

# BAWAG GROUP REPORTS STRONG PROFIT BEFORE TAX OF EUR 382 MILLION FOR Q1-3 2017

- ▶ Profit before tax (PBT) of EUR 382 million, +4% vs. prior year ... highest reported quarterly PBT ever in Q3
- ▶ Return on tangible equity (@12% CET1) of 17.1%
- ▶ Core revenues of EUR 744 million, +7%
- ▶ Operating expenses flat despite integration costs from acquisitions in Q4 2016
- ▶ Cost-income ratio improved to 41.4%, -140bps ... Q3 cost-income ratio at 40.8%
- ▶ Net interest margin increased by 6bps to 2.29% compared to Q2
- ▶ Fully loaded CET1 ratio of 16.2%, +260bps versus year-end 2016 and +70bps versus Q2

VIENNA, Austria – November 16, 2017 – BAWAG Group today reports a **strong profit before tax of EUR 382 million** for the first three quarters 2017, up 4% versus the prior year primarily driven by higher core revenues. The **return on tangible equity (@12% CET1)<sup>1)</sup> came in at 17.1%**. **Operating expenses remained flat** despite integration costs from acquisitions completed in the fourth quarter 2016. The **cost-income ratio was down 140bps to 41.4% (Q3: 40.8%)**. The **net interest margin in the third quarter 2017 increased by 6bps to 2.29%** compared to the second quarter. The **fully loaded CET1 ratio increased by 260bps to 16.2%** versus year-end 2016.

*“Our IPO at the end of October was a significant milestone in our company’s 130-year history and a testimony to our strong performance in recent years. The IPO was the largest in Austria’s history and represents a turning point for the Bank as we transition from private to public ownership. I want to thank all involved for their tremendous efforts in making this a reality, recognizing in particular our amazing team at the Bank. I also want to extend a special thanks to our shareholders, both old and new, for their trust, confidence and faith in our organization and future. We are now fully focused on continuing our successful journey as a public company, which means continuing to deliver value to our customers and shareholders. In the first three quarters 2017, profit before tax (PBT) came in at EUR 382 million, up 4% compared to the same period last year, with the highest reported quarterly PBT ever in the third quarter. We will continue to execute on a variety of operational and strategic initiatives during the fourth quarter 2017. Our focus remains on driving operational excellence and profitable growth in the coming years,”* commented Chief Executive Officer **Anas Abuzaakouk**.

## Strong capital ratios

The management team continues to run BAWAG Group on a fully loaded basis from a capital standpoint. The fully loaded CET1 ratio has further improved by 260bps to 16.2% (Dec 2016: 13.6%). Due to the acquisitions this year, BAWAG Group maintains a capital position significantly above both regulatory requirements and the management’s CET1 target ratio of 12%.

### PayLife acquisition completed

In October 2017, the acquisition of the commercial card issuing business of SIX Payment Services Austria, better known as PayLife, was successfully completed. This acquisition adds over half a million new customers and makes us a leading credit card issuer in Austria. Integrating and growing this business will be one of the core focuses for the remainder of 2017 and beyond.

### Acquisition of Südwesbank

In July 2017, we signed an agreement to acquire Südwesbank, a regional bank with over EUR 7 billion assets and approximately 100,000 retail and corporate customers headquartered in Stuttgart, Germany. The expertise and long-standing tradition of Südwesbank in Baden-Württemberg, an economically strong region, make the bank an ideal partner to help the Group expand its footprint and customer base in Germany. This transaction is part of BAWAG Group's larger DACH regional strategy and will provide the Group access to excellent customers in a highly attractive market. The transaction is expected to close in the fourth quarter 2017.

### Key business highlights in the first three quarters 2017

BAWAG Group successfully executed on its business plans in the first three quarters 2017, delivering another quarter of strong results.

