

# BAWAG P.S.K. REPORTS 2016 RECORD NET PROFIT OF EUR 484 MILLION, +23%

- ▶ Net profit of EUR 484 million, +23% versus prior year
- ▶ Return on tangible equity of 17.9%, +1.8pts
- ▶ Operating income of EUR 991 million, +2%
- ▶ Core revenues of EUR 923 million, +2%
- ▶ Net interest margin stable at 2.3%
- ▶ Operating expenses down 7%
- ▶ Cost-income ratio improved to 44.4%, -4.0pts
- ▶ Fully loaded CET1 ratio of 15.1%, +2.2pts versus year-end 2015

**VIENNA, Austria – February 16, 2017** – BAWAG P.S.K. today releases its preliminary results for 2016, reporting a **record net profit of EUR 484 million**, up 23% 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 17.9%, up 1.8pts. The **net interest margin** remained largely stable at 2.3%. **Operating expenses** were down 7% and the **cost-income ratio** down 4.0pts to 44.4%. **Risk costs** decreased by 7% to EUR 43 million. The Bank has increased its **fully loaded CET1 ratio** by 2.2pts to 15.1%.

*“Last year was yet another record year for BAWAG P.S.K. We continued to grow our business in challenging times by focusing on our customers, applying a disciplined growth strategy and continuously investing in our future. Despite a low-interest rate and slow-growth European macro environment, BAWAG P.S.K. again generated record earnings and outperformed all goals set for 2016, making us one of the most profitable and best-capitalized banks across Europe and providing us with a strong basis for further growth. Additionally, the improved rating by Moody’s as well as the initial rating by Fitch make BAWAG P.S.K. the highest rated bank in Austria by these rating agencies as well as one of the few banks with two ratings in the single A category across Europe. Our strong results in 2016 reiterate that BAWAG P.S.K. is well prepared to succeed in a competitive and evolving European banking environment. On the back of our transformation and our strong results over the past few years, we are in a position to capitalize on unique opportunities to grow our business, both organically and inorganically,”* said Chief Executive Officer **Byron Haynes**.

*“Over the past five 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 in 2017. Our focus remains on driving efficiency, operational excellence and profitable growth,”* said Chief Financial 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 2.2pts to 15.1% (Dec 2015: 12.9%) and the **fully loaded total capital ratio** also by 2.2pts to 18.0% (Dec 2015: 15.8%), 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%.

In 2016, the minimum CET1 ratio according to the SREP (Supervisory Review and Evaluation Process) applicable to BAWAG P.S.K. amounted to 9% (including a systemic risk buffer of 0.25%). For 2017, the regulatory minimum CET1 ratio applicable to BAWAG P.S.K. according to the SREP will be 8% (including a systemic risk buffer of 0.50%). In addition to the capital requirement, the SREP for 2017 for the first time also includes a Pillar 2 guidance, which has been set at 1% for BAWAG P.S.K. The regulator therefore expects BAWAG P.S.K. to maintain a CET1 ratio of 9% (8% SREP requirement plus 1% Pillar 2 guidance).

## Highlights in 2016

### ► Awards

**Euromoney**, one of the leading magazines for banking, finance and capital market issues, elected BAWAG P.S.K. as “Austria’s Best Bank 2016,” emphasizing that we were “the standout story of the year” and highlighting our “sector-beating return on equity,” efficiency and solid capitalization. **The Banker**, an international industry magazine for banks published by the *Financial Times*, selected BAWAG P.S.K. as “Bank of the Year” in Austria for the second time in a row.

### ► Acquisitions

BAWAG P.S.K. acquired **start:bausparkasse**, an Austrian savings and loan association, as well as **IMMO-BANK**. This transaction, successfully closed in December 2016, will grow BAWAG P.S.K.’s domestic retail footprint, extend its expertise in building society savings and loans and result in a significant increase in the financing volume with real estate companies and social housing associations.

### ► Ratings

**Moody’s** again upgraded BAWAG P.S.K.’s **long-term deposit, senior unsecured** and **issuer ratings** by one notch to **A3** in 2016. The **outlook** was maintained as “**positive.**” Additionally, the Bank’s **standalone rating** as well as its **senior subordinate rating** were upgraded to **baa2** and **Baa3** (investment grade for the first time), respectively. According to Moody’s, the rating upgrades reflect the Bank’s stronger-than-anticipated recovery in profitability, the continued de-risking of its balance sheet as well as the continued build-up of the Bank’s capital adequacy ratios. The rating assessment indicates further upside potential for the standalone rating.

