

CONSOLIDATED ANNUAL REPORT

2019



BAWAG GROUP HIGHLIGHTS 2019



FINANCIALS

+6%

Profit before tax
of € 604 million
increased 6%

16.1%

**Return on tangible
common equity**
increased 1.3pts

42.7%

Cost-income ratio
1.5pts lower



CAPITAL MANAGEMENT

13.3%

CET1 Ratio
post € 400 million share buyback
and dividend accrual

+230 bps

Gross capital generation
in 2019

€ 2.61

Dividend per share
will be proposed to the AGM, in
line with our dividend policy
(50% net profit)



EXECUTION OF STRATEGY

3

Acquisitions closed
Three bolt-on acquisitions closed in
2019 in Germany and Switzerland

88

Own branches in Austria
Since year-end 2019, we are
running on a fully stand-alone
branch network

3

Partnerships launched
in Austria in 2019



TARGETS 2020

Metrics	2020
Profit before tax	>€ 640 million
Net Profit	>€ 480 million
Cost-income ratio	<40%
Return on Tangible Common Equity	15% - 20%
CET1 ratio (FL)	13%
Earnings per share	>€ 5.40

Note: Earnings per share before AT1 dividend; based on 89.1 million shares

KEY FINANCIAL FIGURES

Profit or loss statement (in € million)	2019	2018	Change (%)	2017	Change (%)
Net interest income	879.0	840.5	4.6	793.1	10.8
Net fee and commission income	283.5	282.8	0.2	216.9	30.7
Core revenues	1,162.5	1,123.3	3.5	1,010.0	15.1
Other income ¹⁾	78.0	47.4	64.6	110.4	(29.3)
Operating income	1,240.5	1,170.7	6.0	1,120.4	10.7
Operating expenses	(529.7)	(517.9)	2.3	(528.5)	0.2
Regulatory charges	(42.4)	(40.1)	5.7	(33.8)	25.4
Total risk costs	(69.3)	(45.1)	53.7	(61.8)	12.1
Profit before tax	604.3	572.7	5.5	500.4	20.8
Income taxes	(145.0)	(136.2)	6.5	(51.2)	>100
Net profit	459.1	436.5	5.2	449.1	2.2

Performance ratios (figures annualized)	2019	2018	Change (pts)	2017	Change (pts)
Return on common equity ²⁾	13.5%	12.7%	0.8	13.6%	(0.1)
Return on tangible common equity²⁾	16.1%	14.8%	1.3	15.6%	0.5
Net interest margin	2.30%	2.21%	0.09	2.24%	0.06
Cost-income ratio	42.7%	44.2%	(1.5)	47.2%	(4.5)
Risk costs / interest-bearing assets	0.18%	0.12%	0.06	0.17%	0.01

Statement of financial position (in € million)	2019	2018	Change (%)	2017	Change (%)
Total assets	45,662	44,698	2.2	46,056	(0.9)
Customer loans	30,467	30,482	(0.0)	30,793	(1.1)
Customer deposits and own issues	35,827	34,620	3.5	36,611	(2.1)
Common equity ²⁾	3,297	3,491	(5.6)	3,518	(6.3)
Tangible common equity ²⁾	2,728	2,987	(8.7)	3,031	(10.0)
Risk-weighted assets	20,385	20,465	(0.4)	21,494	(5.2)

Balance sheet ratios	2019	2018	Change (pts)	2017	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	13.3%	14.5%	(1.2)	13.5%	(0.2)
Total capital ratio (fully loaded)	17.0%	16.3%	0.7	15.2%	1.8
Leverage ratio (fully loaded)	6.5%	7.1%	(0.6)	6.2%	0.3
Liquidity coverage ratio (LCR)	146%	179%	(33)	150%	(4)
NPL ratio	1.7%	1.7%	0.0	1.8%	(0.1)
NPE ratio	2.0%	1.9%	0.1	2.0%	0.0

1) The term "Other Income" includes gains and losses on financial instruments and other operating income and expenses

2) Excluding AT1 capital and dividends

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on pages 252-254

SHARE-RELATED FIGURES

Share & stock market data	2019	2018	Change(%)	2017	Change(%)
Pre-tax earnings per share (in €) ¹⁾	6.17	5.75	7.2	5.00	23.2
After-tax earnings per share (in €) ¹⁾	4.69	4.38	7.1	4.49	4.5
Book value per share (in €)	37.49	35.34	6.1	35.18	6.6
Tangible book value per share (in €)	31.02	30.23	2.6	30.31	2.3
Dividend per share (in €)	2.61 ²⁾	2.18	19.7	0.58	>100
Share price high (in €)	44.88	48.20	(6.9)	48.00	(6.5)
Share price low (in €)	32.50	34.16	(4.9)	41.20	(21.1)
Closing price (in €)	40.60	35.84	13.3	44.46	(8.7)
Price/book ratio	1.08	1.01	6.8	1.26	(14.3)
Price/tangible book ratio	1.31	1.19	10.4	1.47	(10.8)
Shares outstanding at the end of the period	87,937,130	98,794,893	(11.0)	100,000,000	(12.1)
Weighted average number of shares outstanding	97,840,364	99,597,178	(1.8)	100,000,000	(2.2)
Market capitalization (in € billion)	3.6	3.5	0.8	4.4	(19.7)

1) Before deduction of AT1 coupon

2) 2019 Dividend proposal for the AGM in May 2020

BAWAG GROUP AT A GLANCE

WHO WE ARE

One

of Austria's leading
retail banks

2.5

million customers in DACH region
with core foundation in Austria ... focus
on DACH and developed markets.

72%

of customer business in DACH region,
with the remaining business in Western
Europe and the United States

We apply a low-risk, efficient, simple and transparent business model focused on Austria, Germany and developed markets. We serve 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.

BAWAG Group AG is the listed holding company of BAWAG P.S.K., which is headquartered in Vienna, Austria, along with easybank, easyleasing and start:bausparkasse. Südwestbank, BFL Leasing, Health Coevo and start:bausparkasse are located in Germany, with the Zahnärztekasse AG factoring business based in Switzerland.

OUR BRANDS



easybank

easyleasing

start:bausparkasse

PayLife

SÜDWESTBANK 7

Qlick

start:bausparkasse
eine Marke der BAWAG P.S.K.

BFL[®]

Health^{AG}

Zahnärztekasse AG

STRATEGY SUMMARY



GROWING IN OUR CORE MARKETS

- ▶ Our foundation is Austria with a focus on developed markets
- ▶ Focus markets ... DACH region, Western Europe and the United States
- ▶ Grow into current account market share entitlement of up to 20% in Austria across core retail products
- ▶ Growth drivers ... Partnerships & platforms, enhancing digital engagement, and pursuing earnings-accretive M&A meeting our Group RoTCE target >15%



FOCUS ON CUSTOMER CENTRICITY

- ▶ Build multi-channel and multi-brand franchise from branches-to-partners-to-brokers-to-platforms-to-digital products across the entire Retail & SME franchise
- ▶ Physical network focused on high-touch and high-quality advisory
- ▶ Leverage technology to simplify processes and reduce complexity
- ▶ Enhance analytical capabilities to improve customer experience
- ▶ New retail partnerships and lending platforms to provide 24/7 customer access



DRIVE EFFICIENCY THROUGH OPERATIONAL EXCELLENCE



- ▶ Our DNA is to focus on the things that we can control ... “self-help” approach to banking
- ▶ Simplify, standardize, and automate online and offline product offerings
- ▶ Create frictionless processes ... wing-to-wing digitization focus across the Bank
- ▶ Continuously optimize our processes, footprint, and technology infrastructure
- ▶ Embrace various forms of technological change ... will transform banking



MAINTAINING A SAFE AND SECURE RISK PROFILE



- ▶ Maintaining strong capital position, stable retail deposits and low risk profiles
- ▶ Focus on mature, developed and sustainable markets
- ▶ Applying conservative and disciplined underwriting in markets we understand
- ▶ Maintain fortress balance sheet
- ▶ Proactively manage and mitigate non-financial risk



Committed to responsible and profitable growth considering ESG

Disclaimer:

Certain statements contained in this report may be statements of future expectations and other forward-looking statements that are based on management's current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

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The tables in this report may contain rounding differences.

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LETTER FROM THE CEO



Dear Shareholders,

2019 was another record year for BAWAG Group, our second full year as a public company. The market environment for European Financials continued to be challenging, however, the fundamentals of the Group remained strong: Recording pre-tax profit of € 604 million, pro forma earnings per share (EPS) of € 5.22, a return on tangible common equity of 16.1%, a cost-income ratio of 42.7%, and generating gross capital of 230 basis points with a CET1 ratio of 13.3%. We delivered on all targets, focused on the things we control and continued to execute on our strategy, all while continuing to shape the BAWAG Group of tomorrow.

Besides having delivered on our targets, we delivered on our promise of being good stewards of capital. We distributed € 615 million of capital back to shareholders over the course of 2019 in the form of a € 400 million share buyback and € 215 million dividends, accounting for a 140% payout ratio. In line with our dividend policy, we will propose a dividend of € 2.61 per share to the AGM and any further potential capital distribution.

Furthermore, our shareholder structure significantly changed during the course of 2019. We are now trading with a free float of nearly 80% following the full exit of Cerberus, a steadfast shareholder whose support and commitment was key to the Group's transformation over the past decade. We want to thank our existing shareholders for their ongoing commitment and look forward to attracting new shareholders to the Group.

Expectations are high, but I'm convinced that with our team we will continue to deliver value to our customers, shareholders and employees.

Delivering record results

BAWAG Group again delivered on our targets and generated a record year of financial results. We have delivered on our original IPO targets from 2017 one year earlier than projected. We achieved a profit before tax (PBT) of € 604 million, up 6% compared to 2018. The increase was mainly driven by higher operating income and continued cost discipline.

Targets 2019	Performance 2019
Profit before tax >€ 600 million / annual growth	€ 604 million / +6%
Return on tangible common equity 15 - 20%	16.1%
Cost-income ratio <43%	42.7%
Common Equity Tier 1 capital ratio (fully loaded) 12 - 13%	13.3%

Capital allocation and distribution

At year-end 2019, our fully loaded CET1 capital ratio was 13.3%, while generating 230 basis points of gross capital. This figure already considers a proposed dividend payout of 50% of our net profit, or € 2.61 per share (€ 230 million absolute distribution), in line with our dividend policy. During the course of 2019, we also absorbed 30 basis points of capital impact from the acquisitions we closed in Germany and Switzerland. During the fourth quarter, we bought back € 400 million of common stock, which equaled nearly 11% of the company's outstanding common shares and a milestone across European banks. We are starting off the year 2020 with a strong capital base. With our high organic capital generation, we have the ability to continue growing and investing in our core businesses while at the same time pursuing further M&A opportunities.

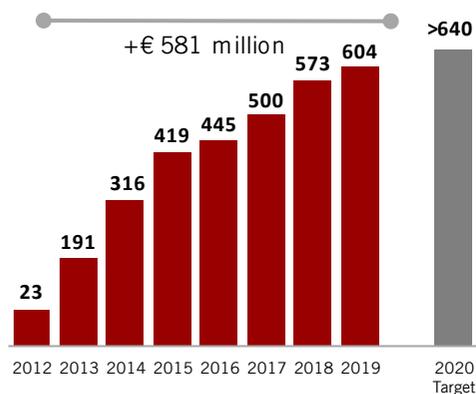
Our aim is to always be good stewards of capital. Our preference is to use our capital to continue to grow the business, both organically and through acquisitions. However, we will remain disciplined in our growth, only do deals that make sense and meet our Group return on tangible common equity targets; all while avoiding overextending ourselves.

Our strategic focus

The performance in 2019 was a continuation of our history of delivering results over the past 8 years. Our transformation since 2012 was not only significant in terms of financial results, but equally important has been how it has transformed our view of banking, our risk appetite, our bias towards retail and SME focus in developed markets, and our fundamental belief that the banking landscape will remain in a state of constant change in the years ahead.

INCREASED PROFITABILITY

Profit before tax in € million



As we look ahead to 2020 and beyond, I wanted to share a few thoughts on our business, strategy and key focus areas. Our business model and strategy is based on four pillars and has been consistent since the beginning of our transformation in 2012:

- ▶ Growing in our core markets
- ▶ Focusing on customer centricity
- ▶ Driving efficiency and operational excellence
- ▶ Maintaining a safe and secure risk profile

With the growing importance of ESG (Environment, Social, Governance), we have embedded these values in our strategic roadmap across the Group to drive responsible and profitable growth that impact our various stakeholders.

Growing in our core markets

Our focus is, and will continue to be, on growing in developed markets with Austria as our core and foundation.

Our Austrian Retail & SME focus continues to be on providing customers quality products and services they have come to expect, preserving the differentiated value propositions of our separate brands, while ensuring we maintain a single Group mindset as we address the domestic Austrian market and our 2.4 million customers. This means a renewed focus on financial advisory, enhanced data analytics, more retail partnerships, investing in platform lending, and leveraging technology across all of our processes to better serve the needs of our customers.

Our International Retail & SME platform, which is anchored by our German businesses, will be focused more on digital channels and products, more specialty finance oriented, and working to grow through various partnerships and platforms.

We are just beginning to fully leverage our multi-channel platform from branches-to-brokers-to-partners-to-digital products. We are excited about the opportunities across the board for our Retail & SME franchise to leverage our multiple brands and channels across the Group.

The DACH Corporates and Public Sector space continues to remain challenged from a risk-adjusted return standpoint. However, we are committed to the business and will be ready to actively engage when the market corrects and we are able to pursue profitable growth. We continue to see opportunities outside of the DACH region in asset backed lending, however, Corporate lending in general is becoming more competitive. Our focus is, and will always be, on risk-adjusted returns and never chasing volume for the sake of growth.

Focusing on customer centricity

Customers are looking for a more rewarding and engaging experience with targeted products and services while having 24/7 access to manage their financial lives. We aim to fulfill these needs and to better leverage new and existing technologies to enhance the overall customer experience.

We have achieved an important milestone in our Austrian retail transformation with the full separation from the Austrian Post. With our own branch network of 88 branches, 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 new and existing technologies to simplify our business and reduce complexity.

To this end, we have hired approximately 200 new advisors and opened 27 new branches over the past two years, rolled out point-of-sale financing retail partnerships, enhanced our data analytics, and built-up platform lending capabilities. Our goal is to create easy-to-use and easy-to-understand products designed to meet our customers' needs while creating a seamless middle-and-back-office across the Group.

Driving efficiency and operational excellence

The focus on efficiency and driving operational excellence is part of our team's DNA. We believe this is one of the few things we truly control, and therefore a non-negotiable. We also believe that striving for operational excellence and driving productivity is a constant. With a cost-income ratio in the low 40's and a return on tangible common equity greater than 15%, BAWAG Group remains one of the most profitable and efficient banks in Europe. However, we will not grow complacent as we see ever changing customer behavior and an evolving banking landscape continuing well into the future; requiring a commitment to continuous improvement year-in and year-out.

We have fully embraced the fact that technology will ultimately be the key differentiator across the banking landscape and that we need to lead, and not follow. To this end, we rolled out our technology roadmap across the group, which defines our focus areas in technology. This relates to how we address our overall technology infrastructure, development and personnel. We aim to embrace technology

across everything we do in the Bank, taking a wing-to-wing view across all of our products and processes. We benefit from a simple business model, and we look to continue simplifying, streamlining, and scaling our products and services across the Group.

Maintaining a safe and secure risk profile

We take great pride in running the bank in a safe and secure manner. We focus on developed and mature markets as we believe in doing business in countries with stable legal systems and sound macroeconomic fundamentals. We will continue to maintain our conservative risk appetite, ensuring that we mitigate against both macro and micro risks. Our goal is to always maintain a fortress balance sheet and conservative underwriting; a cornerstone of how we run the Bank. This is best reflected in our NPL ratio, which was 1.7% (excluding the City of Linz case: 1.2%) with a full year cost of risk of 18 basis points.

Customer business performance

Across our customer business segments, we continued to deliver results. Our Retail & SME businesses increased their contribution and account for a approximately 70% of our Profit before Tax (PBT), focused primarily on the DACH region.

Segment	PBT (€ million)	RoTCE	CIR
Retail & SME	395	23.5%	43%
Corporates & Public	190	14.4%	34%

Retail & SME delivered PBT of € 395 million, a return on tangible common equity of 23.5%, and a cost-income ratio of 43%. Our stand-alone strategy in Austria, Concept 21, reached a major milestone in 2019 with the full separation from the Austrian Post allowing us to run our stand-alone branch network of 88 branches. At the same time, we enhanced our digital capabilities by launching our point-of-sale finance offering and releasing our new mobile banking app "klar". Additionally, we launched three partnerships in Austria, which represent important new customer acquisition channels. In Germany, the transformation momentum continued with the integration of various businesses, centralization of activities, rolling out new partnerships and the launch of digital products and channels.

The **Corporates & Public** delivered a profit before tax of € 190 million, a return on tangible equity of 14.4%, and a cost-income ratio of 34%. We see good opportunities across asset backed lending transactions. However, we continue to see pricing pressure across the Corporate lending space. Our focus will continue to be on risk-adjusted returns, disciplined underwriting and being patient without ever chasing volume.

Our targets in 2020

The banking industry across Europe continues to undergo a significant transformation and faces continuing challenges in the form of persistently low interest rates, continued pricing pressure, increased regulatory requirements, and a rapid pace of technological change. However, we are confident that we have positioned BAWAG Group to successfully tackle these challenges in order to continue growing our business profitably while maintaining a low-risk, well capitalized and profitable business.

In spite of the changing macro environment with even lower interest rates, we reaffirm our 2020 targets we laid out last year. The initiatives launched in 2019 – both on the revenue as well as cost side – make it possible to not just compensate for lower interest rates but also continue to grow profitably.

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

Targets	2020
Profit before tax	>€ 640 million
Net profit	>€ 480 million
Cost-income ratio	<40%
Return on tangible common equity	15%-20%
Common Equity Tier 1 capital ratio (fully loaded)	13%
Earnings per share ¹⁾	>€ 5.40

1) Before deduction of AT1 coupon; based on 89.1m shares

In terms of capital generation and return, 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 target.

We will propose to the Annual General Meeting to distribute a dividend for the financial year 2019 of € 2.61 per share (€ 230 million total payout) and will propose any further

capital distribution as part of the AGM. We have set a CET 1 target of 13% for the Group, which we will use as a threshold for any capital distribution. To the extent excess capital cannot be deployed organically, or in the absence of any imminent M&A transaction, we will return it to our shareholders via share buybacks and/or special dividends assessed on an annual basis.

Having delivered another set of strong operating results in 2019 leaves BAWAG Group well positioned to win in a competitive European banking environment. We will continue to maintain our low-risk strategy focused on the DACH region and developed markets, providing our customers with simple, transparent and best-in-class products and services.

Lastly, as we near the 3-year anniversary of our IPO, we plan to update investors in our inaugural Capital Markets Day and layout a new set of targets. Please mark your calendars, as we are planning a Capital Markets Day for 21 September 2020 in London. However, it's important that we first deliver on our original commitments and then layout plans for the coming years.

Organizational set-up

During the fourth quarter of last year, we introduced a new organizational set-up. Given our growth and expansion across multiple countries, we have realigned Managing Board responsibilities to manage this growth and to ensure we have the proper leadership in place to continue executing on our strategy.

David O'Leary will oversee all domestic Retail & SME businesses as we leverage our multiple brands and channels across Austria and drive scale domestically. With the separation from the Austrian Post completed, we have a unique opportunity to redefine our go-to-market strategy across Austria (where we are one of the largest centrally managed banks) leveraging our high quality brands, our physical and digital channels, and new partnerships all while creating a common product factory to continue streamlining wing-to-wing processes and ultimately provide customers with the best products and services in the market.

Sat Shah will oversee all international Retail & SME activities in Europe, in addition to having responsibility for leasing and factoring product factories and channels across the Group. The work of integrating our various businesses is coming along well as we continue to harmonize our middle-and-back-

office work streams across multiple platforms as well as drive organic and inorganic growth opportunities across Germany and Western Europe. Our international Retail & SME focus will be more digital, more specialty finance oriented, and working to grow through various partnerships and platforms.

Andy Wise, in addition to his role as Chief Investment Officer and head of Non-Retail lending, will also oversee all Corporate, Retail & SME market activities in North America. We see a number of opportunities in this region and will look to establish a presence over time.

Thank you

2019 was a challenging year for European banks. With the trust of our customers and shareholders, the tireless commitment of our employees and the support of multiple stakeholders, we have achieved important milestones for building the BAWAG Group of tomorrow. I would like to take this opportunity to thank all of them for their continued, unwavering support.

Lastly, a special thank you to our team at the Bank. The whole Managing Board could not be prouder of what you do for the company every day. It is only because of the dedication of our employees that we are able to deliver results year-in and year-out. The strong work ethic, the unbelievable commitment and the outstanding performance and execution of the team members across BAWAG Group is truly unique!



Anas Abuzaakouk, CEO of BAWAG Group AG

Addendum to CEO letter:

As we are set to publish our Annual Report, we find ourselves engulfed in a public health crisis. The World Health Organization (WHO) has characterized the outbreak of the coronavirus (COVID-19) as a global pandemic. This is, first and foremost, a healthcare crisis that is now afflicting the global community. We will look to play our part in supporting the real economy in Austria, Germany, Switzerland and other markets we operate in. We are making plans to ensure the safety of our employees and customers. We plan to work closely with the various governmental institutions in helping tackle this public health crisis, support our customers and the real economy, and protect our franchise. Given the fluid nature of events and the uncertainties in both scope and length, this may result in a overall challenged and volatile market environment over the coming months. We will closely monitor the developments and hope to provide a comprehensive update during our first quarter results. Our prayers are with all the individuals and families that have been impacted by this health crisis across the globe.

STRATEGY

GROWING IN OUR CORE MARKETS

BAWAG Group's strategy focuses on growth in Austria, the DACH region and more broadly developed markets. We will continue to focus on organic growth and pursue M&A that is strategic, value-add and earnings accretive meeting our overall Group RoTCE target > 15%. Our growth strategy is defined by the following principles:

- ▶ Our foundation is Austria with a focus on developed markets
- ▶ Focus markets ... DACH region, Western Europe and the United States
- ▶ Grow into current account market share entitlement of up to 20% in Austria across core retail products
- ▶ Growth drivers ... Partnerships & platforms, enhancing digital engagement, and pursuing earnings-accretive M&A meeting our Group RoTCE target > 15%

Our foundation is Austria with a focus on growing in developed markets. We look to developed and mature markets (within Western Europe and the United States) with a strong macroeconomic backdrop and stable legal and political system. Austria is BAWAG Group's home market with well recognized brands across the country and serving over 2.4 million customers.

The DACH region (which is comprised of Austria, Germany and Switzerland) comprises over 70% of our customer business. The region benefits from a common culture and language, with a stable legal system and credit environment. The region also benefits from low levels of consumer indebtedness, home ownership and digital

Our foundation is Austria with a focus on growing across developed markets.

penetration; all of which presents opportunities for future growth. The macro fundamentals of the region are the following:

- ▶ Growing population with over 100 million people
- ▶ Annual GDP of € 4.5 trillion and GDP per capita of more than € 50,000
- ▶ Average unemployment rate of less than 4%

Our Austrian Retail & SME focus continues to be about providing customers quality products and services they have come to expect, preserving the differentiated value propositions of our separate brands, while ensuring we maintain a single Group mindset as we address the domestic Austria market and our 2.4 million customers. This means a renewed focus on financial advisory, enhanced data analytics, more retail partnerships, investing in platform lending, and leveraging technology across all of our processes to better serve the needs of our customers. We aim to grow into our current account market share entitlement of up to 20% across our core retail products.

Our International Retail & SME platform, which is anchored by our German businesses, is focused more on digital channels and products, more specialty finance oriented, and working to grow through various partnerships and platforms.

We are just beginning to fully leverage our Retail & SME multi-channel platform from branches-to-brokers-to-partners-to-digital products. The key future growth drivers will be organic growth in core retail products across all markets, partnerships and platforms, enhancing digital engagement, and continuing to pursue earnings-accretive M&A meeting our Group RoTCE targets > 15%.

The DACH Corporates and Public Sector business continues to remain challenged from a risk-adjusted return standpoint. However, we are fully committed to the business and will be ready to engage when the market corrects and we are able to drive profitable growth. We continue to see opportunities outside of the DACH region in asset backed lending, however, we see Corporate lending in general is becoming more competitive. Our focus is, and will always be, on risk-adjusted returns and never chasing volume for the sake of growth.

Going into 2020, we will continue executing on our growth strategy in Austria, the DACH region and developed markets more broadly. Our M&A activities focus primarily on our core Retail & SME franchise; however, we will also pursue opportunities in the Corporate space that add value and provide the appropriate risk-adjusted returns. We are

convinced that consolidation will occur across the DACH region and more broadly across the European banking landscape and will look to be an active participant.

FOCUS ON CUSTOMER CENTRICITY

We are building a multi-channel and multi-brand Retail & SME franchise from branches-to-partners-to-brokers-to-platforms offering simple and transparent products leveraging technology across the entire customer value chain.

Customers are looking for a more rewarding and engaging experience with targeted products and services while having 24/7 access to manage their financial lives. We aim to fulfill these needs and to better leverage new and existing technologies to enhance the overall customer experience. We are building a multi-channel and multi-brand Retail & SME franchise from branches-to-partners-to-brokers-to-platforms leveraging digital products and technology across our entire customer value chain.

The following cornerstones are key to building and maintaining successful client relationships and making the lives of our customers easier:

- ▶ Build multi-channel and multi-brand franchise from branches-to-partners-to-brokers-to-platforms-to-digital products across the entire Retail & SME franchise
- ▶ Physical network focused on high-touch and high-quality advisory
- ▶ Leverage technology to simplify processes and reduce complexity
- ▶ Enhance analytical capabilities to improve customer experience
- ▶ New retail partnerships and lending platforms to provide 24/7 customer access

We strongly believe that customers prefer simple and transparent banking. Therefore, our product and service offering is geared towards enhancing simplicity for our customers to provide them with clear, fair and transparent banking products and services across all of our brands and channels.

DRIVING EFFICIENCY AND OPERATIONAL EXCELLENCE

Our DNA is to focus on the things we can control and apply a “self-help” approach to banking.

The banking industry across Europe continues to undergo a significant transformation and faces continuing challenges in the form of persistently low interest rates, continued pricing pressure, increased regulatory requirements, and rapid pace of technological change. The focus on efficiency and driving operational excellence is part of our team’s DNA. We believe this is one of the few things a management team truly controls.

We are convinced that in this challenging environment, banks have to change their business models and cost structure to be more efficient in their operations. With the continued advancements in technology, the reality is that banking is becoming more commoditized. This leads us to believe that the traditional paradigm regarding cost in the banking space needs to be challenged to adapt to the many challenges facing the industry. To this end, the key is, and will continue to be, focusing on simplification, standardization, automation and applying technology judiciously as we continue to transform our business and focus on operational excellence.

Going into 2020, our focus continues to be on driving efficiency through process re-engineering, simplification, standardization and ultimately automation. Our focus will always be to:

- ▶ Focus on the things we can control applying a “self-help” approach to banking
- ▶ Simplify, standardize, and automate online and offline product offerings
- ▶ Create frictionless processes ... wing-to-wing digitization focus across the Bank
- ▶ Continuously optimize our processes, footprint, and technology infrastructure
- ▶ Embrace various forms of technology across the Group

MAINTAINING A SAFE AND SECURE RISK PROFILE

A strong capital position, stable deposits and a low risk profile are fundamental cornerstones to the execution of our business strategy. Management is committed to running BAWAG Group in a safe and secure way. We focus on developed and mature markets as we believe in doing business in countries with stable legal systems with sound macroeconomic fundamentals. Our low risk profile is defined by the following principles:

- ▶ Strong capital position, stable retail deposits and low risk profile
- ▶ Focus on mature, developed and sustainable markets
- ▶ Conservative and disciplined underwriting in markets we understand
- ▶ Maintain fortress balance sheet
- ▶ Proactively manage and mitigate non- financial risk

One key focus is solid capitalization, with a healthy common equity, tier 1 and total capital position and conservative leverage ratio. We believe our fully loaded CET1 ratio target of 13% for capital distribution strikes the right balance between maintaining a solid capital base and distributing capital to shareholders. We consider this to be a prudent level that also provides us with the flexibility to consistently support our organic and inorganic growth plans. Our lending is focused on risk-adjusted returns and we are disciplined in pursuing M&A that meets our overall Group target returns.

Retail and corporate deposits have been the core part of our funding strategy over the years and will continue to be the primary source of funding for our balance sheet. We supplement our deposits with a diversified strategy of

wholesale funding; comprised of unsecured bonds, covered bonds secured by mortgage and public sector collateral, and RMBS as well. Our long-term goal is to maintain deposit funding and diversified wholesale funding. Our secured funding to overall funding stood at 9% as of 31 December 2019; highlighting our low overall encumbrance of our balance sheet assets. Our liquidity coverage ratio was 146% at year-end 2019.

The focus of our securities portfolio is on low credit risk, high liquidity and solid diversification in terms of geography and issuers. More than 95% of the portfolio is allocated to investment grade rated exposure. In addition, market risks are managed with a clear focus on a low risk profile and a conservative hedging approach to ensure limited income volatility. Consequently, BAWAG Group does not engage in proprietary trading activities.

Our underwriting guidelines are reviewed on a regular basis and adjusted accordingly. Our low risk profile is focused on developed markets with Austria as our core foundation. As of December 2019, we had no relevant exposure to emerging markets or CEE countries and no operations in countries with elevated AML risk. We focus strongly on maintaining solid asset quality, best reflected by an NPL ratio of 1.7% (excluding City of Linz: 1.2%) at year-end 2019.

We will continue to maintain our conservative risk appetite, ensuring that we mitigate against both macro and micro risks. Our goal is to always maintain a fortress balance sheet and conservative underwriting; a cornerstone of how we run the Bank.

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKETS

Equity markets in Europe and the US were influenced by various political risks, high but decreasing macroeconomic growth momentum and tendencies towards a more expansionary monetary policy. After subdued share price developments in 2018, the year 2019 was characterized by a decrease in price volatility and sound performance of benchmark indices in Europe and in the United States. The Euro Stoxx Banks (SX7P), a subindex of Euro Stoxx 600 and the benchmark index for banks operating in the Euro area, increased by 8% in 2019 compared to year-end 2018.

The financial performance of the corporate sector reflects the topping out of the macroeconomic momentum. Earnings per share of the Euro Stoxx 600, the Euro Stoxx Banks (SX7P) and the S&P 500 were unchanged or

decreased during 2019. With stable to decreasing earnings and increasing prices, valuation metrics of most indices increased significantly in Europe and in the United States in 2019. While the price-to-earnings ratio of the Euro Stoxx 600 and the S&P 500 increased to 20.6 and 21.6, respectively, the price-to-earnings ratio of the Euro Stoxx Banks (SX7P) remained at a more moderate level of 11.8 as of year-end 2019.

Global liquidity conditions remained ample and interest rates remained low in 2019. Interest rate cuts have been implemented in the United States and additional quantitative easing measures by the ECB have been announced and introduced in Europe.

SHARE PERFORMANCE

BAWAG Group AG's shares closed the year 2019 at a share price of € 40.60 compared to € 35.84 as of year-end 2018. During the same period, the share price high was at € 44.88 and the low at € 32.50.

Including the distribution of € 215 million in dividend for the year 2018 in May 2019, BAWAG Group AG's shares had a total return of 19.4% versus a total return of 14.8% for the Euro Stoxx Banks (SX7P). Thus, BAWAG Group AG's shares outperformed the benchmark index for banks in the Euro area.

FUNDING

Following the successful issuance of € 300 million Additional Tier 1 capital in April 2018 and a well-received tender of the legacy 8.125% Tier 2 notes of BAWAG P.S.K. announced in June 2018, BAWAG Group issued € 400 million Tier 2 capital in March 2019.

BAWAG P.S.K. took a proactive approach towards its overall MREL requirements and potential future subordination

requirement by issuing a € 500 million senior non-preferred bond with a tenor of 8 years in August 2019. BAWAG P.S.K. successfully returned to the covered bond market by issuing two benchmark mortgage covered bonds with a combined notional amount of € 1 billion with a tenor of 15 and 10 years, demonstrating solid access to long-term funding at attractive terms.

INVESTOR RELATIONS

The communication with the investment community is of great significance given BAWAG Group's recent IPO in October 2017 and ensuring we build a track record of open and transparent dialogue and look to attract global investors to the Group. In addition to the Annual General

Meeting, BAWAG Group communicates with shareholders, financial analysts, bondholders and rating agencies through earnings releases, presentations, event-related releases and meetings with various stakeholders.

In addition to the documents published on the website, BAWAG Group meets current and potential investors during roadshows, conferences or meetings at the head office. In 2019, members of the Managing Board together with the Investor Relations team met with investors in the United Kingdom, the United States, Sweden, Denmark, Norway, Finland, Netherlands, Belgium, Germany, France, Austria and Poland. In addition, we attended 12 conferences for Financial Institutions or small/mid cap companies in 2019. This was a mix of both specialists in the financial sector as well as generalists. As we think more broadly about overall sustainability and better use of technology, we have incorporated video-conferencing to broaden the scope of our outreach while remaining environmentally conscious to new regions, expanding our reach to Australia, Hong Kong, the Middle East and western parts of the United States. We will look to broaden our outreach further in 2020 as well.

Our Earnings conference call is based in London. We use this time to meet with investors for one-on-one as well as group meetings to discuss quarterly and annual developments. To ensure a regular dialogue with equity analysts, we hosted three analyst dinners in 2019 with our CEO and CFO on the back of quarterly results. We also hosted a number of investor trips at our headquarters in Vienna and our office in London. In Austria, we were present at a number of domestic focused conferences and events.

Aside from our quarterly roadshow meetings, we accompanied the Austrian Minister of Finance in New York in April 2019 as part of the "Thinking AUT loud" event to highlight and promote investment opportunities across Austria.

Through the course of 2019, we met with a mix of existing and new shareholders across multiple regions. Following

our IPO in October 2017, the initial year of investor meetings was more geared towards our business model. With the development of the Group, we noticed the nature of the topics in 2019 were more geared towards specific financial performance, profitability and growth drivers, regulatory landscape and capital distribution. The main event in 2019, aside from delivering on our financial and operating targets, was highlighted by the approval and execution of a € 400 million share buyback, which was approved in October and executed in November 2019. Additionally, we underwent a significant change in our shareholder base with the full exit of Cerberus, a long-time shareholder in the Bank, resulting in an increase in our free float from approximately 40% to 78% by year-end 2019.

As of 31 December 2019, BAWAG Group was covered by 10 research houses, of which there were nine "Buy" recommendations and one "Hold" recommendation. The average target price as of year-end 2019 was € 49.

