

## **FITCH: BAWAG'S PLANNED ACQUISITION OF SUEDEWESTBANK IN LINE WITH STRATEGY**

Fitch Ratings-London-26 May 2017: The planned acquisition by BAWAG P.S.K. (A-/Stable/a-) of Suedwestbank AG, a small German regional bank based in Stuttgart, would be consistent with BAWAG's strategic expansion plans beyond Austria, particularly in Germany, one of the bank's main growth markets.

BAWAG announced the planned acquisition and ongoing negotiations with Suedwestbank's shareholders on 24 May 2017. Suedwestbank has been operating since 1922 in its home region of Baden-Wuerttemberg, one of Germany's wealthiest regions with a high concentration of SMEs. The bank focuses on retail, corporate and private banking in the region, where it operates 28 branches. It reported preliminary total assets of EUR7 billion and customer loans of EUR5 billion at end-2016. The acquisition would accelerate the implementation of BAWAG's strategy to expand the bank's retail and SME banking presence in Germany, following more modest steps to date, such as the launch of German online banking operations by the subsidiary easygroup in early 2017.

The acquisition would increase BAWAG's balance sheet and loan book by less than 20%. We expect that BAWAG's strong risk control framework and experience with bolt-on acquisitions in the past couple of years would adequately mitigate the resulting operational and execution risks. Integrating a full bank would be more challenging than BAWAG's recent portfolio deals, but we view Suedwestbank's moderate complexity and size as significant mitigating factors.

We also expect that BAWAG will maintain and continue to comply with its medium-term targets, including a fully-loaded CET1 ratio above 12%, if the acquisition materialises. The bank's strong internal capital generation should also enable BAWAG to rapidly rebuild a comfortable buffer above this minimum level, should the acquisition materially dent its strong capitalisation (with a fully-loaded CET1 ratio of 15.1% at end-2016).

The ratings of BAWAG reflect the successful record of its management in realigning the bank's business model and improving its financial profile following the completion of its restructuring. The ratings also reflect the bank's effective risk management, strong asset quality and generally conservative risk appetite, which includes a focus on high-quality assets in highly developed markets. We expect that BAWAG will maintain its conservative risk appetite following the planned acquisition. The ratings further reflect BAWAG's planned significant growth in the medium term, especially through further opportunistic acquisitions of loan portfolios or other banks.

A successful integration of Suedwestbank could support BAWAG's ability to build a longer record of resilient and increasingly diversified earnings while maintaining sound asset quality through economic cycles and amid more adverse market conditions. However, the acquisition could also put negative pressure on BAWAG's ratings if it erodes the bank's capitalisation and profitability significantly for a longer period or if it results in unexpectedly high operational or integration risks.

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