

# BAWAG GROUP REPORTS STRONG Q1–3 2018 PROFIT BEFORE TAX OF € 429 MILLION, +14% VS. Q1–3 2017

- ▶ Profit before tax (PBT) of € 429 million, up 14% vs. prior year
- ▶ Net profit of € 327 million, up 9% vs. prior year
- ▶ Return on tangible equity (@12% CET1) of 16.8%
- ▶ Core revenues of € 836 million, +13% vs. prior year
- ▶ Cost-income ratio of 43.3%, ahead of 2018 target of <46%
- ▶ Fully loaded CET1 ratio of 15.3% (including interim profit), +180bps versus year-end 2017
- ▶ Pre-tax earnings per share of € 4.23 for Q1–3 2018

**VIENNA, Austria – November 8, 2018** – BAWAG Group today reports a strong profit before tax of € 429 million for the first three quarters 2018, up 14% versus the prior year. The increase was primarily driven by higher net fee and commission income as well as net interest income. The return on tangible equity (@12% CET1) came in at 16.8%. The cost-income ratio was up 1.5pts versus the prior year to 43.3%, reflecting the impact of the acquisitions closed in the fourth quarter 2017. The fully loaded CET1 ratio increased by 180bps to 15.3% versus year-end 2017, including the interim profit.

*“Besides having delivered strong results in the first three quarters 2018, we made very good progress on the execution of our key strategic initiatives. The integration and transformation of PayLife and Südwestbank is on track and we closed the acquisition of Deutscher Ring Bausparkasse in the third quarter. Concept 21, our stand-alone strategy in BAWAG P.S.K., is progressing well and we signed another retail partnership agreement. We are continuing 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. Our focus remains on driving operational excellence and profitable growth, and we are confident in exceeding all of our 2018 targets,”* commented Chief Executive Officer **Anas Abuzaakouk**.

## Delivering strong results in the first three quarters 2018

Core revenues increased by € 97 million, or 13%, to € 836 million. Net interest income rose by 6% to € 623 million, primarily driven by the acquisition of Südwestbank we closed in the fourth quarter 2017, growth in our core products as well as balance sheet optimization measures. Net fee and commission income increased by € 62 million, or 41%, to € 213 million mainly due to the acquisition of PayLife and Südwestbank as well as lower commission expenses paid to Austrian Post. The net interest margin of 2.28% (Q3 2018) improved by 13bps compared to the second quarter 2018.

Operating expenses in the first three quarters 2018 increased by 19% compared to the first three quarters 2017, which was mainly due to the acquisition of PayLife and Südwestbank. The cost-income ratio increased by 1.5pts to 43.3%, which remains well ahead of our 2018 target of <46%.

The risk cost ratio of 11bps in the first three quarters 2018 reflects our continued focus on proactive risk management and a conservative risk profile in a persistently benign credit environment. The NPL ratio stood at 1.7%.

Loans and advances with customers remained largely stable compared to December 2017. The overall customer loan book continued to be comprised of approximately 75% exposure to the DACH region and approximately 25% exposure to Western Europe and the United States. The total new origination volume in the first three quarters 2018 was € 4.7 billion, up 28% versus the prior-year period.

We maintained a strong capital position. At the end of the first three quarters 2018, our fully loaded CET1 ratio was 15.3% (December 2017: 13.5%). The increase of 180bps compared to year-end 2017 reflects earnings accretion as well as lower RWAs, while absorbing negative impacts resulting from the Tier 2 buyback, the share buyback program and the first-time application of IFRS 9.

### Customer business performance in the first three quarters 2018

Segment	PBT (€ million)	Pre-tax RoTE (@12% CET1)	Cost-income ratio
BAWAG P.S.K. Retail	177	38.3%	44.5%
easygroup	106	34.2%	31.5%
International Business	88	31.1%	20.5%
DACH Corporates & Public Sector	33	13.7%	51.7%
Südwestbank	33	12.7%	62.6%

The **BAWAG P.S.K. Retail** segment achieved a profit before tax of € 177 million in the first three quarters 2018, up 17% compared to the same period last year. The increase was primarily driven by higher 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. Lower operating expenses also contributed to the increase in profit before tax.