**Core revenues** increased by 7% to EUR 744 million. Despite a continued low-interest rate environment, **net interest income** rose 8% to EUR 594 million in the first three quarters 2017, primarily driven by net asset growth and lower funding costs. **Net commission income** increased by 3% to EUR 151 million. The **net interest margin** in the third quarter 2017 increased by 6bps to 2.29% compared to the second quarter, reflecting BAWAG Group's dedicated focus on risk-adjusted pricing and optimizing the liability structure.

**Operating expenses** in the first three quarters 2017 remained flat compared to the first three quarters 2016 despite integration costs related to the acquisitions completed during the fourth quarter 2016. The **cost-income ratio** further improved by 140bps to 41.4% (Q3: 40.8%).

BAWAG Group continues to maintain a conservative risk profile characterized by disciplined underwriting, low leverage and a business model focused on developed markets in Austria and Western Europe. This is best reflected in a **risk cost ratio** of 19bps and an NPL ratio of 2.0% as of September 2017 (excluding the legal case with the City of Linz: 1.3%). Since year-end 2016, our fully loaded regulatory **leverage ratio** has increased by 110bps to 7.5% while the **balance sheet leverage** was 11.3 times as of September 2017.

For comparison purposes, BAWAG Group focuses on **profit before tax**, as net profit in the first three quarters 2016 was significantly impacted by a one-time tax benefit. Profit before tax was EUR 382 million, up 4% compared to the first three quarters 2016 primarily driven by higher core revenues, with the highest ever reported quarterly profit before tax in the third quarter 2017.

**Loans and receivables with customers** increased by 15% to EUR 27.5 billion compared to September 2016, reflecting the acquisition of start:bausparkasse and IMMO-BANK in December 2016. 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 total new origination volume in the first three quarters 2017 was EUR 3.6 billion.

The **funding** of BAWAG Group continues to be based on customer deposits, representing two-thirds of the overall funding base. The increase of 9% to EUR 24.7 billion compared to September 2016 mainly results from the acquisition of start:bausparkasse and IMMO-BANK. The funding costs continued to decrease as the product mix, volume and pricing were optimized. At the end of September 2017, the blended overall retail deposit rate stood at 0.18%, down 6bps versus a year ago.

### Segment reporting

The **BAWAG P.S.K. Retail** segment comprises BAWAG Group's retail and small business lending to domestic customers, social housing activities, real estate leasing and also includes start:bausparkasse. The segment achieved a profit before tax of EUR 175 million in the first three quarters 2017, up 39% compared to the same period last year, while delivering a pre-tax return on equity (@12% CET1) of 28.1% and a cost-income ratio of 47.7%. Overall risk metrics reflect the high credit quality of the retail business, with a risk cost ratio of 35bps (down 3bps versus the first three quarters 2016) and an NPL ratio of 2.2% (down 20bps versus September 2016).

The **easygroup** segment comprises *easybank*, one of Austria's leading direct banks; *easyleasing*, the #3 auto lessor in Austria; *easypay*, a leading credit card issuer in Austria (after the acquisition of PayLife) and our international retail business consisting of high-quality performing residential mortgages in Western Europe. The segment achieved a profit before tax of EUR 96 million in the first three quarters 2017, up 40% compared to the first three quarters 2016, with a pre-tax return on equity (@12% CET1) of 27.7% and a cost-income ratio of 19.7%. In October 2017, the acquisition of PayLife was successfully completed, contributing over half a million new customers and making easygroup a leading credit card issuer in Austria.

The **DACH Corporates & Public Sector** segment includes corporate and public lending and other fee-driven financial services for mainly Austrian customers and select client relationships in Germany and Switzerland. The segment contributed EUR 54 million to BAWAG Group's profit before tax (flat compared to the first three quarters 2016) and delivered a pre-tax return on equity (@12% CET1) of 16.0%. The overall quality of the portfolio further improved compared to the first three quarters 2016, with a stable NPL ratio of 1.0%. This is a reflection of the prior years' de-risking activities and the overall high asset quality.

