# BAWAG GROUP REPORTS H1 '20 NET PROFIT OF € 122 MILLION, OR € 1.39 PER SHARE

- **H1 '20 net profit of € 122 million, EPS of € 1.39 and RoTCE of 8.8%**
- **H1 '20 includes general reserves of approximately € 65 million related to COVID-19 effects after applying the ECB's most adverse economic scenarios for the Euro area of -12.6% GDP decline in 2020 and a recovery of +3.3% in 2021**
- **Fully loaded CET1 ratio of 13.4% post-deduction of FY 2019 and H1 '20 dividends**
- **Fully committed to distributing earmarked dividends related to FY '19 and H1 '20, subject to regulatory approval**
- **Targeting RoTCE ~10% for FY 2020 and reiterating mid-term targets of RoTCE >15% and CIR <40% in a normalized environment**

**VIENNA, Austria – July 28, 2020** – BAWAG Group today released its results for the first half 2020, reporting a net profit of € 122 million, earnings per share of € 1.39 and a RoTCE of 8.8%.

The first half 2020 was marked by the outbreak of COVID-19, which was characterized as a global pandemic by the World Health Organization (WHO) in early March. Austria, which is the core and foundation of our business, implemented a lockdown affecting all businesses with the exception of critical infrastructure earlier than most countries in mid-March. Austria has also been one of the early movers in gradually easing restrictions and beginning to open the economy only a month after the initial lockdown.

The underlying operating performance of our business remained solid in the first half 2020 with pre-provision profits of € 330 million and a cost-income ratio of 43%. To address the deteriorating macroeconomic environment as well prudently provision against the observed build-up of customer payment deferrals due to COVID-19, a general reserve of approximately € 65 million was posted in the first half 2020, leading to total risk costs of € 130 million. This assumes the most severe economic scenarios published by the ECB for the Euro area of -12.6% GDP decline in 2020, followed by a recovery of 3.3% in 2021. The bank's capital position remained strong, with a fully loaded CET1 ratio of 13.4% post deduction of dividends. The Bank continues to deduct the full year 2019 (€ 230 million) and first half 2020 (€ 61 million) dividends from capital and will wait for further guidance from our regulators regarding capital distributions.

*"The first half 2020 was marked by the outbreak of COVID-19. In dealing with an unprecedented health crisis we have established measures to take care of our employees, to support our customers and local communities, and protect and grow our franchise. We demonstrated the strength of our franchise delivering a solid operating performance with pre-provision profits of € 330 million, a cost-income ratio of 43% and a return on tangible common equity of 8.8%. We are acting out of an abundance of caution in our provisioning, planning for the worst and hoping for the best. Therefore, we have taken a general reserve of approximately € 65 million to proactively address the macroeconomic deterioration and potential impact to our customers from the COVID-19 crisis. It goes without saying, our business will forever be changed by the events of the past few months. This is the future and the changes we've experienced will serve as catalyst for accelerated changes across our organization in terms of customer engagement, adoption of digital end-to-end processes, more data-driven decision making and being laser focused on driving simplicity and standardization across the Group. Our leadership team has worked together for the better part of the past decade, having driven the transformation of the Group, embracing constant change, and never growing complacent. We will continue to focus on the things that we can control, be proactive and decisive, and not be deterred by the change ahead. I could not be prouder of how the company has come together over the past few months, ensuring smooth operations, staying focused on execution and most importantly delivering for our customers and local communities",* commented Chief Executive Officer **Anas Abuzaakouk**.

## Delivering solid underlying operating performance in H1 2020 versus prior year

**Core revenues** remained broadly stable at € 575 million in the first half 2020 despite the impact from lockdown measures. **Net interest income** rose by 3% to € 448 million driven by higher interest-bearing assets. **Net fee and commission income** decreased by 10% to € 128 million. While all branches remained open during the pandemic, the lockdown measures resulted in less advisory and transaction business, with the second quarter representing a trough of activity. **Operating expenses** decreased by 5% as a result of ongoing efficiency measures. The **cost-income ratio** remained flat at 43.0%. This resulted in a **pre-provision profit** of € 330 million, down 5% versus prior year.

The first half 2020 also included **regulatory charges** of € 39 million, which represents approximately 90% of full-year-charges (with the majority required to be booked in the first quarter).