In 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, 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 and general pricing discipline as well as a strong capitalization and performance in regulatory stress tests. In early February 2017, Fitch additionally assigned **senior unsecured** and **subordinated debt ratings** of **A-** and **BBB+**, respectively.

### ► Own issues

In 2016, BAWAG P.S.K. issued two **Swiss franc senior unsecured bonds** with a total of CHF 275 million, with one issuance accounting for the lowest ever recorded yield of a newly issued financial bond in CHF on the Swiss financial market (minus 25bps). Furthermore, BAWAG P.S.K. placed an **RMBS transaction** denominated in GBP with a total of GBP 500 million backed by high-quality performing UK retail mortgages to gain access to direct GBP funding, representing the first ever RMBS transaction by an Austrian bank.

## Key business highlights in 2016

BAWAG P.S.K. successfully executed on its business plans in 2016, delivering strong results and exceeding all its stated goals.

**Operating income** increased by 2% to EUR 991 million. Despite a continued low-interest rate environment, **net interest income** rose 1% to EUR 730 million in 2016 compared to 2015, primarily driven by net asset growth and lower funding costs. **Net commission income** increased by 4% to EUR 193 million due to favorable developments across current accounts and the loan insurance business. The **net interest margin** remained stable at 2.3%, reflecting the Bank's dedicated focus on risk-adjusted pricing and optimizing the liability structure.

**Operating expenses** decreased by 7% to EUR 439 million, driven primarily by sustainable long-term measures in non-personnel expenses. The cost-income ratio further improved by 4.0pts to 44.4%.

**Risk costs** decreased by 7% to EUR 43 million, resulting from the improved 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 15bps and an NPL ratio of 2.0%.

**Profit before tax** was EUR 470 million, up 12% versus 2015. **Net profit** increased by 23% to EUR 484 million, driven by higher core revenues, lower operating expenses and reduced risk costs. In addition, a positive one-time net tax benefit was recognized in the first quarter, the majority of which reversed by year-end 2016.

**Customer loans** increased by 15% to EUR 28.5 billion compared to year-end 2015, primarily driven by growth in consumer loans and the international business as well as the acquisition of start:bausparkasse, IMMO-BANK and another high-quality performing residential mortgage portfolio in Western Europe. The total new origination volume in 2016 was EUR 5.0 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 continued to pay off. As an example, the market share in consumer lending, one of the Bank's core retail products, grew to 11.9%, up 1.7pts versus year-end 2015.

The **funding** of BAWAG P.S.K. continued to be based on stable customer deposits representing two-thirds of the funding base. **Customer deposits** increased by 20% to EUR 26.0 billion compared to the previous year. The increase mainly results from the acquisition of start:bausparkasse and IMMO-BANK as well as higher deposit account balances. The funding costs continued to decrease as the product mix, volume and pricing were optimized. At year-end 2016, the blended overall retail deposit rate stood at 0.28%, down 4bps versus a year ago.

## Segment reporting

In 2016, the business segmentation and the related reporting were changed in order to provide greater insight and transparency and to better reflect our strategic focus as well as the progress of the business units going forward.

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 for the first time. This segment achieved a net profit of EUR 169 million in 2016, up 29% compared to 2015, while also delivering a return on equity of 18.4% and a cost-income ratio of 55.2%. Higher core revenues and lower operating expenses more than offset the increase in regulatory charges. New loan originations were EUR 1.2 billion. Overall risk metrics reflect the high credit quality of the retail business, with a largely stable risk cost ratio and an NPL ratio of 1.8% (down 40bps versus the prior year).

The **easygroup** segment, comprising Austria's leading direct bank *easybank*, our auto and mobile leasing platforms as well as our residential mortgage portfolios in Western Europe, showed strong results by more than doubling net profit to EUR 87 million in 2016 with a return on equity of 24.1% and a cost-income ratio of 24.6%. New originations were EUR 460 million. The underlying performance reflects the acquisition of the Volksbank Leasing business in the fourth quarter 2015 as well as the purchase of two high-quality performing residential mortgage portfolios in Western Europe at the end of 2015 and 2016. During the reporting year, we entered into a partnership with Autogott, Austria's leading online car sales channel, which is a perfect fit for easygroup, allowing us to combine our ability to market via an online channel with our leasing expertise. In addition, we successfully launched our new brand *easyleasing*, which serves as our "one brand and one face" to the leasing market in Austria.

