

BAWAG GROUP REPORTS STRONG H1 2018 PROFIT BEFORE TAX (PBT) OF € 269 MILLION, +9% VS. H1 2017

- ▶ H1 2018 PBT of € 269 million, up 9% compared to the first half 2017
- ▶ Return on tangible equity (@12% CET1) of 15.8%
- ▶ Core revenues of € 557 million, +12% vs. prior year
- ▶ Cost-income ratio of 43.8%, ahead of 2018 target of <46%
- ▶ Fully loaded CET1 ratio of 15.2% (including interim profit), +170bps versus year-end 2017
- ▶ H1 2018 pre-tax earnings per share of € 2.66

VIENNA, Austria – August 14, 2018 – BAWAG Group today reports a strong profit before tax of € 269 million for the first half 2018, up 9% versus the prior year driven by higher operating income. The return on tangible equity (@12% CET1) came in at 15.8%. The cost-income ratio was up 1.8pts versus the prior year to 43.8%, reflecting the impact of the acquisitions closed in the fourth quarter 2017. The fully loaded CET1 ratio increased by 170bps to 15.2% versus year-end 2017, including the interim profit.

“We delivered solid results in the first half 2018, which was also characterized by strong capital generation, execution of our operational transformation roadmap and progress on key strategic initiatives. We have made very good progress on the integration and transformation of PayLife and Südwestbank, and also on accelerating our preferred stand-alone strategy in BAWAG P.S.K. Retail. We continue our work on the M&A front, assessing a number of opportunities while staying disciplined in following our underwriting guidelines on both strategic fit and value. We place a clear focus on technology, having made a number of decisions to reposition our business and organization towards more of a technology company mindset as we believe this will be one of the key differentiators across the banking landscape. Our focus remains on driving operational excellence and profitable growth, and we are confident in meeting or exceeding all of our 2018 targets,” commented Chief Executive Officer **Anas Abuzaakouk**.

Delivering strong results in the first half 2018

We successfully continued to execute on our business plans in the first half 2018, delivering strong results.

Core revenues increased by 12% to € 557 million. Net interest income rose by 5%, primarily driven by the acquisition of Südwestbank we closed in the fourth quarter 2017 and growth in our core products. Net commission income increased by 38% to € 146 million mainly due to the acquisition of PayLife and Südwestbank as well as lower commission expenses paid to Austrian Post. The net interest margin remained stable at 2.15% compared to the first quarter 2018.

Operating expenses in the first half 2018 increased by 17% compared to the first half 2017, which was mainly due to the acquisition of PayLife and Südwestbank. The cost-income ratio increased by 1.8pts to 43.8%, but remains ahead of our 2018 target of <46%.

The risk cost ratio of 11bps in the first half 2018 and an NPL ratio of 1.8% (excluding the legal case with the City of Linz, this would be 1.2%) reflects our continued focus on proactive risk management and maintaining a conservative risk profile. We continue to focus on risk-adjusted returns, forgoing volume to focus on price and asset quality.

Loans and receivables with customers remained largely stable compared to December 2017. The overall customer loan book continued to be comprised of 76% exposure to the DACH region and 24% exposure to Western Europe and the United States. The total new origination volume in the first half 2018 was € 3.0 billion.

We maintained a strong capital position. At the end of the first half 2018, our fully loaded CET1 ratio was 15.2% (December 2017: 13.5%). The increase of 170bps compared to year-end 2017 reflects earnings accretion as well as lower RWAs. Furthermore, a 10bps impact from the first-time application of IFRS 9 was compensated.

Customer business performance in the first half 2018

Segment	PBT (€ million)	Pre-tax RoTE (@12% CET1)	Cost-income ratio
BAWAG P.S.K. Retail	117	37.9%	43.8%
easygroup	71	35.3%	30.9%
International Business	58	32.4%	21.0%
DACH Corporates & Public Sector	22	13.9%	51.5%
Südwestbank	21	11.4%	62.4%

The **BAWAG P.S.K. Retail** segment comprises BAWAG Group's retail and small business lending to domestic customers and social housing activities. The segment achieved a profit before tax of € 117 million in the first half 2018, up 13% compared to the same period last year. The increase was primarily driven by higher operating income (up 6%), which reflects improved net interest income as well as increased net fee and commission income. The latter also includes lower commission expenses paid to Austrian Post following the separation agreement.

