

BAWAG GROUP REPORTS RECORD PROFIT BEFORE TAX OF €517 MILLION IN 2017

- ▶ Profit before tax of €517 million, +12% vs. prior year
- ▶ Return on tangible equity (@12% CET1) of 17.9%
- ▶ Net interest income of €791 million, +8% vs. prior year
- ▶ Net fee and commission income of €217 million, +12% vs. prior year
- ▶ Operating income of €1.1 billion, +16% vs. prior year
- ▶ Cost-income ratio (excluding long-term incentive program) improved to 41.6%, -320bps vs. prior year
- ▶ Net interest margin at 2.23%
- ▶ Fully loaded CET1 ratio of 13.5%, well above management target and regulatory requirements
- ▶ Pre-tax earnings per share of €5.17
- ▶ Proposed dividend per share of €0.58 for the fourth quarter
- ▶ All 2017 targets outperformed

VIENNA, Austria – February 27, 2018 – BAWAG Group today releases its preliminary results for 2017, reporting a **record profit before tax of €517 million, up 12%** versus the prior year. The increase was mainly driven by higher operating income (up 16%) reflecting the continued business transformation, positive impacts of prior-year acquisitions and continued focus on efficiency. The **return on tangible equity (@12% CET1) came in at 17.9%**. The **fully loaded CET1 ratio was 13.5%**, fully funding two acquisitions and dividend payments and coming in well above management's target of 12% and all regulatory requirements. The **cost-income ratio improved to 41.6%** (excluding the long-term incentive program, LTIP).

"2017 was a remarkable year for our company. We executed the largest IPO in Austria's history, completed multiple acquisitions and integrations, and continued to execute on our day-to-day operational and strategic initiatives, all while delivering another year of record performance. We delivered €517 million of profit before tax, generated 330 basis points of gross capital while fully funding two acquisitions, dividend payments, and making significant investments allowing us to continue our transformation. Today, BAWAG Group stands as one of the best-performing banks across Europe, an achievement that has been years in the making and is a source of great pride for our team. However, today more than ever, we are laser focused on meeting the ever changing needs of our customers and continuing to adapt to a constantly evolving banking landscape. We continue to see a significant move towards digital platforms, more demand for qualitative sales advisory, and see the many opportunities brought upon by new technologies. Our focus is, and will always be, on driving operational excellence and profitable growth for BAWAG Group in 2018 and the many years ahead," commented Chief Executive Officer **Anas Abuzaakouk**.

Delivering strong results

We successfully executed on our business plans in 2017, delivering strong results and outperformed all targets stated for 2017.

Targets 2017	Performance 2017
Profit before tax > €500 million	€517 million
Return on equity (@12% CET1) >15%	15.3%
Return on tangible equity (@12% CET1) >16%	17.9%
Cost-income ratio <43%	41.6% (excl. LTIP)
Fully loaded CET1 capital ratio >12%	13.5%
Fully loaded leverage ratio >5%	6.2%

Core revenues increased by 9% to €1 billion. Despite a continued low-interest rate environment, **net interest income** rose 8% to €791 million, primarily driven by core product growth, lower funding costs and the integration of new acquisitions. **Net commission income** increased by 12% to €217 million mainly due to an increase in income from current accounts and the acquisition of PayLife. The **net interest margin** was 2.23%, reflecting our dedicated focus on risk-adjusted pricing and optimizing the liability structure.

Operating expenses increased by 20% to €529 million, mainly due the introduction of a long-term incentive program funded in 2017 and higher restructuring reserves. The **cost-income ratio** was 46.5%, however, excluding the long-term incentive program was 41.6%.

We continued to focus on proactive risk management and maintaining a conservative risk profile. This is best reflected in a **risk cost ratio** of 18bps and an NPL ratio of 2.0% as of 31 December 2017 (excluding the legal case with the City of Linz: 1.5%). As of year-end 2017, the fully loaded regulatory **leverage ratio** stood at 6.2%, while the **balance sheet leverage** was 12.8 times.

We delivered a record **profit before tax** of €517 million, up 12% compared to last year, primarily driven by higher operating income (up €157 million, or 16%), which more than offset the increase in operating expenses and risk costs.