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 71 million to the Bank's net profit and delivered a return on equity of 13.1%. Core revenues were down 14%, driven by early redemptions, margin pressure and lower new business volume. This was partly offset by an improvement in operating expenses (down 6%) and positive risk costs. The overall quality of the portfolio further improved, with an NPL ratio of 0.7%, down 50bps versus the prior year, being a reflection of prior years' de-risking activities and the overall high credit quality of the assets.

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 2016, new loan originations were EUR 2.7 billion. The segment contributed EUR 102 million to the Bank's net profit in 2016, down 8% compared to the previous year, but still delivered a return on equity of 17.6% despite higher than anticipated redemptions. Similar to the DACH business, the international business is characterized by high credit quality assets with no non-performing loans.

**Treasury Services & Markets** manages the Bank's investment portfolio of financial securities of EUR 5.4 billion and a liquidity reserve of EUR 1.3 billion at year-end 2016. The investment strategy continues to focus on investment grade securities, primarily representing secured and unsecured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures in order to maintain solid diversification. The investment portfolio's average maturity was 4.3 years, comprising 96% of investment grade-rated securities, of which 80% were rated single A or higher. As of year-end, 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 50 million to the Bank's net profit in 2016 and delivered a return on equity of 13.7%.

## Outlook

Our strong results in 2016 reiterate that BAWAG P.S.K. is well prepared to succeed in a competitive and evolving European banking environment. We are confident that we have positioned the Bank to successfully tackle the challenges the Austrian and European banking industry are confronted with in order to continue to grow while maintaining a conservative risk profile based on our strong capital and funding base. We are ready to capitalize on any opportunities that might arise from the current significant changes within the European banking landscape.

Going into 2017, we plan to grow in the DACH region, one of the wealthiest economic areas in Europe with over 100 million people, very strong macroeconomic fundamentals, a stable legal system and superior credit quality across retail and corporate lending. We have already made preparations to expand organically into Germany and are planning to start offering direct banking services there through our easygroup platform, with the plan to offer banking products to German customers during the first half 2017. We are currently in the process of looking at a few other inorganic opportunities, mainly in the DACH region, that will expedite our growth plans.

### 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.

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.

BAWAG P.S.K. contacts:

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#### **Financial Community:**

Benjamin del Fabro (Head of Investor Relations & Communications)  
Tel: +43 (0) 5 99 05-22456  
E-mail: [investor.relations@bawagpsk.com](mailto:investor.relations@bawagpsk.com)

#### **Media:**

Georgia Schütz-Spörl (Press Officer)  
Tel: +43 (0) 5 99 05-31210  
E-mail: [press@bawagpsk.com](mailto:press@bawagpsk.com)

This text can also be downloaded from our website: <https://www.bawagpsk.com>

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

## Profit or loss statement

in EUR million	2016	2015	Change	Change (%)
Interest income	1,024.4	1,051.3	(26.9)	(2.6)
Interest expense	(297.7)	(339.2)	41.5	(12.2)
Dividend income	3.3	10.2	(6.9)	(67.6)
<b>Net interest income</b>	<b>730.0</b>	<b>722.3</b>	<b>7.7</b>	<b>1.1</b>
Fee and commission income	276.3	292.3	(16.0)	(5.5)
Fee and commission expenses	(83.4)	(106.4)	23.0	(21.6)
<b>Net fee and commission income</b>	<b>192.9</b>	<b>185.9</b>	<b>7.0</b>	<b>3.8</b>
<b>Core revenues</b>	<b>922.9</b>	<b>908.2</b>	<b>14.7</b>	<b>1.6</b>
Gains and losses on financial instruments and other operating income and expenses	67.6	63.6	4.0	6.3
<b>Operating income</b>	<b>990.5</b>	<b>971.8</b>	<b>18.7</b>	<b>1.9</b>
<b>Operating expenses</b>	<b>(439.3)</b>	<b>(470.1)</b>	<b>30.8</b>	<b>(6.6)</b>
Regulatory charges	(46.1)	(36.8)	(9.3)	25.3
<b>Operating profit</b>	<b>505.1</b>	<b>464.8</b>	<b>40.3</b>	<b>8.7</b>
Provisions and loan-loss provisions	(29.7)	(36.9)	7.2	(19.5)
Impairment losses	(0.4)	(1.1)	0.7	(63.6)
Operational risk	(12.6)	(7.8)	(4.8)	61.5
Share of the profit or loss of associates accounted for using the equity method	8.0	(0.5)	8.5	–
<b>Profit before tax</b>	<b>470.4</b>	<b>418.5</b>	<b>51.9</b>	<b>12.4</b>
Income taxes	13.4	(24.1)	37.5	–
<b>Profit after tax</b>	<b>483.8</b>	<b>394.4</b>	<b>89.4</b>	<b>22.7</b>
Non-controlling interests	(0.2)	0.0	(0.2)	(100)
<b>Net profit</b>	<b>483.6</b>	<b>394.4</b>	<b>89.2</b>	<b>22.6</b>

