

BAWAG P.S.K. reports first half 2014 net profit of EUR 175 million, +87%

- Net profit EUR 175.0 million, +87% from H1 2013
- Core revenues of EUR 432.5 million, +21%
- Cost-income ratio continues to trend downward at 51.9%, down 11.4pts
- Business net interest margin improved by 32bps to 2.26%
- Retail consumer lending market share up 70bps over past six months to 8.7%
- CET1 ratio (fully loaded) at 11.2%, up 1.8pts since year-end 2013
- Full year targets on track

VIENNA, Austria – August 20, 2014 – BAWAG P.S.K. today reported a net profit of EUR 175 million for the first half 2014, up 87% versus the same period last year. Annualized return on equity was 16.2%, up 6.2 points. Net interest margin improved 53 basis points to 1.84% with business net interest margins up 32 basis points. Operating expenses were down 17% and risk costs down 41%. Overall performance in the first half reflects the continuous repositioning efforts of the Bank.

“BAWAG P.S.K. continued to deliver strong results with a net profit of EUR 175 million representing an increase of 87%. We had strong performance across all business segments while facing a challenging market environment”, said Chief Executive Officer, Byron Haynes. *“We are starting to see the significant investments made over the past few years paying off. We are proud of the accomplishments in the first half 2014 and expect this strength to continue into the future.”*

“We continue to execute on our long-term strategic repositioning. The first half results are a reflection of significant prior year investments and restructuring measures geared towards positioning BAWAG P.S.K. to be one of the most efficient banks across Europe with a capital efficient, low risk balance sheet”, said Chief Financial Officer, Anas Abuzaakouk. *“We feel this business model will allow us to continue to be successful in a competitive and constantly evolving European banking environment.”*

Key Highlights in H1 2014

Despite a low-interest rate environment and a slow-growth European macro-environment, BAWAG P.S.K. delivered strong results while maintaining a focus on providing competitive and innovative products to its customers. The Bank also further improved its cost structure and continued to strengthen its capital base.

Operating income was EUR 483.2 million, up 2%. Core revenues of EUR 432.5 million increased 21% due to strength in net interest income. Net interest income was up 25% driven by a focus on liability optimization measures and reduced funding costs. Customer loan development remained stable, creating positive earnings leverage. The 9% increase of net commission income reflects continued fee income growth in the Bank’s core retail and corporate franchises. In markets where BAWAG P.S.K. saw slower loan demand and

compressed margins, the Bank maintained a disciplined pricing approach with net interest margin up 53bps to 1.84%. Other revenue was down 57% driven by non-recurring security sales in the first half 2013.

Operating expenses decreased by 17% in the first half 2014. Our focus on efficiency and productivity continues to produce savings. The **cost-income ratio** improved to 51.9%, down 11.4 points.

Credit performance continued to improve. Risk costs decreased by 41% to EUR 37.5 million resulting from improvements in the overall credit quality of the core businesses and positive effects from historical de-risking actions. Risk cost ratio was 0.28% in the first half 2014, a decrease of 16bps compared to first half 2013. Our focus continues to be in safe haven economies like Austria and other developed Western countries such as Germany and the United Kingdom. We significantly reduced our CEE exposure over the years, today below 2%. The NPL ratio of 3.4% remained unchanged compared to year-end 2013 and was 1.1 points better versus 30 June 2013.

BAWAG P.S.K.'s **capital base** continues to be strong with a fully loaded Common Equity Tier 1 capital ratio of 11.2% and a total capital ratio of 15.1%. In addition to the redemption of the remaining EUR 350 million of participation capital in March 2014, the Bank redeemed the non-sustainable minorities of EUR 400 million in the first half 2014 and the remaining EUR 60 million of non-sustainable Tier 1 instruments on 31 July 2014.

The Bank's **funding base** remains its core customer deposits. BAWAG P.S.K. focuses on reducing funding costs and maintains a conservative liquidity management strategy with a loan-to-deposit ratio of 101%. The liquidity reserve amounted to EUR 3.4 billion as of 30 June 2014.

