	3.26%	n/a	n/a	1.94%	0.89%
Risk costs / loans and receivables	0.39%	0.38%	0.41%	0.61%	0.00%	0.00%	n/a	n/a	0.30%	0.41%
NPL ratio	3.45%	6.29%	2.82%	3.04%	0.41%	16.30%	n/a	n/a	3.67%	5.02%

- **Retail Banking and Small Business**
  - Operating income increased by 17% compared to the first quarter of 2013 due to stronger net interest income and net fee and commission income
  - Retail segment accounted for 68% of total core revenues
  - Continued expansion of the retail loan book despite declining overall market
  - Retail consumer loan market share at 8.5%, up 90bps from first quarter of 2013
  - Optimization of the retail funding costs as customers migrate from fixed-rate term deposits to variable-rate savings
  - Direct banking subsidiary easybank opened 11,000 new accounts in the first quarter of 2014
  - Successful initiatives to optimize product mix led to 10% increase of fund sales compared to the first quarter of 2013 that contributed to increase in net fee and commission income

- Ongoing migration to digital channels and self-service to enhance overall customer experience and further reduce operating expenses

- **Corporate Lending and Investments**
  - Improved efficiency resulted in a 13.3% decrease in total operating expenses
  - Austrian corporate new lending volumes increased despite a flat overall market
  - Ongoing successful portfolio management activities reducing non-core exposures and re-pricing corporate loans. Since the first quarter of 2013, EUR 835 million of non-core corporate exposures were reduced.
  - Blended public sector lending margin increased on the overall portfolio reflecting disciplined pricing approach
  - Continued focus on payment and cash management products leads to slight increase in payments commission income revenues from core client base
  - Core international corporate investment portfolio stable despite competitive market environment while international commercial real estate investments increased with continued portfolio diversification. End of first quarter total funded volumes in core international business amounted to EUR 3.7 billion.

- **Treasury Services and Markets**
  - Net interest income up 3.1% from the first quarter of 2013 demonstrating stable performance of segment while maintaining high quality of new investments
  - Increased operating efficiency led to a decrease of EUR 4.4 million in total operating expenses
  - Continued focus on management of the Bank's excess liquidity through high-quality investments (85% of portfolio rated single A or higher, 99.8% investment grade with average duration of 3.31 years)

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