The **easygroup** segment generated a profit before tax of € 106 million in the first three quarters 2018, up 1% compared to the first three quarters 2017. We made significant progress with the PayLife integration, where positive net credit card growth was achieved for the first time since 2013 and only one year after the acquisition. In September 2018, we successfully completed the acquisition of Deutscher Ring Bausparkasse.

The **International Business** segment's profit before tax was € 88 million in the first three quarters 2018, up 45% compared to the same period last year. This was mainly due to lower risk costs and a low NPL ratio of 0.2%.

The **DACH Corporates & Public Sector** segment contributed € 33 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 € 33 million to BAWAG Group's profit before tax. In the first three quarters 2018, the integration and transformation process was fully launched and is progressing ahead of plan. Our 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

### ▶ 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 (take-up approximately 90%). These were important steps in the optimization of BAWAG Group's total capital position planned in 2018.

### ▶ Share buyback program completed

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. The share buyback program was completed on 7 November 2018 as the maximum buyback volume of 1,285,000 shares was reached. The total value of the repurchased shares amounts to € 51 million.

### ▶ Agreements on strategic partnerships

In May 2018, we agreed to an exclusive sales partnership with MediaMarktSaturn Austria, which will start in 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.

In October 2018, we agreed to a strategic partnership with METRO Cash & Carry Austria focusing on current account products and credit cards for entrepreneurs and SMEs. The collaboration, part of a multi-year partnership, will allow us to provide tailored financial products and services to their more than 500,000 customers.

### ▶ Closing Deutscher Ring Bausparkasse

In September 2018, we announced the successful completion of the acquisition of Deutscher Ring Bausparkasse by BAWAG P.S.K. Deutscher Ring Bausparkasse is a building society bank headquartered in Hamburg that is active throughout Germany and has been offering building society products and retail housing products since 1972. The bank complements BAWAG Group's business model while providing a bolt-on opportunity for retail growth in Germany.

## Outlook and targets

BAWAG Group delivered strong results in the first three quarters 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 attributable to shareholders 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.

## 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 as well as Südwestbank and Deutscher Ring Bausparkasse 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	Q3 2018	Q3 2017	Change (%)	Jan-Sep 2018	Jan-Sep 2017	Change (%)
Interest income	286.1	268.3	6.6	862.5	813.1	6.1
Interest expense	(75.7)	(72.8)	4.0	(247.4)	(231.3)	7.0
Dividend income	2.3	0.0	>100	8.3	6.8	22.1
<b>Net interest income</b>	<b>212.7</b>	<b>195.5</b>	<b>8.8</b>	<b>623.4</b>	<b>588.6</b>	<b>5.9</b>
Fee and commission income	90.5	67.4	34.3	279.5	210.2	33.0
Fee and commission expenses	(23.9)	(22.6)	5.8	(66.9)	(59.3)	12.8
<b>Net fee and commission income</b>	<b>66.6</b>	<b>44.8</b>	<b>48.7</b>	<b>212.6</b>	<b>150.9</b>	<b>40.9</b>
<b>Core revenues</b>	<b>279.3</b>	<b>240.3</b>	<b>16.2</b>	<b>836.0</b>	<b>739.5</b>	<b>13.0</b>
Gains and losses on financial instruments and other operating income and expenses <sup>1)</sup>	18.9	9.3	>100	44.0	29.0	51.7
<b>Operating income</b>	<b>298.3</b>	<b>249.6</b>	<b>19.5</b>	<b>880.0</b>	<b>768.5</b>	<b>14.5</b>
<b>Operating expenses<sup>1)</sup></b>	<b>(126.5)</b>	<b>(103.1)</b>	<b>22.7</b>	<b>(381.4)</b>	<b>(321.1)</b>	<b>18.8</b>
Regulatory charges	(2.2)	(1.7)	29.4	(41.6)	(29.8)	39.6
<b>Operating profit</b>	<b>169.6</b>	<b>144.8</b>	<b>17.1</b>	<b>457.0</b>	<b>417.6</b>	<b>9.4</b>
Total risk costs	(11.2)	(17.0)	(34.1)	(31.9)	(43.7)	(27.0)
Share of the profit or loss of associates accounted for using the equity method	1.8	1.2	50.0	3.9	3.0	30.0
<b>Profit before tax</b>	<b>160.1</b>	<b>129.0</b>	<b>24.1</b>	<b>429.0</b>	<b>376.9</b>	<b>13.8</b>
Income taxes	(35.4)	(30.6)	15.7	(101.6)	(77.0)	31.9
<b>Profit after tax</b>	<b>124.7</b>	<b>98.4</b>	<b>26.7</b>	<b>327.4</b>	<b>299.9</b>	<b>9.2</b>
Non-controlling interests	(0.1)	(0.1)	–	(0.1)	(0.1)	–
<b>Net profit</b>	<b>124.6</b>	<b>98.3</b>	<b>26.8</b>	<b>327.3</b>	<b>299.8</b>	<b>9.2</b>