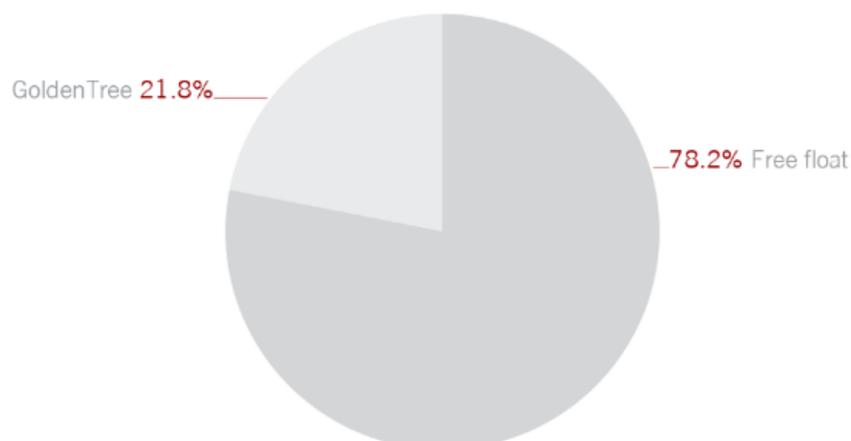
The shareholder base is well diversified with a broad geographic spread and different investment strategies. The institutional investors are primarily from Europe and North America.

Information on BAWAG Group, share data, and the latest analyst recommendations are available on the website <https://www.bawaggroup.com/ir>.

As a result of the increased debt issuance of BAWAG Group since 2018, we have also built up our credit investor relations team and established regular dialogue with credit analysts.

We will host our inaugural Capital Markets Day on 21 September 2020 in London.

SHAREHOLDER STRUCTURE as of 31 December 2019



MANAGING BOARD OF BAWAG GROUP AG



Anas Abuzaakouk
Chairman of the Managing Board
Chief Executive Officer



Enver Sirucic
Member of the Managing Board
Chief Financial Officer



Stefan Barth
Member of the Managing Board
Chief Risk Officer



David O'Leary
Member of the Managing Board
Head of Domestic Retail & SME



Andrew Wise
Member of the Managing Board
Chief Investment Officer
Head of Non-Retail Lending



Sat Shah
Member of the Managing Board
Head of International Retail & SME

CORPORATE GOVERNANCE

BAWAG GROUP'S DECLARATION OF COMMITMENT

In 2006 BAWAG P.S.K. made a (voluntary) commitment to apply the applicable provisions of the Austrian Code of Corporate Governance ("Code", accessible under <http://www.corporate-governance.at>). Following the listing of BAWAG Group in 2017, BAWAG Group declared its commitment to comply with the rules of the Code.

This is the (consolidated) Corporate Governance Report prepared in accordance with sections 243c and 267b of the Austrian Commercial Code (UGB).

Generally speaking, the Code is a set of self-regulation rules for listed Austrian companies and it contains rules based on compulsory legal requirements (L rules); rules that should be complied with, where deviations must be explained and justified in order for the company's conduct to conform with the Code (C rules, comply or explain); and rules that are recommendations, where non-compliance must not be disclosed or justified (R rules).

DEVIATIONS

Since issuance of its commitment to comply with the rules, BAWAG Group has complied with all L rules and all R rules. Furthermore, BAWAG Group AG deviates from C rules in one instance, whereas BAWAG Group nevertheless complies with the Code in all respects in light of the following explanations and justifications:

Rule 2: the principle of "one share one vote" is not implemented since two shareholders have each and separately been granted the right to nominate one member of BAWAG Group AG's Supervisory Board for as long as the respective shareholder holds at least one share in the company. Such right of the respective shareholder to

nominate a member of the company's Supervisory Board shall be repealed, in each case, once the shareholding of the GoldenTree shareholders (jointly) or the Cerberus shareholders (jointly), respectively, taken as a whole falls below 20% of the voting rights in the company.

Since the aggregated participation of the Cerberus shareholders has fallen below 20% of BAWAG Group AG's share capital after the sell-down of the Cerberus shareholders, BAWAG Group AG will propose to the next ordinary general meeting to abolish the nomination right of the respective Cerberus shareholders.

MANAGING BOARD

MANAGING BOARD MEMBERS AND ALLOCATION OF RESPONSIBILITIES

Per 31 December 2019, the Managing Board of BAWAG Group and BAWAG P.S.K. was composed of the following members:

MANAGING BOARD of BAWAG Group and BAWAG P.S.K. per 31 December 2019

Name	Function	Year of birth	Date of first appointment ¹⁾	End of current tenure
Anas ABUZAAKOUK	Chairperson	1977	19.08.2017	31.03.2021
Stefan BARTH	Member	1977	19.08.2017	31.03.2021
David O'LEARY	Member	1975	19.08.2017	31.03.2021
Enver SIRUCIC	Member	1982	19.08.2017	31.03.2021
Sat SHAH	Member	1978	19.08.2017	31.03.2021
Andrew WISE	Member	1971	19.08.2017	31.03.2021

1) Regarding BAWAG Group AG.

Member who left the Managing Board since BAWAG Group's declaration of commitment

Name	Function	End of current tenure
None		

As of the date hereof, responsibilities among the Managing Board members were allocated as follows:

Name	Responsibilities
Anas ABUZAAKOUK (CEO)	Technology Group, M&A, Legal & Human Resources
Stefan BARTH (CRO)	Commercial & Retail Risk Management, Financial Crime Management & Compliance, Market Risk, Operational Risk, Regulatory developments and Data Risk Office
David O'LEARY (Domestic Retail & SME)	Overseeing Austrian market: Retail Sales, Customer Care Center, & Strategic Initiatives across the BAWAG P.S.K., easybank, PayLife and start:bausparkase channels and brands
Sat SHAH (International Retail & SME)	Overseeing Germany, Switzerland, & Western European markets managing the easyleasing, Qlick, BFL Leasing, Südwestbank, Health AG, Zahnärztekasse and start:bausparkasse products, channels, and brands
Enver SIRUCIC (CFO)	Accounting, Financial Planning & Analysis, Investor Relations, Strategy, Operations Group, Treasury Group, and Austrian Corporates & Public Sector
Andrew WISE (CIO, Non-Retail Lending)	Chief Investment Officer overseeing all International Corporate Lending, Asset Backed Lending, & North American Markets
Entire Managing Board	Internal Audit, Compliance & AML Office

The following describes the Supervisory Board mandates and comparable functions of Managing Board members per 31 December 2019 at other Austrian or foreign stock corporations, which are not fully consolidated in the

consolidated financial statements. Members not listed in the following do not have any comparable functions:

David O'LEARY

Name of the company	Function
Amundi Austria GmbH	Supervisory Board member
BAWAG P.S.K. Versicherung AG	Supervisory Board member

Sat SHAH

Name of the company	Function
BAWAG P.S.K. Versicherung AG	Supervisory Board member

MANAGING BOARD MEETINGS AND COMMITTEES

Managing Board Meetings / Extended Managing Board Meetings

The Managing Board of BAWAG meets on a weekly basis. BAWAG has also introduced Extended Managing Board Meetings which are held approximately 8 times per year. In these all-day sessions, the Managing Board and executive leadership team across BAWAG Group discuss a variety of topics from M&A and integration, technology developments, branch transformation, retail partnerships, talent assessment and development, regulatory developments, and key risk topics amongst other things.

The following committees exist at the level of BAWAG's Managing Board:

- ▶ Strategic Asset Liability Committee (S-ALCO)
- ▶ Enterprise Risk Meeting (ERM)
- ▶ Credit Approval Committee (CAC)
- ▶ Non-Financial Risk and ESG Committee (NFR & ESGC)

The Managing Board committees consist of all members of the Managing Board and further voting and non-voting members of BAWAG's senior staff/designated experts (e.g. BAWAG's ESG Officers). They are chaired by the CEO or the CRO. The following section describes the main responsibilities of these Managing Board committees.

Strategic Asset Liability Committee (S-ALCO)

The Strategic Asset Liability Committee (S-ALCO) is in charge of strategic capital and liquidity planning as well as operational aspects of asset and liability management. In this capacity the S-ALCO approves interest and FX/limit for trading and managed bank books. With respect to liquidity, capital and interest, the S-ALCO approves liquidity costs, capital costs and internal reference rates. It further determines parameters for measuring interest risk, liquidity risk and foreign exchange risk and monitors risk metrics by way of regular reports. The S-ALCO is chaired by the CEO and meets on a monthly basis.

Enterprise Risk Meeting

The main duties of the Enterprise Risk Committee (ERM) are risk limit setting for the overall bank, approval of the risk strategy and determination of the risk appetite, approval of capital allocation within the ICAAP framework. The Committee is further responsible for credit guidelines, strategies and reviews and approves policies, procedures and underwriting guidelines/models. The ERM is chaired by the CEO and meets on a monthly basis.

COMPLIANCE

As a listed company, BAWAG Group AG is obliged to ensure the highest compliance standards.

The Compliance Office reports directly to the Managing Board and the Audit and Compliance Committee. The key responsibilities of the Compliance Office are prevention of insider dealing and market manipulation and managing of conflicts of interest. The Compliance Policy ensures observation of legal and proper conduct obligations, as well as the identification and prevention of conflicts of interest.

Credit Approval Committee

The Credit Approval Committee (CAC) decides on financing transactions above a certain threshold and on the approval of loan applications within the authorities defined in the Competence and Power Regulation. The committee is chaired by the CRO and meets weekly.

Non-Financial Risk and ESG Committee (NFR & ESGC)

The Non-Financial Risk and ESG Committee (NFR & ESGC) is in charge of non-financial risk and ESG related topics. In particular, it discusses the bank-wide non-financial risk assessment (as part of the Group Risk Strategy), significant outcomes of sub risk self-assessments, large-scale marketing campaigns, changes in regulatory requirements and topics with regards to cybersecurity and data privacy. Furthermore, the NFR & ESGC reviews and acknowledges reports on inter alia, OpRisk, conducted product implementation processes, complaint management reports and regular reports on cybersecurity and data privacy matters. It also receives regular updates from BAWAG's ESG Officers on ESG related topics and discusses the groupwide ESG strategy. The NFRC is chaired by the CRO and meets on a bi-monthly basis.

In accordance with the Austrian Stock Exchange Act, personal trades in shares of BAWAG Group AG by members of the Managing Board and Supervisory Board as well as their related persons are published on BAWAG Group's website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/Corporate_Governance/Mandatory_Disclosures/404218/directors-dealings-eng.html).

SUPERVISORY BOARD

SUPERVISORY BOARD MEMBERS

Per 31 December 2019, the Supervisory Board was composed of the following members:

SUPERVISORY BOARD of BAWAG Group per 31 December 2019

Name	Function	Year of Birth	Date of first appointment	End of current tenure
Egbert FLEISCHER	Chairperson	1957	15.09.2017	2)
Kim FENNEBRESQUE	Deputy Chairperson	1950	15.09.2017	2)
Frederick S. HADDAD	Member	1948	15.09.2017	1)
Adam ROSMARIN	Member	1963	15.09.2017	2)
Ingrid STREIBEL-ZARFL	Delegated by the Works Council	1959	25.10.2017	
Verena SPITZ	Delegated by the Works Council	1970	25.10.2017	

1) Until revoked.

2) Until the end of the Annual General Meeting deciding on the discharge of the members of the Supervisory Board for the financial year 2022.

Members who left the Supervisory Board in the financial year 2019

Name	Function	End of tenure
Pieter KORTEWEG	Chairperson	12.12.2019
Christopher BRODY	Deputy Chairperson	12.12.2019
Beatrix PRÖLL	Delegated by the Works Council	12.12.2019

Independence of Supervisory Board Members

According to the company's "Independency criteria for members of the Supervisory Board of BAWAG Group AG", a member of the Supervisory Board shall be deemed independent if said member does not have any business or personal relations to the company or its Managing Board that constitute a material conflict of interests and are therefore suited to influence the behavior of the member. The Supervisory Board shall also follow the guidelines below when defining the criteria for the assessment of the independence of a member of the Supervisory Board:

- ▶ The Supervisory Board member has not been a member of the Managing Board or Managing Director or a management-level staff of the company or a subsidiary in the two years prior to the appointment.
- ▶ The Supervisory Board member does not maintain or has not maintained in the past year any business relations with the company or one of its subsidiaries to an extent of significance for the member of the Supervisory Board. This shall also apply to relationships with companies in which a member of the Supervisory Board has a considerable economic interest, but not for exercising functions in the bodies of the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 does not automatically mean the person is qualified as not independent.
- ▶ The Supervisory Board member has not acted as a auditor of the company or has owned a share in the auditing company or has worked there as an employee in the past three years.
- ▶ The Supervisory Board member is not a member of the Managing Board of a nother company in which a member of the Managing Board of the company is a Supervisory Board member.
- ▶ The Supervisory Board member has not belonged to the Supervisory Board of the company for more than 15 years. This shall not apply to Supervisory Board members who are shareholders with an entrepreneurial investment in the company or who represent the interests of such a shareholder.

- ▶ The Supervisory Board member is not a close family member (direct descendants, spouses, companions, parents, uncles, aunts, siblings, nieces, nephews) of a member of the Managing Board of the company or of persons who are in a position described in the points above.

The following members are regarded as independent pursuant to C Rule 53:

Independence of Supervisory Board members

Name	Independent
Egbert FLEISCHER	YES
Kim FENNEBRESQUE	YES
Frederick S. HADDAD	YES
Adam ROSMARIN	YES

Supervisory Board Mandates and Comparable Functions at Listed Companies

The following describes the Supervisory Board mandates and comparable functions of Supervisory Board members at listed companies in Austria and abroad as at the date hereof.

Members not listed in the following do not have any functions at listed companies.

Kim FENNEBRESQUE

Name of listed company	Function
Ally Financial	Member
BlueLinx Holdings	Chairperson

Supervisory Board Activity Report

In 2019 the Supervisory Board convened for six meetings, one conference call and adopted two resolutions via circular resolutions. Except for one Supervisory Board member who missed one session, Supervisory Board members attended all of the meetings of the Supervisory Board and its committees. Accordingly, no member of the Supervisory Board failed to personally attend more than half of the meetings of the Supervisory Board.

topics related to the board’s self-evaluation and succession planning. Furthermore, the Supervisory Board was regularly informed about the SREP process and the new branch concept (*Concept 21*) and received updates regarding the successful relocation to the new headquarters (ICON) and the implementation of the technology roadmap.

The Supervisory Board focused on the annual financial statements and the consolidated financial statements for 2018. The Supervisory Board discussed the appointment of the external auditor for 2020. Other material topics which the Supervisory Board dealt with were BAWAG Group’s strategy (including the risk strategy which is approved by the Supervisory Board), the preparation and execution of the voluntary partial tender offer, M&A and integration (BFL Leasing GmbH, Health Coevo AG and Zahnärztekasse AG), discussions on the 2020 budget and the mid-term plan and

The Supervisory Board has the following committees:

- ▶ Audit and Compliance Committee
- ▶ Risk and Credit Committee
- ▶ Nomination and Remuneration Committee

All committees report their discussions and decisions to the entire Supervisory Board to ensure that the Supervisory Board is aware of the topics presented in the respective committees. The following section describes the composition and the activities of the respective committees.

Audit and Compliance Committee

Name	Function
Adam ROSMARIN	Chairperson
Egbert FLEISCHER	Member
Frederick S. HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Verena SPITZ	Delegated by the Works Council

Decision Making Powers

The Audit and Compliance Committee reviews the company's accounts and the annual financial statements and monitors the company's internal control system as well as the independence and work of the external auditor. The Audit and Compliance Committee prepares the auditor selection process, receives regular reports on compliance/AML/cybersecurity and data privacy topics and approves the annual audit plans of Internal Audit and the Compliance Office. The Head of Internal Audit, the Compliance Officer and the external auditor have direct access to the Chairperson and members of the Audit and Compliance Committee and, once a year, hold a private session with the Audit and Compliance Committee.

Activity Report 2019

The Audit and Compliance Committee held four meetings and adopted one resolution via circular resolution. The Audit and Compliance Committee discussed the quarterly reports by Internal Audit and the Compliance Office as well as the 2020 audit plans of Internal Audit and of Compliance. The annual audit process for 2019 was also monitored. Furthermore, regular updates on legal issues, compliance and AML topics were given, including updates on cybersecurity and data privacy. The external auditor as well as the Head of Internal Audit attended all meetings.

Risk and Credit Committee

Name	Function
Frederick S. HADDAD	Chairperson
Kim FENNEBRESQUE	Member
Adam ROSMARIN	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Verena SPITZ	Delegated by the Works Council

Decision Making Powers

The committee advises the Supervisory Board on the current and future risk-bearing ability of the Group and monitors the effectiveness and efficiency of the risk management systems and compliance with the legal provisions and regulatory requirements. It receives quarterly risk reports and prepares, on an annual basis, the risk planning guidelines and the risk strategy which are subsequently approved by the entire Supervisory Board.

Activity Report 2019

The Risk and Credit Committee discussed the Group Risk Reports, which include the calculation of the risk-bearing capacity and reports on credit, market and operational risk. In addition, the 2019 credit risk validation reports, an update on regulatory topics, implications of Brexit, IRB models and the result of on-site inspections were presented to the Risk and Credit Committee, it also prepared the risk planning guidelines and the risk strategy of BAWAG Group.

Nomination and Remuneration Committee

Name	Function
Egbert FLEISCHER	Chairperson
Kim FENNEBRESQUE	Member
Frederick HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Verena SPITZ	Delegated by the Works Council

Decision Making Powers

The Nomination and Remuneration Committee deals with Managing Board succession planning and the regular Fit & Proper evaluation of Managing Board and Supervisory Board members. The committee further deals with the general principles of the company's remuneration policy. It also monitors the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to section 39c BWG. It also supports the Supervisory Board in preparing recommendations to the General Meeting with respect to new Supervisory Board candidates and discusses succession planning topics which are reported to the entire Supervisory Board.

Activity Report 2019

The Nomination and Remuneration Committee held three meetings. The Nomination and Remuneration Committee approved amendments of the remuneration policy and acknowledged the mandates of Managing Board members

which they hold outside BAWAG Group. In addition, the annual Fit & Proper assessment of the Supervisory Board and the Management Board members was performed. The Committee (formerly: Committee for Management Board Matters) also dealt with BAWAG's succession planning.

INFORMATION ABOUT THE REMUNERATION OF THE MANAGING BOARD AND SUPERVISORY BOARD

For their activities as members of the Supervisory Board of BAWAG Group AG during the reporting period, members of the Supervisory Board were entitled to the following remuneration:

Remuneration for financial year 2019

in € thousand	Remuneration
Pieter KORTEWEG	87.50
Christopher BRODY	78.75
Kim FENNEBRESQUE	57.50
Egbert FLEISCHER	81.25
Frederick S. HADDAD	52.50
Adam ROSMARIN	56.25

The remuneration policy of BAWAG Group determines the principles of the compensation of Managing Board members in compliance with the European and Austrian legal framework. The remuneration policy is compatible with an effective risk management. It is designed to align the personal objectives of the Managing Board members with the long-term interests of BAWAG Group and to ensure an appropriate balance between fixed and variable remuneration components. The variable remuneration, if any, is determined on the basis of the individual's success (in quantitative and qualitative terms) as well as on the success of the company. Qualitative targets include improvements in leadership, culture, compliance and integrity. In addition, the results of internal and external audits, on-site reviews by regulators and the overall fulfillment of compliance requirements are considered. In deciding on any awards of a variable compensation to members of the Managing Board, the Nomination and Remuneration Committee takes into account apart from the evaluation of the performance criteria, the market situation and market trends, the appropriateness of bonus payments, the risk trends and the strengthening of the equity base. Payments of contributions to pensions funds have been agreed with the members of the Managing Board individually. In case of termination of their function,

entitlements and claims of members of the Managing Board will also be agreed on an individual basis. Managing Board and Supervisory Board members are covered by a D&O insurance.

To the extent Managing Board members are granted an annual bonus award, such an annual bonus award is distributed over a period of five years. The annual bonus award, if any, is composed of a cash award and a phantom share award. The phantom share award shall be at least 50% of the annual bonus award. The proportion of phantom shares of the variable compensation for identified staff leads to a high level of alignment between the interests of the management and the shareholders focused on a growth of the corporate value as externally communicated to the shareholders.

For the years 2017 through 2020 a long-term incentive program ("LTIP") was implemented to reward Managing Board members for sustainable long-term performance of BAWAG Group as the performance target is based on the three-year average pre-tax earnings per share. In the case of long-term corporate success Managing Board members are awarded 50% in shares and 50% in phantom shares or optionally 100% in shares of BAWAG Group subject to applicable deferral and retention periods.

Pursuant to regulatory requirements the ratio between variable to total fixed remuneration is generally limited to 100%. However, shareholders may resolve that the maximum ratio of fixed to variable remuneration is 200%. Such shareholders' approval has been obtained.

The Nomination and Remuneration Committee deals with individual matters of remuneration for Managing Board members, which also monitors the implementation of the remuneration policy and submits regular reports on its activities to the Supervisory Board.

The provisions of the Directive (EU) 2017/828 (Shareholder Rights Directive II or SRD II) were implemented in the Austrian Stock Corporation Act (“AktG”) in Sections 78a and following and apply to issuers which have their registered seat in the European Union and their shares listed on a regulated market situated or operating within a member state. Shareholders have the right to vote on the company’s remuneration policy with respect to Managing Board members and Supervisory Board members and the right to vote on the company’s remuneration report.

The remuneration policy for Managing Board members pursuant to Section 78a AktG (“MB Remuneration Policy”) will be presented to the shareholders for the first time at the Annual General Meeting 2020 for voting and subsequently

at least every fourth financial year or earlier, in case material changes to the MB Remuneration Policy are made. The established remuneration policy pursuant to Section 39b BWG will continue to exist in addition to the MB Remuneration Policy.

The Managing Board Remuneration Policy has been aligned with the content of the remuneration policy pursuant to Section 39b BWG to ensure compliance with the legal provisions and regulatory requirements.

In accordance with the provisions of the Shareholder Rights Directive II BAWAG Group AG will publish a remuneration report pursuant to Sections 78c and following AktG for the first time at the Annual General Meeting 2021.

The remuneration of the members of the Managing Board is illustrated in the table below. The Management Board has waived potential bonuses for 2019 to address the current macroeconomic environment and accelerate the continued transformation of the Group.

Remuneration for financial year 2019				
in € thousand	Fixed salaries	Other remuneration	Bonus	Total
Anas ABUZAAKOUK	3,000	1,920	0	4,920
Stefan BARTH	1,500	420	0	1,920
David O’LEARY	1,750	1,420	0	3,170
Enver SIRUCIC	1,500	400	0	1,900
Sat SHAH	2,250	1,860	0	4,110
Andrew WISE	2,250	1,530	0	3,780
Total	12,250	7,550	0	19,800

REFINEMENT OF THE DIVERSITY RULES

Rule L 52, which was incorporated from Sec 87 para 2a of the Stock Corporation Act, requires that the aspects of diversity be appropriately taken into consideration in the Supervisory Board with regard to the representation of both genders and the age structure and, at listed companies, also with regard to the internationality of its members.

According to the interpretation of the Austrian Working Group for Corporate Governance, the individual bodies to whom each rule is addressed are responsible for compliance with Corporate Governance principles pursuant to Rule C 61. Although Rule L 52 is not directly binding for shareholders, compliance with Corporate Governance principles should be strived for by the company in general. To this end, the shareholders should be encouraged to

implement the rule, for example, by referring to it at the Annual General Meeting or in the published documents for the Annual General Meeting. Compliance with the rule is therefore achieved by making reference at the Annual General Meeting or in the documents for the Annual General Meeting to the principles for appointing members to the Supervisory Board including the importance of taking appropriate consideration of the aspects of diversity.

BAWAG Group takes into account the members' expert knowledge, gender, internationality, age structure and professional reliability. The Nomination and Remuneration Committee has defined a target ratio for the underrepresented gender among the Supervisory Board and the Managing Board.

MEASURES TAKEN TO PROMOTE WOMEN ON THE MANAGING BOARD, THE SUPERVISORY BOARD AND IN MANAGEMENT POSITIONS

The preamble of the Code governs companies' responsibility toward society and recommends that appropriate voluntary measures and initiatives be taken such as to reconcile work and family life. According to Rule L 60, the Corporate Governance Report must contain measures taken to promote women on the Managing Board, on the Supervisory Board and in management positions as well as in key functions within BAWAG Group.

BAWAG Group makes efforts to implement initiatives and measures aimed, for example, at increasing the number of women in management positions.

Women's promotion program

Since 2012, BAWAG has had a women's promotion program, which was jointly evaluated by the BAWAG P.S.K. Women's Initiative and the works council in 2018 and was agreed in writing with BAWAG P.S.K.

It serves as a binding framework to promote equality and equal opportunities for women and men in the enterprise.

The women's promotion program is based on four principles and concrete measures:

- ▶ Awareness raising
- ▶ Same career opportunities
- ▶ Financial equality
- ▶ Promoting a better balance between career and family for women and men

One key aspect of the women's promotion plan has been to encourage women to participate in personnel development programs. Therefore, the balanced mix of male and female in all development programs is considered.

BAWAG P.S.K. Women's Initiative

BAWAG P.S.K. Women's Initiative is a network of experts and female managers from all areas of the bank supported by the Managing Board of BAWAG Group. The initiative aims to promote equality for women in BAWAG Group in the form of achieving career goals in managerial or expert positions, monetary equality, and compatibility of family and work. Its actions further facilitate the exchange of experience and knowledge as well as networking within and outside the company.

BAWAG P.S.K. Women Mentoring Program

To raise the gender diversity awareness within the organization, BAWAG Group has set up a women mentoring program, having accompanied 86 women since 2013. In 2019, the sixth round started. Austrian top managers from various industries support 12 female managers and top performers from BAWAG Group throughout one year as mentors. The program is accompanied by knowledge trainings and specific workshops.

In addition, the Bank offers women-specific business workshops to all female employees.

BAWAG P.S.K. Women's Prize

The BAWAG P.S.K. Women's Prize which has been awarded since 2013 recognizes outstanding achievements by women or special commitment to positioning women in society.

With this € 5,000-award, BAWAG Group encourages women and organizations to tackle challenging and innovative projects, especially in the areas of

- ▶ science, journalism and art,
- ▶ social commitment,
- ▶ intercultural understanding,
- ▶ promoting equality of opportunity between women and men and
- ▶ creating awareness for the role of women in the professional environment.

The BAWAG P.S.K. Women's Prize this year was dedicated to education as the best future investment and was awarded for the seventh time by the BAWAG P.S.K. Women's Initiative.

Karoline Iber, Managing Director of the Children's Office of the University of Vienna and founder of the Children's University of Vienna (KinderuniWien), received the BAWAG P.S.K. women's award for her work in the education sector. The KinderuniWien offers innovative childcare, designs and implements projects in the field of science communication and science education for children and adolescents and implements a variety of projects in the field of democracy and media education.

Audit family and career

BAWAG P.S.K. is committed to enabling a good work-life balance and creating a family-friendly work environment. BAWAG P.S.K. was audited and distinguished by the Ministry of Science, Research and Economy as a “family-friendly company.”

Following the expiration of the three-year basic certificate, BAWAG P.S.K. successfully completed the re-auditing

process at year-end 2016. Various measures have been implemented by 2019 and BAWAG P.S.K. will start the new re-auditing cycle in 2020.

In conjunction with the “berufundfamilie” career and family audit, BAWAG P.S.K. also joined the “Network of Family-Friendly Companies”.

REPORT FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

The Supervisory Board of BAWAG Group AG properly fulfilled all duties incumbent upon it by law, its Articles of Association and its Rules of Procedure. The Managing Board informed the Supervisory Board of all material issues in a timely and comprehensive manner either in writing or verbally. In addition to periodic meetings, the Chairmen of the Supervisory Board, the Audit and Compliance

Committee and the Risk and Credit Committee discussed current business matters with the Managing Board members. Further details regarding the composition of the Supervisory Board and its committees as well as their working procedures are disclosed under Corporate Governance in this report. The Managing Board was continuously monitored and regularly advised.

SUPERVISORY BOARD

As of 31 December 2019, the Supervisory Board consisted of six members. The Supervisory Board focused on the annual financial statements and the consolidated financial statements for 2018 and discussed the appointment of the external auditor for 2020.

Other material topics which the Supervisory Board dealt with were BAWAG Group's strategy, the preparation and execution of the voluntary partial tender offer, M&A and

integration (BFL Leasing GmbH, Health Coevo AG and Zahnärztekasse AG), discussions on the 2020 budget and the mid-term plan and topics related to the board's self-evaluation and succession planning. Furthermore, the Supervisory Board was regularly informed about the SREP process and the new branch concept (*Concept 21*) and received updates regarding the successful relocation to the new headquarters (ICON) and the implementation of the technology roadmap.

SUPERVISORY BOARD COMMITTEE MEETINGS

Audit and Compliance Committee

The Audit and Compliance Committee discussed the quarterly reports by Internal Audit and the Compliance Office as well as the 2020 audit plans of Internal Audit and of Compliance. The annual audit process for 2019 was also presented. Furthermore, regular updates on legal issues, compliance and AML topics were given, including updates on cybersecurity and data privacy. The external auditor as well as the Head of Internal Audit attended all meetings.

Risk and Credit Committee

The Risk and Credit Committee discussed the Group Risk Report, which includes the calculation of the risk-bearing capacity and reports on credit, market and operational risk. In addition, an update on Brexit, IRB models as well as the

risk planning guidelines of BAWAG Group were presented to the committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee approved amendments of the remuneration policy and acknowledged the mandates of Managing Board members which they hold outside BAWAG Group. In addition, the annual Fit & Proper assessment of the Supervisory Board and the Management Board members was performed. The Committee (formerly: Committee for Management Board Matters) also dealt with BAWAG's succession planning.

All committees also reported their discussions and decisions to the entire Supervisory Board.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements and the consolidated annual financial statements for 2019 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft headquartered in Vienna. The audit revealed no reason for objections. The legal regulations were complied with in full, and an unqualified auditor's opinion was issued. After an in-depth discussion, the Supervisory Board approved and adopted the annual financial statements in accordance with Section 96 Para 4 Stock Corporation Act. In addition, the Supervisory Board reviewed the separate consolidated non-financial report. The consolidated financial statements were noted by the Supervisory Board.

In conclusion, I would like to express my sincere thanks to the Managing Board as well as all employees within BAWAG Group on behalf of the entire Supervisory Board for their performance and sustained commitment in 2019.

March 2020

Egbert Fleischer
Chairman of the Supervisory Board of BAWAG Group AG

Group Management Report

ECONOMIC AND REGULATORY DEVELOPMENTS

ECONOMIC DEVELOPMENTS

Macro trends

Despite a weakening growth momentum, economic conditions continued to be solid in Austria throughout the year 2019. Austria's real gross domestic product growth reached a rate of around 1.6%, thus clearly outpacing growth in the Euro area as a whole. The relatively sound growth was driven by solid growth in private consumption and strong service exports while manufacturing output declined in the second half 2019. Private consumption was supported by population growth, a decrease in the unemployment rate, real wage growth and a stable savings rate. Corporates as well as private households continued to prove financially sound. On the back of increasing revenues, government finances concluded the year 2019 with a relatively balanced budget. The debt to GDP ratio decreased to below 70% and is expected to decrease further. The DACH region comprises a market with a population of more than 100 million, more than € 4.5 trillion in GDP and represents a common cultural and lingual area with a GDP per capita significantly above the euro area aggregate, a sound labor market and healthy government finances. GDP growth in Germany reached 0.6% in 2019 driven by softer international trade and uncertainties surrounding the automotive sector. The labor market is at full employment. Government finances in Germany and Austria are well balanced, representing ample capacities to expand spending activities in 2020 and beyond by infrastructure investments, tax cuts and other forms of government spending.

Market developments

The stable economic environment in 2019 resulted in solid loan demand from private households in the Austrian lending market. The outstanding volume of loans for housing purposes increased in line with real estate prices, while loan volumes for non-housing purposes increased at a slower pace at similar rates as consumer price inflation.

Real estate prices continued to increase, with prices in Vienna growing stronger than in overall Austria. Deposits from Austrian households increased despite the low-interest rate environment. Growing investments were accompanied by increasing loan demand from Austrian corporations. Home ownership as well as the ratio of housing loans to GDP remain low in Austria compared to the European average. The number of branches of Austrian banks continued to decline in 2019, with one in five branches being closed since 2012. The overall balance sheet of the Austrian banking sector increased driven by growth in customer assets. Global liquidity conditions remained ample and interest rates remained low in 2019. Political risks and signs of decelerating global economic growth momentum on the one hand side and monetary easing measures from central banks including the US Fed and the ECB on the other hand side dominated the market sentiment in 2019. Overall, risk premia on financial markets decreased throughout the year 2019.

Outlook

The global measures to counter contagion of the coronavirus (COVID-19) have resulted in subdued social and economic activity in various regions across the world that will have adverse effects on global economic growth. In addition, uncertainty on the further development of the situation has resulted in a significant deterioration in market confidence. The degree of the impact on the global economy and financial markets is yet to be seen. Central banks including the ECB, the United States Federal Reserve and the Bank of England have implemented further expansionary monetary policy such as interest rate cuts, asset purchases and generous liquidity facilities for commercial banks. Additionally, governments are expected to implement stimulus measures and support the hardest hit sectors of the economy.

REGULATORY DEVELOPMENTS

The ECB continued its direct oversight of the Eurozone's main credit institutions, including BAWAG Group, under the Single Supervisory Mechanism (SSM). The main supervisory priorities in 2019 were economic, political and debt sustainability challenges in the euro area, business model sustainability, cybercrime and IT deficiencies.

Due to the withdrawal of the United Kingdom (UK) from the European Union (EU) uncertainties exist not only on the financial markets about the future status of the UK, but also within the regulatory environment. In order to assess the impact of Brexit on the UK operations and to reflect potential risks, BAWAG Group has established a Brexit team, supported by external advisers in Austria and in the UK. According to the UK supervisory authorities there will be a Temporary Permission Regime (TPR) for credit institutions during the first 2 years after the current transitional period. The transitional period, during which EU law will continue to apply to the UK under the terms set out in the Withdrawal Agreement Act, is due to end at 11pm on 31 December 2020. According to the withdrawal agreement the period can be extended until end of 2022. BAWAG Group applied for the TPR and the competent authorities in UK – PRA and FCA – confirmed TPR for BAWAG Group. Due to the size of the UK branch of BAWAG Group and the fact that business activities in UK are carried out by the branch as an agent for BAWAG P.S.K. even the effects without the TPR will cause a minor organizational impact.

In June 2019 EBA launched a consultation on the guidelines on loan origination and monitoring in EU. The draft guidelines specify the internal governance arrangements for granting and monitoring of credit facilities throughout their life cycle. These guidelines apply to the risk management practices, policies, processes, and procedures for loan origination and for monitoring of performing exposures, along with their integration into the overall management and risk management framework. The guidelines will apply as of 30 June 2020.

Furthermore, in 2019 the supervisory authorities, in detail EBA, ECB and the European Commission, continued to

enforce the Action Plan on reducing non performing exposures (NPE) in the EU. The key areas include sufficient loss coverage by banks for future NPE, development of a secondary market for NPLs and facilitating out-of-court collateral enforcement, supervisory expectations for prudential provisioning of NPEs and the management of NPE by banks with high NPL rates.