**Risk costs** were € 130 million in the first half 2020, an increase of € 102 million, or 376% compared to the first half 2019. To address the deteriorating macroeconomic environment as well prudently provision against the observed build-up of customer payment deferrals due to COVID-19, a general reserve of approximately € 65 million was posted across all segments. Additionally, we took a specific provision of € 16 million for an exposure in the Oil & Gas sector in our Corporates business.

BAWAG Group ended the first half 2020 with a fully loaded **CET1 ratio** of 13.4% (December 2019: 13.3%). This considers the earmarked 2019 dividend of € 230 million and the H1 '20 dividend accrual of € 61 million. In line with the ECB recommendation regarding capital distributions being postponed until further guidance is provided, we have postponed the AGM to October 30, 2020. This postponement will enable us to have more clarity on the consequences of COVID-19 and allow for the proper assessment of any further formal guidance or recommendations from the ECB or governmental bodies.

**Customer loans** increased by 3% compared to December 2019. 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. We focus on developed markets as we believe in doing business in countries with stable legal systems, sound macroeconomic fundamentals, and solid finances. We will continue to maintain our conservative risk appetite and focus on our core markets.

Our goal was, and will always be, maintaining a strong balance sheet, solid capitalization levels and conservative underwriting, a cornerstone of how we run the Bank. The NPL ratio stood at 1.6% (excluding the City of Linz case: 1.1%), representing the ongoing low NPL levels. Approximately 60% of the balance sheet is funded via customer deposits and if capital markets turn volatile, there are no funding requirements in 2020. Furthermore, the Bank has a short-term liquidity buffer of € 8.6 billion as of June 2020, including other marketable securities, the buffer increases to € 11.4 billion.

## Customer Business performance in H1 2020 versus H1 2019

| Segment | PBT (in € million) | Net profit (in € million) | RoTCE | Cost-income ratio |
|---|---|---|---|---|
| Retail & SME | 164 / (11%) | 123 / (11%) | 19.8% | 40.2% |
| Corporates & Public | 50 / (47%) | 37 / (47%) | 8.7% | 30.0% |

**Retail & SME** delivered a profit before tax of € 164 million, down 11% versus the first half 2019. The decrease relates to an increase in risk costs, as a general reserve was taken to address COVID-19-related effects. Pre-provision profit increased to € 268 million, up 11% compared to the prior year, with an increase in net interest income more than compensating for COVID-19-related lower net fee and commission income. With the outbreak of COVID-19, we refocused our efforts on the well-being and full service of our customer base during these difficult times and circumstances. However, we also continued executing on our business initiatives. During the first half, we completed an important step in the simplification of our operations, by consolidating our Austrian banking channels and brands under one organization. In Germany, we continued executing on our growth and profitability initiatives by building a strong front-end sales organization across key products and channels, while leveraging central functions in order to provide customers with a frictionless experience while driving synergies across the Group. Overall, we see customers acting out of an abundance of caution, no different than how companies have reacted. This has impacted consumer loan demand and depressed overall consumer spending levels, however, we are already seeing customer activity beginning to normalize.

*"The first half 2020 was a time of significant transition as we emerged into our new and redesigned branch footprint. We now see the positive effects of our retail transformation, with overall sales force productivity having increased year over year. The efficiency created by this transition allows us to reinvest in our network with an enhanced branch experience, digital products and key partnerships for new customer growth. At the same time, the outbreak of COVID-19 required us to adapt to the new environment quickly and actually advanced the transformation of our franchise in Austria to a high tech, high touch advisory. The signs of resilience in the customer base and the flexibility of our business model were encouraging. We have seen trends of customer's focus on building financial cushion for the future, managing risk, finding options for returns on savings, as well as investment in home ownership. These trends have accelerated as we emerge from the health crisis in the second quarter, and we believe that our focus on financial well-being, our commitment to advisory and alternative channels has positioned us well for the future*", commented **David O'Leary**, member of the Managing Board of BAWAG Group and responsible for Retail & SME in Austria.

**Corporates & Public** contributed a profit before tax of € 50 million in the first half 2020, down 47% versus the previous year. In the first half 2020 risk costs were € 40 million, primarily related to the application of the updated macro-economic assumptions as well as the booking of a specific reserve of € 16 million for exposures in the Oil & Gas sector. We continue to see a solid pipeline with diversified opportunities in 2020, including a positive development in the public sector business. However, competition for defensive, high-quality transactions will remain high. Our focus will continue to be on risk-adjusted returns, disciplined underwriting and being patient without ever chasing volume.