The **easygroup** segment comprises *easybank*, one of Austria's leading direct banks; *easyleasing*, the #3 auto lessor in Austria and real estate leasing platform; *easypay*, a leading credit card issuer in Austria; *start:bausparkasse*, one of the largest building societies in Austria, and our international retail business consisting of high-quality performing residential mortgages in Western Europe. The segment achieved a profit before tax of € 71 million in the first half 2018, down 6% compared to the first half 2017, as the prior-year period recorded a net release of risk costs. During the first half 2018, we made significant progress with the PayLife integration. *easybank* was once more awarded by the Financial Marketing Association Austria Recommender Award for having the highest Net Promoter Score of any bank in Austria.

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 € 58 million to BAWAG Group's profit before tax in the first half 2018, up 71% compared to the same period last year. This was mainly due to lower risk costs, which included a release of provisions from the sale of a non-performing loan in oil & gas in the second quarter 2018.

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 € 22 million to BAWAG Group's profit before tax. Our focus continues to be on underwriting business with appropriate risk-adjusted returns.

The **Südwestbank** segment contributed € 21 million to BAWAG Group's profit before tax. In the first half 2018, the integration and transformation process was fully launched and is progressing ahead of plan. The transformation plan is set up to improve operating performance across all products and channels with a focus on profitability, efficiency and capital with a goal to deliver results in line with the overall BAWAG Group targets.

Additional highlights

- ▶ **BAWAG Group was awarded “Best Bank in Austria 2018” by *Global Finance*. Moreover, *Euromoney* awarded the bank with two awards in 2018 (“Western Europe’s Best Bank Transformation” and “Austria’s Best Bank”)**

After *Global Finance*, one of the leading magazines for finance and capital market issues, awarded BAWAG Group as “Best Bank in Austria” for the second consecutive year in March 2018, *Euromoney*, one of the world’s leading special-interest magazines for banking, finance and capital market issues, awarded the bank with two awards in 2018: “Western Europe’s Best Bank Transformation” and “Austria’s Best Bank.” These prestigious awards underline BAWAG Group’s successful transformation over the past few years.

- ▶ **Initiatives for total capital optimization**

In April 2018, we issued € 300 million Additional Tier 1 capital. In June 2018, BAWAG Group launched a tender offer for the € 300 million 8.125% Tier 2 Notes of BAWAG P.S.K. due 30 October 2023 with settlement in July. These were important steps in the optimization of BAWAG Group’s total capital position planned in 2018.

- ▶ **Agreement on strategic partnership with MediaMarktSaturn Austria**

In May 2018, we agreed to an exclusive sales partnership with MediaMarktSaturn Austria. The collaboration will start on 1 January 2019 and is set for the long term. This strategic partnership complements our omni-channel strategy aimed at strengthening our presence in the consumer lending segment on the Austrian market and leveraging cross-selling potential.

- ▶ **Share buyback program launched in July**

In June 2018, we announced a share buyback program for up to 1,285,000 shares for a total consideration of up to € 70 million by year-end 2018, which was launched on 3 July 2018.

Outlook and targets

BAWAG Group delivered strong results in the first half 2018 and anticipates that this performance will continue throughout the remainder of the year.

Our **targets for 2018** are as follows:

- ▶ Grow profit before tax (PBT) by more than 5%
- ▶ Achieve a cost-income ratio below 46%
- ▶ Deliver a return on tangible equity (@12% CET1) above 15%
- ▶ Maintain a CET1 ratio (fully loaded) of at least 12%

In addition, we have the following **3-year targets from 2018 through 2020** in place:

- ▶ Grow profit before tax at more than 5% CAGR and deliver a PBT of greater than € 600 million in 2020
- ▶ Deliver pre-tax average annual earnings per share of greater than € 5.70
- ▶ Achieve a cost-income ratio below 40%
- ▶ Maintain a RoTE (@12% CET1) in a range of 15% to 20%
- ▶ Maintain a CET1 ratio (fully loaded) of at least 12%
- ▶ Total excess capital accretion (>12% CET1) of greater than € 2 billion through 2020

In terms of capital generation and return, we target an annual dividend payout of 50% of net profit and will deploy additional excess capital (above 12% CET1) through 2020 to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our RoTE group targets. To the extent excess capital is not deployed via such organic growth and M&A, we are committed to distributing excess capital to shareholders, based on a yearly assessment, in the form of stock buybacks and/or special dividends.