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 39.1 million for the first three quarters 2018. The item Operating expenses includes regulatory charges in the amount of € 2.5 million for the first three quarters 2018 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 € million	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
Cash reserves	751	1,180	(36.4)	717	4.7
Financial assets					
Held for trading	360	458	(21.4)	434	(17.1)
Fair value through profit or loss	508	448	13.4	183	>100
Fair value through OCI	3,137	4,408	(28.8)	2,751	14.0
At amortized cost	38,777	38,027	2.0	33,015	17.5
Customers	30,315	30,804	(1.6)	27,525	10.1
Debt instruments	3,542	3,563	(0.6)	3,573	(0.9)
Credit institutions	4,920	3,660	34.4	1,917	>100
Hedging derivatives	379	517	(26.7)	543	(30.2)
Tangible non-current assets	228	223	2.2	52	>100
Intangible non-current assets	515	506	1.8	395	30.4
Tax assets for current taxes	14	12	16.7	5	>100
Tax assets for deferred taxes	76	102	(25.5)	96	(20.8)
Other assets	134	190	(29.5)	177	(24.3)
<b>Total assets</b>	<b>44,879</b>	<b>46,071</b>	<b>(2.6)</b>	<b>38,368</b>	<b>17.0</b>

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 third quarter 2018 is not comparable with previous reporting periods. Prior-year figures for 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	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
<b>Total liabilities</b>	<b>40,900</b>	<b>42,461</b>	<b>(3.7)</b>	<b>34,984</b>	<b>16.9</b>
Financial liabilities					
Fair value through profit or loss	588	726	(19.0)	756	(22.2)
Held for trading	282	345	(18.3)	338	(16.6)
At amortized cost	38,796	39,894	(2.8)	32,700	18.6
Customers	30,853	30,947	(0.3)	24,701	24.9
Issued securities	3,956	4,938	(19.9)	4,942	(20.0)
Credit institutions	3,987	4,009	(0.5)	3,057	30.4
Valuation adjustment on interest rate risk hedged portfolios	75	116	(35.3)	135	(44.4)
Hedging derivatives	103	94	9.6	124	(16.9)
Provisions	480	450	6.7	373	28.7
Tax liabilities for current taxes	3	17	(82.4)	3	–
Tax liabilities for deferred taxes	12	5	>100	6	100
Other obligations	561	814	(31.1)	549	2.2
<b>Total equity</b>	<b>3,979</b>	<b>3,610</b>	<b>10.2</b>	<b>3,384</b>	<b>17.6</b>
Shareholders' equity	3,680	3,609	2.0	3,383	8.8
AT1 capital	298	–	–	–	–
Non-controlling interests	1	1	0.0	1	0.0
<b>Total liabilities and equity</b>	<b>44,879</b>	<b>46,071</b>	<b>(2.6)</b>	<b>38,368</b>	<b>17.0</b>