On 1 July 2019 BaFin set the relevant national countercyclical capital buffer from 0.00% to 0.25%, applicable as of 1 July 2020. As this only includes exposures in Germany, the German business of BAWAG Group will be affected.

In November 2016 the European Commission published a so-called Banking Package with amendments of the CRR (so-called CRR II or Regulation (EU) 2019/876), CRD IV (so-called CRD V or Directive (EU) 2019/878) and BRRD (so-called BRRD II or Directive (EU) 2019/879). The negotiations on the proposals between The European Council, the European Parliament and the European Commission started in July 2018 and were finalized by middle of 2019. The Banking Package was published in the Official Journal of the EU and is partly applicable since June 2019.

Changes in the CRR and CRD include the introduction of the leverage ratio, the net stable fund ratio, a revised SME supporting factor and amendments of the buffer regime. While parts of CRR II are already applicable, other chapters will apply as of 28 June 2021. CRD V on the other hand has to be implemented by all EU member states until 28 December 2020. While the already applicable parts were implemented by BAWAG Group, we finalized a gap analysis and expect only a de minimis impact of the further amendments.

We will continue to proactively monitor and implement the upcoming regulatory changes on a regular basis and to consider them in our business plans accordingly. Due to its strong capital position and profitable business model, BAWAG Group considers itself well prepared for the upcoming requirements.

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	2019	2018	Change	Change (%)
Interest income	1,154.1	1,141.4	12.7	1.1
Interest expense	(278.7)	(309.5)	30.8	(10.0)
Dividend income	3.6	8.6	(5.0)	(58.1)
Net interest income	879.0	840.5	38.5	4.6
Fee and commission income	374.7	372.9	1.8	0.5
Fee and commission expenses	(91.2)	(90.1)	(1.1)	1.2
Net fee and commission income	283.5	282.8	0.7	0.2
Core revenues	1,162.5	1,123.3	39.2	3.5
Gains and losses on financial instruments and other operating income and expenses ¹⁾	78.0	47.4	30.6	64.6
Operating income	1,240.5	1,170.7	69.8	6.0
Operating expenses¹⁾	(529.7)	(517.9)	(11.8)	2.3
Regulatory charges	(42.4)	(40.1)	(2.3)	5.7
Operating profit	668.4	612.7	55.7	9.1
Total risk costs	(69.3)	(45.1)	(24.2)	53.7
Share of the profit or loss of associates accounted for using the equity method	5.2	5.1	0.1	2.0
Profit before tax	604.3	572.7	31.6	5.5
Income taxes	(145.0)	(136.2)	(8.8)	6.5
Profit after tax	459.3	436.5	22.8	5.2
Non-controlling interests	(0.2)	0.0	(0.2)	>(100)
Net profit	459.1	436.5	22.6	5.2

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 38.2 million for 2019. The item Operating expenses includes regulatory charges in the amount of € 4.1 million for 2019 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Group Management Report.

Net profit increased by € 22.6 million, or 5.2%, to € 459.1 million in 2019, mainly due to higher net interest income and gains and losses and other operating income and expenses.

Net interest income increased by € 38.5 million, or 4.6%, to € 879.0 million in 2019 driven by Retail & SME and the

new acquisitions of start:bausparkasse Germany in the third quarter 2018, as well as - primarily - BFL Leasing GmbH in the second quarter 2019.

Net fee and commission income remained stable compared to 2018.

Gains and losses on financial instruments and other operating income and expenses increased by € 30.6 million to € 78.0 million in 2019.

Zahnärztekasse AG in the first quarter 2019 as well as Health Coevo AG and BFL Leasing GmbH in the second quarter 2019.

Operating expenses increased by 2.3% to € 529.7 million in 2019 as a result of new acquisitions of start:bausparkasse Germany in the third quarter 2018,

Total risk costs increased by € 24.2 million to € 69.3 million in 2019, partially related to one-offs addressing legacy NPL, in comparison to the low risk costs in 2018.

Income taxes amounted to € 145.0 million in 2019.

Total assets

in € million	2019	2018	Change	Change (%)
Cash reserves	1,424	1,069	355	33.2
Financial assets				
Held for trading	353	351	2	0.6
Fair value through profit or loss	740	504	236	46.8
Fair value through OCI	3,631	3,039	592	19.5
At a amortized cost	37,556	38,334	(778)	(2.0)
Customers	30,467	30,482	(15)	(0.0)
Debt instruments	1,369	3,512	(2,143)	(61.0)
Credit institutions	5,720	4,340	1,380	31.8
Valuation adjustment on interest rate risk hedged portfolios	5	1	4	>100
Hedging derivatives	397	401	(4)	(1.0)
Tangible non-current assets	707	234	473	>100
Intangible non-current assets	569	505	64	12.7
Tax assets for current taxes	15	15	0	0.0
Tax assets for deferred taxes	8	75	(67)	(89.3)
Other assets	257	170	87	51.2
Total assets	45,662	44,698	964	2.2

The position **at a amortized cost** decreased by € 778 million, or 2.0% compared to year-end 2018, and stood at € 37,556 million as of 31 December 2019. The customer asset remained stable, whereas debt instruments decreased by € 2.1 billion driven by bond sales.

end 2018, which is mainly a result of the first-time application of IFRS 16 regulations and valuation effects of investment properties.

Tangible non-current assets increased by € 473 million to € 707 million as of 31 December 2019 compared to year-

Tax assets for deferred taxes decreased by € 67 million, or 89.3%, to € 8 million as of 31 December 2019.

Total liabilities and equity

in € million	2019	2018	Change	Change (%)
Total liabilities	41,834	40,693	1,141	2.8
Financial liabilities				
Fair value through profit or loss	369	576	(207)	(35.9)
Held for trading	334	301	33	11.0
At a mortized cost	38,543	38,325	218	0.6
Customers	30,378	30,195	183	0.6
Issued securities	5,080	3,849	1,231	32.0
Credit institutions	3,085	4,281	(1,196)	(27.9)
Financial liabilities associated with transferred assets	729	150	579	>100
Valuation adjustment on interest rate risk hedged portfolios	337	156	181	>100
Hedging derivatives	116	104	12	11.5
Provisions	480	465	15	3.2
Tax liabilities for current taxes	34	8	26	>100
Tax liabilities for deferred taxes	54	11	43	>100
Other obligations	838	597	241	40.4
Total equity	3,828	4,005	(177)	(4.4)
Common equity	3,527	3,706	(179)	(4.8)
AT1 capital	297	298	(1)	(0.3)
Non-controlling interests	4	1	3	>100
Total liabilities and equity	45,662	44,698	964	2.2

Financial liabilities at a mortized cost increased by € 218 million, or 0.6%, to € 38,543 million as of 31 December 2019 compared to year-end 2018, reflecting the partial repayment of TLTRO II of € 1.75 billion and the increase in issued securities with a Tier 2 issue of € 400 million, a Senior Non-Preferred issue of € 500 million as well as two covered bond issues of € 500 million each.

Other obligations increased in the amount of € 241 million mainly as a result of the first-time application of IFRS 16 regulations.

Total equity including Additional Tier 1 capital stood at € 3,828 million as of 31 December 2019, including the share buyback of € 400 million in the fourth quarter 2019.

CAPITAL AND LIQUIDITY POSITION

Maintaining a strong capital position is considered a key strategic priority for BAWAG Group. We have set ourselves the target of maintaining a CET1 ratio of 13% on a fully loaded basis. The target CET1 ratio takes the regulatory capital requirements into account and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

For 2020, the regulatory minimum CET1 ratio applicable to BAWAG Group according to the SREP is 10.19% (based on the Pillar 1 minimum of 4.50%, a Pillar 2 requirement of 2.0%, a capital conservation buffer of 2.50%, a systemic risk buffer of 1.0% and a countercyclical buffer of 0.19%¹). The Pillar 2 requirement was reduced by 25 basis points compared to the previous year. In addition to the capital requirement, the SREP for 2020 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 11.19% (10.19% SREP requirement plus 1% Pillar 2 guidance).

The 13% CET1 target ratio therefore represents a management buffer of circa 280 basis points versus our regulatory requirements (or approximately 180 basis points taking Pillar 2 guidance into account), which we consider to be a conservative level also compared to our competitors.

As of 31 December 2019, a fully loaded CET1 ratio of 13.3%, a fully loaded Tier 1 ratio of 14.7% and a fully loaded total capital ratio of 17.0% exceed both the target ratio and the regulatory requirements detailed above. These ratios consider the dividend which will be proposed to the AGM of € 230 million for 2019 based on a 50% payout ratio of net profit. In the fourth quarter 2019 we executed a € 400 million share buyback with the share capital reduced effective 4 December 2019.

Based on the fully loaded capital ratios as of 31 December 2019, the maximum distributable amount above the regulatory requirements for 2020 (Pillar 1 minimum ratios, Pillar 2 requirement and combined buffer requirements) is € 623 million (after taking the € 230 million dividend for 2019 into account). Available distributable items as defined in Art. 4.1 (128) CRR on the level of BAWAG Group AG amount to € 3,022 million as of 31 December 2019.

Our strong capital position enables significant further growth and our capital distribution strategy. We target an annual dividend payout of 50% of net profit and aim to invest additional excess capital above the CET1 target ratio in organic growth and pursue earnings-accretive M&A at returns consistent with BAWAG Group's RoTCE target. 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.

In the second quarter 2019 BAWAG Group received its first formal MREL requirement from the Single Resolution Board ("SRB"). The MREL requirement has been set at 11.94% of Total Liabilities and Own Funds (TLOF) and is applicable on the consolidated level of BAWAG P.S.K. AG. It is based on a single point of entry resolution strategy with BAWAG P.S.K. as the resolution entity. It was calibrated to equate to c. 25.6% of RWA². This MREL decision does not contain a subordination requirement.

As of 31 December 2019, BAWAG reported MREL eligible instruments amounting to 13.7% of TLOF (or 30.2% of RWA) and was therefore in full compliance with the MREL requirement, based on the then applicable MREL decision.

In February 2020, BAWAG Group received a new MREL decision from the authorities. The new MREL decision sets an MREL requirement of 11.93% of TLOF, which equates to circa 25.7% of RWA³. In line with our expectation, the new decision imposes a subordination requirement set at 8.19% of TLOF or c. 17.6% of RWA (of which up to 2.2% of RWA can be met with non-subordinated instruments) and applies the "hybrid approach" restricting the MREL eligibility to instruments issued by BAWAG P.S.K. AG only (i.e. the point of entry)⁴.

The new MREL decision supersedes the previous MREL decision from Q2 2019. The MREL requirements need to be met by the second quarter 2023, with no binding interim targets set during the transitional period.

Based on financials as of 31 December 2019 and applying the hybrid approach an additional €0.8b of MREL instruments would be necessary to meet the 11.93% MREL requirement (only binding from the second quarter 2023).

¹ Based on RWA as of 31 December 2019

² Based on financial statements as of 31 December 2017

³ Based on financial statements as of 31 December 2018

⁴ Own funds instruments (i.e. CET1 instruments, Additional Tier 1 & Tier 2) remain eligible on a consolidated basis

In line with our overall capital management approach, we aim to proactively take measures to address MREL requirements on an accelerated basis.

Our funding strategy continues to be based on our stable customer deposits, which represent two thirds of our funding base. In addition to our strong deposit base, we have been active in the international capital markets with a number of successful transactions executed throughout 2019 across the capital structure. We successfully placed a € 400 million Tier 2 issue, our inaugural Senior

Non-Preferred issue of € 500 million as well as two covered bond issues of € 500 million each.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 146% at the end of 2019. BAWAG Group thereby significantly exceeds the regulatory LCR requirement of 100%. No additional LCR requirements were imposed on BAWAG Group as a result of the SREP for 2019 and the SREP for 2020.

KEY QUARTERLY PERFORMANCE INDICATORS

in € million	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Net interest income	223.9	220.0	220.6	214.5	216.3
Net fee and commission income	70.0	70.8	70.0	72.5	70.2
Core revenues	293.9	290.8	290.6	287.1	286.5
Operating income	314.3	314.9	313.0	298.3	289.9
Operating expenses	(133.9)	(133.4)	(136.0)	(126.4)	(136.4)
Total risk costs	(25.0)	(17.1)	(15.3)	(11.9)	(13.2)
Profit before tax	153.8	163.5	160.0	127.0	143.0
Income taxes	(37.4)	(39.1)	(38.3)	(30.2)	(34.4)
Net profit	116.1	124.4	121.7	96.8	108.6

(figures annualized)

Return on common equity ¹⁾	13.4%	13.8%	13.7%	11.0%	12.5%
Return on tangible common equity¹⁾	16.0%	16.4%	16.2%	12.9%	14.5%
Net interest margin	2.36%	2.28%	2.30%	2.26%	2.25%
Cost-income ratio	42.6%	42.4%	43.5%	42.4%	47.1%
Risk costs / interest-bearing assets	0.27%	0.18%	0.16%	0.13%	0.14%
Tax rate	24.3%	23.9%	23.9%	23.8%	24.1%

1) Excluding AT1 capital and dividends

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on pages 252-254

BUSINESS SEGMENTS

RETAIL & SME

Strategy

BAWAG Group strives to be the leading retail and SME bank throughout the DACH region through a regionally tailored business model leveraging a focus on simple and efficient processes, digital innovation, data analytics and partnerships to provide the best banking services to each of our customers where and when their needs arise. Through centralized management at the group level, we are combining our strengths across the DACH region as part of our strategy to enhance operational excellence and create greater cost-efficiency with a better banking experience for our customers.

BAWAG Group strives to be the leading retail and SME bank throughout the DACH region.

The Austrian Retail & SME business services 2.4 million private and small business customers through a centrally managed branch network, online and mobile sales channels, supported by our customer care center and complemented by strategic long-term retail partnerships. We are one of the leading omni-channel retail banks in Austria, offering simple and secure products and high-quality financial advice through our sales channels with a strong and well-recognized national brand.

Our primary brands have complementary service models and customer bases. BAWAG P.S.K. is a market leader serving our customers with a full service, high touch advisory experience combined with advanced analytics and digital offerings. easybank is the leading direct bank in

Austria with highest Net Promoter Score rankings nationally. Our strength is founded in our share of primary relationships and daily banking products allows us to understand our customers and deliver products and services across various channels. We leverage this competence centrally and achieve scale by unifying our resources and processes.

Our focus is on an efficient and simple delivery of core lending and savings products, through our core network, or through partnerships with leading consumer brands. Through partners and technology we deliver financial products to the consumer at the point of need in their daily lives, such as our retail partnerships with MediaMarktSaturn Austria and the jö Bonus Program led by REWE Group AG. The transformation of financial services will continue to move closer to the customers' everyday experiences through mobile banking, online advisory and partnerships that bring our products to the customer seamlessly as they conduct their daily lives.

Our Austrian Retail & SME focus continues to be on providing customers quality products and services they have come to expect, preserving the differentiated value propositions of our separate brands, while ensuring we maintain a single Group mindset as we address the domestic Austrian market and our 2.4 million customers. This means a renewed focus on financial advisory, enhanced data analytics, more retail partnerships, investing in platform lending, and leveraging technology across all of our processes to better serve the needs of our customers.

In the international Retail & SME business, primarily anchored in Germany, our focus is on building a Retail & SME presence focused on a handful of products, leveraging digital capabilities and partnerships across the Group. Our goal is to establish a highly efficient platform, rollout digital capabilities, grow through partnerships, and leverage our M&A competence to target niche areas of the market. Core growth will be focused more on digital channels, more specialty finance oriented, and working to grow through various partnerships and platforms.

We are just beginning to fully leverage our multi-channel platform from branches-to-brokers-to-partners-to-digital products. We are excited about the opportunities across the board for our Retail & SME franchise to leverage our multiple brands and channels across the Group.

2019 Business Review

Domestic Retail & SME

In 2019, we continued to grow our core lending assets with net asset growth of 3.5% in Austria in 2019. These results reinforce the early success of our retail partnership strategy and new customer acquisition model, which was accelerated through our exclusive long-term partnerships with leading retailers such as MediaMarktSaturn Austria. Our Point of Sale and online product financing continues to grow with seamless financing solutions at the point of purchase for the customer.

In 2019, we welcomed 56,000 new customers through this channel to the BAWAG family. We leverage our long history primary banking relationships and analytical capabilities to provide our customers with advantages such as timely product and service offers, intelligent insights and security notifications.

In 2019, we delivered on ensuring that we continue to deepen the relationships with our customers and key products through understanding their needs and delivering simple and efficient products. We see opportunity to continue to grow our share of mortgage products amongst our customer set and we made great progress with an increase in new issuance for this critical product family.

In 2019, we made significant progress on our retail network transformation, *Concept 21*, resulting in a branch footprint of 88 branches for nationwide coverage, with a significant enhancement in a leading customer experience. As of year-end 2019 we had established a fully independent bank network, separate from the Austrian Post. We have finalized all customer shifts to our target network, with minimal disruption due to our coverage design and customer retention plan. Additionally, we have hired approximately 200 new advisors and opened 27 new fully redesigned branches. We have already achieved an overall productivity per FTE increase of 5% comparing 2019 to 2018. 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.

In 2019 we released our new mobile banking experience app “klar”, which has been continually enhanced by additional features and services since. Further improvements are being released on an ongoing basis, incorporating our customers' feedback. Our customers value the new apps' easy-to-use features, as shown by a significant increase of digital engagement in the fourth quarter 2019. An average “klar” user logged in 10% more often.

Additionally, as the only bank partner of the newly founded and largest Austrian customer loyalty club jö, already reaching about 3.7 million customers, we bring incremental financial value for each jö affiliate transaction made by our customers. Furthermore, we cooperated in the fourth quarter 2019 with ÖBB, the Austrian Federal Railways, providing a new Rail & Drive KontoBox which aimed at providing customers with a cost-effective and environmentally conscious means of travel via climate-friendly rail and car-sharing.

In 2019, our direct bank, easybank, continued to focus on digitization measures, efficiency and customer satisfaction. For the ninth year in a row, easybank received the FMVO Recommender Award, a testimony to the strong digital brand and customer loyalty. This award is given to the bank with the highest Net Promoter Score. easybank maintained its leading position as not only the most recommended direct Bank in Austria, but the bank with the highest Net Promoter Score of any other financial services institution in Austria. easybank's direct bank model and fully digital user base complements BAWAG P.S.K.'s high quality advisory experience by serving different customer bases and expectations with two distinct channels and brands. This relationship is scaled by ensuring that our middle and back end services, as well as core product technologies are aligned to maximize efficiency. We will continue to evaluate the additional opportunities and scale achievable across our highly complementary Austrian brands.

International Retail & SME

Our international Retail & SME platform, anchored by Germany, is expanding its footprint as we continue to grow in strategic areas. In addition to the ongoing transformation initiatives at Südwestbank and start:bausparkasse, we closed on three bolt-on acquisitions during the first half 2019 focusing on specialty finance products in the factoring and leasing space. The acquisition of BFL Leasing creates a foundation for BAWAG Group to establish our leasing franchise in Germany, working with strategic partners and establishing a variety of leasing distribution channels. The acquisition of Health Coevo AG (Germany) and Zahnärztekasse AG (Switzerland) creates an opportunity for BAWAG Group to enter the factoring space. Both factoring acquisitions focus on the niche dental and medical financial services, working through strategic partnerships and seeking to build out distribution scale. We welcome our new colleagues into the BAWAG Group and are confident that they will be great partners as we continue to pursue our growth strategy in the DACH region.

We are now beginning to fully leverage our multi-channel German/Swiss platform from branches-to-brokers-to-partners-to-digital products. This will be a combination of leveraging:

- ▶ Südwestbank's banking platform and branch network to drive Retail, SME and private banking
- ▶ start:bausparkasse's mortgage broker platform expertise in Germany
- ▶ The technology of *Qlick* to develop direct banking capabilities and working with retail partners across all of Germany
- ▶ The niche leasing and factoring products offered by BFL Leasing GmbH and Health Coevo AG as we address a larger customer base across all of Germany
- ▶ Leveraging digital products across the Group and centralization of specific central functions, middle and back-office activities to establish a highly efficient footprint.

Outlook

In Austria, we will continue to execute on our long-term strategy by using the strength of our multiple brands and channels alongside our customer relationships and enhanced data-based analytics to offer value and assistance to our customers in their financial lives when most appropriate. We will benefit from our leading expertise across all brands, leveraging the different service models to further grow share in the Austrian market, while recognizing synergies in both technology and operations to achieve cost-efficient scale.

We will continue to further enhance our performance in complex product categories, such as mortgages and securities, as we see opportunity in further penetrating our existing customer base alongside increasing demand. This provides both a major growth opportunity, as well as a possibility to fully utilize our high quality salesforce to ensure our customers financial wellbeing in the future.

As we are focused on providing a superior experience unified through all channels, we are progressing towards a consolidated, digitally integrated platform designed for our customers' needs. Most importantly, we will be realizing the impact of our shift in new customer acquisition to a partnership-led model with Austria's leading retailers. The partnerships are targeted at our areas of growth in consumer lending and SME, and we will continue to broaden our collaborations throughout the upcoming year as well. In Germany, the focus will continue to be on multiple integration initiatives designed to create a focused Retail & SME platform, providing specific products, expanding digital footprint and capabilities across the Group, growing through partnerships and continuing to assess strategic M&A opportunities.

Financial results

Income metrics (in € million)	2019	2018	Change (%)	Q4 2019	Q4 2018	Change (%)
Net interest income	626.0	575.4	8.8	163.6	146.5	11.7
Net fee and commission income	242.2	236.1	2.6	59.9	58.2	2.9
Core revenues	868.3	811.5	7.0	223.4	204.7	9.1
Gains and losses on financial instruments	0.1	16.7	(99.4)	(0.7)	8.2	-
Other operating income and expenses	2.4	1.9	26.3	1.5	0.5	>100
Operating income	870.8	830.0	4.9	224.2	213.4	5.1
Operating expenses	(372.9)	(350.9)	6.3	(90.3)	(90.5)	(0.2)
Regulatory charges	(27.0)	(26.0)	3.8	(1.7)	3.1	-
Total risk costs	(76.3)	(62.3)	22.5	(25.9)	(19.2)	34.9
Profit before tax	394.6	390.9	0.9	106.4	106.8	(0.4)
Income taxes	(98.6)	(97.7)	0.9	(26.6)	(26.7)	(0.4)
Net profit	295.9	293.2	0.9	79.8	80.1	(0.4)

Key ratios	2019	2018	Change (pts)	Q4 2019	Q4 2018	Change (pts)
Return on tangible common equity	23.5%	22.7%	0.8	24.6%	25.0%	(0.4)
Net interest margin	3.60%	3.43%	0.17	3.62%	3.47%	0.15
Cost-income ratio	42.8%	42.3%	0.5	40.3%	42.4%	(2.1)
Risk costs / interest-bearing assets	0.44%	0.37%	0.07	0.57%	0.45%	0.12
NPL ratio	1.9%	1.9%	0.0	1.9%	1.9%	0.0
NPE ratio	2.2%	2.2%	0.0	2.2%	2.2%	0.0

Business volumes (in € million)	2019	2018	Change (%)
Assets	18,155	16,905	7.4
Risk-weighted assets	8,623	7,617	13.2
Customer deposits	24,848	24,251	2.5
Own issues	3,249	2,807	15.7

Operating income increased by 4.9% to € 870.8 million compared to 2018. This results from revenue contributions from our recent acquisitions start:bausparkasse Germany in September 2018, Zahnärztekasse AG in March 2019 as well as HealthCoevo AG and BFL Leasing GmbH in May 2019.

Gains and losses on financial instruments comprise in 2018 income from the sale of non-performing loans in January and December 2018.

Operating expenses increased by 6.3% to € 372.9 million due to the aforementioned acquisitions.

Risk costs amounted to € 76.3 million, translating into a risk cost ratio of 44 basis points with a stable NPL ratio of 1.9%. Risk cost increased vs. 2018 among others due to one-offs addressing legacy NPLs.

The segment delivered **net profit** of € 295.9 million and a return on tangible common equity of 23.5%.

Assets increased by 7.4% compared to year-end 2018, mostly coming from our acquisitions and a growth of our consumer lending products.

Customer deposits increased by 2.5% compared to year-end 2018 due to higher sight deposits.

CORPORATES AND PUBLIC

Overview & Strategy

The **Corporates and Public** segment focuses on domestic and international lending, deposits and payment services. Corporate lending includes the DACH region as well as international lending, which is focused on developed and mature markets in Western Europe and the United States. We target primarily senior secured lending to strong sponsors, on cash flow generating companies and assets. In public sector business, our goal is to maintain our market position in Austria and retain cash management fees. We do this by focusing on payments with existing top clients, acquiring new clients for our payments business, focusing on specific tenders, and cross-selling to existing borrowers. Furthermore, we have established an originate-to-sell platform in the public sector space focused on insurance companies to generate additional fee income.

2019 business review

The Corporates & Public segment delivered a net profit of € 142.4 million during the year 2019. We continued to focus on our loan origination opportunities primarily in selected developed markets. Revenues remained stable in total with a focus on risk-adjusted returns. We see good opportunities across asset backed lending transactions, but we continue to see pricing pressure across the corporate lending space.

Outlook

We continue to see a solid pipeline with diversified opportunities 2020. 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.

Financial results

Income metrics (in € million)	2019	2018	Change (%)	Q4 2019	Q4 2018	Change (%)
Net interest income	249.1	250.4	(0.5)	61.4	63.8	(3.8)
Net fee and commission income	43.0	48.6	(11.5)	10.5	12.4	(15.3)
Core revenues	292.1	299.0	(2.3)	71.9	76.2	(5.6)
Gains and losses on financial instruments	0.2	10.7	(98.1)	1.3	7.2	(81.9)
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	292.3	309.8	(5.6)	73.3	83.4	(12.1)
Operating expenses	(100.1)	(120.0)	(16.6)	(22.3)	(29.2)	(23.6)
Regulatory charges	(10.0)	(8.9)	(12.4)	(0.9)	(1.0)	10.0
Total risk costs	7.6	17.8	57.3	(0.6)	7.1	-
Profit before tax	189.8	198.7	(4.5)	49.4	60.2	(17.9)
Income taxes	(47.5)	(49.7)	(4.4)	(12.4)	(15.1)	(17.9)
Net profit	142.4	149.0	(4.4)	37.1	45.1	(17.7)

Key ratios	2019	2018	Change (pts)	Q4 2019	Q4 2018	Change (pts)
Return on tangible common equity	14.4%	13.4%	1.0	15.6%	16.1%	(0.5)
Net interest margin	1.75%	1.72%	0.03	1.77%	1.75%	0.02
Cost-income ratio	34.2%	38.7%	(4.5)	30.4%	35.0%	(4.6)
Risk costs / interest-bearing assets	(0.05)%	(0.12)%	0.07	0.02%	(0.20)%	-
NPL ratio	1.0%	1.2%	(0.2)	1.0%	1.2%	(0.2)
NPE ratio	1.6%	1.2%	0.4	1.6%	1.2%	0.4

Business volumes (in € million)	2019	2018	Change (%)
Assets	13,141	14,167	(7.2)
Risk-weighted assets	7,932	9,429	(15.9)
Customer deposits (incl. other refinancing) and own issues	7,118	9,438	(24.6)

Operating income decreased by 5.6% to € 292.3 million compared to 2018 as a result of a decrease of the net commission income and lower realization of gains on financial instruments.

Operating expenses improved by 16.6% to € 100.1 million, primarily resulting from streamlining the cost base.

The net release of **Risk costs** decreased by € 10.2 million to € 7.6 million in 2019.

The segment contributed **net profit** of € 142.4 million with a return on tangible common equity (after taxes) of 14.4%.

Assets decreased by 7.2% to € 13.1 billion compared to year-end 2018. This development reflects the disciplined conversion of our business strategy largely due to a continued focus on risk-adjusted returns, in particular in the DACH region.

Liabilities decreased by 24.6% to € 7.1 billion compared to year-end 2018. This significant decrease was driven by a reduction of short-term deposits from public and institutional clients as well as the partial repayment of TLTRO II in the amount of € 1.75 billion.

CORPORATE CENTER AND TREASURY

Overview and strategy

The **Corporate Center** contains central functions for BAWAG Group. Hence, the P&L comprises the funds transfer pricing (FTP) result as an outcome of the Asset & Liability Management function, one-off and project-related operating expenses and other one-off items. The balance sheet mainly includes non-interest bearing assets, liabilities and equity.

Treasury continued to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our hold to collect and sell portfolio to preserve the flexibility of redeployment into customer loans or other balance sheet management activities. Portfolio optimization measures in the investment book led to a decreased investment portfolio and a sound liquidity reserve of at the end of 2019. The overall composition of the portfolio reflects our strategy of maintaining high credit quality, shorter duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

2019 business review

In 2019, we continued to pursue our strategy. As of year-end 2019, the investment portfolio amounted to € 4.7 billion and the liquidity reserve was € 5.9 billion. The investment portfolio's average maturity was four years, comprised 96% of investment grade rated securities, of which 77% were rated in the single A category or higher with no exposure to CEE. As of 31 December 2019, the portfolio had no direct exposure to China, Russia, CEE or South-Eastern Europe. Direct exposure to the UK is moderate and focuses on internationally diversified issuers with solid credit quality. Exposure to Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers.

Outlook

Treasury will continue to focus on keeping streamlined processes and simple products in support of BAWAG Group's core operating activities and customer needs. The liquidity supply and ECB tapering as well as elevated political risks will remain important factors on the financial markets. However, we are committed to maintaining high credit quality and highly liquid investments with solid diversification.

Financial results

Income metrics (in € million)	2019	2018	Change (%)	Q4 2019	Q4 2018	Change (%)
Net interest income	3.8	14.9	(74.5)	(1.1)	5.9	-
Net fee and commission income	(1.7)	(1.9)	10.5	(0.4)	(0.4)	0.0
Core revenues	2.1	12.8	(83.6)	(1.4)	5.5	-
Gains and losses on financial instruments	70.4	(7.9)	-	(1.0)	(15.1)	93.4
Other operating income and expenses	4.9	26.0	(81.2)	19.2	2.6	>100
Operating income	77.4	30.9	>100	16.8	(7.0)	-
Operating expenses	(56.6)	(46.9)	20.7	(21.3)	(16.5)	29.1
Regulatory charges	(5.3)	(5.2)	(1.9)	(0.6)	(0.6)	0.0
Total risk costs	(0.6)	(0.7)	(14.3)	1.5	(1.2)	-
Profit before tax	19.9	(16.8)	-	(2.0)	(24.1)	91.7
Income taxes	1.1	11.2	90.2	1.5	7.3	79.5
Net profit	20.8	(5.5)	-	(0.7)	(16.9)	95.9

Business volumes (in € million)	2019	2018	Change (%)
Assets	14,366	13,626	5.4
Risk-weighted assets	3,829	3,419	12.0
Equity	3,594	3,789	(5.1)
Own issues and other liabilities	6,853	4,413	55.3

Operating income increased to € 77.4 million, driven by higher realized gains on sales of bonds.

Operating expenses came in at € 56.6 million in 2019, which is 20.7% more than in 2018 as a result of one-offs.

Assets (including the liquidity reserve) increased by 5.4% compared to year-end 2018, mainly driven by higher short-term deposits at central banks.

RISK MANAGEMENT

With respect to the explanations on financial and legal risks at BAWAG Group as well as the goals and methods of risk management, please refer to the information in the Notes section. For policies on our investment standards in the

light of ESG please refer to our website <https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG>, where the latest policies are available.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

INTRODUCTION

The internal control system (ICS) relates to all processes designed by management and executed within BAWAG Group to facilitate the monitoring and control of

- ▶ the effectiveness and efficiency of its operating activities (including protecting assets against losses resulting from damages or misconduct);
- ▶ the reliability of the financial reports;
- ▶ BAWAG Group's compliance with applicable material legal regulations.

The risk management system covers all processes that serve to identify, analyze and measure risks and that serve to determine and implement appropriate measures that will ensure that BAWAG Group can still reach its objectives when risks are incurred.

According to the internationally recognized COSO framework for the design of risk management systems and the EBA Guideline for Internal Governance (EBA/GL/2017/11), the internal control system is one part of an organization-wide risk management system. Other aspects include the management and monitoring of risks that can affect the correctness and reliability of the accounting records.

BAWAG Group's management is responsible for the fundamental design, implementation and ongoing adaptation and refinement of the internal control and risk management policies, methods and system as well as for the alignment of these systems and processes with the existing requirements in a way that takes account of its strategy, the scope of its business and other relevant economic and organizational aspects.

CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Control environment

BAWAG Group's Code of Conduct describes the corporate values and is applicable to all employees. BAWAG Group's corporate culture is based on respect and teamwork, customer focus and image as well as integrity and compliance.

A conscious approach towards compliance topics as well as a sustainable risk culture are established to guide all employees to handle risks within their responsibility. The core of BAWAG Group's risk culture are internal provisions and above all open communication among the employees

to ensure that they all have a broad understanding of risks that BAWAG Group faces.

In addition, the Policy on the internal control system provides clear guidance and applies to all employees within BAWAG Group and defines the ICS as the sum of all systematically created processual, technical, structural or organizational principles, procedures and (control) measures at the Bank. This includes the organizational guidelines for the entire operational management, and the defined control mechanisms and control tasks of the process owner.

The Accounting/Participation division is responsible for BAWAG Group's accounting records. Some of the newly acquired subsidiaries operate their own accounting departments, which work in close cooperation with the Accounting division. The primary responsibilities of the Accounting division are preparing the annual and interim financial statements as well as the annual financial statements of all domestic subsidiaries, maintaining the financial and consolidated accounts, managing taxes and regulatory reporting of domestic bank subsidiaries.

The Accounting/Participation division is responsible for setting directives on all matters of accounting and exercises the authority to ensure the application of uniform standards across BAWAG Group. To support the operational implementation, corporate guidelines were drawn up. This policy applies to all consolidated subsidiaries. For all other holdings, the adherence to these principles and standards is enforced and implemented as far as possible.

Risk assessment and control measures

BAWAG Group's internal control and risk management systems contain instructions and processes for the workflows

- ▶ to ensure the correct and appropriate documentation of business activities, including the use of assets;
- ▶ to record all information required for the preparation of the period-end financial statements; and
- ▶ to prevent unauthorized purchases or sales that could have a material effect on the financial statements.

The Accounting/Participation division is integrated into BAWAG Group's entire organizational, structural and operational workflows. Customer and transaction data is generally collected in the market and operating units, and supplementary information is entered by the risk units. The elements of this information that are needed for the accounting records are usually transferred automatically into the electronic accounting systems. In this, the Accounting/Participation division fulfills a control and monitoring function to ensure that the automatically transmitted data is handled properly in accordance with the

applicable accounting rules, and also completes the various booking entry and other steps needed to prepare the financial statements.

The accounting of BAWAG Group AG, BAWAG P.S.K. AG and the significant domestic subsidiaries is contained in SAP New GL. The preparation of the consolidated financial statements under IFRS is done in SAP-ECCS, which receives the values of the individual financial statements of consolidated companies through interfaces. The accounting and all upstream systems are protected by access permission and a automatic and obligatory manual control steps provided for in the process.