Retail Banking and Small Business was a key driver of the Bank's strong results. Core revenues increased by 16% driven by positive developments in NII and NCI, up 19% and 9% respectively. Prior year investments in our retail franchise continue to pay off. Current accounts increased by 13% in the first half 2014, loans by 21% and funds by 8% contributing to the strength in net commission income. Retail consumer loan market share was up 70bps since year-end 2013 to 8.7%. Funding costs continue to decrease as we focus on reducing non-core funding, re-pricing initiatives and shifting our deposit mix. The direct banking subsidiary *easybank* continued its strong performance in the first half 2014 opening 21,000 new customer accounts.

Corporate Lending and Investments continued to strengthen its operating leverage by reducing its operating expenses by 16%. Austrian corporate new lending volumes increased 47% versus first half 2013. Ongoing portfolio management activities reduced non-core exposures by EUR 440 million since 30 June 2013 and lending margins remained stable through our re-pricing activities. The segment NPL ratio continued to decrease to 2.48%. The new business volume in our core international corporate business reflected a mix of investment grade securities purchases combined with select leveraged loan investments.

International commercial real estate investments increased with continued portfolio diversification. Overall assets in the core international business totaled EUR 4.1 billion as of 30 June 2014.

Treasury Services and Markets reported net interest income up 5% and operating income up 16% since first half 2013 driven by new investments and strategic sales. Increased operating efficiency led to a decrease of operating expenses of 40%. The total investment portfolio amounted to EUR 5.7 billion with an average duration of 3.9 years. 100% of the securities are investment grade, of which 71% were rated single A or higher. The geographic mix of the portfolio is quite diverse with no direct exposure in South-East Europe, Hungary, Ukraine and Russia.

About BAWAG P.S.K.

BAWAG P.S.K. is one of Austria's largest retail 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** include lending, savings, payment, card, investment and insurance services for private and small business customers. Austrian corporate lending activities and other fee-driven financial services 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 and commercial real estate financing primarily in Western Europe. **Treasury Services and Markets** include all activities associated with providing trading and investment services for the Group's treasury activities and the management of the Bank's portfolio of financial securities.

BAWAG P.S.K.'s aim is to have a capital efficient, low risk and low leverage business model while being the most efficient, centrally managed bank across Austria. Delivering competitive, transparent and simple products and services to our customers is the core of our strategy.

BAWAG P.S.K.'s Investor Relations website <http://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	Q2 2014	Q2 2013	Change %	Jan–Jun 2014	Jan–Jun 2013	Change%
Interest income	272.9	272.4	0.2	539.9	535.9	0.7
Interest expense	(104.7)	(140.1)	(25.3)	(218.8)	(283.6)	(22.8)
Dividend income	4.4	4.5	(2.2)	4.4	7.2	(38.9)
Net interest income	172.5	136.7	26.2	325.4	259.5	25.4
Fee and commission income	76.6	76.3	0.4	158.8	151.6	4.7
Fee and commission expenses	(24.7)	(30.1)	(17.9)	(51.7)	(53.5)	(3.4)
Net fee and commission income	51.9	46.2	12.3	107.1	98.1	9.2
Core revenues	224.4	183.0	22.6	432.5	357.6	20.9
Gains and losses on financial instruments ¹⁾ and other operating income and expenses ²⁾	23.3	50.5	(53.9)	50.7	116.8	(56.6)
Operating income	247.7	233.4	6.1	483.2	474.4	1.9
Operating expenses	(123.6)	(148.7)	(16.9)	(250.6)	(300.3)	(16.6)
Bank levy	(6.2)	(6.3)	(1.6)	(12.3)	(12.7)	(3.1)
Operating profit	118.0	78.5	50.3	220.4	161.4	36.6
Provisions and loan-loss provisions	(17.9)	(27.9)	(35.8)	(37.5)	(55.3)	(32.2)
Impairment losses	0.0	(5.8)	(100)	0.0	(8.5)	(100)
Share of the profit or loss of associates accounted for using the equity method	(0.3)	(0.9)	(66.7)	(0.9)	(1.4)	(35.7)
Profit before tax	99.8	43.8	>100	182.0	96.2	89.2
Income taxes	(4.4)	5.4	>(100)	(6.3)	(1.8)	>100
Profit after tax	95.4	49.2	93.9	175.7	94.4	86.1
Thereof attributable to non-controlling interests	0.3	0.4	(25.0)	0.6	0.6	0.0
Thereof attributable to owners of the parent (net profit)	95.1	48.8	94.9	175.0	93.8	86.6

