

# BAWAG GROUP REPORTS RECORD PROFIT BEFORE TAX OF € 573 MILLION FOR 2018, +14% VS. 2017

- ▶ Record full-year profit before tax (PBT) of € 573 million (+14% vs. prior year) with Q4 PBT of € 143 million
- ▶ Outperformed all 2018 targets
- ▶ Fully loaded CET1 ratio of 15.6% pre-dividend and 14.5% post-dividend
- ▶ Capital distribution plans: Dividend of € 2.18 per share (€ 215 million) to be proposed to AGM while actively evaluating share buyback options
- ▶ Very good progress in executing on our strategy
- ▶ Revised Group targets upward for 2019 & 2020 following strong 2018 operating performance

**VIENNA, Austria – February 19, 2019** – BAWAG Group today releases its preliminary results for 2018, reporting a strong **profit before tax** of € 573 million, up 14% versus the prior year. The increase was primarily driven by higher core revenues as well as lower risk costs, the latter reflecting the benign credit environment and the focus on developed markets. The return on tangible equity (@12% CET1) came in at 17.1%. The cost-income ratio of 44.2% remained well below the target of <46%. The fully loaded CET1 ratio increased by net 210 basis points to 15.6% versus year-end 2017, absorbing approximately 50 basis points capital impact from the 2018 share buyback program and Tier 2 capital redemption as well as organic growth. Considering dividend, the fully loaded CET1 ratio was 14.5%.

*“2018 marked yet another successful year for BAWAG Group, delivering record pre-tax profits of € 573 million (+14% versus prior year). We outperformed all of our targets, focused on the things we control, and delivered on our promise of being good stewards of capital all while continuing to shape the BAWAG Group of tomorrow. It’s a real testimony to the Bank and the quality of our team that we were able to complete multiple acquisitions and make progress on integrations; all while never losing sight of executing on our day-to-day operational and strategic initiatives. We will propose to the AGM a dividend payment of € 2.18 per share (equivalent to a gross payout of € 215 million) and are in addition actively evaluating stock buyback options. Based on the strong business performance in 2018, we revised our targets upward. Expectations for 2019 and beyond are high, but I’m convinced that with our team we will continue to deliver value to our customers and shareholders,”* commented Chief Executive Officer **Anas Abuzaakouk**.

## Delivering record results in 2018

**Core revenues** increased by € 113 million, or 11%, to € 1,123 million. Net interest income rose by 6% to € 841 million. **Net fee and commission income** increased by € 66 million, or 30%, to € 283 million mainly due to the acquisition of PayLife and Südwestbank as well as lower commission expenses paid to Austrian Post. **Operating expenses** decreased by 2% compared to 2017, despite the acquisition of PayLife and Südwestbank in 2017 and the acquisition of Deutscher Ring Bausparkasse in September 2018.

The **cost-income ratio** was down 3pts versus the prior year to 44.2% and remained well below our 2018 target of <46%. We maintained a strong capital position with a fully loaded **CET1 ratio** of 14.5% post dividend at year-end 2018 (December 2017: 13.5%).

**Loans and advances** with customers remained largely stable compared to December 2017. The overall customer loan book continued to be comprised of approximately 70% exposure to the DACH region and approximately 30% exposure to Western Europe and the United States.

## Execution on our strategy

Our business model is based on four pillars:

This past year, we made good progress in regards to **growth in our core markets**. Our focus is, and will continue to be, in growing in developed markets with Austria as our core and foundation. Besides growth in our core products across our Austrian Retail & SME businesses, we've planted the seeds with new customer acquisition channels, signing three retail partnerships in 2018. Furthermore, we released new digital products and expanded our broker platforms. We also successfully integrated PayLife, which provides us with a comprehensive credit card offering across BAWAG Group. In the corporate lending space, we experienced very strong growth in our International Lending segment, offsetting softness in the DACH Corporates & Public Sector business.

In 2018 we made great progress with our expansion into Germany, setting the foundation for growing our German retail platform by integrating Südwestbank and closing Deutscher Ring Bausparkasse. These acquisitions were strategic in helping grow our customer franchise, enter new markets, offer new products, leverage talented teams and continue to improve our operating performance. In December, we signed two bolt-on acquisitions in Germany and one in Switzerland, which paved the path to expand our footprint into Switzerland. We continue to assess M&A opportunities, but will remain disciplined in following our underwriting guidelines on both strategic fit and value.

In terms of **making our customers' lives easier**, we have made tremendous progress on our network transformation, known both internally and externally as Concept 21, which stands for a re-imagined, right-sized branch network of up to 100 branches by the end of 2019. Our goal is to provide our customers with a truly differentiated high-quality customer experience, high-quality advisory and substantive engagement as well as leveraging technology to be able to address administrative and transactional activities. By the end of 2018, we completed 85% of the branch transition with a customer retention rate of over 95%. We're excited about the many opportunities ahead as we manage our own independent right-sized branch network, digital channels and salesforce.