About BAWAG Group

BAWAG Group AG is the listed holding company of BAWAG P.S.K., which is headquartered in Vienna, Austria, with the main banking subsidiaries *easybank* and *start:bausparkasse* in Austria and *Südwestbank* in Germany. With more than 2.5 million customers, BAWAG P.S.K. is one of Austria's largest banks operating under a well-recognized national brand and applies a low-risk, efficient, simple and transparent business model focused on Austria, Germany and developed markets. The Bank serves retail, small business and corporate customers offering comprehensive savings, payment, lending, leasing, investment, building society and insurance products and services through various online and offline channels. Delivering simple, transparent and best-in-class products and services that meet our customers' needs is the consistent strategy across all business units.

BAWAG Group's Investor Relations website <https://www.bawaggroup.com/ir> contains further information, including financial and other information for investors.

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Profit or loss statement

in € million	Q2 2018	Q2 2017	Change (%)	Jan–Jun 2018	Jan–Jun 2017	Change (%)
Interest income	283.7	264.8	7.1	576.4	544.8	5.8
Interest expense	(85.5)	(74.2)	15.2	(171.7)	(158.5)	8.3
Dividend income	4.7	6.8	(30.9)	6.0	6.8	(11.8)
Net interest income	202.9	197.4	2.8	410.7	393.1	4.5
Fee and commission income	93.3	71.0	31.4	189.0	142.8	32.4
Fee and commission expenses	(21.8)	(14.7)	48.3	(43.0)	(36.7)	17.2
Net fee and commission income	71.5	56.3	27.0	146.0	106.1	37.6
Core revenues	274.4	253.7	8.2	556.7	499.2	11.5
Gains and losses on financial instruments and other operating income and expenses ¹⁾	9.8	1.3	>100	25.1	19.7	27.4
Operating income	284.2	255.0	11.5	581.8	518.9	12.1
Operating expenses¹⁾	(124.8)	(110.6)	12.8	(254.9)	(218.0)	16.9
Regulatory charges	(2.8)	(2.9)	(3.4)	(39.4)	(28.1)	40.2
Operating profit	156.6	141.5	10.7	287.5	272.8	5.4
Total risk costs	(4.9)	(15.6)	(68.6)	(20.7)	(26.7)	(22.5)
Share of the profit or loss of associates accounted for using the equity method	1.0	0.7	42.9	2.1	1.8	16.7
Profit before tax	152.7	126.6	20.6	268.9	247.9	8.5
Income taxes	(36.4)	(20.2)	80.2	(66.2)	(46.4)	42.7
Profit after tax	116.3	106.4	9.3	202.7	201.5	0.6
Non-controlling interests	0.0	0.0	–	0.0	0.0	–
Net profit	116.3	106.4	9.3	202.7	201.5	0.6

1) In BAWAG Group's consolidated half-year financials, in accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 37.7 million for the first half 2018. The item Operating expenses includes regulatory charges in the amount of € 1.7 million for the first half 2018 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line here.

Total assets

in € million	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Cash reserves	937	1,180	(20.6)	887	5.6
Financial assets					
Held for trading	393	458	(14.2)	510	(22.9)
Fair value through profit or loss	510	448	13.8	191	>100
Fair value through OCI	2,379	4,408	(46.0)	3,043	(21.8)
At amortized cost	38,650	38,027	1.6	33,764	14.5
Customers	30,201	30,804	(2.0)	28,003	7.8
Debt instruments	3,205	3,563	(10.0)	3,644	(12.0)
Credit institutions	5,244	3,660	43.3	2,117	>100
Hedging derivatives	440	517	(14.9)	590	(25.4)
Tangible non-current assets	224	223	0.4	53	>100
Intangible non-current assets	513	506	1.4	387	32.6
Tax assets for current taxes	19	12	58.3	6	>100
Tax assets for deferred taxes	95	102	(6.9)	161	(41.0)
Other assets	123	190	(35.3)	139	(11.5)
Total assets	44,283	46,071	(3.9)	39,731	11.5

Note: Due to the application of IFRS 9 from 1 January 2018 and the decision to not restate the accounts, as permitted in the regulations, the balance sheet from the first half 2018 is not comparable with previous reporting periods. Prior-year figures of 2017 have been presented in accordance with the new categories, without a reclassification or remeasurement according to the new standards.