- 1) Excluding valuation results attributable to shareholders of non-controlling interests. Compared to the profit or loss statement presented in the Consolidated Interim Financial Statements according to IFRS, the item gains and losses on financial instruments is EUR 2.7 million lower (first half 2013: EUR 0.0 million). Accordingly, the item profit after tax presented above is EUR 2.7 million lower (first half 2013: EUR 0.0 million) than the profit after tax presented in the Consolidated Interim Financial Statements according to IFRS.
- 2) In accordance with IFRS, the item other operating income and expenses also includes the bank levy in the amount of EUR 12.3 million for H1 2014. However, the Bank's management considers the bank levy as a separate expense. Accordingly, it is shown in the expense line in the Interim Group Management Report.

Total Assets

in EUR million	Jun 2014	Dec 2013	Change%	Jun 2013	Change %
Cash reserves	783	481	62.8	1,047	(25.2)
Financial assets	7,759	7,733	0.3	9,029	(14.1)
Available for sale	4,192	5,126	(18.2)	5,740	(27.0)
Held to maturity	1,841	773	>100	817	>100
Held for trading	1,115	1,081	3.1	1,349	(17.3)
Fair value through profit or loss	611	753	(18.9)	1,123	(45.6)
Loans and receivables	24,975	27,256	(8.4)	27,001	(7.5)
Customers	21,337	20,980	1.7	21,275	0.3
Debt instruments	2,104	2,485	(15.3)	2,812	(25.2)
Credit institutions	1,534	3,791	(59.5)	2,914	(47.4)
Hedging derivatives	402	164	>100	124	>100
Tangible non-current assets	81	85	(4.7)	170	(52.4)
Intangible non-current assets	153	142	7.7	166	(7.8)
Tax assets for current taxes	6	5	20.0	6	0.0
Tax assets for deferred taxes	244	245	(0.4)	237	3.0
Other assets	124	291	(57.4)	299	(58.5)
Assets held for sale	0	0	-	118	(100)
Total assets	34,527	36,402	(5.2)	38,197	(9.6)

Total Liabilities & Equity

in EUR million	Jun 2014	Dec 2013	Change %	Jun 2013	Change %
Financial liabilities	30,883	32,488	(4.9)	33,606	(8.1)
Fair value through profit or loss	2,026	2,968	(31.7)	3,138	(35.4)
Customers	0	0	-	42	(100)
Issued securities	2,026	2,968	(31.7)	3,096	(34.6)
Held for trading	1,045	1,298	(19.5)	1,670	(37.4)
At amortized cost	27,812	28,222	(1.5)	28,798	(3.4)
Customers	21,174	22,013	(3.8)	22,020	(3.8)
Issued securities	4,578	4,563	0.3	4,842	(5.5)
Credit institutions	1,839	1,646	11.7	1,846	(0.4)
Financial liabilities associated with transferred assets	220	0	100	90	>100
Valuation adjustment on interest rate risk hedged portfolios	115	(2)	>(100)	0	100
Hedging derivatives	132	126	4.8	110	20.0
Provisions	495	504	(1.8)	520	(4.8)
Tax liabilities for current taxes	0	1	(100)	2	(100)
Tax liabilities for deferred taxes	9	10	(10.0)	15	(40.0)
Other obligations	618	477	29.6%	1,167	(47.0)
Obligations in disposal groups held for sale	0	0	-	14	(100)
Total equity	2,276	2,798	(18.7)	2,763	(17.6)
Shareholder's equity	2,276	2,053	10.9	1,869	21.8
Participation capital	0	350	(100)	500	(100)
Non-controlling interests	0	395	(100)	394	(100)
Total liabilities and equity	34,527	36,402	(5.2)	38,197	(9.6)