Information and communication

A comprehensive report about the balance sheet, the profit or loss statement and other financial and risk data is submitted to the Supervisory Board at least every quarter. Highly detailed reports about this information are also submitted to the Managing Board on a regular (monthly or more frequent) basis. Given the increased importance of ESG, Managing Board receives updates on risks arising from these factors on a regular basis.

Monitoring

In order to limit or eliminate operational risks and control deficiencies, risk identification is performed annually through Risk Control Self Assessments (RCSA). Risk minimization measures are tracked proactively by the Operational Risk and Internal Control System department with regard to implementation. Loss incidents are documented separately and reported on a regular basis. Loss incidents are also used to identify necessary improvements in the systems and in the monitoring and control measures.

BAWAG Group's Internal Audit division conducts regular accounting system audits. The findings of these audits are also used to make ongoing improvements to the internal control and risk management systems as they pertain to the accounting process.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Per 31 December 2019, BAWAG Group AG's share capital amounted to € 89,142,237 and was divided into 89,142,237 non-par value bearer shares, which carry equal participation interest in the share capital of BAWAG Group AG. Per 31 December 2019, BAWAG Group AG held 1,205,107 treasury shares (own shares).

BAWAG Group AG's Articles of Association contain no restrictions concerning voting rights or the transfer of shares. Notwithstanding the above, certain shareholders of BAWAG Group AG have concluded deconsolidation agreements (*Entherrschungsverträge*) to which BAWAG Group AG is also a party:

- ▶ BAWAG Group AG on the one hand and (i) GoldenTree HoldCo Lux 1 S.à r.l., (ii) GoldenTree HoldCo Lux 2 S.à r.l., (iii) GoldenTree HoldCo Lux 3 S.à r.l., (iv) GoldenTree Asset Management Dutch BV, (v) GN3 SIP LP and (vi) Stichting PGGM Depositary, (jointly the "GoldenTree Shareholders") on the other hand, have entered into a deconsolidation agreement (*Entherrschungsvertrag*) effective upon the listing of the shares in BAWAG Group AG (the "GoldenTree Deconsolidation Agreement"). The GoldenTree Shareholders are owned and controlled by several funds and accounts under management by, or whose holdings in BAWAG Group AG are subject to an investment management agreement with, GoldenTree and its affiliates. In the GoldenTree Deconsolidation Agreement, the GoldenTree Shareholders undertook vis-à-vis BAWAG Group AG,
 - in respect of (i) the election and dismissal of Supervisory Board members, (ii) any vote of no-confidence and (iii) management matters that are brought before the general meeting of BAWAG Group AG, to exercise their voting rights only up to an aggregate maximum number equal to those voting rights of the other shareholders present and entitled to vote at any given shareholders' assembly minus 10,000 votes, and
 - not to vote for the appointment (election) of Supervisory Board members of BAWAG Group AG who are not independent of GoldenTree and Cerberus (the delegation rights of Cerberus and GoldenTree, as set forth in the Articles of Association of BAWAG Group AG, remaining unaffected by this provision).

The self-restraint undertaking in relation to the exercise of voting rights set forth above only applies if and to the extent that the GoldenTree Shareholders combine sufficient voting rights that they would, taken as a whole, be deemed to be the largest single shareholder

represented at such a general meeting (provided that the Cerberus Shareholders are deemed to be one single shareholder in this context).

Furthermore, the GoldenTree Shareholders undertook that if shares in BAWAG Group AG are to be transferred by a GoldenTree Shareholder to an affiliate or other entity controlled by GoldenTree, such transfer may only be effected if the transferee accepts to become a party to the GoldenTree Deconsolidation Agreement and to be bound by it in the same manner and for the same duration as the transferor (and to impose the same on any further transferee controlled by GoldenTree in the future until the termination of the GoldenTree Deconsolidation Agreement).

- ▶ In the GoldenTree Deconsolidation Agreement, the GoldenTree Shareholders undertook (i) not to act in concert with the Cerberus Shareholders or Cerberus with regard to the exercise of voting rights in the general meeting, (ii) not to influence the composition of a board and any member of a board except for the exercise of (a) the rights granted in connection with GoldenTree HoldCo Lux 2 S.à r.l.'s delegation rights, (b) rights in connection with the participation in the general meeting and (c) the voting rights in accordance with the Cerberus Deconsolidation Agreement, and (iii) to vote for the abolishment of GoldenTree HoldCo Lux 2 S.à r.l.'s delegation right if aggregated participation of the GoldenTree Shareholders falls below 20% of BAWAG Group AG's share capital for at least four consecutive weeks (and also to vote for the abolishment of Promontoria Holding 212 B.V.'s delegation right under corresponding circumstances).

Based on BAWAG Group AG's information pursuant to the most recent major holdings notifications, per 31 December 2019, the GoldenTree Shareholders held 19,448,595 shares in BAWAG Group AG, corresponding to 21.8% of BAWAG Group AG's share capital whereas none of the GoldenTree Shareholders held shares corresponding to at least 10% of BAWAG Group AG's share capital taken individually.

Pursuant to BAWAG Group AG's Articles of Association, the shareholder Promontoria Sacher Holding B.V. shall have the right to delegate two of the members of the Supervisory Board according to Section 88 Austrian Stock Corporation Act (*Aktiengesetz, AktG*), as long as it holds a direct participation in BAWAG Group AG of at least one share. If Promontoria Sacher Holding B.V. transfers at least one

share to Promontoria Holding 212 B.V., the right to delegate one of the members of the Supervisory Board is also transferred to Promontoria Holding 212 B.V. If Promontoria Sacher Holding B.V. transfers at least one share to GoldenTree Holdco Lux 2 S.à.r.l., the right to delegate one of the members of the Supervisory Board is also transferred to GoldenTree Holdco Lux 2 S.à.r.l. This means that Promontoria Sacher Holding B.V. shall no longer have the rights to delegate members of the Supervisory Board to the extent that these rights have been transferred to Promontoria Holding 212 B.V. and/or GoldenTree Holdco Lux 2 S.à.r.l. Promontoria Holding 212 B.V. and/or GoldenTree Holdco Lux 2 S.à.r.l. shall also each have the right to delegate one of the members of the Supervisory Board according to Section 88 AktG only as long as the respective shareholder holds a direct participation in BAWAG Group AG of at least one share. In October 2017, Promontoria Sacher Holding B.V. transferred its rights to delegate the two board members of the Supervisory Board to Promontoria Holding 212 B.V. and to GoldenTree Holdco Lux 2 S.à.r.l., respectively.

Since the aggregated participation of Cerberus Shareholders has fallen below 20% of BAWAG Group AG's share capital for at least four consecutive weeks after the sell-down of the Cerberus Shareholders, BAWAG Group AG will propose to the next ordinary general meeting to abolish Promontoria Holding 212 B.V.'s delegation right. However, these rights and the Cerberus Deconsolidation Agreement are described in this chapter because they were in force per 31 December 2019:

- ▶ BAWAG Group AG on the one hand and (i) Promontoria Holding 212 B.V., (ii) Promontoria Holding 213 B.V., (iii) Promontoria Holding 214 B.V. (in the meantime merged into Promontoria Holding 213 B.V.), (iv) Promontoria Holding 215 B.V. and (v) Promontoria Holding 216 B.V. (in the meantime merged into Promontoria Holding 2015 B.V.), (jointly the "Cerberus Shareholders") on the other hand, have entered into a deconsolidation agreement (*Entzerrungsvertrag*) effective upon the listing of BAWAG Group AG's shares on the official market of the Vienna Stock Exchange (the "Cerberus Deconsolidation Agreement"). The Cerberus Shareholders are owned and controlled by several funds and accounts under management by Cerberus Capital Management LP ("Cerberus") and its affiliates. In the Cerberus Deconsolidation Agreement, the Cerberus Shareholders undertook vis-à-vis BAWAG Group AG, in respect of (i) the election and dismissal of Supervisory Board members, (ii) any vote of no-confidence and (iii)

management matters that are brought before the general meeting of BAWAG Group AG, to exercise their voting rights only up to an aggregate maximum number equal to those voting rights of the other shareholders present and entitled to vote at any given shareholders' assembly minus 10,000 votes, and not to vote for the appointment (election) of Supervisory Board members of BAWAG Group AG who are not independent of Cerberus and GoldenTree Asset Management LP ("GoldenTree"), (the delegation rights of Cerberus and GoldenTree, as set forth in the Articles of Association of BAWAG Group AG, remaining unaffected by this provision).

Furthermore, the Cerberus Shareholders undertook that if shares in BAWAG Group AG are to be transferred by a Cerberus Shareholder to an affiliate or other entity controlled by Cerberus, such transfer may only be effected if the transferee accepts to become a party to the Cerberus Deconsolidation Agreement and to be bound by it in the same manner and for the same duration as the transferor (and to impose the same on any further transferee controlled by Cerberus in the future until the termination of the Cerberus Deconsolidation Agreement).

- ▶ In the Cerberus Deconsolidation Agreement, the Cerberus Shareholders undertook (i) not to act in concert with the GoldenTree Shareholders or GoldenTree with regard to the exercise of voting rights in the general meeting, (ii) not to influence the composition of a board and any member of a board except for the exercise of (a) the rights granted in connection with Promontoria Holding 212 B.V.'s delegation rights, (b) rights in connection with the participation in the general meeting and (c) the voting rights in accordance with the Cerberus Deconsolidation Agreement, and (iii) to vote for the abolishment of Promontoria Holding 212 B.V.'s delegation right if aggregated participation of the Cerberus Shareholders falls below 20% of BAWAG Group AG's share capital for at least four consecutive weeks (and also to vote for a abolishment of GoldenTree Holdco Lux 2 S.à.r.l.'s delegation right under corresponding circumstances).

There is no control of voting rights arising from interests held by employees in the share capital.

Pursuant to Section 7 of the Articles of Association, members of BAWAG Group AG's Managing Board and

Supervisory Board must fulfill certain personal requirements in order to be eligible.

- ▶ Members of the Managing Board and Supervisory Board must have adequate professional and personal qualifications and meet the legal requirements. As for the election of board members, attention shall be paid to ensuring the professionally balanced composition of boards and the members' independence.
- ▶ Without prejudice to more extensive legal provisions, the following persons shall be excluded from membership in the Managing Board and in the Supervisory Board of BAWAG Group AG:
 - employees of BAWAG Group AG, with the exception of staff representatives who are appointed to the Supervisory Board in accordance with the provisions of the Works Constitution Act (*Arbeitsverfassungsgesetz, ArbVG*);
 - members of the managing boards and employees of Austrian credit institutions not belonging to the BAWAG P.S.K. group; furthermore, persons holding an interest of over 5% of the voting capital of Austrian credit institutions not belonging to the BAWAG P.S.K. group, unless said credit institutions or persons themselves hold an interest of at least 2% of BAWAG Group AG's voting capital;
 - persons who are directly and immediately related or related by marriage to a member of the Managing Board, the Supervisory Board or an employee of BAWAG Group AG or who are the spouse of a member of the Managing Board or Supervisory Board (whereas this ground for exclusion is only applicable to the members of the Managing Board and to the elected members of the Supervisory Board);
 - persons who are prevented from carrying on a trade by Section 13 Para 1 to 6 of the Trade Act of 1994 (*Gewerbeordnung, GewO*).

Pursuant to Section 10.6 No 1 of the Articles of Association of BAWAG Group AG, the general meetings shall, unless the law mandatorily stipulates a different majority, pass their resolutions by simple majority of the votes cast, and, in cases where a majority of the capital is required, by simple majority of the share capital represented at the time the resolution is passed.

With regard to the authorization of the Managing Board to issue or acquire shares, the following applies:

- ▶ Pursuant to Section 5 No 7 of the Articles of Association of BAWAG Group AG, the Managing Board shall be authorized, with the consent of the Supervisory Board, to increase the share capital within five years from the date of the registration of the amendment to the Articles of Association in the commercial register, also in several tranches against contributions in cash and/or contributions in kind by up to € 40,000,000 by issuing up to 40,000,000 new bearer shares with no par value and to define the issue price conditions in agreement with the Supervisory Board (Authorized Capital 2019).
- ▶ The statutory subscription right of the shareholders to the new shares issued from the Authorized Capital 2019 shall be excluded (direct exclusion of the statutory subscription right) if and to the extent that this authorization is utilized by issuing shares against cash payments in a total amount of up to 10% of the share capital in the context of the placement of new shares of BAWAG Group AG to (i) exclude from the shareholders' subscription right fractional amounts which may arise in the case of an unfavourable exchange ratio and/or (ii) to satisfy the exercise of over-allotment options (greenshoe options) granted to the issuing banks.

Furthermore, the Managing Board, with the consent of the Supervisory Board, shall be authorized to exclude the statutory subscription right in the following cases:

- To the extent necessary to service debt instruments (including participation rights) with conversion or option rights or a conversion obligation issued by BAWAG Group AG or its subsidiaries (Section 189a No 7 UGB) or yet to be issued;
- to issue shares to employees, senior executives, and members of the Managing Board of BAWAG Group AG or its subsidiaries (Section 189a No 7 UGB) for remuneration purposes;
- in order to increase the share capital against contributions in kind, provided that the capital increase is carried out for the purpose of (also indirectly) acquiring companies, parts of companies or participations in companies or other assets related to an acquisition project;
- to carry out a so-called "scrip dividend" in the course of which the shareholders of BAWAG Group AG are offered to contribute their dividend claim (in whole or in part) as a contribution in kind against the granting of new shares from the Authorized Capital 2019;
- in case of capital increases against cash contributions, provided the exercise of this authorization is objectively

justified on the exercise date in accordance with the respective applicable legal requirements. The shares issued with the exclusion of subscription rights on the basis of this authorization may not exceed a total of 10% of the share capital of BAWAG Group AG at the time of the effective date or, if such value is lower, at the time of the exercise of this authorization.

- ▶ Pursuant to Section 5 No 8 of the Articles of Association of BAWAG Group AG, the share capital of BAWAG Group AG shall be conditionally increased by up to € 10,000,000 by issuing up to 10,000,000 no-par value bearer shares for the purpose of issuing them to creditors of convertible bonds which the Managing Board, with the consent of the Supervisory Board, may issue in the future on the basis of the authorization granted at the shareholders' meeting on 30 April 2019. The conditional capital increase may only be carried out to the extent that creditors of convertible bonds to be issued by BAWAG Group AG or their subsidiaries make use of their conversion and/or subscription rights to shares of BAWAG Group AG. The amount to be issued and conversion ratio shall be determined in accordance with the interests of BAWAG Group AG, the existing shareholders and the subscribers of the convertible bonds within the framework of a customary market pricing procedure using recognized customary market methods and the stock exchange price of BAWAG Group AG's shares. The issue price of the new shares may not be less than the proportionate amount of the share capital. The shares to be issued as part of the conditional capital increase are entitled to dividends to the same extent as the existing shares of BAWAG Group AG.
- ▶ On 30 April 2019, the shareholders' meeting resolved to authorize the Managing Board for a period of 30 months from the date of the resolution in accordance with Section 65 Para 1 No 8 and Para 1a and 1b AktG to acquire own shares. Pursuant to the authorization, the consideration to be paid per share when acquiring shares must not be lower than € 1.0 and must not be more than 30% above the volume-weighted average price of the last 20 trading days preceding the respective purchase; in the event of a public offer, the reference date for the end of this period shall be the day on which the intention to launch a public offer has been announced. The Managing Board is authorized to determine the repurchase conditions.

The Managing Board may exercise the authorization within the statutory limits on the maximum number of

own shares either once or on several occasions, provided that the percentage amount of the share capital of BAWAG Group AG relating to shares acquired by BAWAG Group AG on account of the authorization or otherwise does not exceed 10% of the share capital at any time. Repeated exercise of the authorization is permissible. The authorization may be exercised for one or several purposes by BAWAG Group AG, by a subsidiary or by third parties acting on behalf of BAWAG Group AG.

The acquisition may take place at the discretion of the Managing Board, with the consent of the Supervisory Board, via the stock exchange or a public offer or in another legally permissible, appropriate manner, in particular, also under exclusion of the shareholders' pro-rata rights to re-purchase (reverse exclusion of subscription rights) and also by using equity capital derivatives. Trading in treasury shares is excluded as a purpose for purchase.

On 30 April 2019, the shareholders' meeting also resolved to authorize the Managing Board for a period of five years from the date of the resolution in accordance with Section 65 Para 1b AktG, to adopt a resolution, subject to the consent of the Supervisory Board, on the transfer of treasury shares using a different legally permitted method of sale than through the stock exchange or a public offer and on an exclusion of pre-emption rights (subscription rights) of shareholders, and to determine the terms and conditions of the transfer of shares.

Pursuant to the authorization, the Managing Board may, with the consent of the Supervisory Board, transfer the acquired shares without an additional resolution by the General Meeting via the stock exchange or a public offer and to determine the terms of transfer. Furthermore, the Managing Board is authorized to cancel the own shares acquired in whole or in part without an additional resolution by the General Meeting with the consent of the Supervisory Board. The cancellation causes a capital reduction by the portion of the share capital that is attributable to the cancelled shares.

All of these authorizations can be used once or on several occasions. The authorizations also include the use of treasury shares held by BAWAG Group AG, as well as shares in BAWAG Group AG acquired by subsidiaries or third parties for the account of BAWAG Group AG or a subsidiary pursuant to Section 66 AktG.

No material agreements exist (or must be disclosed pursuant to Sec 243a Para 1 No 8 UGB) to which BAWAG Group AG is a party and which take effect, change or end upon a change of control in BAWAG Group AG as a result of a takeover bid.

There are no indemnification agreements between BAWAG Group AG and its Managing Board and Supervisory Board members or employees that would take effect in the event of a public takeover bid.

HUMAN RESOURCES DEVELOPMENT

Our employees are key to deliver on our strategy and on building the BAWAG Group of tomorrow. Technology has not only changed the customer behavior, but also the way we work together. Besides the traditional banking expertise, the capabilities and skillset of financial institutions' employees had to be and will continue to be enhanced to adapt to these changes. Attracting, developing and retaining excellent employees is key and therefore our responsibility is to create a working environment where people are given the space for their development.

Our culture differentiates us from others:

What defines our Bank is the incredible passion, commitment, work ethic, and faith we put in each other and our collective ability to both execute and deliver as one team.

"This is ultimately what defines our culture and the driver behind our success over the years."

Anas Abuzaakouk CEO

To support our employees developing their talents and skills at their different levels of their career, we have set up the framework "Through the year with HR". This framework monitors all initiatives related to recruiting, talent management as well as leadership development. While offering specific programs, we also provide a wide range of training opportunities to help to develop their personal as well as professional skills, e.g. via e-learning. For selected areas we also offer a BAWAG academy, i.e. for Risk, Retail and Digital.

Working in multidisciplinary teams on projects as well as the integration in case of acquisitions is also addressed in our employees development plans. It offers the opportunity to broaden their knowledge about the bank and give them a prospect of a richer career path, which is fully aligned with the employee's talents and therefore also contributes to our targets.

Diversity & inclusion

We do not make any distinction on gender, ethnic background, religion or sexual orientation in our HR, remuneration, recruitment and promotions. Equal treatment of our employees is not only part of our Code of Conduct, it is embedded in our culture: While the majority of our employees is based in Austria, our workforce is coming from 40 nations.

Promotion of women at BAWAG Group

Attracting the right mix of employees is challenging. We have made great progress over the last years with the initiatives set. By the end of 2019, women represent 34% of senior leadership in BAWAG Group.

Having said that, there is still more to be done. More details on the various programs are outlined in the Corporate Governance Section.

One key aspect of our women's promotion plan has been to encourage women to participate in personnel development programs. As an example, 14 of the total 25 participants in the "forTalents" program in 2019 were female.

Equal payment is a principle. Gender pay gaps are addressed by providing transparency and is monitored across hierarchies. With these tools, we could lower the gap over the last years and our target is to set initiatives in order to abandon these gaps.

Well-being of our employees

Besides the working environment we want to support our people during the different stages in their life, by flexible working hours, working from home opportunities, supporting women after their return from maternity leave and promoting paternity leave, inhouse kindergarden, sabbatical options, leadership for part-time employees.

We also offer a health promotion program to our employees, which ranges from trainings to specific topics, health checks, company doctor and preventive measures at reduced cost.

The Managing Board has built a good dialogue with employee representatives over the last years, covering a wide range of themes, such as remuneration, reorganizations and restructurings, acquisitions and well-being. This includes additional benefits for our employees for sports programs as well as holiday and financial benefits for different stages in life, e.g. birth of children.

In regards to creating a family-friendly work environment, we successfully completed the re-auditing process at year-end 2016 by the Ministry of Science, Research and

Economy as a “family-friendly company”. Besides various benefits for our employees, we also offer two company kindergardens in our offices in Vienna. Moreover, we are a member of the “Network of Family Friendly Companies”.

Certification

In January 2020, BAWAG was awarded as “Leitbetrieb Austria”. With this certification BAWAG classifies a long a broad range of criteria from recruiting to sustainability.

LEADERSHIP DEVELOPMENT

Leadership is a constant development process and a cornerstone to handle all business challenges. Accordingly, the leadership development program encompasses a wide range of offerings. The program focuses on a high level of practice-oriented learning, the targeted development of leadership skills, sharpening managers’ self-reflection skills and employee guidance and development.

In retail sales, for example, the leadership development activities are based on a potential assessment that is supervised by external experts and aimed at identifying an individual’s personal strengths and areas for development. On this basis, we offer a training program that addresses exactly the skills that are needed for leadership.

In October 2019, the 22nd group of the “LEAD neue Führungskräfte” leadership curriculum was once again held in our central units. The program provides support and

guidance for new members of the management team during their first year in their new function and serves as a platform to discuss day-to-day leadership challenges within the group of participants guided by an external consultant.

Experienced leaders and management teams were again supported through individual (management) coaching and targeted change management measures – to meet the specific needs. The focus was on individual advice/coaching and optimal assistance for the managers (and their teams) from HR Development and selected consultants.

The “After Work Führungskräfte Forum” was successfully continued in 2019. This initiative is a networking platform within the Group where our managers can learn about new developments in management and leadership and also exchange professional knowledge and experiences. The high interest in this event is a testament to its success.

TALENT DEVELOPMENT, SUCCESSION AND CAREER PLANNING

Developing and retaining talented and qualified employees who show commitment and engagement is key for BAWAG Group. The banking landscape is undergoing constant changes and therefore it is our ultimate goal to promote a high-performing work environment, where we can strive together as a team for long-term success. While we promote professional as well as personal development, we simultaneously work on mitigating succession risk via rigorous succession and career planning. With the talent identification and development process we have in place, we assess high potentials and develop into potential successors for key functions in tailored programs. At the end of every year, the Managing Board discusses all potential successors in the so-called “Talent Review.” For this purpose, key functions were reviewed and a coordinated plan of action was adopted for succession risks.

Within the Risk area, the new “Risk Center of Excellence” Program supports young potentials in their development guided by risk mentors and prepares them for future broader responsibilities in BAWAG Group. The Program includes job rotations, an inhouse academy, regular meetings with senior management and the assignment of a risk project.

For the branches, we have the “Leader’s Basics” talent program for recruiting branch managers for retail and corporate banking inhouse. The participants are talented young employees with leadership potential who have been nominated as part of the succession planning process. They go through a challenging program of technical and personal development training to prepare them to manage a branch. For experienced branch manager we offer the “Leader’s Premium” program with its focus on exchange of experience and personal development.

MBO PROCESS (MANAGEMENT BY OBJECTIVES)

BAWAG Group’s remuneration policy is balanced in rewarding the performance, the competence and level of responsibility of the employees. Our “Management by Objectives” (MbO) approach remains a key management tool for supporting our business strategy. Setting targets in the yearly MbO process is important for the development of the bank and the performance of the employees. The performance evaluation reflects the employee’s

professional and social competence and the achievements of the individual as well as Group targets. The MbO dialogues are held on a top down basis to guarantee that the overall bank targets are spread across each level. Two dialogues are part of the yearly MbO process, while based on a flat hierarchy within the bank, the regular dialogue between employees and the respective superior is given.

CORPORATE SOCIAL RESPONSIBILITY

Being one of the biggest banks in Austria with 2.5 million customers, our business activities have a major influence on the local communities, the economy as well as the environment. The world is changing and with that the expectations for a financial institution have changed across stakeholders as well. With our purpose to be where and when our customer needs us through his lifecycle, it is crucial for us to respond or even proactively address these challenges we are facing as a financial institution. Be it the technological change, the macro-economic challenges, the changing customer behavior on one hand side, but also the environmental and social aspects on the other side. The awareness of the latter has increased significantly over the last years and we at BAWAG Group want to contribute to not just keep our negative impacts of our business activities as low as possible, but also contribute in a positive way. We believe that by steadily increasing the sustainability of our core activities, we can make a difference to our local economy and society. The prerequisite for embedding these parameters in our organization and ensuring responsible growth that consequently allows us to invest in our people, capabilities and communities is our financial resilience as well as the proactive way we respond to changes in our business environment.

Steering these challenges just from the top or centrally, would not reflect the way we interact and cooperate at BAWAG Group. To us, it is important that sustainability is embedded throughout the organization and to have each employee contributing within his responsibilities. While monitoring these parameters and initiatives in the Non Financial Risk and Economic-Social-Governance-

Committee on a Managing Board level, we also have established other platforms, like working groups, which discuss strategic priorities with representatives of the organization's divisions, who also embed the topics in their teams.

We want to address:

Environmental challenges: The preservation of an intact environment as the basis of life for future generations is one of the fundamental principles to us. We introduced green energy in all of our buildings in Austria and Switzerland in 2019 and continue to drive further initiatives.

Social aspects: BAWAG Group assumes its social responsibility as a "good corporate citizen". To name some initiatives: being a partner for non-profit organizations, no support of any political parties, offering volunteer days to our employees. Human resources are a major part as well, where more details can be found in the relevant section.

Governance: Having a governance structure which captures the right framework for the way we do business sustainably.

We can and want to play a role in helping to transform the way business is done. Being sustainable has been embedded in the choices we make – as a financial partner, as a business partner as well as in regards to our suppliers. However, we are aware that our standards can be developed further in environmental and social aspects, which will be our main target throughout the next years.

CSR REPORTING

As of the financial year 2017, the Austrian Sustainability and Diversity Improvement Act extended and specified the reporting obligations for non-financial information (environmental, social and employee issues, respect for human rights and anti-corruption) in the Group Management Report by implementing EU Directive 2014/95/EU. The purpose of mandatory reporting is to

increase the transparency and comparability of non-financial information.

In 2019, BAWAG Group again used the statutory option provided for in Section 267a Para 6 UGB to produce a separate consolidated non-financial report. This report can be downloaded from the BAWAG Group website under <https://www.bawaggroup.com/csr>

RESEARCH AND DEVELOPMENT

BAWAG Group does not engage in any research and development activities pursuant to Section 243 UGB.

OUTLOOK AND TARGETS

The banking industry across Europe is undergoing a significant transformation and facing several challenges in the form of persistently low interest rates, continued pricing pressure, increased regulatory requirements, new market entrants in the form of fintechs and a rapid pace of technological change. We are confident that we have positioned BAWAG Group to successfully tackle these challenges in order to continue growing our business while maintaining a low-risk and well capitalized balance sheet.

Apart from these industry-specific challenges the outbreak of the coronavirus COVID-19 will most likely have an impact on the economies we are doing business in. Given the

uncertainties on scope and length as well as the ongoing developments, we cannot give any accurate or reliable estimates on potential quantitative impacts currently. This may result in an overall challenged and volatile market environment. We will closely monitor the development and we will work to address to the best of our ability during the course of the year.

Given our strong operating performance in 2018, we have revised our original 3-year Group targets covering 2018 through 2020. Essentially, we have moved our targets one year forward:

Targets

	2020
Profit before tax	>€ 640 million
Net profit	>€ 480 million
Cost-income ratio	<40%
Return on tangible common equity	15% – 20%
Common Equity Tier 1 capital ratio (fully loaded)	13%
Earnings per share ¹⁾	>€ 5.40

1) Before deduction of AT1 coupon; based on 89.1m shares

In terms of capital generation and return, 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 will propose to the Annual General Meeting to distribute a dividend for the financial year 2019 of € 2.61 per share (€ 230 million; based on shares outstanding as of 31 December 2019).

Our continued strong operating results in 2019 reiterate that BAWAG Group is well positioned to win in a competitive European banking environment. We will continue to maintain our low-risk strategy focused on the DACH region, providing our customers with simple, transparent and best-in-class products and services.

13 March 2020



Anas Abuzaakouk
Chief Executive Officer



David O'Leary
Member of the Managing Board



Enver Sirucic
Member of the Managing Board



Andrew Wise
Member of the Managing Board



Stefan Barth
Member of the Managing Board



Sat Shah
Member of the Managing Board

Consolidated Financial Report

CONSOLIDATED FINANCIAL REPORT PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in € million	[Notes]	2019	2018
Interest income		1,154.1	1,141.4
thereof calculated using the effective interest method		893.3	870.4
Interest expense		(278.7)	(309.5)
Dividend income		3.6	8.6
Net interest income	[2]	879.0	840.5
Fee and commission income		374.7	372.9
Fee and commission expense		(91.2)	(90.1)
Net fee and commission income	[3]	283.5	282.8
Gains and losses on financial assets and liabilities	[4]	70.7	19.5
thereof gains from the derecognition of financial assets measured at a amortized cost		101.4	24.1
thereof losses from the derecognition of financial assets measured at a amortized cost		(0.9)	(0.7)
Other operating income	[5]	111.0	64.1
Other operating expenses	[5]	(142.0)	(72.3)
Operating expenses		(533.8)	(521.9)
thereof administrative expenses	[6]	(460.6)	(477.2)
thereof depreciation and a amortization on tangible and intangible non-current assets	[7]	(73.2)	(44.7)
Risk costs	[8]	(69.3)	(45.1)
thereof according to IFRS 9		(65.5)	(42.4)
Share of the profit or loss of associates accounted for using the equity method	[9]	5.2	5.1
Profit before tax		604.3	572.7
Income taxes	[10]	(145.0)	(136.2)
Profit after tax		459.3	436.5
Thereof attributable to non-controlling interests		0.2	0.0
Thereof attributable to owners of the parent		459.1	436.5

In accordance with IFRS, the item Other operating expenses also includes regulatory charges (bank levy, contributions to the deposit guarantee scheme and to the single resolution fund). For further details, please refer to Note 5. The item Administrative expenses also include regulatory charges (FMA and ECB supervisory charges) in the amount of € 4.1 million for 2019 (2018: € 4.0 million). However, BAWAG Group's management considers

regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Group Management Report.

The gains and losses from the derecognition of financial assets measured at a amortized cost result from sales of financial instruments to third parties.

Earnings per share pursuant to IAS 33

	2019	2018
Net result attributable to owners of the parent (in € million)	459.1	436.5
AT1 coupon (in € million)	(15.0)	(6.2)
Net result attributable to owners of the parent after deduction of AT1 coupon (in € million)	444.1	430.3
Weighted average number of outstanding shares	97,840,364	99,597,178
Basic earnings per share (in €)	4.54	4.32
Weighted average diluted number of outstanding shares	97,942,999	99,636,540
Diluted earnings per share (in €)	4.53	4.32

Supplemental information on after-tax earnings per share according to BAWAG Group's internal definition (before deduction of AT1 coupon; not in accordance with IAS 33)

	2019	2018
Net result attributable to owners of the parent (in € million)	459.1	436.5
Weighted average number of outstanding shares	97,840,364	99,597,178
After-tax earnings per share in (€)	4.69	4.38

Changes in number of outstanding shares

	2019	2018
Shares outstanding at the beginning of the period	98,794,893	100,000,000
Shares outstanding at the end of the period	87,937,130	98,794,893
Weighted average number of outstanding shares	97,840,364	99,597,178
Weighted average diluted number of outstanding shares	97,942,999	99,636,540

Earnings per share represent the net result attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding during the reporting period. Some of these shares that are bought back are used for a part of the Bank's long-term incentive program,

which only has a service condition. For these shares, a potential dilutive effect is calculated. For further details regarding the 2019 share buyback, please refer to Note 30 Equity.

STATEMENT OF OTHER COMPREHENSIVE INCOME

in € million	2019	2018
Profit after tax	459.3	436.5
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial gains (losses) on defined benefit plans	(29.4)	(6.8)
Fair value changes of shares and other equity investments at fair value through other comprehensive income	7.6	(9.2)
Change in credit spread of financial liabilities	(2.1)	8.3
Income tax on items that will not be reclassified	6.3	1.7
Total items that will not be reclassified to profit or loss	(17.6)	(6.0)
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign exchange differences	(2.4)	(0.1)
Hedge of net investment in foreign operations	2.0	-
Cash flow hedge reserve	(12.8)	(13.9)
thereof transferred to profit (-) or loss (+) ¹⁾	3.4	(5.5)
Fair value changes of debt instruments at fair value through other comprehensive income	54.1	(78.5)
thereof transferred to profit (-) or loss (+)	(3.0)	(29.3)
Share of other comprehensive income of associates accounted for using the equity method	2.3	(0.9)
Income tax relating to items that may be reclassified	(11.0)	23.6
Total items that may be reclassified subsequently to profit or loss	32.2	(69.8)
Other comprehensive income	14.6	(75.8)
Total comprehensive income, net of tax	473.9	360.7
Thereof attributable to non-controlling interests	0.2	0.0
Thereof attributable to owners of the parent	473.7	360.7

1) To net interest income

For further details, please refer to Note 30 Equity.

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	31.12.2019	31.12.2018
Cash reserves	[11]	1,424	1,069
Financial assets at fair value through profit or loss	[12]	740	504
Financial assets at fair value through other comprehensive income	[13]	3,631	3,039
Financial assets held for trading	[14]	353	351
At a mortized cost	[15]	37,556	38,334
Customers		30,467	30,482
Credit institutions		5,720	4,340
Securities		1,369	3,512
Valuation adjustment on interest rate risk hedged portfolios		5	1
Hedging derivatives	[29]	397	401
Property, plant and equipment	[17]	396	116
Investment properties	[17]	311	118
Goodwill	[18]	94	59
Brand name and customer relationships	[18]	274	264
Software and other intangible assets	[18]	201	182
Tax assets for current taxes		15	15
Tax assets for deferred taxes	[19]	8	75
Associates recognized at equity	[51]	48	45
Other assets	[20]	209	125
Total assets		45,662	44,698

The line items Goodwill, Brand name and customer relationships, and Software and other intangible assets are shown under the line item Intangible non-current assets in Note 31.