## Total assets

in EUR million	2016	2015	Change	Change (%)
Cash reserves	1,020	809	211	26.1
Financial assets	6,416	6,288	128	2.0
Available-for-sale	3,209	2,745	464	16.9
Held-to-maturity	2,353	2,290	63	2.8
Held for trading	652	950	(298)	(31.4)
Fair value through profit or loss	202	303	(101)	(33.3)
Loans and receivables	30,821	27,396	3,425	12.5
Customers	28,494	24,713	3,781	15.3
Debt instruments	692	973	(281)	(28.9)
Credit institutions	1,635	1,710	(75)	(4.4)
Hedging derivatives	677	469	208	44.3
Tangible non-current assets	56	63	(7)	(11.1)
Intangible non-current assets	360	329	31	9.4
Tax assets for current taxes	10	20	(10)	(50.0)
Tax assets for deferred taxes	203	190	13	6.8
Other assets	180	135	45	33.3
Assets held for sale	–	9	(9)	(100)
<b>Total assets</b>	<b>39,743</b>	<b>35,708</b>	<b>4,035</b>	<b>11.3</b>



### Total liabilities and equity

in EUR million	2016	2015	Change	Change (%)
<b>Total liabilities</b>	<b>36,607</b>	<b>32,751</b>	<b>3,856</b>	<b>11.8</b>
Financial liabilities	34,694	30,854	3,840	12.4
Fair value through profit or loss	1,115	1,269	(154)	(12.1)
Issued securities	1,115	1,269	(154)	(12.1)
Held for trading	617	1,071	(454)	(42.4)
At amortized cost	32,962	28,514	4,448	15.6
Customers	25,998	21,692	4,306	19.9
Issued securities	4,900	3,236	1,664	51.4
Credit institutions	2,064	3,586	(1,522)	(42.4)
Financial liabilities associated with transferred assets	300	621	(321)	(51.7)
Valuation adjustment on interest rate risk hedged portfolios	223	169	54	32.0
Hedging derivatives	260	106	154	>100
Provisions	404	419	(15)	(3.6)
Tax liabilities for current taxes	19	6	13	>100
Tax liabilities for deferred taxes	27	0	27	100
Other obligations	680	576	104	18.1
Obligations in disposal groups held for sale	–	–	0	–
<b>Total equity</b>	<b>3,136</b>	<b>2,957</b>	<b>179</b>	<b>6.1</b>
Shareholders' equity	3,134	2,956	178	6.0
Non-controlling interests	2	1	1	100
<b>Total liabilities and equity</b>	<b>39,743</b>	<b>35,708</b>	<b>4,035</b>	<b>11.3</b>

### Key performance indicators over five quarters

in %	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Return on equity	13.5%	13.0%	14.1%	25.2%	14.7%
Return on tangible equity	15.2%	14.6%	16.0%	28.5%	16.6%
Return on risk-weighted assets	2.51%	2.44%	2.52%	4.43%	2.64%
Return on total assets	1.12%	1.11%	1.16%	2.05%	1.24%
Net interest margin	2.20%	2.30%	2.44%	2.32%	2.39%
Cost-income ratio	49.0%	43.2%	43.7%	41.6%	51.4%
Risk costs / loans and receivables	0.25%	0.14%	0.11%	0.13%	0.17%