Business Segment Performance

in EUR million	Retail Banking and Small Business		Corporate Lending and Investments		Treasury Services and Markets		Corporate Center		Total	
	Jan-Jun 2014	Jan-Jun 2013	Jan-Jun 2014	Jan-Jun 2013	Jan-Jun 2014	Jan-Jun 2013	Jan-Jun 2014	Jan-Jun 2013	Jan-Jun 2014	Jan-Jun 2013
Net interest income	196.0	165.2	95.0	94.5	24.7	25.9	9.8	(26.2)	325.4	259.5
Net fee and commission income	87.4	79.9	21.3	26.6	0.0	0.1	(1.6)	(8.5)	107.1	98.1
Core revenues	283.3	245.1	116.3	121.1	24.7	26.0	8.2	(34.7)	432.5	357.6
Gains and losses on financial instruments	0.8	25.8	(0.4)	18.5	17.9	10.5	21.2	58.6	39.5	113.4
Other operating income and expenses	1.6	1.1	0.0	0.1	0.0	0.0	9.7	2.1	11.2	3.4
Operating income	285.7	272.1	115.9	139.8	42.6	36.6	39.0	26.0	483.2	474.4
Operating expenses	(178.8)	(207.0)	(39.6)	(47.0)	(11.2)	(18.8)	(21.0)	(27.5)	(250.6)	(300.4)
Bank levy	-	-	-	-	-	-	(12.3)	(12.7)	(12.3)	(12.7)
Total risk costs	(21.1)	(20.4)	(19.1)	(38.5)	0.0	0.0	2.7	(4.9)	(37.5)	(63.8)
Share of the profit or loss of associates accounted for using the equity method	-	-	-	-	-	-	(0.9)	(1.4)	(0.9)	(1.4)
Profit before tax	85.8	44.6	57.2	54.2	31.4	17.8	7.6	(20.4)	181.9	96.2
Income taxes	-	-	-	-	-	-	(6.3)	(1.8)	(6.3)	(1.8)
Profit after tax	85.8	44.6	57.2	54.2	31.4	17.8	1.3	(22.2)	175.6	94.5
Non-controlling interests	-	-	-	-	-	-	(0.6)	(0.6)	(0.6)	(0.6)
Net profit	85.8	44.6	57.2	54.2	31.4	17.8	0.7	(22.8)	175.0	93.8
Business volumes (in EUR billion)										
Assets	9.6	9.5	13.0	14.1	5.7	5.3	6.2	9.4	34.5	38.2
Risk-weighted assets	3.6	3.3	7.4	8.0	2.0	1.4	3.6	5.3	16.7	18.0

Key Quarterly Financial Performance Indicators

<i>figures annualized</i>	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Return on equity	17.0%	15.0%	14.7%	13.0%	10.4%
Return on tangible equity	18.2%	16.1%	15.9%	14.3%	11.5%
Return on risk-weighted assets	2.25%	1.94%	1.76%	1.40%	1.02%
Return on total assets	1.10%	0.90%	0.80%	0.66%	0.50%
Net interest margin	2.00%	1.73%	1.77%	1.71%	1.41%
Business net interest margin	2.30%	2.19%	2.15%	2.17%	2.02%
Cost-income ratio	49.9%	53.9%	67.7%	68.4%	63.7%
Risk costs / loans and receivables	0.28%	0.29%	0.41%	0.10%	0.47%