The **International Business** segment comprises international corporate, real estate and portfolio lending outside the DACH region, primarily in Western Europe and the United States. The segment contributed EUR 62 million to BAWAG Group's profit before tax in the first three quarters 2017, down 25% compared to the same period last year due to higher operating expenses and risk costs, while still delivering a pre-tax return on equity (@12% CET1) of 17.8%. Despite higher-than-anticipated early redemptions and general pressure on margins, core revenues remained largely stable. Similar to the DACH corporate lending business, the international business is characterized by high-quality assets and a low NPL ratio of 1.0%.

**Treasury Services & Markets** manages BAWAG Group's investment portfolio of financial securities of EUR 5.8 billion and a liquidity reserve of EUR 1.7 billion. The investment portfolio's average maturity was five years, comprised 97% of investment grade securities, of which 87% were rated single A or higher. As of 30 September 2017, 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 49 million to BAWAG Group's profit before tax in the first three quarters 2017, up 21% compared to the same period in 2016, and delivered a pre-tax return on equity (@12% CET1) of 21.8%.

### Outlook and targets

BAWAG Group delivered strong results in the first three quarters 2017 and anticipates that this strong performance will continue throughout the remainder of the year. For full year 2017, we expect a profit before tax (PBT) of greater than EUR 500 million, a Return on Tangible Equity (RoTE @12% CET1) greater than 16% and a fully loaded CET1 ratio greater than 12% (post Q4 dividend).

#### Targets:

- ▶ **Profit before tax growth at >5% CAGR** over the coming years. All effects of completed or signed M&A activities (including Südwestbank and PayLife) are factored in. Effects of any potential future acquisitions have not yet been considered.
- ▶ Maintain focus on cost efficiency to achieve a **cost-income ratio below 40%** in the mid-term
- ▶ Maintain a **RoTE (@12% CET1) at mid to high teens**
- ▶ Maintain a **CET1 ratio (FL) of at least 12%**

#### Capital generation and return policy:

- ▶ **Annual dividend payout of 50% of net profit<sup>1)</sup>** targeted
- ▶ **Deployment of additional excess capital of over EUR 1 billion** (above 12% CET1) through 2020
  - Continue to invest in organic growth and pursue earnings-accretive M&A at returns consistent with BAWAG Group's RoTE (@12% CET1) target to enhance franchise and growth
  - To the extent excess capital is not deployed via such organic growth and M&A, management is committed to distributing excess capital to shareholders based on a yearly assessment

In respect of the financial year 2017, BAWAG Group targets a distribution of 50% of net profit from Q4 2017, calculated on the basis of the average quarterly profits of 2017.

### **About BAWAG Group**

BAWAG Group AG is the holding company of BAWAG P.S.K., with its headquarters in Vienna.

### **About BAWAG P.S.K.**

With more than 2.2 million customers, BAWAG P.S.K. is one of Austria's largest and best capitalized banks operating under a well-recognized national brand. BAWAG P.S.K. applies a low-risk, efficient, simple and transparent business model focused on Austria and other developed markets – with two-thirds of its customer loans within Austria. The remaining customer loans are predominantly in Western Europe and the United States. BAWAG P.S.K. serves Austrian retail, small business and corporate customers across the country, offering comprehensive savings, payment, lending, leasing, investment, building society and insurance products and services. BAWAG P.S.K.'s Austrian business is complemented by international activities focused on retail, corporate, commercial real estate and portfolio lending in developed countries within Western Europe. This strategy provides BAWAG P.S.K. with earnings diversification and growth opportunities, while maintaining a conservative risk profile with disciplined underwriting.

BAWAG P.S.K. is run in a safe and secure manner with a solid balance sheet and capitalization as well as low leverage. Delivering simple, transparent and best-in-class products and services that meet its customers' needs is its consistent strategy across all business units.

Our earnings presentation as well as our consolidated interim report for the first three quarters 2017 can be downloaded from <https://www.bawaggroup.com>.