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 third quarter 2018 is not comparable with previous reporting periods. Prior-year figures for 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
<b>Jan-Sep 2018</b> in € million							
Net interest income	289.3	121.2	96.2	45.2	63.6	7.9	623.4
Net fee and commission income	119.2	42.6	0.3	27.7	24.3	(1.5)	212.6
<b>Core revenues</b>	<b>408.5</b>	<b>163.8</b>	<b>96.5</b>	<b>72.9</b>	<b>87.9</b>	<b>6.4</b>	<b>836.0</b>
Gains and losses on financial instruments	8.5	0.0	2.7	0.8	0.0	7.2	19.2
Other operating income and expenses	1.4	0.0	0.0	0.0	0.0	23.4	24.8
<b>Operating income</b>	<b>418.4</b>	<b>163.8</b>	<b>99.2</b>	<b>73.7</b>	<b>87.9</b>	<b>37.0</b>	<b>880.0</b>
<b>Operating expenses</b>	<b>(186.0)</b>	<b>(51.6)</b>	<b>(20.3)</b>	<b>(38.1)</b>	<b>(55.0)</b>	<b>(30.4)</b>	<b>(381.4)</b>
Regulatory charges	(15.0)	(4.2)	0.0	0.0	(2.8)	(19.6)	(41.6)
Total risk costs	(40.4)	(2.2)	9.4	(2.5)	3.1	0.7	(31.9)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	3.9	3.9
<b>Profit before tax</b>	<b>177.0</b>	<b>105.8</b>	<b>88.3</b>	<b>33.1</b>	<b>33.2</b>	<b>(8.4)</b>	<b>429.0</b>
Income taxes	–	–	–	–	–	(101.6)	(101.6)
<b>Profit after tax</b>	<b>177.0</b>	<b>105.8</b>	<b>88.3</b>	<b>33.1</b>	<b>33.2</b>	<b>(110.0)</b>	<b>327.4</b>
Non-controlling interests	–	–	–	–	–	(0.1)	(0.1)
<b>Net profit</b>	<b>177.0</b>	<b>105.8</b>	<b>88.3</b>	<b>33.1</b>	<b>33.2</b>	<b>(110.1)</b>	<b>327.3</b>
<b>Business volumes</b>							
Assets	9,621	5,883	5,636	6,039	3,858	13,842	44,879
Liabilities	18,389	6,382	6	7,396	5,146	7,560	44,879
Risk-weighted assets	3,806	3,332	4,672	1,970	3,170	3,351	20,301

	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest- bank	Treasury Services & Markets and Corporate Center	Total
<b>Jan-Sep 2017</b> in € million							
Net interest income	283.0	130.9	98.9	52.7	–	23.1	588.6
Net fee and commission income	111.9	13.6	0.2	29.0	–	(3.8)	150.9
<b>Core revenues</b>	<b>394.8</b>	<b>144.5</b>	<b>99.1</b>	<b>81.7</b>	<b>–</b>	<b>19.4</b>	<b>739.5</b>
Gains and losses on financial instruments	3.0	(2.2)	(0.5)	0.6	–	42.6	43.5
Other operating income and expenses	1.4	(0.8)	0.0	0.0	–	(15.1)	(14.5)
<b>Operating income</b>	<b>399.4</b>	<b>141.4</b>	<b>98.6</b>	<b>82.3</b>	<b>–</b>	<b>46.8</b>	<b>768.5</b>
<b>Operating expenses</b>	<b>(201.7)</b>	<b>(37.1)</b>	<b>(21.8)</b>	<b>(35.5)</b>	<b>–</b>	<b>(25.0)</b>	<b>(321.1)</b>
Regulatory charges	(12.7)	(4.1)	0.0	0.0	–	(13.0)	(29.8)
Total risk costs	(33.4)	4.5	(15.8)	7.0	–	(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>151.6</b>	<b>104.8</b>	<b>61.0</b>	<b>53.8</b>	<b>–</b>	<b>5.7</b>	<b>376.9</b>
Income taxes	–	–	–	–	–	(77.0)	(77.0)
<b>Profit after tax</b>	<b>151.6</b>	<b>104.8</b>	<b>61.0</b>	<b>53.8</b>	<b>–</b>	<b>(71.3)</b>	<b>299.9</b>
Non-controlling interests	–	–	–	–	–	(0.1)	(0.1)
<b>Net profit</b>	<b>151.6</b>	<b>104.8</b>	<b>61.0</b>	<b>53.8</b>	<b>–</b>	<b>(71.4)</b>	<b>299.8</b>
<b>Business volumes</b>							
Assets	9,589	5,769	5,139	7,624	–	10,247	38,368
Liabilities	18,814	5,887	6	6,283	–	7,378	38,368
Risk-weighted assets	3,602	4,107	4,152	2,917	–	3,034	17,812