Total liabilities and equity

in € million	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Total liabilities	40,381	42,461	(4.9)	36,394	11.0
Financial liabilities					
Fair value through profit or loss	948	726	30.6	847	11.9
Held for trading	295	345	(14.5)	405	(27.2)
At amortized cost	37,831	39,894	(5.2)	33,846	11.8
Customers	29,817	30,947	(3.7)	25,389	17.4
Issued securities	4,051	4,938	(18.0)	5,120	(20.9)
Credit institutions	3,963	4,009	(1.1)	3,337	18.8
Valuation adjustment on interest rate risk hedged portfolios	130	116	12.1	135	(3.7)
Hedging derivatives	131	94	39.4	140	(6.4)
Provisions	417	450	(7.3)	366	13.9
Tax liabilities for current taxes	2	17	(88.2)	21	(90.5)
Tax liabilities for deferred taxes	10	5	100	27	(63.0)
Other obligations	617	814	(24.2)	607	1.6
Total equity	3,902	3,610	8.1	3,337	16.9
Shareholders' equity	3,603	3,609	(0.2)	3,335	8.0
AT1 capital	298	–	–	–	–
Non-controlling interests	1	1	0.0	1	0.0
Total liabilities and equity	44,283	46,071	(3.9)	39,731	11.5

Note: Due to the application of IFRS 9 from 1 January 2018 and the decision to not restate the accounts, as permitted in the regulations, the balance sheet from the first half 2018 is not comparable with previous reporting periods. Prior-year figures of 2017 have been presented in accordance with the new categories, without a reclassification or remeasurement according to the new standards.

Business segment performance

	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest- bank	Treasury Services & Markets and Corporate Center	Total
Jan–Jun 2018 in € million							
Net interest income	192.2	80.9	61.6	31.2	43.5	1.3	410.7
Net fee and commission income	82.9	28.2	0.1	19.2	16.8	(1.2)	146.0
Core revenues	275.1	109.1	61.7	50.4	60.3	0.1	556.7
Gains and losses on financial instruments	8.5	0.0	2.7	0.1	0.0	9.7	21.0
Other operating income and expenses	1.0	0.0	0.0	0.0	0.0	3.1	4.1
Operating income	284.6	109.1	64.4	50.5	60.3	12.9	581.8
Operating expenses	(124.6)	(33.7)	(13.5)	(26.0)	(37.6)	(19.5)	(254.9)
Regulatory charges	(15.0)	(4.2)	0.0	0.0	(2.8)	(17.4)	(39.4)
Total risk costs	(27.6)	(0.1)	7.2	(2.1)	0.7	1.2	(20.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	2.1	2.1
Profit before tax	117.4	71.1	58.1	22.4	20.6	(20.7)	268.9
Income taxes	–	–	–	–	–	(66.2)	(66.2)
Profit after tax	117.4	71.1	58.1	22.4	20.6	(86.9)	202.7
Non-controlling interests	–	–	–	–	–	–	0.0
Net profit	117.4	71.1	58.1	22.4	20.6	(86.9)	202.7
Business volumes							
Assets	9,534	5,572	5,101	6,853	4,179	13,044	44,283
Liabilities	19,028	5,989	0	6,008	5,258	8,000	44,283
Risk-weighted assets	3,864	3,278	4,301	2,159	3,566	3,017	20,185

	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest- bank	Treasury Services & Markets and Corporate Center	Total
Jan–Jun 2017 in € million							
Net interest income	187.4	88.4	65.4	31.9	–	20.0	393.1
Net fee and commission income	78.6	9.1	0.0	19.8	–	(1.4)	106.1
Core revenues	265.9	97.6	65.4	51.7	–	18.6	499.2
Gains and losses on financial instruments	0.8	0.0	(0.5)	1.7	–	15.3	17.3
Other operating income and expenses	0.9	(0.3)	0.0	0.0	–	1.8	2.4
Operating income	267.6	97.3	64.9	53.4	–	35.7	518.9
Operating expenses	(132.7)	(25.3)	(15.4)	(23.9)	–	(20.7)	(218.0)
Regulatory charges	(12.7)	(4.1)	0.0	0.0	–	(11.3)	(28.1)
Total risk costs	(18.4)	7.6	(15.5)	5.5	–	(5.9)	(26.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	1.8	1.8
Profit before tax	103.8	75.5	34.0	35.0	–	(0.4)	247.9
Income taxes	–	–	–	–	–	(46.4)	(46.4)
Profit after tax	103.8	75.5	34.0	35.0	–	(46.8)	201.5
Non-controlling interests	–	–	–	–	–	–	0.0
Net profit	103.8	75.5	34.0	35.0	–	(46.8)	201.5
Business volumes							
Assets	9,724	5,919	5,130	7,958	–	11,000	39,731
Liabilities	19,105	6,008	1	6,811	–	7,806	39,731
Risk-weighted assets	3,612	4,258	4,099	2,649	–	3,421	18,039