The **focus on efficiency and operational excellence** is part of our DNA. With a cost-income ratio in the low 40s and a Return on Tangible Equity (@12% CET1) north 17%, BAWAG Group remains one of the most efficient and profitable banks in Europe.

We run the bank in a **safe and secure** manner. The **NPL ratio** stood at 1.7% and the **risk cost ratio** of 12 basis points in 2018 reflects our continued focus on proactive risk management, conservative risk profile, focusing on developed markets and benefiting from a benign credit environment.

### Customer business segment performance in 2018

Segment	PBT (in € million)	Pre-tax RoTE (@12% CET1)	Cost-income ratio
BAWAG P.S.K. Retail	243 / +25%	41.2%	44.9%
easygroup	145 / +6%	36.2%	31.5%
International Business	123 / +47%	30.9%	19.5%
DACH Corporates & Public Sector	46 / +7%	15.1%	53.3%
Südwestbank	50 / n/a	14.5%	60.2%

The **BAWAG P.S.K. Retail** segment delivered record PBT of € 243 million, up 25% versus 2017. The focus in 2018 was on transforming our retail model by exploring new customer acquisition channels through partnerships and accelerating our preferred stand-alone strategy, *Concept 21*. We have reshaped our network by successfully consolidating a majority of our advisors into our target branch network, helping to drive growth in sales per FTE, while delivering significant cost reduction and providing outstanding services to customers.

The **easygroup** segment also delivered record PBT of € 145 million, up 6% versus 2017. We successfully integrated PayLife and completely repositioned the business by the end of the year. PayLife already reached a significant milestone, achieving net credit card growth (the first since 2013) and successfully launched its credit card issuing business in Germany. Additionally, in December 2018, we launched *Qlick* after working closely with the Südwestbank team to build an integrated online strategy and technology platform.

The **International Business** segment also delivered record results with profit before tax of € 123 million, up 47% versus 2017. This mainly reflects core revenue growth of 4% and the release of prior year provisions. The asset quality is best reflected in an NPL ratio of 50 basis points.

**DACH Corporates & Public Sector** contributed a PBT of € 46 million and the focus continues to be on maintaining and acquiring sustainable customer relationships in a very competitive and challenging environment. We believe risk-adjusted returns are currently out of balance. However, we will remain patient for a more normalized pricing environment while also pursuing further efficiency and funding optimization measures.

**Südwestbank** achieved a PBT of € 50 million. The strategy focuses on developing new customer acquisition strategies to reposition Südwestbank into a broader Retail & SME franchise with a more comprehensive set of retail products distributed through multiple channels. The strong integration momentum has reached an advanced state with a focus on profitability, capital, operational efficiency and risk management targeting to deliver results in line with the overall BAWAG Group targets.

## Additional Highlights in 2018

### ▶ BAWAG Group again received multiple awards

In **March 2018**, BAWAG Group was awarded “Best Bank in Austria” by *Global Finance* for the second consecutive year. Moreover, in **July 2018**, *Euromoney*, one of the world’s leading special-interest magazines for banking, finance and capital market issues, awarded the bank with two awards (“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 (take-up approximately 90%). These were important steps in the optimization of BAWAG Group’s total capital position planned in 2018.

### ▶ Share buyback program

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 executed between 3 July 2018 and 7 November 2018. The maximum volume of 1,285,000 shares was bought back with a total value of € 51 million.

## Outlook and targets

Given our strong operating performance in 2018, we have revised our original 3-year Group targets covering 2018 thru 2020. Essentially, we’ve moved our targets one year forward, reflecting an annual PBT growth rate of 6% for both 2019 and 2020 as well as an absolute PBT target of greater than € 600 million in 2019 and € 640 million in 2020.

Our **targets** for 2019-2020 are as follows:

Targets	2019	2020
Profit before tax growth	>6%	>6%
Profit before tax (absolute)	>€ 600m	>€ 640m
Cost-income ratio	<43%	<40%
Return on tangible equity	15-20%	15-20%
Common Equity Tier 1 capital ratio (fully loaded)	12-13%	12-13%
Pre-tax earnings per share (in €)	>6.00	>6.40
Post-tax earnings per share (in €)	>4.50	>4.80

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 to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our RoTE group targets.

The Managing Board will propose to the Annual General Meeting to distribute a dividend for the financial year 2018 of € 2.18 per share (€ 215 million; based on shares outstanding as of 18 February 2019) and actively evaluates share buyback options.