Loans and receivables with customers increased by 8% to €30.8 billion as of year-end 2017, primarily reflecting the acquisition of Südwesbank. The overall customer loan book comprises approximately 75% exposure to the DACH region, thereof approximately 60% in Austria. The total new origination volume in 2017 amounted to approximately €5 billion.

The funding of BAWAG Group continues to be based on customer deposits, representing more than two-thirds of the overall funding base. **Deposits from customers** increased by 19% to €30.9 billion as of year-end 2017, primarily driven by the acquisition of Südwesbank. The funding costs continued to decrease as the product mix, volume and pricing were optimized. At the end of December 2017, the blended overall retail deposit rate stood at 0.17%, down 11bps versus a year ago.

We maintained a strong and stable **capital position** in 2017 despite fully funding two acquisitions and dividend payments. At year-end 2017, our fully loaded CET1 ratio was 13.5% (December 2016: 13.6%). The management runs BAWAG Group on a fully loaded basis from a capital standpoint and has set the target for a CET1 ratio of at least 12% on a fully loaded basis. This ratio takes the current and the expected future regulatory capital requirements into account and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator. For 2018, the regulatory minimum CET1 ratio applicable to BAWAG Group according to the SREP is 9.625%. In addition to the capital requirement, the SREP for 2018 also includes a Pillar 2 guidance, which is set at 1% for BAWAG Group. The regulator therefore expects us to maintain a CET1 ratio of 10.625% in total.

Exceptional items in Q4 2017

The fourth quarter 2017 includes exceptional items related to the execution of our strategy. The first-time consolidation of two acquisitions, Südwestbank and PayLife, had a positive net impact on profit before tax of approximately €230 million, mainly comprising goodwill, valuation effects and restructuring reserves. A key strategic development for the branch network transformation was the signing of the separation agreement with Austrian Post. The agreed one-time upfront payment to address the partnership costs over the next two years as well as related restructuring reserves totaled approximately €110 million and were fully accounted for in 2017. The costs for implementing a long-term incentive program for the Managing Board and senior leadership team, initiated in the fourth quarter, amounted to approximately €55 million. Restructuring and legal reserves were increased by approximately €60 million to execute on a number of transformation initiatives.

Customer business performance 2017

Segment	PBT (€ million)	Pre-tax RoTE (@12% CET1)	Cost-income ratio
BAWAG P.S.K. Retail	225	29.8%	48.6%
easygroup	126	32.2%	23.8%
International Business	85	22.5%	21.4%
DACH Corporates & Public Sector	42	11.3%	49.4%

The **BAWAG P.S.K. Retail** segment, comprising BAWAG Group's retail and small business lending to domestic customers, social housing activities, real estate leasing as well as start.bausparkasse, delivered record profit before tax of €225 million in 2017, up 33% versus 2016, and a pre-tax return on tangible equity (@12% CET1) of 29.8%. The segment recorded new originations of €1.4 billion, driven primarily by consumer and housing loans.

In February 2018, we signed an agreement with Austrian Post with retroactive effect as of 1 January 2018 on an accelerated wind-down of our partnership, working towards a materially complete separation by year-end 2019, twelve months earlier than expected. This agreement will allow us to rapidly right-size our branch network by targeting a smaller but more efficient stand-alone network of approximately 100 branches with larger advisory teams, supported by mobile sales teams and high-quality digital platforms. This approach enhances the customer experience by offering locations focused on financial advisory, significantly reduces network costs and creates more productive customer-centric branches. Austrian Post was a solid partner over many years, and we will work closely together to ensure a seamless separation over the next two years that ensures minimal impact to customers and our respective businesses.

The **easygroup** segment comprises *easybank*, one of Austria's leading direct banks; *easyleasing*, the #3 auto lessor in Austria; *easypay* (including PayLife), a leading credit card issuer in Austria; and our international retail business consisting of high-quality performing residential mortgages in Western Europe. The acquisition of the credit card issuing business PayLife was successfully completed in October 2017, contributing approximately 600,000 customers. The segment achieved a profit before tax of €126 million in 2017, up 46% compared to 2016, driven by higher net commission income following the PayLife acquisition, and delivering a pre-tax return on tangible equity (@12% CET1) of 32.2%.