Total liabilities and equity

in € million	[Notes]	31.12.2019	31.12.2018
Total liabilities		41,834	40,693
Financial liabilities designated at fair value through profit or loss	[21]	369	576
Financial liabilities held for trading	[22]	334	301
Financial liabilities at a mortized cost	[23]	38,543	38,325
Customers		30,378	30,195
Issued bonds, subordinated and supplementary capital		5,080	3,849
Credit institutions		3,085	4,281
Financial liabilities associated with transferred assets	[39]	729	150
Valuation adjustment on interest rate risk hedged portfolios		337	156
Hedging derivatives	[29]	116	104
Provisions	[27]	480	465
Tax liabilities for current taxes		34	8
Tax liabilities for deferred taxes	[19]	54	11
Other obligations	[28]	838	597
Total equity	[30]	3,828	4,005
Equity attributable to the owners of the parent (ex AT1 capital)		3,527	3,706
AT1 capital		297	298
Non-controlling interests		4	1
Total liabilities and equity		45,662	44,698

STATEMENTS OF CHANGES IN EQUITY

	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates
in € million							
Balance as of 01.01.2018	100.0	1,146.4	–	2,278.2	2.8	(76.9)	47.4
Changes in treasury shares	(1.2)	–	–	(46.6)	–	–	–
Transactions with owners	–	4.2	–	(58.3)	–	–	–
Share based payment	–	4.2	–	–	–	–	–
Dividends	–	–	–	(58.3)	–	–	–
AT1 capital	–	–	297.6	–	–	–	–
AT1 coupon	–	–	–	(6.2)	–	–	–
Total comprehensive income	–	–	–	436.5	(10.5) ¹⁾	(5.1)	(58.3) ²⁾
Balance as of 31.12.2018	98.8	1,150.6	297.6	2,603.6	(7.7)	(82.0)	(10.9)
Balance as of 01.01.2019	98.8	1,150.6	297.6	2,603.6	(7.7)	(82.0)	(10.9)
Transfer from other comprehensive income	–	–	–	1.3	–	–	–
Transactions with owners	(10.9)	(24.4)	–	(605.2)	–	–	–
Share based payment	–	(24.4)	–	–	–	–	–
Dividends	–	–	–	(215.2)	–	–	–
Buyback of shares	(10.9)	–	–	(390.0)	–	–	–
Transactions with non-controlling interests	–	–	–	0.5	–	–	–
AT1 capital	–	–	0.0	–	–	–	–
Change in scope of consolidation	–	–	–	–	–	–	–
AT1 coupon	–	–	–	(15.0)	–	–	–
Total comprehensive income	–	–	–	459.1	(9.6) ¹⁾	(21.7)	39.9 ²⁾
Balance as of 31.12.2019	87.9	1,126.2	297.5	2,444.3	(17.3)	(103.7)	29.0

1) Thereof transferred to profit or loss: plus € 2.5 million (2018: minus € 4.1 million)

2) Thereof transferred to profit or loss: minus € 2.4 million (2018: minus € 22.1 million)

Debt instruments at fair value through comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
2.3	12.5	(58.6)	–	–	3,454.1	1.4	3,455.5
–	–	–	–	–	(47.8)	–	(47.8)
–	–	–	–	–	(54.1)	(0.3)	(54.4)
–	–	–	–	–	4.2	–	4.2
–	–	–	–	–	(58.3)	(0.3)	(58.6)
–	–	–	–	–	297.6	–	297.6
–	–	–	–	–	(6.2)	–	(6.2)
(0.9)	(7.1)	6.2	–	(0.1)	360.7	–	360.7
1.4	5.4	(52.4)	–	(0.1)	4,004.3	1.1	4,005.4
1.4	5.4	(52.4)	–	(0.1)	4,004.3	1.1	4,005.4
–	–	–	–	–	1.3	–	1.3
–	–	–	–	–	(640.5)	(0.9)	(641.4)
–	–	–	–	–	(24.4)	–	(24.4)
–	–	–	–	–	(215.2)	(0.9)	(216.1)
–	–	–	–	–	(400.9) ¹⁾	–	(400.9)
–	–	–	–	–	0.5	–	0.5
–	–	–	–	–	0.0	–	0.0
–	–	–	–	–	–	3.6	3.6
–	–	–	–	–	(15.0)	–	(15.0)
2.3	5.7	(1.6)	2.0	(2.4)	473.7	0.2	473.9
3.7	11.1	(54.0)	2.0	(2.5)	3,824.3	4.0	3,828.3

1) Including cost of share buyback in the amount of € 0.9 million

For further details, please refer to Note 30 Equity.

CASH FLOW STATEMENT

in € million	[Notes]	2019	2018
I. Profit (after tax, before non-controlling interests)	Profit or loss statement	459	437
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities			
Depreciation, amortization, impairment losses, write-ups	[7], [8]	83	58
Changes in provisions	[27]	35	26
Changes in other non-cash items		(36)	278
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	[4], [5]	17	6
Share of profit of equity-accounted investees, net of tax	Profit or loss statement	(5)	(5)
Other adjustments (mainly received interest less paid interest)		(875)	(876)
Subtotal		(322)	(77)
Change in assets and liabilities arising from operating activities after corrections for non-cash items			
Financial assets at amortized cost		(740)	(266)
Other financial assets (not including investing activities)		(193)	408
Other assets		(77)	10
Financial liabilities at amortized cost		(1,219)	(776)
Other financial liabilities (not including financing activities)		854	(846)
Other obligations		(74)	(310)
Interest receipts		1,151	1,151
Dividend receipts	Profit or loss statement	4	9
Dividends from equity-accounted investees		4	1
Interest paid		(276)	(348)
Income taxes paid		(24)	(7)
II. Net cash from operating activities		(912)	(1,052)
Cash receipts from sales of			
Financial investments		3,906	3,145
Tangible and intangible non-current assets		32	2
Cash paid for			
Financial investments		(2,229)	(1,923)
Tangible and intangible non-current assets	[17], [18]	(66)	(62)
Cash receipts from sales of subsidiaries	Cash flow from the sale of subsidiaries	–	1
Cash receipts from sales of associates		9	–
Acquisition of subsidiaries, net of cash acquired	[35]	(120)	–
III. Net cash used in investing activities		1,532	1,163
Changes in treasury shares	Statement of changes in equity	(401) ¹⁾	(48)
Dividends paid	Statement of changes in equity	(216)	(58)
Issuance of subordinated liabilities (including those designated at fair value through profit or loss)		400	–
Changes in ownership interests in subsidiaries not resulting in a loss of control		5	–

Issuance of AT1 capital	Statement of changes in equity	–	298
AT1 coupon	Statement of changes in equity	(15)	(9)
Cash paid for amounts included in lease liabilities		(23)	–
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)		(15)	(405)
IV. Net cash from financing activities		(265)	(222)
Cash and cash equivalents at end of previous period		1,069	1,180
Net cash from operating activities		(912)	(1,052)
Net cash used in investing activities		1,532	1,163
Net cash from financing activities		(265)	(222)
Cash and cash equivalents at end of period		1,424	1,069

1) Including cost of share buyback in the amount of € 0.9 million

The Cash Flow Statement provides information about the current state and development of the Group's cash and cash equivalents as of the reporting date. It shows inflows and outflows of cash broken down by operational activities, investing activities and financing activities. The amount of cash and cash equivalents reported comprises cash on hand and balances at central banks.

The Cash Flow Statement is of low relevance for BAWAG Group. It is not a substitute for liquidity or financial planning and is not used as a management tool.

Changes in liabilities arising from financing activities in accordance with IAS 7.44A, including both changes arising from cash flows and non-cash changes

Liabilities arising from financing activities are liabilities for which cash flows are classified as cash flows from financing activities in the Cash Flow Statement. At BAWAG Group, these are cash flows from subordinated and supplementary

capital (for details regarding subordinated and supplementary capital, please refer to Note 24). Thus, the following table discloses the changes from subordinated and supplementary capital in the reporting period:

	01.01.2019	Change in scope of consolidation	Fair Value adjustment of hedged item from hedge accounting	Valuation of liabilities designated at fair value through profit or loss	Issuance of new bonds	Additions	Repurchase/Redemption/Cash Change	Others	31.12.2019
<i>in € million</i>									
Financial liabilities designated at fair value through profit or loss									
Subordinated and supplementary capital	131	–	–	(1)	–	–	–	–	130
Financial liabilities measured at amortized cost									
Subordinated and supplementary capital	102	–	6	–	400	–	(15)	7	500
Other obligations									
Lease liability	261	–	–	–	–	23	(23)	(8)	253

	01.01.2018	Change in scope of consolidation	Fair Value adjustment of hedged item from hedge accounting	Valuation of liabilities designated at fair value through profit or loss	Repurchase/Redemption/Cash Change	Others	31.12.2018
<i>in € million</i>							
Financial liabilities designated at fair value through profit or loss							
Subordinated and supplementary capital	528	–	–	(18)	(379)	–	131
Financial liabilities measured at amortized cost							
Subordinated and supplementary capital	128	–	–	–	(26)	–	102

Regarding changes in equity due to dividends paid, please refer to the Statement of Changes in Equity.

Cash flow from the sale of subsidiaries

In 2018, BAWAG P.S.K. Leasing Holding GmbH sold its shares in RF 17 BAWAG Immobilienleasing GmbH. The profit from the sale was shown in the line item Gains and

losses on financial assets and liabilities. There were no sales of subsidiaries in 2019.

in € million	2019	2018
Sales proceeds	–	1
Assets sold	–	16
Financial assets	–	16
Other assets	–	–
Debts sold	–	15
Financial liabilities	–	15
Other obligations	–	–
Net assets sold	–	1
Profit from the sale	–	–
Sales proceeds	–	1
Cash and cash equivalents contained in the assets sold	–	–
Proceeds from the sale	–	1

NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Accounting policie

BAWAG Group AG is the parent company of BAWAG Group. BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG P.S.K. AG), a subsidiary of BAWAG Group AG, is an Austrian bank operating predominantly in Austria with additional activities in selected international markets. The registered office of BAWAG Group AG is located at Wiedner Gürtel 11, 1100 Vienna.

The consolidated financial statements were prepared applying section 59a BWG, according to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and in accordance with the provisions of the standards (IFRS/IAS) published by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee (IFRIC/SIC) as applicable on the reporting date as adopted by the EU and therefore mandatory with respect to the consolidated financial statements as of 31 December 2019.

These consolidated financial statements for BAWAG Group according to IFRS are based on the individual annual financial statements for all fully consolidated Group companies according to IFRS as of 31 December 2019. All material associates are accounted for using the equity method.

The preparation of consolidated financial statements according to IFRS requires that assumptions and estimates be made about factors that have a material influence on the Group's business operations. These assumptions are regularly reviewed and adjusted whenever needed. Such adjustments are taken into account in the current period and also for future periods when the adjustment has long-term effects.

The recognition and measurement principles described below have been applied uniformly with respect to all of the financial years stated in these consolidated financial statements, with the exception of the requirements pursuant to IFRS 16 Leases, the clarifications to IAS 12 Income Taxes (both from 1 January 2019; previous year not adjusted) and the change of the valuation method for investment properties (IAS 40).

We have maintained the accounting and valuation methods that were applied in the consolidated financial statements

as of 31 December 2018, with the exceptions mentioned in the paragraph above.

The reporting currency is euro. Unless indicated otherwise, all figures are rounded to millions of euros. The tables in this report may contain rounding differences.

All monetary figures in foreign currencies are translated at the middle exchange rate on the reporting date.

Scope of Consolidation and Consolidation Principles

The scope of consolidation includes all direct and indirect material equity investments of BAWAG Group.

As of 31 December 2019, the consolidated financial statements included 62 (2018: 47) fully consolidated companies and 2 (2018: 2) companies that are accounted for using the equity method in Austria and abroad. In the first quarter of 2019, Zahnärztekasse AG was acquired, the entities Tiger Retail UK RE 1 S.à r.l. and Tiger Retail UK RE 2 S.à r.l. were founded, BAWAG Group Germany GmbH was included in the scope of consolidation due to materiality and S TART Immobilienleasing GmbH was deconsolidated due to immateriality. In the second quarter of 2019, EOS Health Honorarmanagement AG (renamed to Health Coevo AG as of 1 July 2019), BFL Leasing GmbH and Morgenstern Miet + Leasing GmbH were acquired and Romax Immobilien GmbH and five real estate entities were consolidated for the first time. In the third quarter of 2019, BAWAG Education Trust Corp. and PFH Properties Funds Holding GmbH were included in the scope of consolidation due to materiality and BVV Cayman Ltd. was founded. In the fourth quarter of 2019, Bonnie RE UK 1 B.V. was founded and Promontoria Holding 136 B.V. was acquired.

In a merger agreement dated 12 December 2019, easybank AG and BAWAG P.S.K. agreed that the transferring easybank AG would transfer its entire assets to the acquiring company BAWAG P.S.K. by way of universal succession and waiving liquidation as of the merger date of 30 June 2019. Since the acquiring company is the sole shareholder of the transferring company, no shares are granted. It was also agreed in the merger agreement of 12 December 2019 between Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH and BAWAG P.S.K. that the transferring company Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH would transfer its assets in

their entirety to the acquiring company BAWAG P.S.K. by way of universal succession and waiver of liquidation as of the merger date 30 June 2019.

The owners of easybank AG, Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH and BAWAG P.S.K. approved the merger agreements by resolution of 12 December 2019 and resolved the mergers.

In the interest of materiality, the criteria for inclusion are both the amount of an entity's assets and its relative contribution to the Group's consolidated profit. All non-consolidated subsidiaries had only a minor influence on the Group's assets, financial position and the results of its operations. Note 48 List of consolidated subsidiaries contains a list of all fully consolidated subsidiaries and associates accounted for using the equity method.

The carrying amount of the associates that are not accounted for using the equity method totaled € 13 million (2018: € 16 million) on 31 December 2019. Controlled companies with a carrying amount of € 11 million (2018: € 18 million) were not consolidated because they did not have a material effect on the Group's assets, financial position or the results of its operations.

Further details on the scope of consolidation and major changes in the Group's holdings can be found in Notes 48 and 49.

The acquisition method according to IFRS 3 is used for business combinations. Under this method, the acquisition costs for the entity in question must be compared with the value of the net assets at the time of acquisition. The value of the net assets is the fair value of all identifiable assets, liabilities and contingent liabilities assumed at the time of acquisition.

All intragroup receivables and payables, expenses, and income and intragroup profits are eliminated unless they are insignificant.

Capitalized goodwill in the amount of € 94 million (2018: € 59 million) is recognized under Goodwill on the Statement of Financial Position. In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash-generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36.

Goodwill impairment testing is performed by applying the value in use for the respective entities.

Currently, the goodwill is allocated to the easybank franchise (€ 59 million), Zahnärztekasse AG (€ 20 million), Health Coevo AG (€ 15 million), BAWAG P.S.K. Versicherung AG (€ 12 million) and PSA Payment Services Austria GmbH (€ 6 million) – the latter two entities are accounted for using the equity method – as these are the smallest CGUs to which goodwill can be assigned. Further details on the entities accounted for using the equity method can be found in Note 34 and Note 51.

The customer business of the easybank franchise is part of the Retail & SME segment, the rest is part of the Corporate Center segment. BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH are part of the Corporate Center segment.

Also, all equity investments were tested for indicators of a sustained or material impairment. Impairment tests were carried out if necessary due to the indicators.

All non-consolidated equity instruments are measured according to IFRS 9 and classified as fair value through OCI or fair value through profit or loss. Further details can be found in Note 49.

The non-consolidated 2.5% interest in Hamburg Commercial Bank AG, which is measured at fair value through profit or loss, was reported under financial assets measured at fair value through other comprehensive income as of 31 December 2018 due to an editorial error. Due to immateriality, previous year figures were not adjusted. The Profit or Loss Statement and the Other Comprehensive Income are not affected.

IFRS 9 Financial Instruments

IFRS 9 became mandatory for BAWAG Group for the reporting period beginning on 1 January 2018. IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss and fair value through other comprehensive income.

Financial instruments are recognized and derecognized on the trade date.

Classification of Financial Assets and Financial Liabilities

Financial Assets

IFRS 9 establishes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortized cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature). A financial asset is measured at fair value through other comprehensive income if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and are held for a future sale and if the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature). Financial assets that do not meet these criteria are measured at fair value through profit or loss. If the structured financial asset contains an embedded derivative and therefore does not fulfill the SPPI criteria, the financial instrument is assessed in its entirety and measured at fair value through profit or loss.

Premiums and discounts are recognized pro rata temporis via the effective interest rate. Expenses and revenues were set off against or added to interest income from the same financial instrument.

Processing fees are deferred over the term of the loan and recognized in the net interest income after deducting the directly attributable costs.

Please see the Impairment section for information about the formation of provisions.

Business Model Assessment for Financial Assets

The Group identified the following business models:

- ▶ **Hold to Collect**
Financial assets held in this business model are in general intended to be held until maturity and managed to realize cash flows by collecting principal and interest over the lifetime of the instruments. Not all of the financial assets need to be held until maturity. Under certain circumstances, sales are consistent with this business model independent of their volume and frequency, for example if the asset is sold close to the maturity of the financial asset and the proceeds approximate the collection of the remaining contractual cash flows or the asset is sold due to an increase in the asset's credit risk due to changes in tax or regulatory laws, within business combinations or reorganizations or in stress case scenarios. In addition, sales are considered as insignificant independent of their reason when sales volumes and earnings do not exceed 5% of the average book value of the respective portfolio in a year.
- ▶ **Hold to Collect and Sell**
Financial assets that are held in this business model are managed both in order to collect contractual cash flows and for selling. This business model covers a portfolio of predominantly liquid investment grade bonds that can be sold, put up for an ECB tender or used in a repurchase agreement transaction if needed.
- ▶ **Other Financial assets**
Financial assets in this business model are held to sell. BAWAG Group designated a small portfolio of loans to the public sector in this business model. These loans are incurred principally for the purpose of selling them in the near term (loans are held for a short timeframe and are then sold).
- ▶ **Held for Trading**
This category covers financial assets and liabilities held for trading purposes. These financial instruments are recognized at their fair value. All derivatives in the trading and banking book that are not part of a hedging transaction are assigned to this category. Financial liabilities include liabilities from derivative transactions, short positions and repurchase agreements.

Certain financial assets that do not meet the definition of trading assets are designated at fair value through profit or loss using the fair value option. BAWAG Group exercised the fair value option in the following cases:

- ▶ To avoid an accounting mismatch
 - For fixed-income securities and loans whose fair value on the date of acquisition has been hedged with interest rate derivatives;
 - Investment products whose fair value changes have been hedged with derivatives.

Assessment Whether Contractual Cash Flows Are Solely Payments of Principal and Interest for Financial Assets

To identify whether a financial asset fulfills the SPPI criteria, BAWAG Group analyzes its portfolio in three steps:

1. Identifying all financial assets clearly fulfilling the SPPI criteria;
2. Qualitative benchmark test;
3. Quantitative benchmark test.

A qualitative or quantitative benchmark test must be performed for financial instruments with possibly harmful conditions. A qualitative benchmark test suffices if the possibly harmful feature is clearly immaterial when comparing cash flows, e.g. certain prior fixings. In this case, a quantitative benchmark test is not necessary and the financial instrument fulfills the SPPI criteria. In all other cases, a quantitative benchmark test is required comparing the cash flow of the financial asset with the harmful feature with a cash flow of a theoretical financial instrument having the same conditions but without the harmful feature. If the cash flows deviate significantly, the financial asset does not fulfill the SPPI criteria and must be measured at FVTPL.

When comparing cash flows in the benchmark test, BAWAG Group defined a deviation of 5% when comparing cumulative cash flows and 1% of annual cash flows as immaterial. A portfolio of loans and bonds currently fails the SPPI test, mainly due to their interest rate indicator being non-compliant.

Financial Liabilities

In accordance with IFRS 9, financial liabilities

- ▶ not held for trading or
- ▶ designated as Financial liabilities at fair value through profit or loss

are measured at a amortized cost.

Fair value changes of financial liabilities in the fair value option are generally presented as follows:

- ▶ the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- ▶ the remaining amount of change in the fair value is presented in profit or loss.

Certain financial liabilities that do not meet the definition of trading liabilities are designated at fair value through profit or loss using the fair value option. BAWAG Group exercised the fair value option in the following cases:

- ▶ To avoid an accounting mismatch
 - For fixed-income own issues whose fair value on the date of acquisition has been hedged with interest rate derivatives
- ▶ Presence of embedded derivatives
 - Own issues with embedded derivatives

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Contractual Modifications

If the contractual cash flows are changed in the course of renegotiating loans, an assessment of the significance of the change is required. In the event of a non-significant change in the contractual cash flows, the gross carrying amount of the instrument is adjusted to the present value of the new contractual cash flows, discounted at the original effective interest rate. The difference between the old gross carrying amount and the new gross carrying amount is recognized in the income statement as a modification gain or loss.

If the cash flows differ significantly (BAWAG Group has chosen a significance threshold for the change in present value of 10%), the contractual rights to the cash flows from the original instruments are considered forfeited. In this case, the original instrument is derecognized and a new financial instrument is recognized at fair value plus any eligible transaction costs.

In addition, the original asset is derecognized in case of a qualitative modification of the contract. This is the case if there is a change in the contract party or the contract currency (unless this was already agreed in the original contract) and the introduction or removal of a contractual clause that is not SPPI-compliant.

In case of modifications that do not lead to derecognition, BAWAG Group assesses a significant increase in credit risk through one of the stage transfer criteria and determines if the assets' loss allowance is measured at lifetime or 12-month expected loss. A significant increase in credit risk is assessed by comparing:

- ▶ the remaining lifetime PD at the reporting date based on the modified terms; and
- ▶ the remaining lifetime PD estimated at the initial recognition with the original contractual terms.

When modification of a loan that is not credit-impaired results in a derecognition, a new loan is recognized and allocated to stage 1.

Equity Instruments

IFRS 9 requires all equity instruments to be measured at fair value through profit or loss, but allows users to designate equity instruments that are not intended to be "held for trading" at fair value through OCI. This decision is made on an instrument-by-instrument basis. If the OCI option is used, all fair value changes including sales from gains are shown in OCI. Gains and losses are not recycled to profit or loss (P&L). Only dividends are recognized in P&L. This designation can only be made at inception and cannot be changed afterwards.

The majority of BAWAG Group's equity investments are intended to be long-term investments and BAWAG Group is not focused on realizing short-term sales profits from these investments. Therefore, equity investments are generally classified as FVOCI as the Group regards this presentation as giving a clearer picture of the Group's profitability. This mainly concerns non-consolidated interests in subsidiaries as well as investments in AT1 instruments (Additional Tier 1). In case BAWAG Group plans to sell equity investments in the medium or near term, the use of the FVOCI option is decided on a case-by-case basis.

Hedge Accounting

IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: Instead of the quantitative criterion (bandwidth of 80% to 125%), qualitative and quantitative criteria for a forward-looking effectiveness assessment have been introduced. Furthermore, voluntary terminations of hedge relationships are no longer allowed in general, but only if certain requirements are met.

Rules for rebalancing were introduced for hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

While the macro hedge accounting project is ongoing, adopters of IFRS 9 may, as an accounting policy choice, continue to apply the macro fair value hedge accounting model for interest rate risk in IAS 39.

BAWAG Group currently expects no major impacts on the consolidated financial statements resulting from IFRS 9 hedge accounting and decided to continue applying hedge accounting according to IAS 39.

Impairment

IFRS 9 requires a bank to determine the expected credit loss (ECL) based on a probability assessment of future cash flows and losses. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries).

The main drivers in the ECL calculation are the lifetime probability of default (PD), the lifetime loss given default (LGD) and the lifetime exposure at default. Existing internal rating based (IRB) risk models are the starting point for IFRS 9 parameter estimation. Necessary adjustments to increase the forecast horizon and to consider forward-looking information were made.

The lifetime PD is assumed to consist of a through-the-cycle component and a point-in-time component. The through-the-cycle component represents idiosyncratic characteristics of the borrower, whereas point-in-time stands for business-cycle effects. For the through-the-cycle component, the model approach considers the homogenous and non-homogenous continuous Markov approach, amongst others. The shift factor is used for the point-in-time component. Macroeconomic variables predict the short-term future default rate, which result in a shift of the through-the-cycle PD. The long-term default rate is oriented towards the central tendency of the corresponding segment. For each relevant business segment, separate models were developed. The initial validation (“back testing”) confirmed the accuracy of the estimates.

The LGD models also consist of a through-the-cycle and a point-in-time component, with the LGD being split into a recovery rate for collateral and a loss rate for the unsecured exposure. Similar to the shift factor model mentioned above, macroeconomic predictions are used to forecast the loss rate of the unsecured exposure. For Sovereigns and Institutions, the through-the-cycle and point-in-time component for a total LGD model was estimated using an external loss database.

For the committed but not drawn exposures, a Credit Conversion Factor (CCF) for a defaulted and for a non-defaulted scenario was estimated applying a similar methodology as for PD and LGD estimation.

BAWAG Group applies the default definition according to Article 178 of Regulation (EU) No 575/2013 (Capital Requirement Regulation – CRR), which refers to 90 days past due and to unlikeliness-to-pay criteria, consistent for all asset classes and risk models. As a result, all IFRS 9 parameters were estimated and calibrated using the default definition according to the CRR.

Staging Criteria and Significant Increase in Credit Risk as Part of Impairment

The ECL model in BAWAG Group applies to:

- ▶ Financial assets that are recorded at a amortized cost or at fair value through other comprehensive income;
- ▶ Lease receivables;
- ▶ Loan commitments and financial guarantees that are not measured at fair value through profit or loss;
- ▶ Contract assets according to IFRS 15.

Risk provisioning of expected credit losses in staging concept:

Stage 1: 12-month ECLs

The 12-month calculation applies to all financial instruments at initial recognition (with a few exceptions, e.g. for purchased or originated financial assets that are credit-impaired on initial recognition “POCI”) and those which do not show a significant increase in credit risk since initial recognition (in the case of POCI, only the cumulative changes in lifetime expected losses since initial recognition are recognized).

Stages 2 and 3: Lifetime ECLs

The measurement of the risk provisions for stage 2 and stage 3 positions based on the lifetime expected credit loss model applies when a significant increase in credit risk since initial recognition has occurred. It must be pointed out that the stage 3 exposures in BAWAG Group comply with the default definition according to CRR.

The overall procedure of the stage allocation in BAWAG Group is based on three conditions:

- ▶ a quantitative,
- ▶ a qualitative, and
- ▶ a backstop criterion.

As long as one of these criteria applies, staging transfer occurs. The quantitative criterion measures the cumulative PD change since initial recognition, while the qualitative criterion contributes additional information to assess the significant increase in credit risk. As a backstop criterion, BAWAG Group considers delayed payments which are more than 30 days past due as a significant increase in credit risk as well.

A quantitative criterion of an increase in credit risk is based on two thresholds:

- ▶ the relative cumulative PD change, and
- ▶ the absolute cumulative PD change,

and the exposure will only be considered as stage 2 with a lifetime ECL if both thresholds are exceeded.

BAWAG Group considers the method based on quantile regression to calculate critical values for relative change in PD, i.e. the significance thresholds are set to the empirical

quantiles (e.g. 95% quantile) of the response variable (relative change in lifetime PD since initial recognition). This approach has been selected due to economic plausibility, statistical significance of variables, acceptable goodness of fit and a distribution of exposures between two stages as expected. The following variables impact the quantiles of the lifetime PD changes, causing the quantile thresholds to vary:

- ▶ customer segment,
- ▶ initial rating,
- ▶ remaining term (time between reporting date and maturity date), and
- ▶ vintage of the financial instrument (time-lapsed between initial date and reporting date).

Qualitative staging criteria factors selected by BAWAG Group are:

- ▶ Entry in watch list (non-retail customers),
- ▶ Entry in warning list (retail customers), and
- ▶ Forbearance flag.

If one of these factors is active, the staging transfer is executed.

All financial instruments with payment delays of more than 30 days past due fulfill the backstop staging transfer criteria of BAWAG Group, provided they have not been defaulted (meaning in stage 3).

As long as no staging factor is active, the exposure is automatically reassigned to stage 1. A default cure period of 30 days for financial instruments in stage 3 is in place complying with the default definition according to CRR.

Stage 3: Lifetime ECLs

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of

financial assets is impaired and impairment losses are incurred if:

- ▶ there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date (“a loss event”);
- ▶ the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- ▶ a reliable estimate of the loss amount can be made.

The loan loss provisions cover provisions for loan defaults or counterparty risks and are formed as individual and general provisions on the basis of past experience. The loan loss provisions from lending are netted off against the corresponding receivables on the Statement of Financial Position. Provisions for off-balance-sheet loans are reported as provisions.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counterparty risks is based on expected future recoveries in accordance with the risk analysts’ estimates. Provisions for counterparty risks that were not individually significant were accounted for generally, on a percentage basis, with regard to the amounts overdue and based on the Group’s historical loss experience.

The approval procedures for impairments and debt waivers are described in the handbook on competencies and authorizations. Receivables are written off in coordination with the respective divisions when all attempts to collect the debt have failed or when there is no intention to actively continue the collection process.

Hedge Accounting

BAWAG Group chose to continue applying hedge accounting under IAS 39.

BAWAG Group uses fair value hedge accounting to account for hedges of interest rate risk inherent in fixed-rate financial instruments. Hedging instruments are usually interest rate swaps. The hedged items are securities in the category At fair value through other comprehensive income as well as the Group's own issues, savings accounts and loans to customers that are recognized at a amortized cost. BAWAG Group applies cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios. Hedging instruments are usually cross currency swaps and foreign currency forward transactions.

In line with general regulations, derivatives are classified as financial assets held for trading or financial liabilities held for trading and are recognized at fair value. The valuation result is shown in the line item Gains and losses on financial assets and liabilities as gains (losses) on financial assets and liabilities held for trading. If derivatives are used to hedge risks of non-trading transactions, BAWAG Group applies hedge accounting if the conditions according to IAS 39 are met.

At inception of the hedge relationship, the relationship between the hedging instrument and the hedged item, the risk management objectives and the method used for assessing hedge effectiveness are documented. Furthermore, BAWAG Group documents at the inception of the hedge and on each reporting date whether the hedge is highly effective in offsetting changes in fair values of the hedged item and the hedging instrument attributable to the hedged risk.

Interest rate risk to which the Group applies hedge accounting arises from fixed-rate issues, loans and fixed-rate bonds whose fair value fluctuates when benchmark interest rates change. The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of fixed-rate assets or liabilities are significantly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

The Group takes a conservative approach to market risk in general and specifically also to interest rate risk. The interest rate risk position is strategically managed at IFRS

Group level and measured, limited and managed based on the economic view and according to the IFRS accounting treatment (FVTPL, FVOCI). The Group's interest rate risk management approach has a focus on mitigating market risks thereby using natural hedging capabilities of its balance sheet as well as derivatives for managing the risk position.

The foreign currency risk for which the Group applies cash flow hedge accounting results from future cash flows from foreign currency portfolios whose fair value fluctuates with changes in the FX exchange rate. Both FX outright and cross-currency swaps are used in the Group to hedge foreign currency risk, as their change in market value is essentially influenced by the change in the FX exchange rate.

FX risks are deemed to be low as the Group follows a strategy to hedge any FX risks arising from notional and base rate interest cash flows. The risk position is monitored on a daily basis and managed within narrow limits. Furthermore, the Group applies cash flow hedge accounting to mitigate FX risk from future expected spread income and of currency basis risk.

By using derivative financial instruments to hedge exposures to changes in interest and FX rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties and requiring the counterparties to post collateral and clearing through CCPs.

BAWAG Group uses fair value hedge accounting for effective hedging relationships that reduce market risk.

Implications in connection with Brexit

As of 31 December 2019, BAWAG Group uses hedging derivatives with a notional amount of € 579 million (2018: € 511 million) and a market value of € 4 million (2018: € 3 million) in a hedging relationship that had been cleared via London Clearing House. According to the European Commission, London Clearing House has kept its status as central clearing counterparty (CCP) until the end of the financial year 2019. Thus, there were no implications on the group financials 2019 of BAWAG Group. BAWAG group will monitor the development of this topic and will set appropriate measures if necessary.

Micro Fair Value Hedge

In a micro fair value hedge, a financial asset or financial liability or a group of similar financial assets or financial liabilities is hedged against changes in its fair value. Changes in the value of the hedged item and the hedging instrument are recognized in the Profit or Loss Statement in the line item Gains and losses on financial assets and liabilities in the same period. The hedging instrument is recognized at fair value through profit or loss and the hedged item is adjusted for any changes in fair value relating to the hedged risk.

As soon as the hedging instrument is sold, exercised or comes due, or when the eligibility requirements for hedge accounting are no longer met, the hedging relationship is no longer recognized on the Statement of Financial Position.

Any accumulated changes in the value of the former hedged item during the existence of the hedge relationship are recognized through profit or loss distributed over the remainder of the term.

For other types of fair value adjustments and whenever a fair value hedged asset or liability is sold or otherwise derecognized, any basis adjustments are included in the calculation of the gain or loss on derecognition.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, BAWAG Group performs a qualitative prospective assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying interest rates. The main cause of hedge ineffectiveness is due to the fact that different discounting curves are used to determine the fair value of hedges and hedged items (OIS vs. IBOR discounting).

Portfolio Fair Value Hedge

BAWAG Group applies fair value hedge accounting for a portfolio hedge of interest rate risk. In its accounts, the Bank has identified sight deposits in euros as well as customer loans with interest caps and floors as portfolios that are to be protected against interest rate risks. These portfolios are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG Group determines an amount of liabilities and/or loans from the identified portfolios to be hedged as the underlyings for the portfolio fair value hedges. Additions and reductions are initially allocated to the non-designated portion of the identified portfolios using the bottom layer approach. For this, BAWAG Group applies the EU carve-out for IAS 39, which allows sight deposits and similar instruments to be designated as part of a hedging relationship on the basis of the expected withdrawal and due dates. The EU carve-out for IAS 39 also allows the application of the bottom layer approach.

On the balance sheet, the changes in the value of the underlying transactions that can be attributed to the hedged risk are reported under the separate line item Valuation adjustment on interest rate risk hedged portfolios. Changes in the value of the underlying and the hedging transaction are reported on the income statement in the same period under Gains and losses on financial assets and liabilities.

In addition to the reason mentioned in the Micro Fair Value Hedge paragraph (OIS/IBOR basis spread), inefficiencies in portfolio fair value hedge accounting will arise if the expected cash flows exceed the actual cash flows of the hedged positions.

Cash Flow Hedge

BAWAG Group applies cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios.

BAWAG Group has identified future spread income from GBP and USD assets as underlyings that are to be protected against changes in variability in cash flows from foreign currency rates.

IAS 39 allows parts of highly probable future cash flows to be designated as a hedged item subject to cash flow hedge accounting. In each case, BAWAG Group designates the first cash flows for a defined period of time as a hedged item.

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in 2019 fair value losses in the amount of € 12.8 million (2018: losses in the amount of € 13.9 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied cash flow hedge accounting.

In addition to the reason mentioned in the Micro Fair Value Hedge paragraph (OIS/IBOR basis spread), inefficiencies in cash flow hedge accounting will arise if the expected cash flows exceed the actual cash flows of the hedged positions.

Net Investment Hedge

BAWAG Group applies net investment hedge accounting according to IAS 39 for net investments in subsidiaries whose functional currency is not Euro.

Investments in subsidiaries with different functional currencies result in foreign exchange risks for BAWAG Group which are largely eliminated with foreign exchange swaps.