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

## Profit or loss statement

in € million	2018	2017	Change	Change (%)
Interest income	1,141.4	1,084.9	56.5	5.2
Interest expense	(309.5)	(299.8)	(9.7)	3.2
Dividend income	8.6	8.0	0.6	7.5
<b>Net interest income</b>	<b>840.5</b>	<b>793.1</b>	<b>47.4</b>	<b>6.0</b>
Fee and commission income	372.9	303.6	69.3	22.8
Fee and commission expenses	(90.1)	(86.7)	(3.4)	3.9
<b>Net fee and commission income</b>	<b>282.8</b>	<b>216.9</b>	<b>65.9</b>	<b>30.4</b>
<b>Core revenues</b>	<b>1,123.3</b>	<b>1,010.0</b>	<b>113.3</b>	<b>11.2</b>
Gains and losses on financial instruments and other operating income and expenses <sup>1)</sup>	47.4	110.4	(63.0)	(57.1)
<b>Operating income</b>	<b>1,170.7</b>	<b>1,120.4</b>	<b>50.3</b>	<b>4.5</b>
<b>Operating expenses<sup>1)</sup></b>	<b>(517.9)</b>	<b>(528.5)</b>	<b>10.6</b>	<b>(2.0)</b>
Regulatory charges	(40.1)	(33.8)	(6.3)	18.6
<b>Operating profit</b>	<b>612.7</b>	<b>558.1</b>	<b>54.6</b>	<b>9.8</b>
Total risk costs	(45.1)	(61.8)	16.7	(27.0)
Share of the profit or loss of associates accounted for using the equity method	5.1	4.1	1.0	24.4
<b>Profit before tax</b>	<b>572.7</b>	<b>500.4</b>	<b>72.3</b>	<b>14.4</b>
Income taxes	(136.2)	(51.2)	(85.0)	>100
<b>Profit after tax</b>	<b>436.5</b>	<b>449.2</b>	<b>(12.7)</b>	<b>(2.8)</b>
Non-controlling interests	0.0	(0.1)	–	–
<b>Net profit</b>	<b>436.5</b>	<b>449.1</b>	<b>(12.6)</b>	<b>(2.8)</b>

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 36.1 million for 2018. The item Operating expenses includes regulatory charges in the amount of € 4.0 million for 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	2018	2017	Change	Change (%)
Cash reserves	1,069	1,180	(111)	(9.4)
Financial assets				
Held for trading	351	458	(107)	(23.4)
Fair value through profit or loss	504	448	56	12.5
Fair value through OCI	3,039	4,408	(1,369)	(31.1)
At amortized cost	38,334	38,016	318	0.8
Customers	30,482	30,793	(311)	(1.0)
Debt instruments	3,512	3,563	(51)	(1.4)
Credit institutions	4,340	3,660	680	18.6
Valuation adjustment on interest rate risk hedged portfolios	1	0	1	>100
Hedging derivatives	401	517	(116)	(22.4)
Tangible non-current assets	234	223	11	4.9
Intangible non-current assets	505	488	17	3.5
Tax assets for current taxes	15	12	3	25.0
Tax assets for deferred taxes	75	116	(41)	(35.3)
Other assets	170	190	(20)	(10.5)
<b>Total assets</b>	<b>44,698</b>	<b>46,056</b>	<b>(1,358)</b>	<b>(2.9)</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 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	2018	2017	Change	Change (%)
<b>Total liabilities</b>	<b>40,693</b>	<b>42,479</b>	<b>(1,786)</b>	<b>(4.2)</b>
Financial liabilities				
Fair value through profit or loss	576	726	(150)	(20.7)
Held for trading	301	345	(44)	(12.8)
At amortized cost	38,325	39,894	(1,569)	(3.9)
Customers	30,195	30,947	(752)	(2.4)
Issued securities	3,849	4,938	(1,089)	(22.1)
Credit institutions	4,281	4,009	272	6.8
Financial liabilities associated with transferred assets	150	0	150	>100
Valuation adjustment on interest rate risk hedged portfolios	156	116	40	34.5
Hedging derivatives	104	94	10	10.6
Provisions	465	450	15	3.3
Tax liabilities for current taxes	8	14	(6)	(42.9)
Tax liabilities for deferred taxes	11	5	6	>100
Other obligations	597	835	(238)	(28.5)
<b>Total equity</b>	<b>4,005</b>	<b>3,577</b>	<b>428</b>	<b>12.0</b>
Shareholders' equity	3,706	3,576	130	3.6
AT1 capital	298	–	–	–
Non-controlling interests	1	1	0	0.0
<b>Total liabilities and equity</b>	<b>44,698</b>	<b>46,056</b>	<b>(1,358)</b>	<b>(2.9)</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 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>2018</b> in € million							
Net interest income	386.5	164.1	134.0	58.7	82.5	14.7	840.5
Net fee and commission income	156.9	58.4	0.3	36.7	32.4	(1.9)	282.8
<b>Core revenues</b>	<b>543.4</b>	<b>222.5</b>	<b>134.3</b>	<b>95.4</b>	<b>114.9</b>	<b>12.8</b>	<b>1,123.3</b>
Gains and losses on financial instruments	16.7	0.0	10.1	0.6	0.0	(7.9)	19.5
Other operating income and expenses	1.9	0.0	0.0	0.0	0.0	26.0	27.9
<b>Operating income</b>	<b>562.0</b>	<b>222.5</b>	<b>144.4</b>	<b>96.0</b>	<b>114.9</b>	<b>30.9</b>	<b>1,170.7</b>
<b>Operating expenses</b>	<b>(252.3)</b>	<b>(70.1)</b>	<b>(28.1)</b>	<b>(51.2)</b>	<b>(69.2)</b>	<b>(46.9)</b>	<b>(517.8)</b>
Regulatory charges	(11.7)	(3.9)	0.0	0.0	(2.1)	(22.4)	(40.1)
Total risk costs	(54.8)	(3.4)	6.6	1.3	5.8	(0.7)	(45.2)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	5.1	5.1
<b>Profit before tax</b>	<b>243.2</b>	<b>145.1</b>	<b>122.9</b>	<b>46.1</b>	<b>49.5</b>	<b>(34.0)</b>	<b>572.8</b>
Income taxes	–	–	–	–	–	(136.2)	(136.2)
<b>Profit after tax</b>	<b>243.2</b>	<b>145.1</b>	<b>122.9</b>	<b>46.1</b>	<b>49.5</b>	<b>(170.2)</b>	<b>436.6</b>
Non-controlling interests	–	–	–	–	–	(0.1)	(0.1)
<b>Net profit</b>	<b>243.2</b>	<b>145.1</b>	<b>122.9</b>	<b>46.1</b>	<b>49.5</b>	<b>(170.3)</b>	<b>436.5</b>
<b>Business volumes</b>							
Assets	9,547	5,682	6,284	5,581	3,821	13,783	44,698
Liabilities	18,771	6,472	7	6,411	4,952	8,085	44,698
Risk-weighted assets	3,354	3,254	5,303	1,951	3,184	3,419	20,465