## Outlook and targets

The underlying operating performance of the business remained solid in the first six months of 2020 with strong pre-provision profits. To address the deteriorating macroeconomic environment as well prudently provision against the observed build-up of customer payment deferrals due to COVID-19, general reserves were taken reflecting the most adverse economic forecasts for the Euro area published by the European Central Bank.

It is expected that the underlying operating performance remains solid for the remainder of the year, while we will remain prudent on provisioning. The fiscal measures taken by Austria and Germany have supported the real economy and to date softened the impact of COVID-19 on the broader market. While all branches remained open during the pandemic, the lockdown measures resulted in less advisory and transactional business, with the second quarter representing a trough of activity. Overall, there is still uncertainty around the scope and length of the impact of COVID-19 on the markets which we operate and ultimately on our business. We will closely monitor the developments and will work to address to the best of our ability during the course of the year. The outlook for 2020 is based on the ECB's adverse macroeconomic scenario published in June, which assumes a GDP decline of -12.6% in 2020 and a recovery of +3.3% in an adverse scenario in 2021.

**Outlook 2020**

| | |
|---|---|
| Net interest income | Increasing by up to 3% |
| Net fee and commission income | Decreasing 10 to 15% |
| Other income | Flat to H1 '20 |
| Operational expenses | Decreasing by ~5% |
| Risk costs | H2 '20 lower than H1 '20 |
| Return on tangible common equity | Targeting ~ 10% |

Our **medium-term targets** (in a normalized environment) are as follows:

**Medium-term targets**

| | |
|---|---|
| Return on tangible common equity | >15% |
| Cost-income ratio | <40% |

In terms of capital generation and distributions, we target an annual dividend payout of 50% of net profit and will deploy additional excess capital to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our Group RoTCE 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.

The Managing Board continued to deduct the earmarked full year 2019 dividend of € 230 million and the H1 '20 dividend accrual of € 61 million. Therefore, a total of € 291 million has been deducted from our CET1 capital. In line with the ECB recommendation regarding capital distributions being postponed until further guidance is provided, we have postponed the AGM to October 30, 2020. This postponement will enable us to have more clarity on the consequences of COVID-19 and allow for the proper assessment of any further formal guidance or recommendations from the ECB or governmental bodies.

## 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 brands and subsidiaries easybank, easyleasing and start:bausparkasse in Austria. In Germany, BAWAG Group operates under the Südwestbank, BFL Leasing GmbH, Health Coevo AG and start:bausparkasse brands and subsidiaries with Zahnärztekasse AG in Switzerland as well. With 2.4 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, factoring 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 2020 | Q2 2019 | Change (%) | Jan-Jun 2020 | Jan-Jun 2019 | Change (%) |
|---|---|---|---|---|---|---|
| Interest income | 275.0 | 286.3 | (3.9) | 559.0 | 575.3 | (2.8) |
| Interest expense | (49.4) | (67.8) | (27.1) | (113.5) | (142.6) | (20.4) |
| Dividend income | 2.2 | 2.1 | 4.8 | 2.2 | 2.4 | (8.3) |
| **Net interest income** | **227.8** | **220.6** | **3.3** | **447.7** | **435.1** | **2.9** |
| Fee and commission income | 73.2 | 93.0 | (21.3) | 165.3 | 186.6 | (11.4) |
| Fee and commission expenses | (17.4) | (23.0) | (24.3) | (37.6) | (44.0) | (14.5) |
| **Net fee and commission income** | **55.8** | **70.0** | **(20.3)** | **127.7** | **142.6** | **(10.4)** |
| **Core revenues** | **283.6** | **290.6** | **(2.4)** | **575.4** | **577.7** | **(0.4)** |
| Gains and losses on financial instruments and other operating income and expenses[1] | 0.6 | 22.4 | (97.3) | 4.4 | 33.6 | (86.9) |
| **Operating income** | **284.2** | **313.0** | **(9.2)** | **579.8** | **611.3** | **(5.2)** |
| **Operating expenses[1]** | **(124.7)** | **(136.0)** | **(8.3)** | **(249.6)** | **(262.3)** | **(4.8)** |
| **Pre-provision profit** | **159.5** | **177.0** | **(9.9)** | **330.2** | **349.0** | **(5.4)** |
| Regulatory charges | (2.5) | (2.9) | (13.8) | (38.8) | (37.1) | 4.6 |
| **Operating profit** | **157.0** | **174.1** | **(9.8)** | **291.3** | **311.9** | **(6.6)** |
| Total risk costs | (74.6) | (15.3) | >100 | (129.6) | (27.2) | >100 |
| Share of the profit or loss of associates accounted for using the equity method | (1.6) | 1.2 | - | (0.4) | 2.4 | - |
| **Profit before tax** | **80.8** | **160.0** | **(49.5)** | **161.3** | **287.1** | **(43.8)** |
| Income taxes | (19.3) | (38.3) | (49.6) | (38.6) | (68.5) | (43.6) |
| **Profit after tax** | **61.5** | **121.7** | **(49.5)** | **122.7** | **218.6** | **(43.9)** |
| Non-controlling interests | (0.3) | 0.0 | >(100) | (0.3) | 0.0 | >(100) |
| **Net profit** | **61.2** | **121.7** | **(49.7)** | **122.3** | **218.6** | **(44.1)** |