Net Investment Hedge Accounting according to IAS 39 is applied to mitigate impacts in profit or loss resulting from instruments used to hedge the foreign exchange risk. The hedged risk is defined as the foreign currency exposure arising from the functional currency of the foreign operation (currently CHF and USD), and the functional currency of the parent which is Euro.

The hedging instrument is measured at fair value, with the effective portion of its changes recognized in other comprehensive income in a separate component of equity. Any ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss in case the fair

value change of the hedging instrument exceeds the fair value change of the hedged item.

In other comprehensive income, the changes in the value of the hedging instruments are reported under Hedge of net investment in foreign operations. In 2019 fair value gains in the amount of € 2.0 million (2018: € 0.0 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied net investment hedge accounting.

Inefficiencies in net investment hedge accounting will arise from the hedging instrument (the forward contract), which contains a foreign currency basis spread that is not present in the hedged item (the net investment). Furthermore hedge ineffectiveness can arise when the carrying value of the net investment falls below the originally designated amount or when the hedged item and the hedging instrument are subject to different counterparty risks (e.g. OIS discounting of hedging instrument).

IBOR Reform

BAWAG Group closely monitors current developments regarding interest benchmark reforms and the use of risk-free rates (IBOR reform). Given that substantial parts of the bank's balance sheet are linked to Euribor/Libor rates (basically there is no exposure to EONIA or other overnight interest rates), the bank already conducted intensive analysis of potential impacts in order to initiate timely preparations for the adaption of benchmark interest rates. These bank-wide analyses included, inter alia, implications on clients (pricing and contracts), hedging, systems and financial results. Based on this assessment clear tasks and responsibilities (finance, risk, legal, operations, market, tech) have been assigned to implement necessary adaptations. Currently the bank expects a gradual implementation of reformed IBOR rates starting with Swiss Franc, British Pound and US Dollar in 2022 followed by Euribor thereafter.

It is expected that the reform of IBOR rates also has an impact on the bank's defined interest rate risk steering and management framework. In line with its risk management objectives, the bank currently is steered and hedged against 3M Euribor/Libor, including respective hedge accounting relationships. BAWAG Group uses fair value hedge accounting (micro fair value and portfolio fair value hedges), cash flow hedge accounting and net investment

hedges to mitigate market risks. Hedging instruments and hedged items are predominantly denominated in Euro, US Dollar, British Pound and to a lesser extent in Swiss Francs. As of 31 December 2019, approximately € 17 billion of hedging instruments were assigned to a hedge accounting relationship (approximately € 7 billion hedged assets and approximately € 10 billion hedged liabilities).

Financial Guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

In the ordinary course of business, BAWAG Group provides financial guarantees. Financial guarantees are initially measured at fair value. Subsequent to initial recognition, the financial guarantee contract is reviewed in order to determine whether a provision according to IAS 37 is required.

If BAWAG Group is a guarantee holder, the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset. For details, see Note 27.

Methods for Determining the Fair Value of Financial Instruments

The assessment of an “active market” of a given security is derived from a set of defined criteria. Additionally, minimum requirements (e.g. issuance size, exchange listing, etc.) apply. BAWAG Group uses market data (e.g. quoted volumes, frequency of quotes) to determine the liquidity and market depth of securities.

Derivatives

To measure exchange-traded instruments such as futures and options on futures, exchange prices are used. Details are presented in Note 31. Some basic information is presented here:

The basic valuation model used for plain vanilla OTC options is the Black-Scholes option price model, which varies according to the underlying instruments and hedged items. Currency options are measured using the Garman-Kohlhagen model, and interest rate options using the Black,

Hull-White or Bachelier (in case of negative interest rates for caps, floors and swaptions) model.

For positions in the trading book, the closing costs of the positions (bid/ask spreads) on a net basis are calculated and booked on a regular basis.

The total value of an interest rate swap is derived from the present values of its fixed and variable rate legs. For cross currency swaps (CCS), the cash value in the respective transaction currency is also calculated per leg, which is then converted into the functional currency of the Group company and summed up.

In the case of foreign currency forwards and futures, the agreed forward rate, which depends on movements in exchange and interest rates for both currencies, is compared with the forward rate on the reporting date and the result is used to calculate the instrument's value.

Credit default swaps (CDS) are calculated with the Duffie-Singleton model. Based on the credit spread curve, the default probability curve (hazard rate) is calculated, which is used to generate the protection leg. Hence, the total value of a CDS is the sum of the protection and premium leg.

BAWAG Group determines a credit (CVA) or debt value adjustment (DVA) for the credit risk of OTC derivatives. For calculation internal probabilities of default (PD) are used and a recovery rate (RR) of 0.4 is assumed.

For the counterparties, a market value + add-on model is used to determine the EPE/ENE (Expected Positive/Negative Exposure). The add-on is calculated separately for each transaction type and currency and is generally derived from observable parameters on the market.

If a netting agreement is in force, netting effects at the customer level within transactions of the same kind and currency are also taken into account.

The CVA is determined from the discount rates, the counterparty PD and loss rate (1-REC) as well as the EPE. The DVA is determined from BAWAG Group's PD and loss rate as well as the ENE.

If the risk discount rate cannot be derived from market transactions, it is estimated by the management. This applies especially to non-payment risks arising from legal

uncertainty that cannot be derived from the customer's general credit spread. Provided that BAWAG Group believes that the transaction is legally enforceable, the Bank still reports an asset in the amount of the positive fair value of the transaction with the counterparty even if objections have been lodged.

To value financial assets whose parameters cannot be derived from market transactions, the expected cash flow (including interest on arrears, if contractually agreed) is discounted on the day of valuation and weighted according to the probability of its occurrence. If the legal validity or enforceability of the claim is contested on the basis of possible grounds for annulment or an appeal, these legal considerations are taken into account in the valuation.

In the case of the close-out of a derivative transaction with a customer, the type of claim changes for BAWAG Group. Before the contract is terminated, the asset is a derivative, while after the contract is closed out, the asset is a contractual claim whose value no longer changes depending on market parameters. For this reason, the claim no longer satisfies the definition of a derivative according to IFRS 9.

In the event of the early termination of a derivative transaction, the variability of the payment flows in terms of amount and time of occurrence are materially changed by the close-out, and the original derivative is replaced with a new asset. This new asset is recognized at its fair value according to IFRS 9.5.1.1. The fair value corresponds to the carrying amount of the derivative at the time that the agreement is terminated, including any valuation adjustments applied up to the time of termination. A claim arising from the termination of the agreement meets the criteria in IFRS 9.4.1.2 for being measured at a mortgaged cost.

This approach was chosen following IFRS 9.3.3.2 and IFRS 9.3.2.7, since IFRS 9 contains no explicit rules for when a financial instrument first fulfills the characteristics of a derivative and then no longer exhibits these characteristics at a later time. According to IAS 8.10 to 8.12, such gaps in the standards must be closed by applying a similar provision in the IFRS and taking the framework into account.

The method described above was applied for the transaction with the City of Linz in 2011.

Credit-Linked Notes

For credit-linked notes where no active markets exist, fair values are determined by applying a valuation model. Credit-linked notes (CLNs) are bonds with an embedded credit default swap (CDS) allowing the issuer to transfer a specific credit risk to investors. The valuation model for CLNs uses bond or CDS spreads of the issuer and the reference entity, as well as coupon and maturity.

Valuations by outside experts are also used when measuring complex structures. Appropriate tests and verifications are carried out.

Measurement for Asset Backed Investments

Each position of the collateralized loan obligation (CLO) portfolio of BAWAG Group is subject to the mark-to-model valuation, which is performed on a monthly basis within the pricing functionality developed by Moody's Analytics. Specifically, the measurement is performed within the CDOnet functionality of Moody's Structured Finance solutions, where the present value technique is applied. The model uses the inputs already available in Moody's Structured Finance (e.g. cash flows, original spreads for each tranche, weighted average maturity, etc.), as well as additional parameters, that are derived independently by the Market Risk unit (primarily discounting spreads at the valuation date) from comparable CLO tranches with respect to credit rating, type of CLO, average subordination, etc. The source for the market spread levels is the Moody's Structured Finance Portal as well as other external data sources like Wells Fargo Securities.

Fair Value of Participations

To determine the fair value of the participations, the present value of the projected potential dividends was calculated by using the risk-weighted pre-tax discount rate in the market applicable to the participation in question. For the sake of determining the pre-tax discount rate, corporate income tax as calculated using nominal tax rates is added to the potential dividends and discounted with a discount rate that delivers exactly the same result as the above-mentioned valuation.

To determine the value in use of the single entity, the present value of the projected potential dividends was calculated using the risk-weighted after-tax discount rate in the market applicable to the single entity in question.

The general planning horizon used for valuation purposes is five years. The long-term growth rates used in the calculation are 1.0%, applying the going concern principle. To the extent necessary, proper company-specific profit retention in perpetuity was considered for the calculation of the continuing value.

The post-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. The following parameters are used as of 31 December 2019:

- ▶ The risk-free rate (0.34%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank.
- ▶ The source for the country-specific market risk premium is the website of Damodaran in conjunction with the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose Business valuation working group sets a range from 5.5% to 7%. Due to the low level of the risk-free rate, a market risk premium of 7.91% was chosen.
- ▶ The applied beta factor for banks and financial service companies (1.04) is the two-year weekly average beta of 11 banks listed on European stock exchanges with retail as their core business. Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 and/or a value for the t-test (hypothesis test) of at least 1.98 qualify for the peer group. The applied beta factor for non-banks is 1.0 (except for stock exchanges with a beta factor of 0.81), which represents a specific parameter and no general market risk.

Based on the aforementioned assumptions, the fair value of the equity investments was calculated for the year under review in accordance with IFRS 13.

Transfers of Financial Instruments

Financial assets are derecognized as soon as the Group is no longer entitled to receive the financial rewards from the instruments. This generally occurs when the rights and obligations of the financial instruments pass to a third party by exercise, sale or assignment or if the Group has lost its right of disposal or the rights have lapsed.

When financial assets are transferred and BAWAG Group has significant continuing rights and obligations under

them, such assets are still reported on the Consolidated Statement of Financial Position.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled.

Repurchase agreements, also known as “repos” or “sale and repurchase agreements,” are contracts under which financial assets are transferred to a transferee (lender) in return for a cash payment while also specifying that the financial assets must later be transferred back to the transferor (borrower) for an amount of money agreed in advance. The financial assets transferred out by BAWAG Group under repurchase agreements remain on the Group’s Statement of Financial Position and are measured according to the rules applicable to the respective Statement of Financial Position item. The liabilities resulting from cash received under repo arrangements are recorded in liabilities held for trading or financial liabilities associated with transferred assets depending on the purpose of the contract.

Conversely, under agreements to resell (known as reverse repos), financial assets are acquired for a consideration while at the same time committing to their future resale.

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the loan. Securities lent to counterparties are accounted for in the same way as repos. They are retained in the Group’s financial statements and are measured in accordance with IFRS 9. Securities lending and borrowing transactions are generally collateralized. Collateral furnished by the securities borrower continues to be recorded in the borrower’s financial statements.

Intangible Non-Current Assets, Property, Plant and Equipment

Intangible non-current assets consist mainly of acquired goodwill and related intangible assets such as brand names and customer relationships as well as other acquired and self-developed intangible assets (in particular software) and projects recognized in accordance with IAS 38.

Intangible non-current assets with an indefinite useful life are recognized at cost less impairments. Brands are not

a mortized as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life if there are no legal, contractual, regulatory or other factors limiting that useful life. Intangible assets and property, plant and equipment with limited useful lives are recognized at cost less straight-line amortization or depreciation and impairments. Buildings are depreciated at an annual rate of between 2.0% and 4.4%, while other furniture and equipment is depreciated at annual rates between 5.0% and 100.0%. Purchased and self-produced software and other intangible assets and rights (other than goodwill and brand names) are amortized at annual rates between 3.5% and 100.0%. The high annual rates are due to Südwestbank, since depreciation of non-current assets is calculated using the remaining useful life starting with the closing date. Customer relationships are amortized over approximately 8–30 years (2018: approximately 8–33 years) using a linear amortization rate. The amortization method and period are reviewed annually according to IAS 38. For details, please refer to Note 18.

When circumstances change, the useful life is adjusted considering the remaining economic life.

Development costs for internally generated software are capitalized when the development is technically feasible, there is the intention to complete the software, economic benefits will be generated and costs incurred can be measured reliably. Expenses for pre-studies (research costs) are not capitalized.

Investment Properties

Investment properties include the real estate that meets the criteria for designation as investment property within the

meaning of IAS 40.5. These properties are primarily held to earn rental revenue. To a limited degree, the Group also uses some of these properties itself. However, because these portions cannot be sold separately and are insignificant for the purposes of IAS 40.10, the entirety of such properties is included in Investment properties.

Change of Valuation Method of Investment Properties

Land and buildings held for investment purposes (investment properties) were measured at cost (“cost model”) less straight-line depreciation for buildings and less impairments (IAS 40) so far. In accordance with the option provided by IAS 40 for investment properties, the fair value model was adopted in fiscal year 2019. The valuation method for the investment properties was changed because a valuation at fair value better reflects the economic purpose of the investment properties than a valuation at cost, namely the generation of rental income which impacts the fair value of the underlying investment properties. Therefore, the change of the valuation method results in a more accurate presentation of the assets as well as the profit and loss.

In the fair value model, investment properties are measured at fair value at the respective balance sheet date. The annual valuation result is recognized in other operating income for a appreciation or in other operating expenses for impairment.

The change of the valuation method results in the following adjustments for the balance sheet, the profit or loss statement and earnings per share in the financial year 2019:

Assets

in € million	31.12.2019
Investment properties	22
Tax assets for deferred taxes	0
Total assets	22

Liabilities and equity

<i>in € million</i>	31.12.2019
Tax liabilities for deferred taxes	5
Equity attributable to the owners of the parent (ex AT1 capital)	17
Total liabilities and equity	22

Consolidated Profit or Loss Statement

<i>in € million</i>	2019
Other operating income	16.2
Depreciation and amortization on tangible and intangible non-current assets	5.5
Profit before tax	21.7
Income taxes	(4.7)
Profit after tax	17.0

Earnings per share

	2019
Basic earnings per share (in €)	0.17
Diluted earnings per share (in €)	0.17

The change of the valuation method has only minor effects on the prior-year figures. Therefore, the prior-year figures were not adjusted.

For details, see Note 17.

Impairment Testing

The fair value of the brand names is calculated using a modified relief from royalty method (the Brand Equity Method). In order to derive the brand share that can be associated with the income before taxes of the relevant profit centers, both the brand relevance and the brand strength are taken into consideration. After having derived the brand-related income, the cash flows are discounted with the specific discount rate. The fair value of the brand name equals the present value of all brand-related cash flows.

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate (1.0%) thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make. The discount rate was estimated based on average equity returns in the sector and amounts to 8.57%.

In addition, intangible and tangible assets are tested at the reporting date to determine whether or not there is evidence that they are impaired. If there is evidence for impairment, the recoverable amount is calculated for the asset. This is the higher of the value in use or the net selling price. If the recoverable amount is lower than the carrying amount, an impairment loss in the amount of the difference is recognized according to IAS 36. Details regarding impairments and appreciations are provided in Note 8.

In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash-generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36.

IFRS 16 Leases

BAWAG Group has adopted the standard IFRS 16, which replaced the previous leases standard, IAS 17 Leases, as of 1 January 2019. Compared to the previous standard IAS 17, the distinction between operating leases and finance leases is removed for the purpose of lessee accounting. Instead, there is a single, on-balance sheet accounting model that is similar to finance lease accounting under IAS 17. The scope of IFRS 16 includes both, traditional leases

and rental agreements. In the following, leasing is therefore used as a synonym for rent.

One major effect for BAWAG Group as a lessee is therefore the additional recognition of assets and liabilities for operating lease contracts, which results in increased assets and liabilities. In addition, rental expenses, which so far have been recognized on a straight-line basis, are replaced by interest expenses for the lease liability and the depreciation of the right-of-use asset. In the Cash Flow Statement, payments for the interest portion are presented within cash flow from operating activities and payments for the principal portion of the lease liability are presented within cash flow from financing activities.

A lessor continues to recognize lease contracts under IFRS 16 in a manner similar to the requirements of IAS 17 – i.e. classifies leases as either finance or operating leases. The Bank has thus seen no major impact from the transition to IFRS 16.

Definition of a lease

At the inception of a contract, BAWAG Group assesses whether the contract is a lease according to IFRS 16. This is the case if the leased asset is an identified asset, the lessee substantially obtains all of the economic benefits from the use and the lessee has the right to control the asset.

The lease term starts at the commencement date of the lease contract, which is the date the lessor makes the underlying asset available for use by the lessee. It includes the non-cancellable period as well as periods where it is reasonably certain that the lessee exercises any extension option or does not exercise any termination option. BAWAG Group also considers all relevant circumstances that provide an economical incentive for the execution of such options. Examples are:

- ▶ importance of the leased asset for the Bank's business
- ▶ scope and costs of leasehold improvements
- ▶ costs of termination

A lessee considers all fixed, essentially fixed (i.e. variable but unavoidable) and variable lease payments depending on an index or rate. Other variable payments, such as those based on a percentage of sale or usage and maintenance costs, are not included, but recognized in profit or loss.

BAWAG Group as Lessor

A lease is classified as a finance lease if it substantially transfers all the risks and rewards incidental to ownership to the lessee. By contrast, leases that do not substantially transfer all of the risks and rewards to the lessee are classified as operating leases.

For finance leases, the rights of claims against the lessee are recognized in the amount of the present value of the contractually agreed payments, taking any residual value into account.

By contrast, operating leases in which BAWAG Group retains all risks and rewards incidental to ownership of the leased asset are reported under tangible non-current assets. Each leased asset is depreciated as appropriate.

Lease payments received for operating leases and interest payments for finance leases are recognized in the Profit or Loss Statement.

The operating leasing business is not material for BAWAG Group.

BAWAG Group as Lessee

At the commencement of a lease, a right-of-use asset as well as a lease liability are recognized. The lease liability is measured at the present value of the lease payments. For discounting lease payments for the majority of leasing contracts, BAWAG Group uses the incremental borrowing rate because the implicit interest rate cannot be determined. The incremental borrowing rate corresponds to the interest rate at which BAWAG Group can refinance itself on the market. It is assumed that the refinancing has a term and collateral comparable to that of the leasing contract. Since the share of leasing contracts not denominated in euros is insignificant, only refinancing in euros is considered. The right-of-use asset is recognized in the same amount as the corresponding lease liability, adjusted by initial direct costs.

For the subsequent measurement, the lease liability is increased by interest expense on the outstanding amount and reduced by lease payments made. The right-of-use asset is reduced by the accumulated depreciation on a straight-line basis.

BAWAG Group applies two recognition exemptions for lessees as permitted by the standard:

- ▶ short-term leases for contracts with a lease term of 12 months or less at the commencement date
- ▶ leases of low-value assets

In applying these exemptions, the lessee does not recognize the lease payments as a right-of-use asset and lease liability, but as rental expenses on a straight-line basis over the lease term in profit or loss.

Existing lease contracts are subject to a regular assessment for the purpose of considering significant events that have an impact on the lease payment or the lease term, e.g. an adjustment of the lease payments to a current index or rate. In such cases, the lease liability is re-measured to reflect the changes. Accordingly, the revised carrying amount is recognized either as an increase or decrease of the existing lease liability. The right-of-use asset is generally adjusted by the same amount.

Transition to IFRS 16 as of 1 January 2019

As of the effective date, BAWAG Group applied the practical expedient in IFRS 16.C3 to not reassess whether its existing contracts are or contain leases. Therefore, it applied IFRS 16 to all leases entered into before 1 January 2019 that were previously identified as leases in accordance with IAS 17.

The following table shows the reconciliation from the gross future minimum lease payments for operating lease agreements under IAS 17 disclosed in the Annual Report 2018 to the lease liability under IFRS 16 recognized on 1 January 2019. The remaining lease payments as of 31 December 2018 are discounted using the weighted average incremental borrowing rate of 1.12%.

in € million	01.01.2019
Gross future minimum operating lease payments under IAS 17	233.5
Short-term leases recognized as expense	(0.4)
Low-value leases recognized as expense	(0.2)
Commitments regarding leases not yet commenced	(1.3)
Not identified assets in accordance with IFRS 16	(2.5)
Gross future minimum operating lease payments under IFRS 16	229.1
Effect from reasonably certain extension or termination options	59.1
Gross lease liability as of 1 January 2019	288.2
Effect from discounting	(27.1)
Net lease liability as of 1 January 2019	261.1

The CET1 ratio (fully loaded) decreased from 14.51% under IAS 17 to 14.33% under IFRS 16. This effect mainly resulted from the increase of the risk-weighted assets due to the recognition of the right-of-use assets.

For transition, BAWAG Group decided to apply the modified retrospective approach and recognized the cumulative effect of initial application as of 1 January 2019. Hence, comparative information for years prior to initial application were not restated, but were disclosed according to IAS 17. At the effective date, the lease liability was measured as the present value of the remaining lease payments and the right-of-use asset was recognized in the same amount.

As of 1 January 2019, BAWAG Group elected to use the following practical exemptions for previously classified operating leases as permitted for transition under IFRS 16.C10:

- ▶ application of a single discount rate to lease contracts with similar characteristics
- ▶ short-term exemption for contracts where the remaining lease term ends within 12 months from the date of initial application
- ▶ exclusion of initial direct costs from the measurement of the right-of-use asset
- ▶ use of hindsight regarding the lease term if the contract contains extension or termination options

Leasing according to IAS 17 (until 31 December 2018)

A lease is classified as a finance lease if it substantially transfers all the risks and rewards incidental to ownership to the lessee. By contrast, leases that do not substantially transfer all of the risks and rewards to the lessee are

classified as operating leases. The details are provided in Note 46.

BAWAG Group as Lessor

For finance leases, the rights of claims against the lessee are recognized in the amount of the present value of the contractually agreed payments, taking any residual value into account.

By contrast, operating leases in which BAWAG Group retains all risks and rewards incidental to ownership of the leased asset are reported under tangible non-current assets. Each leased asset is depreciated as appropriate.

Lease payments received for operating leases and interest payments for finance leases are recognized in the Profit or Loss Statement.

The operating leasing business is not material for BAWAG Group.

BAWAG Group as Lessee

Expenditure on operating leases is recorded on a straight-line basis over the life of the lease agreement and reported under operating expenses.

Finance leases where BAWAG Group is a lessee are of minor significance.

Income Taxes and Deferred Taxes

According to IAS 12, income taxes must be computed and reported using the liability method. The computation is

based on the local tax rates that are legally binding at the time the consolidated financial statements are prepared.

Deferred tax assets and liabilities result from different methods used to measure assets and obligations on the Statement of Financial Position under IFRS and the respective tax code. This generally leads to positive or negative differences in the income tax to be paid for future periods (temporary differences). A deferred tax asset is recognized for the carryforward of unused tax losses when it is probable that future taxable profit will be generated by the same taxable unit. Deferred tax assets and liabilities are not discounted.

Tax expenses allocable to the taxable profit were recognized in the Profit or Loss Statement under Income taxes and broken down into current and deferred income taxes. Other taxes that are not attributable to profit are recognized under Other operating income and expenses.

According to IAS 12.34, a deferred tax asset is recognized for tax loss carryforwards if it is probable that future taxable profit will be available against which the unused tax losses can be utilized. As of 31 December 2019, unused tax losses amounted to € 125 million (2018: € 395 million) at the level of BAWAG Group AG, € 0 million (2018: € 5 million) at the level of BAWAG P.S.K. AG, € 31 million (2018: € 37 million) at the level of members of the tax group included in the consolidated financial statements and € 0 million (2018: € 0 million) at the level of other companies included in the consolidated financial statements, hence a total of € 156 million (2018: € 437 million). Tax goodwill amortization will contribute another € 76 million per year as tax-deductible expenses until 2021.

The utilizability of unused tax losses and deferred tax assets by BAWAG Group was tested on the basis of the Group's long-term plan (planning period: five years). The expected utilization of unused tax losses is projected to amount to € 156 million (2018: € 437 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately € 39 million (2018: € 109 million) are recognized within BAWAG Group. If the forecasted taxable results varied by 10% compared to management estimates, deferred tax assets would remain unchanged (2018: would remain unchanged) if results improve and would remain unchanged (2018: would remain unchanged) if forecasted results turn out to be lower than expected.

A subsidiary in Germany had tax loss carryforwards of € 99 million as of 31 December 2019, which are not expected to be utilized for tax purposes.

A tax group pursuant to section 9 KStG was parented by BAWAG Group AG in the financial year. On 31 December 2019, the tax group consisted of the group parent and 25 members, both consolidated and non-consolidated in these financial statements (2018: 24 members). Initially, a tax collection agreement was concluded. The allocation method was chosen for determining the tax allocations. This method is based on the tax result of the group as a whole.

In 2017, a tax compensation agreement effective 1 January 2018 was concluded between the group parent and each tax group member. The tax compensation payments shall be calculated using the standalone method. This method simulates that each group member is an independent taxpayer. Group members are obligated to make a tax compensation payment amounting to their taxable profit multiplied by the enacted tax rate. The compensation payment is independent from the taxable result of the group. An internal tax loss carryforward for tax losses transferred to the tax group parent is sustained and taken into account. As far as the tax group parent only has to pay the minimum corporate tax, no tax compensation payment will be charged. A final settlement for uncredited tax losses must be effected upon dissolution of the tax group or when a member entity leaves the group.

In addition, the new tax group and tax compensation agreement stipulates that the tax group parent abstains from subsequently charging tax compensation payments for periods prior to 1 January 2018. Internal tax loss carryforwards for periods prior to 1 January 2018 will be sustained.

As of 31 December 2019, the exit of BAWAG Group AG from the tax group and the exit of all other group members, with the exception of the new members in 2018 and 2019, would not result in a corporate income tax back payment as of 31 December 2019 because the minimum period of three years as required by section 9 paragraph 10 KStG was already fulfilled. The new group members who entered the tax group in 2018 and 2019 would incur a corporate income tax back payment in the amount of € 0 million (2018: € 4 million).

During the financial year 2019, Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH and tax group member

easybank AG were merged into BAWAG P.S.K. AG according to the principles of the Reorganisation Tax Act (UmgrStG).

In the course of the annual improvements to IFRS Standards 2015–2017 cycle, the IASB added clarifications to IAS 12 Income Taxes. The board clarified that all income tax consequences of dividends including payments on financial instruments classified as equity are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity. For this reason, BAWAG Group prospectively changed the presentation of the tax impact due to its dividend on its AT1 issue in the amount of €3.8 million from equity to profit or loss in 2019.

Provisions for Employee Benefits

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method. The present values of obligations outstanding as of the measurement date are calculated on the basis of actuarial assumptions applying an appropriate discount rate and taking into account the expected rates of increase in salaries and post-employment benefits. They are recognized as a provision in the Consolidated Statement of Financial Position. Actuarial gains and losses relating to provisions for post-employment and termination benefits are recognized in full in other comprehensive income in the year in which they are incurred.

The principal parameters underlying the actuarial calculations are:

Parameters for post-employment pension obligations

	2019	2018
Interest rate EUR	1.00% p.a.	1.70% p.a.
Interest rate CHF	0.25% p.a.	-
Wage growth	1.0%–2.0% p.a.	1.60%–2.0% p.a.
Fluctuation discount	0%–8.30% p.a. ¹⁾	0%–3.74% p.a.

Parameters for severance payments and anniversary bonuses

	2019	2018
Interest rate	1.00% p.a.	1.70% p.a.
Wage growth severance payments	3.10% p.a.	3.10% p.a.
Wage growth anniversary bonuses	1.20%–2.80% p.a.	1.60%–2.80% p.a.
Fluctuation discount severance payments	0%–0.34% p.a.	0%–0.34% p.a.
Fluctuation discount anniversary bonuses	0%–9.75% p.a. ¹⁾	0%–9.75% p.a. ²⁾
Retirement age	59–65 years ³⁾	60–65 years ³⁾

1) Südwesbank: 0%–25% p.a. in 2019

2) Südwesbank: 0%–100% p.a. in 2018

3) The earliest possible individual retirement age according to the legal requirements (excluding corridor pension) was assumed

The interest rate used in 2019 was changed from 1.70% in the previous year to 1.00%.

In 2018, the Actuarial Association of Austria reviewed the mortality tables to be used for determining pension, severance and anniversary benefit obligations and reissued them as "Pensionstafeln AVÖ 2018-P." BAWAG P.S.K. used the new mortality tables to calculate personnel provisions and recognized the resulting effect (increase in provisions) in December 2018.

Since 1 January 2018, no active staff members are entitled to post-employment benefits from the Group. The retired employees who are entitled to post-employment benefits from the Group were awarded these entitlements under the provisions of the 1961 pension reform or on the basis of individual commitments by the Group. All employees are entitled to pension benefits from a pension fund under the provisions of the collective bargaining agreement for pension funds (defined contribution plan).

The existing post-employment benefit plans in BAWAG Group are financed entirely through provisions because they are defined benefit obligations. The allocated assets disclosed by the pension fund set up for certain

beneficiaries are set off against the determined amounts of provisions for post-employment benefits.

These defined benefit plans expose BAWAG Group to actuarial risks such as interest rate risk and longevity risk.

The post-employment benefit rights of the majority of employees are defined contribution plans. The contributions that are made to these pension funds are recognized as expenses in the current period; there are no further obligations. Payments to pension funds for defined contribution plans amounted to € 8 million in 2019 (2018: € 8 million).

Other provisions for uncertain obligations to third parties are formed in accordance with the expected amount of the obligation. For details, see Note 27.

Share-Based Payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments (equity-settled and cash-settled transactions). Accounting is based on IFRS 2.

Equity-settled awards

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognized in employee benefits expense together with a corresponding increase in equity (other capital reserves) over the period in which the service and, where applicable, the performance conditions (not relevant for the current program) are fulfilled (the vesting period).

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award but without an associated service requirement are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as of the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Cash-settled awards

For cash-settled awards, IFRS 2 defines that the fair value of services received is based on the fair value of the liability. Unlike the grant date model for equity-settled awards for employees, the Group remeasures the fair value of the award at each reporting date and on settlement. The ultimate cost of a cash-settled award is the cash paid to the beneficiary, which is the fair value at settlement date. Until settlement, the cash-settled award is presented as a liability and not within equity. Changes in the measurement of the liability are reflected in the statement of profit or loss.

The effect of a market condition or a non-vesting condition is reflected in the estimation of the fair value of the cash-settled share-based payments both at the grant date and subsequently. Vesting conditions (other than market conditions) are not taken into account when estimating the fair value of cash-settled share-based payments. Instead, vesting conditions (other than market conditions) are taken into account in the measurement of the liability incurred by adjusting the number of awards that are expected to vest. Such an estimate is revised when the liability is remeasured at each reporting date and until the vesting date. On a cumulative basis, no expense is recognized if the awards granted do not vest because of failure to satisfy a vesting condition or a non-vesting condition.

If an employee is not required to provide a service, expense and liability are recognized immediately upon the grant date. If the employee is required to provide services over for a specified period, expense and liability are spread over the vesting period, while reconsidering the likelihood of achieving vesting conditions and remeasuring the fair value of the liability at the end of each reporting period.

Modifications from equity-settled to cash-settled

In case of modifications of a program from equity-settled to cash-settled share-based payment, a liability to settle in cash is recognized at the modification date based on the fair value of the shares at the modification date to the extent to which the specified services have been received.

If the amount of the liability recognized on the modification date is less than the amount previously recognized as an increase in equity, then no gain is recognized for the difference between the amount recognized to date in equity and the amount reclassified for the fair value of the liability;

that difference remains in equity. Subsequent to the modification, the Group continues to recognize the grant-date fair value of equity instruments granted as the cost of the share-based payment. Any subsequent remeasurement of the liability (from the date of modification until the settlement date) is recognized in profit or loss.

Contingent Liabilities and Unused Lines of Credit

For the most part, contingent liabilities are guarantees and unused lines of credit. Guarantees are used when subsidiaries of BAWAG Group guarantee payment to the creditor to fulfill the obligation of a third party. Unused lines of credit are commitments from which a credit risk may occur. Loan loss provisions for contingent liabilities and unused lines of credit are reported under provisions for anticipated losses on pending business. For details, see Note 43.

Equity

Equity is the capital provided by the Bank's owners (issued capital and capital reserves), AT1 capital and the capital generated by the Bank (retained earnings, reserves from currency translation, FVOCI reserve, cash flow hedge reserve, net-investment-hedge reserve, actuarial gains and losses, profit brought forward and the profit for the period). Details are provided in Note 30.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a framework for determining whether, how much and when revenue is recognized.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Accordingly, revenues coming from fees and commissions are recognized when control of goods and services is transferred and hence the contractual performance obligation to the customer has been satisfied.

BAWAG Group receives fee and commission income from various services provided to customers. These are presented in net commission income in the statement of profit or loss.

Fees and commissions for services performed over a certain period of time are collected over the period in which the service is performed. This includes commissions from lending and current account business, liability commissions and other management and custody fees. In cases where an associated financial instrument exists, fees that are an integral part of the effective interest rate of this financial instrument are reported as part of interest income.

Fees associated with providing a particular service or the occurrence of a certain event (transaction-related services) are recognized when the service has been provided in full or the significant event has occurred. Commissions from the performance of transaction-related services include securities transactions, the brokerage of insurance policies and building society savings contracts as well as foreign exchange transactions.

Expenses that are directly and incrementally related to the generation of commission income are shown under commission expenses.

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration received is allocated to the separately identifiable performance obligations in a contract. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts, performance bonuses and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

Note 3 shows a breakdown of commission income and expenses by business segment.

Description of P&L lines

Interest Income and Interest Expense

Interest income consists primarily of interest income from loans and receivables, fixed-income securities, variable-rate securities and assets held for trading. Furthermore, regular income from equity investments, shares as well as fees and commissions similar to interest income are shown in this item. Interest income and interest expense also include premiums and discounts on securities and loans using the effective interest rate method and the amortization of day-one profits. Also, the interest portion of interest-bearing derivatives, separated into income and expenses, is recognized in interest income and expense. Income from negative interest liabilities is also included.

Interest expense consists mainly of interest for liabilities to credit institutions and customers, issued bonds, subordinated capital and supplementary capital. Expenses from negative interest assets are also included.

Interest income and interest expense are recognized on an accrual basis

Details concerning the net interest income can be found in Note 2.

Fee and Commission Income and Expense

This item consists mainly of income from and expenses for payment transfers, securities and custody business, lending and payments to Österreichische Post AG for the use of its distribution network. Income and expenses are recognized on an accrual basis. For details, see Note 3.

Gains and Losses on Financial Assets and Liabilities

This item consists mainly of the valuation and sales gains or losses of the Group's investments, sales gains and losses from non-performing loans and issued securities, and the result from trading in securities and derivatives. Moreover,

hedging inefficiencies and foreign exchange differences are shown within this position. For details, see Note 4.