	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest- bank	Treasury Services & Markets and Corporate Center	Total
<b>2017</b> in € million							
Net interest income	378.1	170.6	129.1	70.6	5.6	39.1	793.1
Net fee and commission income	151.0	28.0	0.4	39.1	3.0	(4.6)	216.9
<b>Core revenues</b>	<b>529.1</b>	<b>198.6</b>	<b>129.5</b>	<b>109.7</b>	<b>8.6</b>	<b>34.5</b>	<b>1,010.0</b>
Gains and losses on financial instruments	0.8	0.0	(0.4)	(10.9)	0.0	22.2	11.7
Other operating income and expenses	1.8	2.5	0.0	0.0	0.0	94.4	98.7
<b>Operating income</b>	<b>531.7</b>	<b>201.1</b>	<b>129.1</b>	<b>98.8</b>	<b>8.6</b>	<b>151.1</b>	<b>1,120.4</b>
<b>Operating expenses</b>	<b>(272.8)</b>	<b>(59.7)</b>	<b>(29.0)</b>	<b>(47.5)</b>	<b>(8.0)</b>	<b>(111.5)</b>	<b>(528.5)</b>
Regulatory charges	(13.4)	(4.2)	0.0	0.0	(0.1)	(16.1)	(33.8)
Total risk costs	(51.1)	0.1	(16.3)	(8.0)	(0.2)	13.7	(61.8)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	4.1	4.1
<b>Profit before tax</b>	<b>194.4</b>	<b>137.3</b>	<b>83.8</b>	<b>43.3</b>	<b>0.3</b>	<b>41.3</b>	<b>500.4</b>
Income taxes	–	–	–	–	–	(51.2)	(51.2)
<b>Profit after tax</b>	<b>194.4</b>	<b>137.3</b>	<b>83.8</b>	<b>43.3</b>	<b>0.3</b>	<b>(9.9)</b>	<b>449.2</b>
Non-controlling interests	–	–	–	–	–	(0.1)	(0.1)
<b>Net profit</b>	<b>194.4</b>	<b>137.3</b>	<b>83.8</b>	<b>43.3</b>	<b>0.3</b>	<b>(10.0)</b>	<b>449.1</b>
<b>Business volumes</b>							
Assets	9,502	5,938	5,174	6,725	4,183	14,534	46,056
Liabilities	18,954	5,981	1	6,762	6,146	8,212	46,056
Risk-weighted assets	3,679	4,193	4,318	2,410	3,349	3,542	21,491