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 36.3 million for the first half 2020. The item Operating expenses includes regulatory charges in the amount of € 2.5 million for the first half 2020 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 | Jun 2020 | Dec 2019 | Change (%) | Jun 2019 | Change (%) |
|---|---|---|---|---|---|
| Cash reserves | 843 | 1,424 | (40.8) | 803 | 5.0 |
| Financial assets | | | | | |
| Held for trading | 375 | 353 | 6.2 | 409 | (8.3) |
| Fair value through profit or loss | 811 | 740 | 9.6 | 537 | 51.0 |
| Fair value through OCI | 5,140 | 3,631 | 41.6 | 3,069 | 67.5 |
| At amortized cost | 42,135 | 37,556 | 12.2 | 37,631 | 12.0 |
| Customers | 31,372 | 30,467 | 3.0 | 31,062 | 1.0 |
| Debt instruments | 2,500 | 1,369 | 82.6 | 2,955 | (15.4) |
| Credit institutions | 8,263 | 5,720 | 44.5 | 3,614 | >100 |
| Valuation adjustment on interest rate risk hedged portfolios | 17 | 5 | >100 | 4 | >100 |
| Hedging derivatives | 423 | 397 | 6.5 | 494 | (14.4) |
| Tangible non-current assets | 501 | 707 | (29.1) | 637 | (21.4) |
| Intangible non-current assets | 555 | 569 | (2.5) | 569 | (2.5) |
| Tax assets for current taxes | 13 | 15 | (13.3) | 12 | 8.3 |
| Tax assets for deferred taxes | 7 | 8 | (12.5) | 26 | (73.1) |
| Other assets | 260 | 257 | 1.2 | 272 | (4.4) |
| Non-current assets held for sale | 198 | - | - | - | - |
| **Total assets** | **51,278** | 45,662 | 12.3 | 44,463 | 15.3 |

## Total liabilities and equity

| in € million | Jun 2020 | Dec 2019 | Change (%) | Jun 2019 | Change (%) |
|---|---|---|---|---|---|
| **Total liabilities** | **47,319** | **41,834** | **13.1** | **40,477** | **16.9** |
| Financial liabilities | | | | | |
| Fair value through profit or loss | 332 | 369 | (10.0) | 515 | (35.5) |
| Held for trading | 355 | 334 | 6.3 | 348 | 2.0 |
| At amortized cost | 43,504 | 38,543 | 12.9 | 37,696 | 15.4 |
| Customers | 30,249 | 30,378 | (0.4) | 30,089 | 0.5 |
| Issued securities | 5,277 | 5,080 | 3.9 | 4,682 | 12.7 |
| Credit institutions | 7,978 | 3,085 | >100 | 2,925 | >100 |
| Financial liabilities associated with transferred assets | 918 | 729 | 25.9 | 99 | >100 |
| Valuation adjustment on interest rate risk hedged portfolios | 387 | 337 | 14.8 | 390 | (0.8) |
| Hedging derivatives | 61 | 116 | (47.4) | 39 | 56.4 |
| Provisions | 457 | 480 | (4.8) | 476 | (4.0) |
| Tax liabilities for current taxes | 44 | 34 | 29.4 | 18 | >100 |
| Tax liabilities for deferred taxes | 78 | 54 | 44.4 | 16 | >100 |
| Other obligations | 1,183 | 838 | 41.2 | 880 | 34.4 |
| **Total equity** | **3,959** | **3,828** | **3.4** | **3,986** | **(0.7)** |
| Common equity | 3,657 | 3,527 | 3.7 | 3,688 | (0.8) |
| AT1 capital | 297 | 297 | – | 297 | – |
| Non-controlling interests | 4 | 4 | 0.0 | 1 | >100 |
| **Total liabilities and equity** | **51,278** | **45,662** | **12.3** | **44,463** | **15.3** |