Other Operating Income and Expenses

The other operating result reflects all other income and expenses not directly attributable to ordinary activities, such as results on the sale of property. In addition, the other operating result encompasses expenses for other taxes and regulatory charges (bank levy, the contributions to the deposit guarantee scheme and to the bank resolution fund), income from the release of other provisions and the reimbursement of expenses to customers as well as consolidation results from business combinations and related expenses. The annual IAS 40 valuation result is recognized in other operating income for a appreciation or in other operating expenses for impairment. For details see Note 5.

Administrative Expenses

General administrative expenses represent personnel and other administrative expenses accrued in the reporting period. Details are explained in Note 6.

Risk Costs

This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances and for contingent liabilities bearing credit risk as well as changes in expected credit losses. Also reported in this item are direct write-offs of loans and advances as well as recoveries on written-off loans removed from the balance sheet. Furthermore, this line item includes all charges resulting from operational risk events.

In addition, this line item includes impairment losses or reversals of impairment losses on property and equipment and other intangible assets as well as impairment losses on goodwill and non-consolidated equity investments. For details, see Note 8.

Net Gains or Losses on Financial Instruments

Net gains or losses on financial instruments include fair value measurements recognized in the income statement, impairments, impairment reversals, gains realized on disposal and subsequent recoveries on written-down financial instruments classified in the respective IFRS 9 categories. The components are detailed for each IFRS 9 category in the notes on net interest income, gains and losses on financial assets and liabilities, and risk costs.

Latitude of Judgment and Uncertainty of Estimates

The consolidated financial statements include values that are determined on the basis of estimates and judgments as permitted. The estimates and judgments used are based on past experience and other factors, such as planning and expectations or forecasts of future events that are considered likely as far as we know today. The estimates and judgments themselves and the underlying estimation methods and judgment factors are reviewed regularly and compared with actual results.

The measurement of financial instruments and the related estimates in respect of measurement parameters, in particular the future development of interest rates, have a material effect on the results of operations. The parameter values applied by the Bank are derived largely from market conditions prevailing as of the reporting date.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently, calculation of fair value requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Details regarding valuation techniques and uncertainty of estimates regarding unobservable input factors are described in Note 1 Accounting policies and in Note 31 Fair value.

Assessments as to whether or not cash-generating units (CGUs) were unimpaired are based on planning calculations. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. Details on the impairment test and the analysis of uncertainties surrounding the estimation of goodwill are set out in Note 1 Accounting policies and Note

18 Goodwill, Brand names and customer relationships and Software and other intangible assets.

In determining the amount of deferred tax assets, the Group uses historical utilization possibilities of tax loss carryforwards and a multi-year forecast prepared by the management of the subsidiaries and the approved budget for the following year, including tax planning. The Group regularly re-evaluates its estimates related to deferred tax assets, including its assumptions about future profitability. Details regarding deferred taxes are set out in Note 1 Accounting policies and in Note 19 Net deferred tax assets and liabilities on Statement of Financial Position.

Pension obligations are measured based on the projected unit credit method for defined benefit pension plans. In measuring such obligations, assumptions have to be made regarding long-term trends for salaries, pensions and future mortality in particular. Changes in the underlying assumptions from year to year and divergences from the actual effects each year are reported under actuarial gains and losses (see Note 1 Accounting policies).

The following items are also subject to the judgment of management:

- ▶ assessments of the recoverability of long-term loans are based on assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to lending business
- ▶ recognition of provisions for uncertain liabilities
- ▶ assessments of legal risks from legal proceedings, supreme court rulings and inspections of regulatory authorities and the recognition of provisions regarding such risks
- ▶ assessment of the lease term applied for the standard IFRS 16 Leases
- ▶ IFRS 9: assessments regarding the transfer of financial instruments from stage 1 to stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans
- ▶ fair value calculation for unquoted financial instruments where some parameters required for the valuation model are not observables in the market (Level 3).

Latitude of Judgment and Uncertainty of Estimates – City of Linz

Uncertainties in estimations also apply to the claim of BAWAG Group against the City of Linz. On 12 February 2007, the City of Linz and BAWAG Group concluded a swap agreement. This transaction was intended by the City of Linz to optimize a CHF bond (please note that the party to the transaction and consequently the lawsuit is BAWAG P.S.K. AG, a subsidiary of BAWAG Group AG).

Because of the development of the Swiss franc exchange rate starting in the autumn of 2009, the City of Linz was obligated to make increased contractual payments to BAWAG Group. On 13 October 2011, the Linz City Council decided that it would make no more payments in connection with the swap agreement. Consequently, BAWAG Group exercised its right to close out the transaction.

The City of Linz filed a lawsuit against BAWAG Group at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling € 24.2 million at the exchange rate at that time), which corresponds to the net cash payments made by the City of Linz whilst performing the swap agreement. BAWAG Group filed a (counter) suit against the City of Linz for the fulfillment of its contractual entitlements from the same transaction in the amount of € 417.7 million, which mainly reflects close-out costs BAWAG Group incurred. The court combined the two suits. The first hearings were held in the spring of 2013 and a court commissioned expert opinion as well as a supplementary opinion thereto were submitted in August 2016 and December 2017. In the first half of 2019, several hearings took place during which witnesses testified and the court appointed experts answered questions on their expert opinion. On 8 April 2019, the City of Linz filed a motion for an interim judgment (Zwischenurteil) with respect to their CHF 30.6 million claim to determine whether the swap agreement is valid. The court which had previously revealed that it intends to review the validity of the swap agreement before dealing with the amount of the claim of the City of Linz and the counterclaim of BAWAG Group, responded to such motion with a separation of the previously combined two proceedings and suspended BAWAG Group's (counter) claim pending the outcome of a potential interim judgment. BAWAG Group responded to City of Linz' motion with a brief dated 4 June 2019. On 7 January 2020, the court issued an interim judgment

(Zwischenurteil) in which it held that the swap agreement is void. BAWAG Group announced to appeal this decision. The interim judgment is not a decision on the mutual payment claims of BAWAG Group and the City of Linz. Further, notwithstanding the interim decision of the court of first instance, ultimately the case will be decided by the Court of Appeal and the Supreme Court. BAWAG Group therefore takes the view that its strong legal position remains unchanged and is well prepared for the forthcoming court proceedings. It is difficult to assess how much longer the lawsuit is going to continue. However, based on experience it is assumed that the further legal proceedings until a final judgement is enforceable will take several years.

Future court decisions on the validity of the swap agreement may impact the recognition of the receivable asserted thereunder. In case the swap agreement is held void in the further court instances, BAWAG Group would have to de-recognize the receivable against City of Linz. A potential consequential damage claim resulting thereof would only be recognized after a final judgment has determined the amount awarded to BAWAG Group. In addition, even if the courts ultimately were to hold that the swap agreement is valid, BAWAG Group may still not be awarded, in full or in part, the payment sought, in which case it may also be required to further write down its receivable.

BAWAG Group has valued the transaction until termination according to the general principles (see Note 1 Accounting policies) and has adequately accounted for the risks associated with the claim arising from the swap agreement. In particular, management had to estimate the risks that are associated with the transaction, such as non-payment, legal, process and other operational risks and had to make judgements as part of the continuous valuation process; this resulted in a respective valuation adjustment.

After the termination of the transaction, the swap was derecognized and a receivable was recognized under Receivables from customers (classified under At a amortized cost - receivables from customers). In 2011, when derecognizing the swap, a credit value adjustment of € 164 million (equals around 40% of € 417.7 million) was set off against the gross receivable, thus a new receivable was recognized in the amount of approximately € 254 million.

Effects of Adopting Amended and New Standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2019 consolidated financial statements:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Impact on BAWAG Group
IFRS 16 Leases (issued on 13 January 2016)	1 January 2019	31 October 2017	For details, please see above
Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)	1 January 2019	22 March 2018	None
IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)	1 January 2019	23 October 2018	None
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	1 January 2019	8 February 2019	None
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	1 January 2019	13 March 2019	Immaterial
Annual Improvements to IFRS Standards 2015–2017 Cycle (issued on 12 December 2017)	1 January 2019	14 March 2019	For details, please see above

The following standards, amendments and interpretations to existing standards were approved by the International Accounting Standards Board (IASB) and endorsed by the EU but are not yet mandatory for the preparation of IFRS financial statements for the period ended 31 December 2019. BAWAG Group does not plan an early application of endorsed but not yet effective standards:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Expected impact on BAWAG Group
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1 January 2020	29 November 2019	Immaterial
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	1 January 2020	29 November 2019	Immaterial
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020	15 January 2020	Immaterial

The following standards and amendments approved by the International Accounting Standards Board (IASB) have not yet been endorsed by the European Union. BAWAG Group does not plan early application:

Standard/Interpretation/Amendment	Expected impact on BAWAG Group
IFRS 17 Insurance Contracts (issued on 18 May 2017)	None
Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)	Immaterial
Amendments to IAS 1: Classification of Liabilities as Current or Non-current (issued on 23 January 2020)	Immaterial

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

2 | Net interest income

in € million	2019	2018
Interest income	1,154.1	1,141.4
Financial assets at fair value through profit or loss	17.7	12.7
Financial assets at fair value through other comprehensive income	36.8	35.4
Financial assets held for trading	90.6	86.7
Financial assets at a mortized cost	856.5	835.0
Derivatives – Hedge accounting, interest rate risk	138.6	153.4
Interest income from financial liabilities	14.0	17.9
Other assets	(0.1)	0.3
Interest expense	(278.7)	(309.5)
Deposits at central banks	(12.6)	(10.2)
Financial liabilities designated at fair value through profit or loss	(16.7)	(30.0)
Financial liabilities held for trading	(45.9)	(55.8)
Financial liabilities measured at a mortized cost	(97.0)	(117.4)
Derivatives – Hedge accounting, interest rate risk	(91.3)	(80.8)
Provisions for social capital	(6.3)	(5.6)
Interest expense from IFRS 16 lease liabilities	(2.5)	–
Interest expense from financial assets	(6.4)	(9.7)
Dividend income	3.6	8.6
Financial assets designated at fair value through profit or loss	0.8	4.3
Financial assets at fair value through other comprehensive income	2.8	4.3
Net interest income	879.0	840.5

Interest income and similar income are recognized on an accrual basis. Interest income also includes premiums and discounts on securities classified as financial investments as well as premiums and discounts on acquired loan portfolios that are allocated in accordance with the accruals concept, among other items. Interest income on impaired receivables during 2019 amounted to € 5.5 million (2018: € 4.5 million). Interest income includes income from negative

interest of € 14.0 million (2018: € 17.9 million). Interest expense includes expenses from negative interest of € 19.0 million (2018: € 19.9 million). Interest income from financial assets at fair value through other comprehensive income and financial assets at a mortized cost is calculated using the effective interest method. Dividend income from financial assets at fair value through other comprehensive income is related to investments held at the end of the reporting period.

3 | Net fee and commission income

Net fee and commission income can be broken down by BAWAG Group's segments as follows. As of January 2019, certain changes in the business segment reporting were made to better reflect the developments and our progress in the individual business segments going forward. The prior year's figures have been adjusted accordingly:

Jan-Dec 2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	329.3	45.2	0.6	(0.4)	374.7
Payment transfers	220.2	31.1	–	–	251.3
Lending	29.6	4.2	–	–	33.8
Securities and custody business	47.3	4.7	0.3	(0.3)	52.0
Factoring	12.7	–	–	–	12.7
Other services	19.5	5.2	0.3	(0.1)	24.9
Fee and commission expense	(87.1)	(2.2)	(0.2)	(1.7)	(91.2)
Payment transfers	(69.9)	(0.2)	–	–	(70.1)
Lending	(7.0)	(0.9)	–	–	(7.9)
Securities and custody business	(2.8)	(0.7)	(0.1)	(1.7)	(5.3)
Factoring	–	–	–	–	–
Others	(7.4)	(0.4)	(0.1)	–	(7.9)
Net fee and commission income	242.2	43.0	0.4	(2.1)	283.5

Jan-Dec 2018 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	322.6	49.6	0.6	0.1	372.9
Payment transfers	221.1	30.8	–	–	251.9
Lending	29.3	4.7	–	–	34.0
Securities and custody business	55.1	3.2	0.6	–	58.9
Factoring	–	–	–	–	–
Other services	17.1	10.9	–	0.1	28.1
Fee and commission expense	(86.5)	(1.0)	–	(2.6)	(90.1)
Payment transfers	(64.8)	(0.1)	–	–	(64.9)
Lending	(4.7)	(0.8)	–	–	(5.5)
Securities and custody business	(3.4)	–	–	(2.5)	(5.9)
Factoring	–	–	–	–	–
Others	(13.6)	(0.1)	–	(0.1)	(13.8)
Net fee and commission income	236.1	48.6	0.6	(2.5)	282.8

Net fee and commission income includes an amount of € 2.6 million (2018: € 3.7 million) for fiduciary transactions. Income and expense from payment transfers and securities and custody business is recognized mainly

at a point in time. Income and expense from lending is recognized mainly over time. Other income and expense is recognized using a mix of point in time and over time.

4 | Gains and losses on financial assets and liabilities

in € million	2019	2018
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	107.3	46.9
Financial assets at fair value through other comprehensive income	10.3	28.3
Financial assets measured at a mortized cost	99.3	23.4
Financial liabilities measured at a mortized cost	(2.5)	(0.7)
Gain from the sale of subsidiaries and associates	0.4	0.1
Net gain or loss from modification	(0.2)	(2.1)
Other result	–	(2.1)
Gains (losses) on financial assets and liabilities held for trading, net	(53.8)	(37.6)
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	7.7	12.2
Gains (losses) from fair value hedge accounting	7.4	(0.4)
Fair value adjustment of hedged item	(189.8)	(41.9)
Fair value adjustment of hedging instrument	197.2	41.5
Exchange differences, net	2.1	(1.6)
Gains and losses on financial assets and liabilities	70.7	19.5

The item gains and losses on financial assets and liabilities was influenced primarily by the valuation and sale of the Group's investments, the valuation of issued securities,

sales gains and losses from non-performing loans and derivative transactions with customers.

5 | Other operating income and expenses

in € million	2019	2018
Other operating income	111.0	64.1
Income from investment properties	34.2	8.4
Consolidation result from business combinations	0.7	37.4
Lease objects maintenance costs charged to the lessees	55.8	3.8
Other income	20.3	14.5
Other operating expenses	(142.0)	(72.3)
Expenses relating to investment properties	(6.1)	(2.6)
Losses from the sale and derecognition of property, plant and equipment	(16.1)	(5.7)
Restructuring expenses relating to business combinations	(3.7)	(10.0)
Regulatory charges	(38.2)	(36.1)
One-time expenses for cancellation of cooperation agreement with Österreichische Post AG	–	(6.5)
Lease objects maintenance costs	(56.1)	(3.5)
Other expenses	(21.8)	(7.9)
Other operating income and expenses	(31.0)	(8.2)

For further details regarding the consolidation result from business combinations, please refer to Note 35. The line item Regulatory charges includes the bank levy and the contributions to the deposit guarantee scheme and to the bank resolution fund. The bank levy included in this item amounts to € 4.8 million for 2019 (2018: € 5.0 million). The remeasurement of the collateral portion regarding the bank resolution fund in the amount of € 0.0 million (2018: € 2.1 million) is recognized in gains and losses on financial assets and liabilities.

The increase in the line items Lease objects maintenance costs charged to the lessees and Lease objects maintenance costs can be attributed to the acquisition of BFL Leasing GmbH and Morgenstern Miet + Leasing GmbH in 2019.

Income from investment properties includes positive valuation results of € 14.1 million (2018: € 0.0 million) and rental income of € 20.1 million (2018: € 8.4 million).

Expenses relating to investment properties include operating costs of € 6.1 million (2018: € 2.6 million).

6 | Administrative expenses

in € million	2019	2018
Staff costs	(307.9)	(285.2)
Wages and salaries	(229.8)	(211.6)
Statutory social security contributions	(58.0)	(58.2)
Staff benefit costs	(0.3)	(0.8)
Increase/Release of pension provision and pension payments	(10.5)	(3.8)
Increase/Decrease of provision for severance payments	(4.1)	(4.6)
Increase/Decrease of provision for jubilee benefits	(3.2)	(4.3)
Staff benefit fund costs	(2.0)	(1.9)
Other administrative expenses	(152.7)	(192.0)
IT, data, communication	(58.7)	(59.5)
Real estate, utility, maintenance expenses	(16.8)	(41.3)
Advertising	(20.7)	(21.3)
Legal, consulting, outsourcing	(14.3)	(24.4)
Postage fees and logistics	(16.5)	(17.7)
Regulatory and audit fees	(12.5)	(12.7)
Other general expenses	(13.2)	(15.0)
Administrative expenses	(460.6)	(477.2)

In 2019, the line item Real estate, utility, maintenance expenses in other administrative expenses does not include rental payments in the amount of € 18.8 million since those

amounts are now presented as interest expense and depreciation of the right-of-use assets.

7 | Depreciation and amortization on tangible and intangible non-current assets

in € million	2019	2018
Depreciation and amortization		
Customer relationships	(9.1)	(8.7)
Software and other intangible assets	(33.5)	(25.1)
Property, plant and equipment	(30.6)	(10.9)
thereof depreciation of right-of-use assets	(17.9)	–
Depreciation and amortization	(73.2)	(44.7)

8 | Risk costs

in € million	2019	2018
Changes in provisions for financial assets at a mortized cost	(59.2)	(29.2)
Stage 1	8.9	23.0
Stage 2	14.8	17.3
Stage 3	(82.9)	(69.5)
Changes in provisions for off-balance credit risk	(7.6)	(15.5)
Stage 1	2.4	(7.9)
Stage 2	(0.4)	(0.5)
Stage 3	(9.6)	(7.1)
Changes in provisions for financial assets at fair value through other comprehensive income	1.3	2.3
Stage 1	1.3	2.3
Provisions and expenses for operational risk	(4.3)	(2.2)
Provisions – other	0.5	(0.5)
Risk costs	(69.3)	(45.1)

9 | Share of the profit or loss of associates accounted for using the equity method

The profit reported for 2019 of € 5.2 million (2018: profit of € 5.1 million) contains the proportionate shares in BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH.

The unrecognized share of the losses of entities that were accounted for using the equity method according to IFRS 12.22 (c) came to € 0.0 million (2018: € 0.0 million).

The following table shows key financial indicators for the Group's associates accounted for using the equity method:

Associates accounted for using the equity method

in € million	2019	2018
Cumulated assets	2,425	2,379
Cumulated liabilities	2,282	2,243
Cumulated equity	144	136
Earned premiums (gross)	210	211
Fee and commission income	206	198
Cumulated net profit	16	17

The associates accounted for using the equity method are BAWAG P.S.K. Versicherung Aktiengesellschaft (stake of 25.00%) and PSA Payment Services Austria GmbH (stake

of 20.82%). For further details, please refer to Note 34 Related parties.

10 | Income taxes

in € million	2019	2018
Current tax expense/income	(41.2)	(16.1)
Deferred tax expense	(103.8)	(120.1)
Income taxes	(145.0)	(136.2)

The following reconciliation shows the relationship between computed tax expenses and reported tax expenses:

in € million	2019	2018
Profit before tax	604.3	572.7
Tax rate	25%	25%
Computed tax expenses	(151.1)	(143.2)
Reductions in tax		
Due to tax-exempt income from equity investments	0.4	1.2
Due to tax goodwill amortization	18.9	19.9
Due to first-time consolidation	1.5	10.5
Due to other tax-exempt income	4.2	–
Due to use of tax loss carryforwards of the tax group parent	2.5	–
Due to other tax effects	2.2	1.8
Increases in tax		
Due to gains and losses from the valuation of equity investments	(1.9)	(2.8)
Due to unrecognized deferred taxes on tax loss carryforwards	(3.4)	(3.4)
Due to valuation of deferred taxes on tax loss carryforwards	(4.5)	–
Due to non-tax deductible expenses	(9.9)	(15.5)
Due to differing foreign tax rates	(0.2)	(3.3)
Due to other tax effects	(1.6)	(2.6)
Income tax in the period	(142.9)	(137.4)
Out-of-period income tax	(2.1)	1.2
Reported income tax (expense)	(145.0)	(136.2)

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as-yet-unused tax losses in the amount of € 39 million (2018: € 109 million). The tax losses can be carried forward for an unlimited period.

As of 31 December 2019, unused tax losses amounted to € 125 million (2018: € 395 million) at the level of BAWAG Group AG, € 0 million (2018: € 5 million) at the level of

BAWAG P.S.K. AG, € 31 million (2018: € 37 million) at the level of members of the tax group included in the consolidated financial statements and € 0 million (2018: € 0 million) at the level of other companies included in the consolidated financial statements, for a total of € 156 million (2018: € 437 million). Tax goodwill amortization will contribute another € 76 million per year as tax-deductible expenses until 2021.

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11 | Cash reserves

<i>in € million</i>	31.12.2019	31.12.2018
Cash on hand	564	477
Balances at central banks	860	592
Cash reserves	1,424	1,069

12 | Financial assets at fair value through profit or loss

<i>in € million</i>	31.12.2019	31.12.2018
Financial assets designated at fair value through profit or loss	100	114
Receivables from customers	100	114
Financial assets mandatorily at fair value through profit or loss	640	390
Bonds and other fixed-income securities	325	169
Receivables from customers	239	176
Subsidiaries and other equity investments	76	45
Financial assets at fair value through profit or loss	740	504

The category Financial assets designated at fair value through profit or loss contains all financial instruments that are carried at their fair value through profit or loss because the fair value option defined in IFRS 9 has been exercised

for them. Further information on the fair value option can be found in Note 1. The maximum credit risk of loans and advances to customers equals book value.

13 | Financial assets at fair value through other comprehensive income

in € million	31.12.2019	31.12.2018
Debt instruments	3,425	2,804
Bonds and other fixed-income securities	3,425	2,804
Bonds of other issuers	3,263	2,704
Public sector debt instruments	162	100
Subsidiaries and other equity investments	206	235
AT1 capital	126	145
Investments in non-consolidated subsidiaries	8	14
Interests in associates	11	16
Other shareholdings	61	60
Financial assets at fair value through other comprehensive income	3,631	3,039

In 2019, 12-month ECL Stage 1 for financial assets at fair value through other comprehensive income was reversed in the amount of € 1.7 million (2018: € 3.8 million

recognized) and lifetime ECL Stage 2 was recognized in the amount of € 0.4 million (2018: € 0.0 million).

Reclassification of debt instruments

BAWAG Group found that for the ongoing management of the NIB book (the NIB book is intended to hedge the interest rate risk resulting from the net non-interest bearing position, i.e. non-interest bearing assets such as participations and non-interest bearing liabilities and equity), given its intention to serve as interest rate risk management measure, a more appropriate set-up would be to define the business strategies based on maturity buckets.

BAWAG Group therefore restructured the NIB book by designating existing and future new investments to the new time bucket-based business strategies.

As part of this restructuring, BAWAG Group wanted to selectively dispose of positions assigned to the NIB book based on a credit view/interest rate risk management perspective.

Faced with the unexpected and unprecedented drop in interest rates witnessed in the third quarter of 2019, BAWAG Group took decisions to reduce the exposure to interest rates. These decisions included further disposals from the NIB book as well as the temporary suspension of the hedging of replicated sight deposits, for example.

BAWAG Group also wanted to further upgrade the quality of the LCR buffer, by moving from covered bonds into central bank reserves.

BAWAG Group views the historic interest rate lows as exceptional one-off circumstances and continues to view the NIB book as a hold-to-collect business strategy.

The change in the management of NIB book securities is significant to the operations of BAWAG Group. Changes in the internal management of large parts of the securities in the NIB book and more prudent external requirements for liquidity reserves have led to a material change in the business model of certain portfolios of the Bank.

BAWAG Group has analyzed all securities portfolios and determined that the business model for portfolios with significant sales in 2019 has changed. Management intends to sell further securities of the relevant portfolios and therefore no longer has the intention to hold the assets to collect principal and interest.

Therefore, the relevant securities were reclassified from hold-to-collect (a mortized cost) to hold-to-collect and sell (at fair value through other comprehensive income) in December 2019. Portfolios where no sales have occurred and where the intention to hold the assets until maturity has not changed remain in hold-to-collect.

in € million	To fair value through other comprehensive income
From a amortized cost	722

14 | Financial assets held for trading

in € million	31.12.2019	31.12.2018
Derivatives in trading book	–	118
Foreign currency derivatives	–	–
Interest rate derivatives	–	118
Derivatives in banking book	353	233
Foreign currency derivatives	11	11
Interest rate derivatives	342	222
Financial assets held for trading	353	351

15 | At amortized cost

The following breakdown depicts the composition of the item At a mortized cost of the Group.

31.12.2019 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	30,690	(30)	(16)	(177)	30,467
Securities	1,371	(2)	0	0	1,369
Public sector debt instruments	38	0	–	–	38
Debt instruments of other issuers	1,333	(2)	0	–	1,331
Receivables from credit institutions	5,720	0	0	–	5,720
Total	37,781	(32)	(16)	(177)	37,556

31.12.2018 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	30,747	(38)	(32)	(195)	30,482
Securities	3,515	(1)	(2)	0	3,512
Public sector debt instruments	487	–	–	–	487
Debt instruments of other issuers	3,028	(1)	(2)	–	3,025
Receivables from credit institutions	4,340	0	0	–	4,340
Total	38,602	(39)	(34)	(195)	38,334

The following table depicts the breakdown of receivables from customers by credit type:

in € million	31.12.2019	31.12.2018
Loans	26,954	27,500
Current accounts	1,466	1,454
Finance leases	1,744	1,173
Cash advances	160	268
Money market	143	87
Receivables from customers	30,467	30,482

Financial instruments that have been modified but not derecognized during the reporting period and that have been allocated to stage 2 or stage 3 at the time of modification:

31.12.2019 in € million	Lifetime-ECL – not impaired	Lifetime-ECL – impaired	Purchased/ originated credit impaired
Amortized cost before modification in the current reporting period	153	3	–
Net gain or loss from modification	0	–	–

31.12.2018 in € million	Lifetime-ECL – not impaired	Lifetime-ECL – impaired	Purchased/ originated credit impaired
Amortized cost before modification in the current reporting period	207	–	–
Net gain or loss from modification	0	–	–

Modified financial assets whose risk provision was allocated to stage 2 or stage 3 at the time of modification and that have been reallocated to stage 1 during the reporting

period had a gross book value as of 31 December 2019 of € 88 million (2018: € 84 million).

The following breakdown depicts the composition of the item At a mortized cost according to the Group's segments. As of January 2019, certain changes in the business segment reporting were made to better reflect the developments and our progress in the individual business segments going forward. The prior year's figures have been adjusted accordingly.

31.12.2019 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	17,903	(15)	(9)	(135)	17,744
Corporates & Public	12,737	(15)	(7)	(42)	12,673
Treasury	5,985	(2)	0	0	5,983
Corporate Center	1,156	0	0	0	1,156
Total	37,781	(32)	(16)	(177)	37,556

31.12.2018 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	16,779	(15)	(11)	(129)	16,624
Corporates & Public	13,914	(23)	(20)	(58)	13,813
Treasury	7,178	(1)	(2)	0	7,175
Corporate Center	731	0	(1)	(8)	722
Total	38,602	(39)	(34)	(195)	38,334

16 | Asset maturities

The following table contains a breakdown of financial assets (excluding subsidiaries and other equity investments and derivatives) by remaining period to maturity.

Financial assets – breakdown by remaining period to maturity 2019

31.12.2019 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	4	8	37	51	100
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	0	5	13	111	110	239
Bonds and other fixed-income securities	–	4	0	289	32	325
Financial assets at fair value through other comprehensive income						
Bonds and other fixed-income securities	–	–	190	2,140	1,095	3,425
At a mortized cost						
Receivables from customers	1,553	1,285	2,002	11,709	13,918	30,467
Receivables from credit institutions	1,501	4,095	10	7	107	5,720
Bonds and other fixed-income securities	0	51	34	80	1,204	1,369
Total	3,054	5,444	2,257	14,373	16,517	41,645

Financial assets – breakdown by remaining period to maturity 2018

31.12.2018 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	4	11	41	58	114
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	4	5	13	59	95	176
Bonds and other fixed-income securities	–	10	11	73	75	169
Financial assets at fair value through other comprehensive income						
Bonds and other fixed-income securities	–	118	132	1,702	852	2,804
At amortized cost						
Receivables from customers	1,699	1,243	1,941	10,839	14,760	30,482
Receivables from credit institutions	612	3,596	11	6	115	4,340
Bonds and other fixed-income securities	–	145	129	994	2,244	3,512
Total	2,315	5,121	2,248	13,714	18,199	41,597

17 | Property, plant and equipment, Investment properties**Changes in property, plant and equipment and investment properties 2019**

in € million	Carrying amount 31.12.2018	Acquisition cost 01.01.2019	Change in scope of con- solidation Acquisition cost	Change in foreign exchange differences	Additions	Disposals	Re- allocations	Write- downs cumulative	Fair Value valuation in accordance with IAS 40	Carrying amount 31.12.2019	Depreciat- ion (-), impairment s (-) and reversal of impairment s (+) Financial year
Property, plant and equipment	116	506	10	–	66	(35)	14	(165)	–	396	(36)
Land and buildings used by the enterprise for its own operations	64	77	0	0	0	(4)	14	(29)	–	58	(1)
Office furniture and equipment	35	155	2	0	47	(21)	16	(113)	–	86	(12)
Plant under construction	17	17	–	–	3	0	(16)	–	–	4	–
Right-of-use assets IFRS 16	–	257	8	0	16	(10)	–	(23)	–	248	(23)
Investment properties	118	142	181	5	1	(18)	(14)	–	14	311	–

Changes in property, plant and equipment and investment properties 2018

	Carrying amount 31.12.2017	Acquisition cost 01.01.2018	Change in scope of consolidation Acquisition cost	Change in foreign exchange differences	Additions	Disposals	Re-allocations	Write-downs cumulative	Fair Value valuation in accordance with IAS 40	Carrying amount 31.12.2018	Depreciation (-), impairment (-) and reversal of impairments (+) Financial year
in € million											
Property, plant and equipment	103	233	–	–	24	(8)	–	(133)	–	116	(9)
Land and buildings used by the enterprise for its own operations	65	76	–	–	1	–	–	(13)	–	64	(1)
Office furniture and equipment	38	157	–	–	6	(8)	–	(120)	–	35	(8)
Plant under construction	–	–	–	–	17	–	–	–	–	17	–
Investment properties	120	142	–	–	–	–	–	(24)	–	118	(3)

18 | Goodwill, brand names and customer relationships and Software and other intangible assets

The brand name “BAWAG P.S.K.” with a book value of € 114 million (2018: € 114 million), customer relationships of Group companies with a total book value of € 148 million (2018: € 147 million) and software and other intangible assets with a total book value of € 201 million (2018: € 182 million) are the Bank’s most important intangible non-

current assets. The book value of the majority of customer relationships is amortized according to the churn rate of the customers. Of the total carrying amount for other intangible non-current assets, a substantial part can be attributed to Allegro (BAWAG Group’s core banking system).

Changes in Goodwill, Software and other intangible assets 2019

	Carrying amount 31.12.2018	Acquisition cost 01.01.2019	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2019	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
in € million									
Goodwill	59	624	-	35	0	-	(565)	94	-
Brand name and customer relationships	264	456	-	19	-	-	(201)	274	(9)
Software and other intangible assets	182	533	6	60	(20)	-	(378)	201	(34)
Software and other intangible non-current assets	157	493	2	55	(19)	24	(363)	192	(34)
Thereof purchased	111	445	2	37	(18)	16	(352)	130	(24)
Thereof internally generated	46	48	0	18	(1)	8	(11)	62	(10)
Intangible non-current assets in development	25	25	4	5	(1)	(24)	-	9	-
Thereof purchased	17	17	-	3	(1)	(16)	-	3	-
Thereof internally generated	8	8	4	2	-	(8)	-	6	-
Rights and compensation payments	-	15	-	-	-	-	(15)	-	-

Changes in Goodwill, Software and other intangible assets 2018

in € million	Carrying amount 31.12.2017	Acquisition cost 01.01.2018	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2018	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	59	624	–	–	–	–	(565)	59	–
Brand name and customer relationships	272	456	–	–	–	–	(192)	264	(8)
Software and other intangible assets	157	485	–	55	(7)	–	(351)	182	(25)
Software and other intangible non-current assets	126	439	–	35	(3)	22	(336)	157	(25)
Thereof purchased	103	410	–	24	(3)	14	(334)	111	(18)
Thereof internally generated	23	29	–	11	–	8	(2)	46	(7)
Intangible non-current assets in development	31	31	–	20	(4)	(22)	–	25	–
Thereof purchased	20	20	–	13	(2)	(14)	–	17	–
Thereof internally generated	11	11	–	7	(2)	(8)	–	8	–
Rights and compensation payments	–	15	–	–	–	–	(15)	–	–

The following table shows the material intangible assets with their respective book value and their remaining useful life:

Intangible assets	Book value as of 31.12.2019 in € million	Remaining useful life	Book value as of 31.12.2018 in € million
Total goodwill	94		59
thereof: goodwill easybank franchise	59	Indefinite	59
thereof: goodwill Zahnärztekasse	20	Indefinite	–
thereof: goodwill Health Coevo	15	Indefinite	–
Total brand names	126		117
thereof: brand name BAWAG P.S.K.	114	Indefinite	114
Total customer relationships	148		147
thereof: customer relationships BAWAG P.S.K.	104	11–20 years	110
Total other intangibles	201		182
thereof: core banking system for Austrian operations (Allegro)	44	14 years	44

Brand names have an indefinite useful life and are therefore tested for impairment at the end of each financial year based on the current business plan.

If the carrying amount of the brand name is higher than the recoverable amount (BAWAG Group uses the brand's value in use as its recoverable amount), an impairment loss will

be recognized. The recoverable amount is calculated using a modified relief from royalty method.

A reversal of an impairment loss is recognized in profit or loss, a process in which BAWAG Group applies a two-step approach:

- ▶ First, BAWAG Group assesses a reversal of impairment at the individual asset level; and
- ▶ Then compares the revised carrying amount of the relevant CGUs, including the increase as a result of the reversal of impairment in step 1, to its recoverable amount.

A reversal of the impairment is only recognized if the impairment test of the total CGUs shows a value that is higher than the net assets and the individual impairment tests of the brand names show a recoverable amount higher than the book value of the brand names.

As of 31 December 2019 and 31 December 2018, the individual impairment tests for the brand names indicated no impairment requirement.

Cash flow projections are based on the five-year business plan and a 1% growth rate of cash flows after this period. The discount rate was set at 8.57% (2018: 8.03%).