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

## Profit or loss statement

in EUR million	Q3 2017	Q3 2016	Change (%)	Jan-Sep 2017	Jan-Sep 2016	Change (%)
Interest income	271.7	254.4	6.8	820.7	783.0	4.8
Interest expense	(73.7)	(78.3)	(5.9)	(234.0)	(232.6)	0.6
Dividend income	0.0	0.0	–	6.8	1.9	>100
<b>Net interest income</b>	<b>198.0</b>	<b>176.1</b>	<b>12.4</b>	<b>593.5</b>	<b>552.3</b>	<b>7.5</b>
Fee and commission income	67.4	64.4	4.7	210.1	205.2	2.4
Fee and commission expenses	(22.6)	(21.3)	6.1	(59.3)	(59.1)	0.3
<b>Net fee and commission income</b>	<b>44.8</b>	<b>43.1</b>	<b>3.9</b>	<b>150.8</b>	<b>146.1</b>	<b>3.2</b>
<b>Core revenues</b>	<b>242.8</b>	<b>219.2</b>	<b>10.8</b>	<b>744.3</b>	<b>698.4</b>	<b>6.6</b>
Gains and losses on financial instruments and other operating income and expenses <sup>1)</sup>	9.3	18.9	(50.8)	29.0	44.7	(35.1)
<b>Operating income</b>	<b>252.1</b>	<b>238.1</b>	<b>5.9</b>	<b>773.3</b>	<b>743.1</b>	<b>4.1</b>
<b>Operating expenses<sup>1)</sup></b>	<b>(102.8)</b>	<b>(102.9)</b>	<b>(0.1)</b>	<b>(320.4)</b>	<b>(318.1)</b>	<b>0.7</b>
Regulatory charges	(1.7)	(5.9)	(71.2)	(29.8)	(39.8)	(25.1)
<b>Operating profit</b>	<b>147.6</b>	<b>129.3</b>	<b>14.2</b>	<b>423.1</b>	<b>385.2</b>	<b>9.8</b>
Provisions and loan-loss provisions	(16.7)	(8.2)	>100	(38.1)	(20.9)	82.3
Impairment losses	0.0	0.0	–	(0.3)	(0.8)	(62.5)
Operational risk	(0.3)	(0.8)	(62.5)	(5.3)	(3.2)	65.6
Share of the profit or loss of associates accounted for using the equity method	1.2	1.9	(36.8)	3.0	6.2	(51.6)
<b>Profit before tax</b>	<b>131.8</b>	<b>122.2</b>	<b>7.9</b>	<b>382.4</b>	<b>366.5</b>	<b>4.3</b>
Income taxes	(31.2)	(25.9)	20.5	(78.3)	13.5	–
<b>Profit after tax</b>	<b>100.6</b>	<b>96.3</b>	<b>4.5</b>	<b>304.1</b>	<b>380.0</b>	<b>(20.0)</b>
Non-controlling interests	(0.1)	0.0	100	(0.1)	(0.2)	(50.0)
<b>Net profit</b>	<b>100.5</b>	<b>96.3</b>	<b>4.4</b>	<b>304.0</b>	<b>379.8</b>	<b>(20.0)</b>

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 28.1 million for the first three quarters 2017. The item Operating expenses includes regulatory charges in the amount of EUR 1.7 million for the first three quarters 2017 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line.

## Total assets

in EUR million	Sep 2017	Dec 2016	Change (%)	Sep 2016	Change (%)
Cash reserves	717	1,020	(29.7)	836	(14.2)
Financial assets	5,788	6,416	(9.8)	6,169	(6.2)
Available-for-sale	2,751	3,209	(14.3)	2,986	(7.9)
Held-to-maturity	2,420	2,353	2.8	2,163	11.9
Held for trading	434	652	(33.4)	817	(46.9)
Fair value through profit or loss	183	202	(9.4)	203	(9.9)
Loans and receivables	30,598	30,821	(0.7)	25,815	18.5
Customers	27,528	28,494	(3.4)	23,915	15.1
Debt instruments	1,153	692	66.6	815	41.5
Credit institutions	1,917	1,635	17.2	1,085	76.7
Hedging derivatives	543	677	(19.8)	841	(35.4)
Tangible non-current assets	52	56	(7.1)	58	(10.3)
Intangible non-current assets	378	360	5.0	337	12.2
Tax assets for current taxes	5	10	(50.0)	7	(28.6)
Tax assets for deferred taxes	92	203	(54.7)	204	(54.9)
Other assets	177	180	(1.7)	130	36.2
<b>Total assets</b>	<b>38,350</b>	<b>39,743</b>	<b>(3.5)</b>	<b>34,397</b>	<b>11.5</b>