## Business segment performance

| **Jan-Jun 2020** in € million | Retail & SME | Corporates & Public | Treasury | Corporate Center | Total |
|---|---|---|---|---|---|
| Net interest income | 334.3 | 117.9 | 24.1 | (28.6) | 447.7 |
| Net fee and commission income | 109.4 | 19.6 | 0.1 | (1.4) | 127.7 |
| **Core revenues** | **443.7** | **137.5** | **24.2** | **(30.0)** | **575.4** |
| Gains and losses on financial instruments | 3.3 | 1.8 | (0.7) | (26.3) | (21.9) |
| Other operating income and expenses | 0.9 | 0.0 | 0.0 | 25.4 | 26.3 |
| **Operating income** | **447.9** | **139.3** | **23.5** | **(30.9)** | **579.8** |
| **Operating expenses** | **(180.1)** | **(41.8)** | **(14.2)** | **(13.5)** | **(249.6)** |
| **Pre-provision profit** | **267.8** | **97.5** | **9.3** | **(44.4)** | **330.2** |
| Regulatory charges | (25.9) | (7.5) | (5.4) | 0.0 | (38.8) |
| Total risk costs | (77.9) | (40.2) | (2.0) | (9.5) | (129.6) |
| Share of the profit or loss of associates accounted for using the equity method | – | – | – | (0.4) | (0.4) |
| **Profit before tax** | **164.0** | **49.9** | **1.9** | **(54.5)** | **161.3** |
| Income taxes | (41.0) | (12.5) | (0.5) | 15.4 | (38.6) |
| **Profit after tax** | **123.0** | **37.4** | **1.4** | **(39.1)** | **122.7** |
| Non-controlling interests | – | – | – | (0.3) | (0.3) |
| **Net profit** | **123.0** | **37.4** | **1.4** | **(39.5)** | **122.3** |
| **Business volumes** | | | | | |
| Assets | 18,493 | 13,902 | 16,184 | 2,699 | 51,278 |
| Liabilities | 28,475 | 12,182 | 4,559 | 6,062 | 51,278 |
| Risk-weighted assets | 8,409 | 7,652 | 2,681 | 2,008 | 20,750 |

| **Jan-Jun 2019** in € million | Retail & SME | Corporates & Public | Treasury | Corporate Center | Total |
|---|---|---|---|---|---|
| Net interest income | 303.7 | 126.0 | 23.6 | (18.2) | 435.1 |
| Net fee and commission income | 122.0 | 21.6 | 0.1 | (1.1) | 142.6 |
| **Core revenues** | **425.8** | **147.7** | **23.7** | **(19.5)** | **577.7** |
| Gains and losses on financial instruments | 0.0 | 0.0 | 42.0 | (13.8) | 28.2 |
| Other operating income and expenses | 0.7 | 0.0 | 0.0 | 4.7 | 5.4 |
| **Operating income** | **426.4** | **147.7** | **65.7** | **(28.5)** | **611.3** |
| **Operating expenses** | **(185.3)** | **(52.8)** | **(17.2)** | **(7.0)** | **(262.3)** |
| **Pre-provision profit** | **241.1** | **94.9** | **48.5** | **(35.5)** | **349.0** |
| Regulatory charges | (24.0) | (8.5) | (4.6) | 0.0 | (37.1) |
| Total risk costs | (32.2) | 8.4 | 0.3 | (3.7) | (27.2) |
| Share of the profit or loss of associates accounted for using the equity method | – | – | – | 2.4 | 2.4 |
| **Profit before tax** | **184.9** | **94.8** | **44.3** | **(36.9)** | **287.1** |
| Income taxes | (46.2) | (23.7) | (11.1) | 12.5 | (68.5) |
| **Profit after tax** | **138.7** | **71.1** | **33.2** | **(24.4)** | **218.6** |
| Non-controlling interests | – | – | – | 0.0 | 0.0 |
| **Net profit** | **138.7** | **71.1** | **33.2** | **(24.4)** | **218.6** |
| **Business volumes** | | | | | |
| Assets | 17,446 | 14,196 | 9,177 | 3,644 | 44,463 |
| Liabilities | 27,678 | 7,375 | 3,501 | 5,909 | 44,463 |
| Risk-weighted assets | 8,235 | 8,523 | 1,748 | 2,221 | 20,727 |