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 €85 million to BAWAG Group's profit before tax in 2017 while delivering a pre-tax return on tangible equity (@12% CET1) of 22.5% and new originations of €2.1 billion. Average asset volume was €5.1 billion, which was flat on a year-over-year basis. The core revenues in the business remained fairly stable, but the business performance was impacted by provisions booked against two oil and gas exposures in the first half 2017. The business pipeline for portfolio financing opportunities remains solid and we continue to focus on maintaining disciplined underwriting with a focus on risk-adjusted returns.

The **DACH Corporates & Public Sector** segment includes corporate and public lending business and other fee-driven financial services for mainly Austrian customers and select client relationships in Germany and Switzerland. The segment contributed €42 million to BAWAG Group's profit before tax and delivered a pre-tax return on tangible equity (@12% CET1) of 11.3% and new originations of €1.0 billion. The business performance was impacted by losses from two corporate exposures that were de-risked / provisioned during the fourth quarter.

Additional highlights in 2017

▶ **Third Moody's upgrade within two years**

In April 2017, Moody's announced several upgrades of BAWAG P.S.K.'s ratings, the third rating upgrade within two years. Our long-term senior unsecured debt, issuer and deposit ratings were all raised by one notch to A2. These upgrades made BAWAG P.S.K. the best-rated Austrian bank by Moody's.

▶ **IPO of BAWAG Group**

On 25 October 2017, BAWAG Group became a listed company on the Vienna Stock Exchange and opened a new chapter in our 130-year history. The IPO was the largest in Austria's history and ranked amongst the ten largest IPOs globally in 2017. It represents a turning point for the Bank from private to public ownership, allowing us to continue to grow as an independent public company equipped to address the many opportunities ahead of us.

▶ **Acquisitions**

- **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 600,000 customers and makes us a leading credit card issuer in Austria and will allow us to grow our credit card business both domestically and internationally.

- **Südwestbank acquisition completed:** In December 2017, the acquisition of Südwestbank, a regional bank headquartered in Stuttgart with approximately 90,000 retail and corporate customers, was completed. The expertise and long-standing tradition of Südwestbank in Baden-Württemberg, an economically strong region, allows us to expand our footprint and customer base in Germany and will serve as a beachhead in executing our growth strategy in the DACH region.
- **Agreement signed to acquire Deutscher Ring Bausparkasse:** In December 2017, BAWAG Group signed an agreement to acquire Deutscher Ring Bausparkasse, a regional building society headquartered in Hamburg that has been offering building society products and services since 1972. The bank complements BAWAG Group's business model while providing a bolt-on opportunity for retail growth in Germany. The transaction is subject to customary closing conditions and regulatory approvals.

▶ **Multiple awards**

Three prestigious awards in 2017 underscore BAWAG Group's successful transformation over the past few years. *Global Finance*, one of the leading magazines for finance and capital market issues, awarded BAWAG Group as "Austria's Best Bank 2017" in March. In November, *The Banker*, an international industry magazine for banks published by the *Financial Times*, selected BAWAG Group as "Bank of the Year" in Austria for the third year in a row. In addition, our direct banking subsidiary *easybank* was again named "Best Direct Bank in Austria" by the Austrian magazine *DerBörsianer* for the second time in December.

Outlook, targets and capital policy

BAWAG Group's strategy focuses on growth in Austria and more broadly the DACH region, both organically and inorganically. We aim to grow our market share in core products in Austria, establish a meaningful presence in Germany and build a best-in-class customer franchise throughout the DACH region while leveraging our position as one of the most profitable and efficient banks across Europe.

Going into 2018, we plan to continue delivering on our growth strategy:

- ▶ **Business model:** We will stay true to our core principles of maintaining a low-risk, low-leverage and well capitalized balance sheet that allows us to maintain our current profitability and drive profitable growth.
- ▶ **M&A pipeline:** We will evaluate further strategic acquisitions to grow our customer franchise and product offering, enter new markets and continue to improve our operating performance.
- ▶ **Focus on technology investments:** We will strive to continue enhancing our customer experience, simplify our processes, enhance our data capabilities and continue improving our operating performance as we look to adopt more of a technology company infrastructure.

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

- ▶ Grow profit before tax 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 profit before tax 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

Our **capital generation and return policy** is as follows:

- ▶ Target annual dividend payout of 50% of net profit
- ▶ Deployment of additional excess capital (above 12% CET1) through 2020:
 - 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, management is committed to distributing excess capital to shareholders, based on a yearly assessment, in the form of stock buybacks and/or special dividends.