## Business segment performance

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	352.3	115.8	79.5	134.0	54.3	(5.9)	730.0
Net fee and commission income	141.1	10.1	39.7	(0.1)	0.0	2.1	192.9
<b>Core revenues</b>	<b>493.4</b>	<b>125.9</b>	<b>119.2</b>	<b>133.9</b>	<b>54.3</b>	<b>(3.8)</b>	<b>922.9</b>
Gains and losses on financial instruments	0.8	0.0	1.0	(2.8)	11.9	8.2	19.1
Other operating income and expenses	1.5	(1.4)	0.0	0.0	0.0	48.4	48.5
<b>Operating income</b>	<b>495.7</b>	<b>124.5</b>	<b>120.2</b>	<b>131.1</b>	<b>66.2</b>	<b>52.8</b>	<b>990.5</b>
<b>Operating expenses</b>	<b>(273.5)</b>	<b>(30.6)</b>	<b>(53.6)</b>	<b>(29.9)</b>	<b>(16.3)</b>	<b>(35.4)</b>	<b>(439.3)</b>
Regulatory charges	(12.3)	(2.4)				(31.4)	(46.1)
Total risk costs	(40.8)	(4.8)	4.4	1.2	0.0	(2.7)	(42.7)
Share of the profit or loss of associates accounted for using the equity method						8.0	8.0
<b>Profit before tax</b>	<b>169.1</b>	<b>86.7</b>	<b>71.0</b>	<b>102.4</b>	<b>49.9</b>	<b>(8.7)</b>	<b>470.4</b>
Income taxes						13.4	13.4
<b>Profit after tax</b>	<b>169.1</b>	<b>86.7</b>	<b>71.0</b>	<b>102.4</b>	<b>49.9</b>	<b>4.7</b>	<b>483.8</b>
Non-controlling interests						(0.2)	(0.2)
<b>Net profit</b>	<b>169.1</b>	<b>86.7</b>	<b>71.0</b>	<b>102.4</b>	<b>49.9</b>	<b>4.5</b>	<b>483.6</b>
<b>Business volumes</b>							
Assets	11,659	4,458	7,812	5,634	6,691	3,489	39,743
Risk-weighted assets <sup>1)</sup>	4,432	2,346	2,916	4,169	2,031	1,246	17,140

1) Based on a fully loaded basis.

<b>2015</b> in EUR million	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	331.4	57.1	99.4	142.2	58.1	34.1	722.3
Net fee and commission income	135.9	8.1	39.2	0.0	0.0	2.7	185.9
<b>Core revenues</b>	<b>467.3</b>	<b>65.2</b>	<b>138.6</b>	<b>142.2</b>	<b>58.1</b>	<b>36.8</b>	<b>908.2</b>
Gains and losses on financial instruments	6.5	0.0	5.1	(6.0)	13.8	45.5	64.9
Other operating income and expenses	1.1	0.1	0.0	0.0	0.0	(2.5)	(1.3)
<b>Operating income</b>	<b>474.9</b>	<b>65.3</b>	<b>143.7</b>	<b>136.2</b>	<b>71.9</b>	<b>79.8</b>	<b>971.8</b>
<b>Operating expenses</b>	<b>(303.2)</b>	<b>(23.4)</b>	<b>(56.8)</b>	<b>(25.7)</b>	<b>(19.0)</b>	<b>(42.1)</b>	<b>(470.2)</b>
Regulatory charges	(6.3)					(30.5)	(36.8)
Total risk costs	(33.9)	0.1	(6.4)	0.2	0.0	(5.8)	(45.8)
Share of the profit or loss of associates accounted for using the equity method						(0.5)	(0.5)
<b>Profit before tax</b>	<b>131.5</b>	<b>42.0</b>	<b>80.5</b>	<b>110.7</b>	<b>52.9</b>	<b>0.9</b>	<b>418.5</b>
Income taxes						(24.1)	(24.1)
<b>Profit after tax</b>	<b>131.5</b>	<b>42.0</b>	<b>80.5</b>	<b>110.7</b>	<b>52.9</b>	<b>(23.2)</b>	<b>394.4</b>
Non-controlling interests						0.0	0.0
<b>Net profit</b>	<b>131.5</b>	<b>42.0</b>	<b>80.5</b>	<b>110.7</b>	<b>52.9</b>	<b>(23.2)</b>	<b>394.4</b>
<b>Business volumes</b>							
Assets	9,178	3,644	7,527	5,748	6,293	3,317	35,707
Risk-weighted assets <sup>1)</sup>	3,827	1,897	3,087	4,565	1,785	1,373	16,534

1) Based on a fully loaded basis.