### Total liabilities and equity

in EUR million	Sep 2017	Dec 2016	Change (%)	Sep 2016	Change (%)
<b>Total liabilities</b>	<b>34,954</b>	<b>36,607</b>	<b>(4.5)</b>	<b>31,368</b>	<b>11.4</b>
Financial liabilities	33,764	34,694	(2.7)	29,828	13.2
Fair value through profit or loss	756	1,115	(32.2)	1,068	(29.2)
Held for trading	338	617	(45.2)	807	(58.1)
At amortized cost	32,670	32,962	(0.9)	27,953	16.9
Customers	24,671	25,998	(5.1)	22,722	8.6
Issued securities	4,942	4,900	0.9	3,644	35.6
Credit institutions	3,057	2,064	48.1	1,587	92.6
Financial liabilities associated with transferred assets	0	300	(100)	0	–
Valuation adjustment on interest rate risk hedged portfolios	135	223	(39.5)	327	(58.7)
Hedging derivatives	124	260	(52.3)	217	(42.9)
Provisions	373	404	(7.7)	421	(11.4)
Tax liabilities for current taxes	3	19	(84.2)	5	(40.0)
Tax liabilities for deferred taxes	6	27	(77.8)	0	100
Other obligations	549	680	(19.3)	570	(3.7)
<b>Total equity</b>	<b>3,396</b>	<b>3,136</b>	<b>8.3</b>	<b>3,029</b>	<b>12.1</b>
Shareholders' equity	3,395	3,134	8.3	3,027	12.2
Non-controlling interests	1	2	(50.0)	2	(50.0)
<b>Total liabilities and equity</b>	<b>38,350</b>	<b>39,743</b>	<b>(3.5)</b>	<b>34,397</b>	<b>11.5</b>

### Key performance indicators over five quarters

in %	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Return on equity	11.9%	13.1%	12.1%	13.5%	13.0%
Return on equity (@12% CET1)	14.9%	15.4%	13.6%	15.5%	15.3%
Return on tangible equity	13.4%	14.7%	13.6%	15.2%	14.6%
Return on tangible equity (@12% CET1)	17.3%	17.8%	15.6%	17.9%	17.7%
Net interest margin	2.29%	2.23%	2.23%	2.20%	2.30%
Cost-income ratio	40.8%	43.1%	40.5%	49.0%	43.2%
Risk costs / loans and receivables	0.22%	0.19%	0.14%	0.25%	0.14%
Tax rate	23.7%	16.1%	21.6%	0.1%	21.2%