The Managing Board will propose to the Annual General Meeting (AGM) to pay a dividend for the fourth quarter 2017 of €0.58 per share (calculated as 50% of the average quarterly net profit generated in the financial year 2017). The AGM will take place on May 7, 2018.

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

Profit or loss statement

in EUR million	2017	2016	Change	Change (%)
Interest income	1,083.1	1,026.1	57.0	5.6
Interest expense	(299.8)	(297.2)	(2.6)	0.9
Dividend income	8.0	3.3	4.7	>100
Net interest income	791.3	732.2	59.1	8.1
Fee and commission income	303.6	276.3	27.3	9.9
Fee and commission expenses	(86.7)	(83.4)	(3.3)	4.0
Net fee and commission income	216.9	192.9	24.0	12.4
Core revenues	1,008.2	925.1	83.1	9.0
Gains and losses on financial instruments and other operating income and expenses ¹⁾	129.4	55.8	73.6	>100
Operating income	1,137.6	980.9	156.7	16.0
Operating expenses¹⁾	(528.8)	(439.4)	(89.4)	20.3
Regulatory charges	(33.8)	(46.1)	12.3	(26.7)
Operating profit	575.0	495.4	79.6	16.1
Total risk costs	(61.8)	(42.7)	(19.1)	44.7
Share of the profit or loss of associates accounted for using the equity method	4.1	8.0	(3.9)	(48.8)
Profit before tax	517.3	460.7	56.6	12.3
Income taxes	(50.6)	12.9	(63.5)	–
Profit after tax	466.7	473.6	(6.9)	(1.5)
Non-controlling interests	(0.1)	(0.2)	0.1	50.0
Net profit	466.6	473.4	(6.8)	(1.4)

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 30.6 million for 2017. The item Operating expenses includes regulatory charges in the amount of EUR 3.2 million for 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	2017	2016	Change	Change (%)
Cash reserves	1,180	1,020	160	15.7
Financial assets	7,588	6,416	1,172	18.3
Available-for-sale	4,408	3,209	1,199	37.4
Held-to-maturity	2,274	2,353	(79)	(3.4)
Held for trading	458	652	(194)	(29.8)
Fair value through profit or loss	448	202	246	>100
Loans and receivables	35,753	30,825	4,928	16.0
Customers	30,804	28,498	2,306	8.1
Debt instruments	1,289	692	597	86.3
Credit institutions	3,660	1,635	2,025	>100
Hedging derivatives	517	677	(160)	(23.6)
Tangible non-current assets	223	56	167	>100
Intangible non-current assets	506	378	128	33.9
Tax assets for current taxes	12	10	2	20.0
Tax assets for deferred taxes	102	199	(97)	(48.7)
Other assets	190	180	10	5.6
Total assets	46,071	39,761	6,310	15.9

Total liabilities and equity

in EUR million	2017	2016	Change	Change (%)
Total liabilities	42,461	36,636	5,825	15.9
Financial liabilities	40,965	34,726	6,239	18.0
Fair value through profit or loss	726	1,115	(389)	(34.9)
Issued securities	726	1,115	(389)	(34.9)
Held for trading	345	617	(272)	(44.1)
At amortized cost	39,894	32,994	6,900	20.9
Customers	30,947	26,030	4,917	18.9
Issued securities	4,938	4,900	38	0.8
Credit institutions	4,009	2,064	1,945	94.2
Financial liabilities associated with transferred assets	–	300	(300)	(100)
Valuation adjustment on interest rate risk hedged portfolios	116	223	(107)	(48.0)
Hedging derivatives	94	260	(166)	(63.8)
Provisions	450	404	46	11.4
Tax liabilities for current taxes	17	19	(2)	(10.5)
Tax liabilities for deferred taxes	5	21	(16)	(76.2)
Other obligations	814	683	131	19.2
Total equity	3,610	3,125	485	15.5
Shareholders' equity	3,609	3,123	486	15.6
Non-controlling interests	1	2	(1)	(50.0)
Total liabilities and equity	46,071	39,761	6,310	15.9

Key performance indicators over five quarters

in %	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Return on equity	18.6%	12.0%	13.1%	12.1%	12.2%
Return on equity (@12% CET1)	22.0%	15.0%	15.5%	13.7%	14.1%
Return on tangible equity	21.4%	13.5%	14.9%	13.8%	13.8%
Return on tangible equity (@12% CET1)	25.9%	17.6%	18.0%	15.8%	16.3%
Net interest margin	2.19%	2.29%	2.23%	2.23%	2.23%
Cost-income ratio	41.8%	40.8%	43.1%	40.5%	51.0%
Risk costs / loans and receivables	0.22%	0.22%	0.19%	0.14%	0.25%
Tax rate	(20.5)%	23.7%	16.1%	21.6%	0.6%

Business segment performance

	BAWAG P.S.K. Retail	easygroup	Südwest- bank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
2017 in EUR million								
Net interest income	398.3	150.4	5.6	70.6	129.1	49.4	(12.1)	791.3
Net fee and commission income	158.1	21.0	3.0	39.1	0.4	0.0	(4.7)	216.9
Core revenues	556.4	171.4	8.6	109.7	129.5	49.4	(16.8)	1,008.2
Gains and losses on financial instruments	0.8	0.0	0.0	(10.9)	(0.4)	21.6	0.6	11.7
Other operating income and expenses	3.9	0.3	0.0	0.0	0.0	0.0	113.5	117.7
Operating income	561.1	171.7	8.6	98.8	129.1	71.0	97.3	1,137.6
Operating expenses	(272.6)	(40.8)	(7.8)	(48.8)	(27.6)	(16.3)	(114.9)	(528.8)
Regulatory charges	(14.9)	(2.7)	(0.1)	–	–	–	(16.1)	(33.8)
Total risk costs	(49.0)	(2.0)	(0.2)	(8.0)	(16.3)	0.0	13.7	(61.8)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	4.1	4.1
Profit before tax	224.6	126.2	0.5	42.0	85.2	54.7	(15.9)	517.3
Income taxes	–	–	–	–	–	–	(50.6)	(50.6)
Profit after tax	224.6	126.2	0.5	42.0	85.2	54.7	(66.5)	466.7
Non-controlling interests	–	–	–	–	–	–	(0.1)	(0.1)
Net profit	224.6	126.2	0.5	42.0	85.2	54.7	(66.6)	466.6
Business volumes								
Assets	11,351	4,173	4,183	6,725	5,174	11,137	3,328	46,071
Liabilities	20,682	4,253	6,146	6,762	–	2,477	5,751	46,071
Risk-weighted assets	4,492	3,381	3,349	2,410	4,318	2,124	1,417	21,491

	BAWAG P.S.K. Retail	easygroup	Südwest- bank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
2016 in EUR million								
Net interest income	352.3	115.8	–	79.5	134.0	54.3	(3.7)	732.2
Net fee and commission income	141.1	10.1	–	39.7	(0.1)	0.0	2.1	192.9
Core revenues	493.4	125.9	–	119.2	133.9	54.3	(1.6)	925.1
Gains and losses on financial instruments	0.8	0.0	–	1.0	(2.8)	11.9	8.2	19.1
Other operating income and expenses	1.5	(1.4)	–	0.0	0.0	0.0	36.6	36.7
Operating income	495.7	124.5	–	120.2	131.1	66.2	43.2	980.9
Operating expenses	(273.5)	(30.6)	–	(53.6)	(29.9)	(16.3)	(35.5)	(439.4)
Regulatory charges	(12.3)	(2.4)	–	–	–	–	(31.4)	(46.1)
Total risk costs	(40.8)	(4.8)	–	4.4	1.2	0.0	(2.7)	(42.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	8.0	8.0
Profit before tax	169.1	86.7	–	71.0	102.4	49.9	(18.4)	460.7
Income taxes	–	–	–	–	–	–	12.9	12.9
Profit after tax	169.1	86.7	–	71.0	102.4	49.9	(5.5)	473.6
Non-controlling interests	–	–	–	–	–	–	(0.2)	(0.2)
Net profit	169.1	86.7	–	71.0	102.4	49.9	(5.7)	473.4
Business volumes								
Assets	11,659	4,458	–	7,812	5,634	6,691	3,507	39,761
Liabilities	21,049	4,478	–	5,487	–	2,847	5,900	39,761
Risk-weighted assets	4,432	4,249	–	2,916	4,169	2,031	1,247	19,044