## Business segment performance

<b>Jan–Sep 2017</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	298.1	115.8	52.7	98.9	37.3	(9.3)	593.5
Net fee and commission income	117.2	8.2	29.0	0.2	0.0	(3.8)	150.8
<b>Core revenues</b>	<b>415.3</b>	<b>124.0</b>	<b>81.7</b>	<b>99.1</b>	<b>37.3</b>	<b>(13.1)</b>	<b>744.3</b>
Gains and losses on financial instruments	3.1	(2.3)	0.6	(0.5)	23.8	18.8	43.5
Other operating income and expenses	1.8	(1.1)	0.0	0.0	0.0	(15.2)	(14.5)
<b>Operating income</b>	<b>420.2</b>	<b>120.6</b>	<b>82.3</b>	<b>98.6</b>	<b>61.1</b>	<b>(9.5)</b>	<b>773.3</b>
<b>Operating expenses</b>	<b>(200.3)</b>	<b>(23.7)</b>	<b>(35.4)</b>	<b>(21.0)</b>	<b>(12.0)</b>	<b>(28.0)</b>	<b>(320.4)</b>
Regulatory charges	(14.3)	(2.4)	–	–	–	(13.1)	(29.8)
Total risk costs	(30.7)	1.8	7.0	(15.8)	0.0	(6.0)	(43.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	3.0	3.0
<b>Profit before tax</b>	<b>174.9</b>	<b>96.3</b>	<b>53.9</b>	<b>61.8</b>	<b>49.1</b>	<b>(53.6)</b>	<b>382.4</b>
Income taxes	–	–	–	–	–	(78.3)	(78.3)
<b>Profit after tax</b>	<b>174.9</b>	<b>96.3</b>	<b>53.9</b>	<b>61.8</b>	<b>49.1</b>	<b>(131.9)</b>	<b>304.1</b>
Non-controlling interests	–	–	–	–	–	(0.1)	(0.1)
<b>Net profit</b>	<b>174.9</b>	<b>96.3</b>	<b>53.9</b>	<b>61.8</b>	<b>49.1</b>	<b>(132.0)</b>	<b>304.0</b>
<b>Business volumes</b>							
Assets	11,480	3,964	7,624	5,139	7,479	2,664	38,350
Liabilities	20,569	4,131	6,283	6	2,127	5,234	38,350
Risk-weighted assets	4,436	3,274	2,917	4,152	1,759	1,274	17,812

	BAWAG P.S.K. Retail	easygroup	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
<b>Jan-Sep 2016</b> in EUR million							
Net interest income	258.6	89.7	58.9	101.7	41.4	2.0	552.3
Net fee and commission income	106.3	6.9	29.7	(0.1)	0.0	3.3	146.1
<b>Core revenues</b>	<b>364.9</b>	<b>96.6</b>	<b>88.6</b>	<b>101.6</b>	<b>41.4</b>	<b>5.3</b>	<b>698.4</b>
Gains and losses on financial instruments	0.8	0.0	1.1	(2.3)	11.1	31.9	42.6
Other operating income and expenses	1.0	(0.1)	0.0	0.0	0.0	1.2	2.1
<b>Operating income</b>	<b>366.7</b>	<b>96.5</b>	<b>89.7</b>	<b>99.3</b>	<b>52.5</b>	<b>38.4</b>	<b>743.1</b>
<b>Operating expenses</b>	<b>(201.8)</b>	<b>(23.3)</b>	<b>(38.7)</b>	<b>(20.0)</b>	<b>(12.0)</b>	<b>(22.3)</b>	<b>(318.1)</b>
Regulatory charges	(12.4)	(2.5)	–	–	–	(24.9)	(39.8)
Total risk costs	(26.6)	(1.9)	2.7	3.1	0.0	(2.2)	(24.9)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	6.2	6.2
<b>Profit before tax</b>	<b>125.9</b>	<b>68.8</b>	<b>53.7</b>	<b>82.4</b>	<b>40.5</b>	<b>(4.8)</b>	<b>366.5</b>
Income taxes	–	–	–	–	–	13.5	13.5
<b>Profit after tax</b>	<b>125.9</b>	<b>68.8</b>	<b>53.7</b>	<b>82.4</b>	<b>40.5</b>	<b>8.7</b>	<b>380.0</b>
Non-controlling interests	–	–	–	–	–	(0.2)	(0.2)
<b>Net profit</b>	<b>125.9</b>	<b>68.8</b>	<b>53.7</b>	<b>82.4</b>	<b>40.5</b>	<b>8.5</b>	<b>379.8</b>
<b>Business volumes</b>							
Assets	9,293	3,053	7,647	4,954	5,905	3,546	34,398
Liabilities	18,310	3,766	3,993	1	2,490	5,838	34,398
Risk-weighted assets	3,676	3,231	2,868	3,731	1,868	1,270	16,644