Impairment testing for cash-generating units with goodwill

For the purposes of impairment testing, goodwill is assigned to the following cash-generating units (CGU) as follows:

in € million	31.12.2019	31.12.2018
easybank franchise, Vienna	59	59
Zahnärztekasse AG, Wädenswil	20	–
Health Coevo AG, Hamburg	15	–
Goodwill	94	59

The material assumptions made in estimating the recoverable amount are explained below. Material assumptions are based on assessments of future

developments in the relevant sectors and are based on information obtained from external and internal sources.

in %	2019	2018
Pre-tax discount rate easybank franchise, Vienna	11.2%	10.5%
Pre-tax discount rate Zahnärztekasse AG, Wädenswil	10.7%	–
Pre-tax discount rate Health Coevo AG, Hamburg	10.8%	–
Planned profit growth rate (average for the next five years) easybank franchise, Vienna	(2.7)%	1.0%
Planned profit growth rate (average for the next five years) Zahnärztekasse AG, Wädenswil	0.1%	–
Planned profit growth rate (average for the next five years) Health Coevo AG, Hamburg	5.6%	–
Sustainable growth rate easybank franchise, Vienna	1.0%	1.0%
Sustainable growth rate Zahnärztekasse AG, Wädenswil	0.5%	–
Sustainable growth rate Health Coevo AG, Hamburg	1.0%	–

The discount rate is before taxes and was estimated based on average equity returns in the sector. The risk-free interest rate used is the yield on government bonds with a remaining term to maturity of 30 years published by the German central bank. This discount rate is adjusted by applying a risk premium that reflects the higher general risk associated with an equity investment and the specific risk of the individual cash-generating unit.

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make. In order to keep growth properly equity backed, profit retentions have been considered in the valuation, both in the planned period and in the calculation of the continuing value.

Sensitivity analysis as of 31.12.2019

A sensitivity analysis was used to test the robustness of the impairment test for goodwill, which was based on the assumptions outlined above. A change in the discount rate and a change in growth were chosen as the relevant parameters. The table below shows to what extent an

increase in the discount rate or a decline in growth after 2020 could occur without the fair value of the cash-generating unit falling below the carrying value (equity plus goodwill).

	Change in discount rate (in percentage pts)	Change in growth after 2020 (in %)
easybank franchise, Vienna	3.36	(2.33)%
Zahnärztekasse AG, Wädenswil	5.66	(14.30)%
Health Coevo AG, Hamburg	7.09	(15.79)%

Sensitivity analysis as of 31.12.2018

	Change in discount rate (in percentage pts)	Change in growth after 2019 (in %)
easybank franchise, Vienna	4.39	(3.05)%

19 | Net deferred tax assets and liabilities on Statement of Financial Position

The deferred tax assets and liabilities reported on the Statement of Financial Position are the result of temporary differences between the carrying amounts pursuant to IFRS and the valuations of the following items according to the tax requirements:

in € million	31.12.2019	31.12.2018
Financial liabilities designated at fair value through profit or loss	30	35
Financial liabilities at a mortized cost	168	117
Provisions	57	56
Tax loss carryforwards	39	109
Other	5	4
Deferred tax assets	299	321
Financial assets at fair value through profit or loss	10	12
Financial assets at fair value through other comprehensive income	25	7
Financial assets at a mortized cost	53	58
Assets held for trading	33	19
Hedging derivatives	129	79
Internally generated intangible assets	16	3
Other intangible assets	69	75
Property, plant and equipment	10	3
Deferred tax liabilities	345	256
Net deferred tax assets/liabilities	(46)	65
Deferred tax assets reported on the balance sheet¹⁾	8	76
Deferred tax liabilities reported on the balance sheet²⁾	54	11

1) 2019: Representing deferred tax assets of three companies that were not part of the tax group as of 31 December 2019.

2) 2018: Representing deferred tax liabilities of four newly acquired companies that were not part of the tax group as of 31 December 2018.

For each Group member, the deferred tax assets and liabilities pertaining to the same local tax authority were offset against each other and reported under Tax assets or Tax liabilities.

Temporary differences for which no deferred tax liabilities were recognized, as permitted by IAS 12.39, came to € 704 million (2018: € 437 million). IAS 12.39 stipulates that in the case of temporary differences associated with

investments in subsidiaries, deferred tax liabilities do not have to be recognized if the parent is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will be reversed in the foreseeable future.

Deferred tax assets and deferred tax liabilities have a remaining maturity of more than one year.

20 | Other assets

in € million	31.12.2019	31.12.2018
Accruals	37	23
Other items	172	102
Other assets	209	125

The other items include accounts relating to payment and miscellaneous other assets. As of 31 December 2019, other

assets in the amount of € 46 million (31 December 2018: € 27 million) have a maturity of more than one year.

21 | Financial liabilities designated at fair value through profit or loss

in € million	31.12.2019	31.12.2018
Issued bonds, subordinated and supplementary capital	363	570
Issued debt securities and other securitized liabilities	26	57
Subordinated capital	130	131
Short-term notes and non-listed private placements	207	382
Deposits from customers	6	6
Financial liabilities designated at fair value through profit or loss	369	576

The Issued bonds are listed issues. The decrease compared to the previous year was mainly driven by redemptions of own issues.

The carrying amount of the securities issued by BAWAG Group and recognized at their fair value as of 31 December 2019 was € 30 million above their repayment amount (2018: € 38 million above the repayment amount).

Financial liabilities designated at fair value through profit or loss include issues of the former P.S.K. that are guaranteed by the Republic of Austria.

22 | Financial liabilities held for trading

in € million	31.12.2019	31.12.2018
Derivatives trading book	–	51
Foreign currency derivatives	–	–
Interest rate derivatives	–	51
Derivatives banking book	334	250
Foreign currency derivatives	99	88
Interest rate derivatives	235	162
Financial liabilities held for trading	334	301

23 | Financial liabilities measured at amortized cost

in € million	31.12.2019	31.12.2018
Deposits from credit institutions	3,085	4,281
Deposits from customers	30,378	30,195
Savings deposits – fixed interest rates	713	882
Savings deposits – variable interest rates	6,488	6,988
Deposit accounts	5,905	5,758
Current accounts – Retail	10,212	9,375
Current accounts – Corporates	4,020	3,993
Other deposits ¹⁾	3,040	3,199
Issued bonds, subordinated and supplementary capital	5,080	3,849
Issued debt securities	4,220	3,381
Subordinated capital	87	87
Supplementary capital	413	15
Other obligations evidenced by paper	360	366
Financial liabilities at amortized cost	38,543	38,325

1) Primarily time deposits

The issued bonds are mainly listed securities.

24 | Issued bonds, subordinated and supplementary capital

Issued bonds, subordinated and supplementary capital are shown in the category Financial liabilities designated at fair value through profit or loss and in the category Financial

liabilities measured at a mortized cost. The total volume amounts to (IFRS book values):

in € million	Recognized at fair value		Recognized at a mortized cost		Total	
	2019	2018	2019	2018	2019	2018
Issued bonds (own issues)	26	57	4,220	3,381	4,246	3,438
Subordinated capital	130	131	87	87	217	218
Supplementary capital	–	–	413	15	413	15
Short-term notes and unlisted private placements	207	382	360	366	567	748
Total	363	570	5,080	3,849	5,443	4,419

The following table shows the main conditions of issued bonds exceeding a nominal value of € 200 million:

ISIN	Type	Currency	Nominal value in € million	Type of interest payment	Coupon	Maturity date
XS1514988689	RMBS	GBP	787	Variable	3M LIBOR + 0.7%	15.09.2045
XS1298418184	Covered	EUR	500	Fixed	0.375%	01.10.2020
XS1369268534	Covered	EUR	500	Fixed	0.375%	23.02.2022
XS1551294926	Covered	EUR	500	Fixed	0.750%	18.01.2027
XS2013520023	Covered	EUR	500	Fixed	0.625%	19.06.2034
XS2049584084	Senior unsecured	EUR	500	Fixed	0.375%	03.09.2027
XS2058855441	Covered	EUR	500	Fixed	0.010%	02.10.2029
XS1968814332	Lower Tier II	EUR	400	Fixed until 25 April 2024, then variable	Fixed: 2.375% variable: 2.30% + EUR 5y swap rate	26.03.2029
XS0987169637	Lower Tier II	EUR	300 ¹⁾	Fixed	8.125%	30.10.2023

1) Thereof € 268 million bought back.

25 | Deposits from customers

The following table depicts the breakdown of deposits from customers by product class and segments.

Deposits from customers – breakdown by product class and segments

in € million	At amortized cost	
	31.12.2019	31.12.2018
Savings deposits	7,202	7,870
Retail & SME	7,197	7,864
Corporates & Public	3	4
Corporate Center	2	2
Other deposits	23,176	22,325
Retail & SME	16,518	16,340
Corporates & Public	5,243	5,921
Treasury	911	23
Corporate Center	504	41
Deposits from customers	30,378	30,195

26 | Liabilities maturities

The following tables depict a breakdown of the financial liabilities (excluding derivatives) by legal maturity.

Financial liabilities – breakdown by remaining period to maturity 2019

31.12.2019 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	–	–	–	6	6
Bonds	–	–	7	9	10	26
Subordinated capital	–	–	16	96	18	130
Short-term notes and non-listed private placements	–	1	2	179	25	207
Liabilities at amortized cost						
Deposits from customers	25,588	240	2,336	1,632	582	30,378
Deposits from credit institutions	462	458	263	652	1,250	3,085
Bonds	–	–	500	673	2,272	3,445
Subordinated capital	–	–	25	62	–	87
Supplementary capital	–	–	–	–	413	413
Short-term notes and non-listed private placements	–	100	74	323	638	1,135
Total	26,050	799	3,223	3,626	5,214	38,912

Financial liabilities – breakdown by remaining period to maturity 2018

31.12.2018 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	–	–	–	6	6
Bonds	–	15	15	12	15	57
Subordinated capital	–	–	–	98	33	131
Short-term notes and non-listed private placements	–	27	141	168	46	382
Liabilities at amortized cost						
Deposits from customers	24,161	693	2,511	1,811	1,019	30,195
Deposits from credit institutions	325	507	256	1,835	1,358	4,281
Bonds	–	20	516	1,164	840	2,540
Subordinated capital	–	–	–	87	–	87
Supplementary capital	–	5	10	–	–	15
Short-term notes and non-listed private placements	–	11	56	407	733	1,207
Total	24,486	1,278	3,505	5,582	4,050	38,901

27 | Provisions

in € million	31.12.2019	31.12.2018
Provisions for social capital	396	382
Thereof for severance payments	95	93
Thereof for pension provisions	268	257
Thereof for jubilee benefits	33	32
Anticipated losses from pending business	37	33
Credit promises and guarantees	37	33
Other items including legal risks	47	50
Provisions	480	465

Provisions for social capital are long-term liabilities. Provisions for anticipated losses from pending business in the amount of € 37 million and other risks including legal

risks in the amount of € 24 million are expected to be used after more than 12 months.

Changes in social capital

<i>in € million</i>	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2019	263	93	32	388
Service cost	1	4	1	6
Interest cost	4	1	1	6
Actuarial gain/loss				
from demographic assumptions	–	–	–	–
from financial assumptions	23	7	2	32
due to other reasons, mainly experience results	1	(1)	–	–
Gain from settlements	(2)	–	–	(2)
Other				
Payments	(16)	(9)	(3)	(28)
Payments from settlements	(4)	–	–	(4)
Change in scope of consolidation	12	–	–	12
Defined benefit obligation as of 31.12.2019	282	95	33	410
Fair value of plan assets	(14)	–	–	(14)
Provision as of 31.12.2019	268	95	33	396

<i>in € million</i>	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2018	256	96	29	381
Service cost	1	5	2	8
Interest cost	4	2	–	6
Actuarial gain/loss				
from demographic assumptions	8	(1)	4	11
from financial assumptions	–	(1)	(1)	(2)
due to other reasons, mainly experience results	3	(2)	–	1
Gain from settlements	(9)	–	–	(9)
Other				
Payments	(42)	(9)	(3)	(54)
Change in scope of consolidation	42	3	1	46
Defined benefit obligation as of 31.12.2018	263	93	32	388
Fair value of plan assets	(6)	–	–	(6)
Provision as of 31.12.2018	257	93	32	382

On 31 December 2019, the weighted average duration was 12.24 years (2018: 11.88 years) for defined benefit obligations relating to pension plans (excluding Südwestbank, start:bausparkasse Germany, BFL Leasing, Health Coevo and Zahnärztekasse) and 11.88 years

(2018: 11.47 years) for obligations arising from entitlement to severance payments.

On 31 December 2019, the weighted average duration was 16.26 years (2018: 15.81 years) for defined benefit obligations relating to pension plans of start:bausparkasse Germany.

On 31 December 2019, the weighted average duration was 8.60 years (2018: 9.16 years) for defined benefit obligations relating to pension plans of Südwestbank.

On 31 December 2019, the weighted average duration was 7.50 years (2018: n/a) for defined benefit obligations relating to pension plans of BFL Leasing.

On 31 December 2019, the weighted average duration was 18.40 years (2018: n/a) for defined benefit obligations relating to pension plans of Health Coevo.

On 31 December 2019, the weighted average duration was 16.00 years (2018: n/a) for defined benefit obligations relating to pension plans of Zahnärztekasse.

Assignable unit-linked pension fund assets

in € million	2019	2018
Pension fund assets as of 01.01.2019 = 31.12.2018	6	6
Additions	0	0
Payments	0	0
Changes in the scope of consolidation	8	0
Pension fund assets as of 31.12.2019	14	6

The fair value changes contain expected returns on plan assets, actuarial gains and losses, contributions by the

employer, contributions by plan participants and benefits paid.

The pension fund assets consist of:

in %	2019	2018
Qualified insurance policies	59%	–
Bonds	27%	73%
Equities	7%	16%
Cash and cash equivalents	1%	1%
Other	6%	10%

Bonds issued by BAWAG P.S.K. amount to 0.00% of plan assets.

All equity securities and fixed-income bonds have quoted prices in active markets. All fixed-income investments are mainly issued by European entities and have an average rating of A.

The strategic investment policy of the pension funds can be summarized as follows:

- ▶ a strategic asset mix comprising 59% qualified insurance policies, 16% government bonds, 11% corporate bonds, 7% equities and 7% other investments;
- ▶ the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: bonds: 25%–100%, equities: 10%–18%, other investments: 0%–33%;

- ▶ interest rate risk is monitored and managed through active duration risk management of all fixed-income assets;
- ▶ currency risk is managed with the objective of reducing the risk to a maximum of 20%.

BAWAG Group expects that payments in the amount of € 0.5 million will have to be made to the pension fund in 2020 (2019: € 0.2 million) for asset purchases.

Sensitivity analysis

Reasonably possible changes to one of the relevant actuarial assumptions on the reporting date, holding other assumptions constant, would have resulted in the following defined benefit obligation for pension and severance payments. The basis for the calculation is the present value of the defined benefit obligations as of 31 December 2019 in the amount of € 377 million (2018: € 356 million):

Sensitivity analysis as of 31 December 2019

in € million	Provisions for post-employment benefits and severance payments	
	Increase of variable	Decrease of variable
Discount rate (1) percentage point movement	326	419
Future salary growth (1) percentage point movement	413	329
Attrition (1) percentage point movement	356	370
Future mortality (1) percentage point movement (post-employment benefits only)	273	273

Sensitivity analysis as of 31 December 2018

in € million	Provisions for post-employment benefits and severance payments	
	Increase of variable	Decrease of variable
Discount rate (1) percentage point movement	317	401
Future salary growth (1) percentage point movement	398	318
Attrition (1) percentage point movement	344	356
Future mortality (1) percentage point movement (post-employment benefits only)	262	263

Changes in other provisions

in € million	Balance 01.01.2019	Change in scope of consolidation	Added	Used	Released	Balance 31.12.2019
Other provisions	83	4	19	(11)	(11)	84
Anticipated losses from pending business	33	–	19	(5)	(10)	37
Legal risks	50	–	0	(6)	0	44
Other items	–	4	–	–	(1)	3

in € million	Balance 01.01.2018	Change in scope of consolidation	Added	Used	Released	Balance 31.12.2018
Other provisions	75	4	21	(9)	(8)	83
Anticipated losses from pending business	20	4	20	(7)	(4)	33
Legal risks	55	–	1	(2)	(4)	50

28 | Other obligations

in € million	31.12.2019	31.12.2018
Accounts relating to payment transactions	207	237
Lease liabilities IFRS 16	253	–
Liabilities resulting from restructuring	96	129
Other liabilities	252	214
Accruals	31	17
Other obligations	838	597

According to IFRS 16, a lease liability is recognized at the commencement of a lease. The lease liability is measured at the present value of the lease payments. As of 31

December 2019, other obligations in the amount of € 389 million (31 December 2018: € 189 million) have a maturity of more than one year.

29 | Hedging derivatives

in € million	31.12.2019	31.12.2018
Hedging derivatives in fair value hedges		
Positive market values	380	383
Negative market values	48	45
Hedging derivatives in cash flow hedges		
Positive market values	15	18
Negative market values	68	59
Hedging derivatives in net investment hedge		
Positive market values	2	–
Negative market values	–	–

Fair value hedge

in € million	Notional of hedged items		Net book value of hedging instruments		Net result of hedged item and hedging instrument re-cognized in the financial year	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Financial assets at fair value through other comprehensive income	2,770	1,967	(11)	(6)	(0)	(0)
Securities	2,770	1,967	(11)	(6)	(0)	(0)
Financial instruments recognized at amortized cost	15,242	15,186	337	334	7	-
Securities	22	-	0	-	0	-
Own issues	2,603	2,635	99	107	4	(2)
Savings deposits of customers	92	1,914	1	3	1	(1)
Loans to customers	721	467	(18)	(21)	(0)	(0)
Liabilities to customers	11,804	10,170	255	245	2	3
Total	18,012	17,153	326	328	7	(0)

Cash flow hedge

The time periods in which the hedged cash flows are expected to occur and affect profit or loss are:

31.12.2019 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	564	2,303	608	3,475

31.12.2018 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	669	1,945	969	3,583

Profile of the timing of the nominal amount of the hedging instrument:

31.12.2019 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	542	2,222	588	3,352

31.12.2018 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	9	22	-	31

Disclosure according to IFRS 7.24B a)

	Micro hedges	Hedge adjustments on micro hedges		Macro hedges
	Carrying amount	Hedge adjustments included in the carrying amount of assets/liabilities	Remaining adjustments for discontinued micro hedges including hedges of net positions	Hedged items in portfolio hedge of interest rate risk
31.12.2019 in € million				
Assets				
Financial assets measured at fair value through other comprehensive income				
Interest rate related	2,848	32	0	–
Financial assets measured at amortised cost				
Interest rate related	823	42	–	164
Liabilities				
Financial liabilities measured at amortised costs				
Interest rate related	3,420	116	22	6,131

	Micro hedges	Hedge adjustments on micro hedges		Macro hedges
	Carrying amount	Hedge adjustments included in the carrying amount of assets/liabilities	Remaining adjustments for discontinued micro hedges including hedges of net positions	Hedged items in portfolio hedge of interest rate risk
31.12.2018 in € million				
Assets				
Financial assets measured at fair value through other comprehensive income				
Interest rate related	2,164	(3)	0	–
Financial assets measured at amortized cost				
Interest rate related	543	37	0	329
Liabilities				
Financial liabilities measured at amortized costs				
Interest rate related	5,240	114	(4)	9,202

Hedged items in cash flow hedges

31.12.2019 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
Foreign exchange risk	10	17	-

31.12.2018 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
Foreign exchange risk	7	7	-

Hedged items in net investment hedges

31.12.2019 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Net investment hedge reserve for continuing hedges	Net investment hedge reserve for terminated hedges
Foreign exchange risk	2	2	-

31.12.2018 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Net investment hedge reserve for continuing hedges	Net investment hedge reserve for terminated hedges
Foreign exchange risk	-	-	-

30 | Equity

Share capital

The share capital of BAWAG Group AG was reduced by € 10.9 million due to a simplified capital reduction following the share buyback that was completed by 29 November 2019. Therefore, the fully paid-in share capital of BAWAG Group AG amounts to € 89.1 million (2018: € 100.0 million) divided into 89,142,237 bearer shares (2018: 100,000,000 bearer shares). BAWAG Group AG holds 1,205,107 own shares (2018: 1,205,107 own shares), thus the share capital amounts to € 87.9 million for accounting purposes (2018: € 98.8 million). The number of bearer shares excluding own shares is 87,937,130 (2018: 98,794,893).

Share buyback

On 25 October 2019, BAWAG Group AG published a voluntary partial tender offer pursuant to Sections 4 et seqq Austrian Takeover Act to repurchase a total of up to 10,857,763 shares in the Company. The offer period ended on 22 November 2019. The offer price was € 36.84 per share.

Up to the end of the acceptance period, 31,700,497 shares of the Company (ISIN AT0000BAWAG2) were tendered into the offer. This translated into an allocation ratio of approximately 34.25%.

Settlement occurred on 29 November 2019. Subsequently, the Company canceled the 10,857,763 shares.

Authorized capital

Pursuant to Section 5 No 7 of the Articles of Association of BAWAG Group AG, with the consent of the Supervisory Board, to increase the share capital within five years from the date of the registration of the amendment to the Articles of Association in the commercial register, also in several tranches against contributions in cash and/or contributions in kind by up to € 40 million by issuing up to 40,000,000 new bearer shares with no par value and to determine the issue price conditions in agreement with the supervisory board (Authorized Capital 2019).

Conditional capital

In accordance with Section 159 Para 2 no 1 AktG, the share capital shall be conditionally increased by up to € 10 million by issuing up to 10,000,000 no-par value bearer shares for the purpose of issuing them to creditors of convertible bonds which the Management Board, with the consent of the Supervisory Board, may issue in the future on the basis of the authorization granted at the Annual General Meeting on 30 April 2019. The conditional capital increase may only be carried out to the extent that creditors of convertible bonds to be issued make use of their conversion and/or subscription rights to shares of BAWAG Group AG. The amount to be issued and conversion ratio shall be determined in accordance with the interests of BAWAG Group AG, the existing shareholders and the subscribers of the convertible bonds within the framework of a customary market pricing procedure using recognized customary market methods and the stock exchange price of the BAWAG Group AG's shares. The issue price of the new shares may not be less than the proportionate amount of the share capital. The shares to be issued as part of the conditional capital increase are entitled to dividends to the same extent as the existing shares.

Capital reserves and retained earnings

Capital reserves include contributions from shareholders that do not represent subscribed capital. Retained earnings and other reserves represent accumulated net profit brought forward as well as income and expense recognized in other comprehensive income. Due to the share buyback that was completed on 29 November 2019, the retained earnings reserve was reduced by € 390.0 million, and amounts to € 2,444.3 million.

AT1 capital

In April 2018, BAWAG Group issued Additional Tier 1 capital in the amount of € 300 million. Based on the contractual framework the issue is classified as equity in accordance with IAS 32. Expenses and tax effects directly related to the issuance are subtracted from equity. Coupon payments are recognized as dividends directly in equity.

Dividends

The Managing Board decided to propose to the General Meeting that a dividend of around € 230 million (€ 2.61 per share; based on shares outstanding as of 31 December 2019) shall be paid for the financial year 2019 (2018: € 215.2 million; around € 2.18 per share).

Non-controlling interests

The 97.51% share in BFL Leasing GmbH, the 92.64% share Morgenstern Miet + Leasing GmbH and the 75%

share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests in the amount of € 4 million (2018: € 1 million; 75% share in ACP-IT Finanzierungs GmbH).

Liability reserve (Hafrücklage)

Credit institutions are required to allocate a liability reserve (Hafrücklage) according to section 57 paragraph 5 BWG. The liability reserve may be reversed only insofar as this is required to meet obligations pursuant to section 93 BWG or to cover other losses to be reported in the annual financial statements.

Changes in other comprehensive income

	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2019	459.1	(9.6)	(21.7)	39.9	2.3	5.7	(1.6)	2.0	(2.4)	473.7	0.2	473.9
Consolidated profit/loss	459.1	–	–	–	–	–	–	–	–	459.1	0.2	459.3
Income and expenses recognized directly in equity	–	(9.6)	(21.7)	39.9	2.3	5.7	(1.6)	2.0	(2.4)	14.6	–	14.6
Change in cash flow hedge reserve	–	(12.8)	–	–	–	–	–	–	–	(12.8)	–	(12.8)
Change in debt securities at fair value through other comprehensive income	–	–	–	54.1	–	–	–	–	–	54.1	–	54.1
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	2.3	–	–	–	–	2.3	–	2.3
Actuarial gains (losses) on defined benefit pension plans	–	–	(29.4)	–	–	–	–	–	–	(29.4)	–	(29.4)
Fair value changes of shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	7.6	–	–	–	7.6	–	7.6
Change in credit spread of financial liabilities	–	–	–	–	–	–	(2.1)	–	–	(2.1)	–	(2.1)
Hedge of net investment in foreign operations	–	–	–	–	–	–	–	2.0	–	2.0	–	2.0
Foreign exchange differences	–	–	–	–	–	–	–	–	(2.4)	(2.4)	–	(2.4)
Income taxes	–	3.2	7.7	(14.2)	–	(1.9)	0.5	–	–	(4.7)	–	(4.7)

in € million

	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
in € million											
Total comprehensive income 2018	436.5	(10.5)	(5.1)	(58.3)	(0.9)	(7.1)	6.2	(0.1)	360.7	–	360.7
Consolidated profit/loss	436.5	–	–	–	–	–	–	–	436.5	–	436.5
Income and expenses recognized directly in equity	–	(10.5)	(5.1)	(58.3)	(0.9)	(7.1)	6.2	(0.1)	(75.8)	–	(75.8)
Change in cash flow hedge reserve	–	(13.9)	–	–	–	–	–	–	(13.9)	–	(13.9)
Change in debt securities at fair value through other comprehensive income	–	–	–	(78.5)	–	–	–	–	(78.5)	–	(78.5)
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	(0.9)	–	–	–	(0.9)	–	(0.9)
Actuarial gains (losses) on defined benefit pension plans	–	–	(6.8)	–	–	–	–	–	(6.8)	–	(6.8)
Fair value changes of shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	(9.2)	–	–	(9.2)	–	(9.2)
Change in credit spread of financial liabilities	–	–	–	–	–	–	8.3	–	8.3	–	8.3
Foreign exchange differences	–	–	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Income taxes	–	3.4	1.7	20.2	–	2.1	(2.1)	–	25.3	–	25.3

Deferred income taxes recognized in Other comprehensive income

	Before taxes	Income taxes	After taxes
in € million	01.01.-31.12.2019		
Cash flow hedge reserve	(12.8)	3.2	(9.6)
Actuarial gains (losses) on defined benefit pension plans	(29.4)	7.7	(21.7)
Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	54.1	(14.2)	39.9
Debt instruments at fair value through other comprehensive income net of tax from equity associates	2.3	–	2.3
Shares and other equity investments at fair value through other comprehensive income net of tax	7.6	(1.9)	5.7
Change in credit spread of financial liabilities net of tax	(2.1)	0.5	(1.6)
Hedge of net investment in foreign operations net of tax	2.0	–	2.0
Foreign exchange differences	(2.4)	–	(2.4)
Income and expenses recognized directly in equity	19.3	(4.7)	14.6

	Before taxes	Income taxes	After taxes
in € million	01.01.-31.12.2018		
Cash flow hedge reserve	(13.9)	3.4	(10.5)
Actuarial gains (losses) on defined benefit pension plans	(6.8)	1.7	(5.1)
Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	(78.5)	20.2	(58.3)
Debt instruments at fair value through other comprehensive income net of tax from equity associates	(0.9)	–	(0.9)
Shares and other equity investments at fair value through other comprehensive income net of tax	(9.2)	2.1	(7.1)
Change in credit spread of financial liabilities net of tax	8.3	(2.1)	6.2
Foreign exchange differences	(0.1)	–	(0.1)
Income and expenses recognized directly in equity	(101.1)	25.3	(75.8)

SEGMENT REPORTING

This information is based on the Group structure as of 31 December 2019.

The segment reporting presents the results of the operating business segments of BAWAG Group. The following segment information is based on IFRS 8 *Operating Segments*, which follows the management approach. In this, the segment information is prepared based on the internal reports used by the Managing Board to assess the performance of the segments and to make decisions on allocating resources to the segments.

The breakdown of the net interest income and its allocation to the segments in the management report is based on the principles of the market interest rate method, also taking into account allocated liquidity costs and premiums. According to this method, it is assumed that asset and liability items are refinanced by means of money and capital market transactions with corresponding maturities,

and that there is therefore no interest rate risk. The interest rate risk is managed actively through asset and liability management, and the related results are reported in the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective business units based on where they are incurred. The overhead costs and planned depreciations are assigned to the individual segments according to an allocation factor. Regulatory charges and corporate tax are allocated based on relevant input parameters.

As of January 2019, certain changes in the internal business segment reporting were made to better reflect the developments and our progress in the individual business segments going forward. The segment reporting was adjusted as well. The prior year's figures have been adjusted accordingly. A summary of the major changes and rationale is provided below:

Old reporting	New reporting	Changes
BAWAG P.S.K. Retail	Retail & SME	The new segment Retail & SME bundles our Retail & SME business from the segments BAWAG P.S.K. Retail (excluding MidCaps) and easygroup. Additionally, Südwestbank segment was split into two parts, of which the retail part is now included in this segment.
easygroup		
Südwestbank		
DACH Corporates & Public Sector	Corporates & Public	The new segment bundles our business with corporate clients from the segments DACH Corporates & Public Sector (including MidCaps) and International Business. Additionally, the Südwestbank segment was split into two parts, of which the corporate business part is now included in this segment.
International Business		
Südwestbank		
Treasury Services & Markets	Treasury	unchanged
Corporate Center	Corporate Center	unchanged

In addition to the new segmentation, the total regulatory charges were transferred to the business segments and the tax rate of 25% was applied for the business segments, the delta is shown in Corporate Center.

As of March 2019, Retail & SME includes Zahnärztekasse AG. This acquisition was closed in March 2019.

As of June 2019, Retail & SME includes Health Coevo AG and BFL Leasing GmbH. These acquisitions were closed in May 2019.

BAWAG Group is managed in accordance with the following four business and reporting segments:

- **Retail & SME** – includes savings, payment, card and lending activities, investment and insurance services for our domestic private customers, small business lending

and our social housing activities as well as own issues covered with retail assets and Wohnbaubank bonds. It also includes our direct banking subsidiary easybank with a full online product offering, e.g. savings, payments, card and lending activities for private and small business customers, along with our auto, mobile and real estate leasing platforms, building society loans and savings in Austria and Germany. The private and small business activities (including Qlick) of Südwestbank and the factoring business in Germany and Switzerland are also included in this segment. It also includes lending portfolios to our international retail borrowers, including own issues covered with an international mortgage portfolio.

- ▶ **Corporates & Public** – includes lending activities to international corporates as well as international real estate financing activities. It also includes our corporate, mid-cap and public lending business and other fee-driven financial services for mainly Austrian and German

customers. Own issues covered with corporate or public assets are included in this segment as well.

- ▶ **Treasury** – includes any treasury activities associated with providing trading and investment services such as certain asset-liability management transactions (including secured and unsecured funding) and the investment results of the portfolio of financial securities of BAWAG Group.
- ▶ **Corporate Center** – includes unallocated items related to support functions for the entire Bank, accounting positions (e.g. market values of derivatives), tangible and intangible assets as well as selected results related to subsidiary and participation holdings and reconciliation positions.

Our segments are fully aligned with our business strategy as well as our objective of providing transparent reporting of our business units and Bank-wide results while minimizing the financial impact within the Corporate Center.

The segments in detail:

2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
Net interest income	626.0	249.1	43.7	(39.8)	879.0
Net fee and commission income	242.2	43.0	0.4	(2.1)	283.5
Core revenues	868.3	292.1	44.1	(42.0)	1,162.5
Gains and losses on financial instruments	0.1	0.2	100.7	(30.3)	70.7
Other operating income and expenses	2.4	0.0	0.0	4.9	7.3
Operating income	870.8	292.3	144.8	(67.4)	1,240.5
Operating expenses	(372.9)	(100.1)	(32.0)	(24.7)	(529.7)
Regulatory charges	(27.0)	(10.0)	(5.4)	0.0	(42.4)
Total risk costs	(76.3)	7.6	1.7	(2.3)	(69.3)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	5.2	5.2
Profit before tax	394.6	189.8	109.3	(89.4)	604.3
Income taxes	(98.6)	(47.5)	(27.3)	28.4	(145.0)
Profit after tax	295.9	142.4	82.1	(61.1)	459.3
Non-controlling interests	–	–	–	(0.2)	(0.2)
Net profit	295.9	142.4	82.1	(61.3)	459.1
Business volumes					
Assets	18,155	13,141	10,074	4,292	45,662
Liabilities	28,097	7,118	4,483	5,964	45,662
Risk-weighted assets	8,623	7,932	1,616	2,214	20,385

2018 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
Net interest income	575.4	250.4	48.1	(33.4)	840.5
Net fee and commission income	236.1	48.6	0.6	(2.5)	282.8
Core revenues	811.5	299.0	48.7	(35.9)	1,123.3
Gains and losses on financial instruments	16.7	10.7	27.6	(35.5)	19.5
Other operating income and expenses	1.9	0.0	0.0	26.0	27.9
Operating income	830.0	309.8	76.3	(45.4)	1,170.7
Operating expenses	(350.9)	(120.0)	(31.5)	(15.5)	(517.9)
Regulatory charges	(26.0)	(8.9)	(5.2)	0.0	(40.1)
Total risk costs	(62.3)	17.8	0.2	(0.8)	(45.1)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	5.1	5.1
Profit before tax	390.9	198.7	39.8	(56.7)	572.7
Income taxes	(97.7)	(49.7)	(10.0)	21.2	(136.2)
Profit after tax	293.2	149.0	29.8	(35.5)	436.5
Non-controlling interests	–	–	–	0.0	0.0
Net profit	293.2	149.0	29.8	(35.5)	436.5
Business volumes					
Assets	16,905	14,167	10,192	3,434	44,698
Liabilities	27,058	9,438	2,460	5,742	44,698
Risk-weighted assets	7,617	9,429	1,703	1,716	20,465

As the internal and external reporting of BAWAG Group is fully harmonized, the total of reportable segments' measures of profit or loss do not differ from the Bank's

profit or loss. Therefore, no separate reconciliation column is shown in the segment tables.

Geographical split

The tables below show a geographical split of the business segments based on the risk-related assignment of individual customers to a country. Customer groups are not aggregated and assigned to a single country (i.e. the country of the parent company) but allocated to their respective countries on a single entity level.

As an Austrian bank, BAWAG Group generates 66% of its core revenues in Austria. The business is focused on the DACH region, supported by German and Swiss subsidiaries and corporate business.

The following tables show core revenues per segment and geography:

2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH	821.4	128.4	18.2	(43.1)	924.9
thereof Austria	713.9	80.7	15.1	(45.5)	764.2
thereof Germany/CH	107.5	47.7	3.2	2.4	160.8
Western Europe/USA	46.9	163.7	25.9	1.1	237.6
Total	868.3	292.1	44.1	(42.0)	1,162.5

2018 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH	761.3	159.3	22.9	(35.9)	907.6
thereof Austria	706.1	86.7	22.5	(37.3)	778.0
thereof Germany/CH	55.2	72.6	0.4	1.4	129.6
Western Europe/USA	50.2	139.7	25.8	0.0	215.7
Total	811.5	299.0	48.7	(35.9)	1,123.3

The segment result can be reconciled with the Profit or Loss Statement as follows:

<i>in € million</i>	2019	2018
Other operating income and expenses according to segment report	7.3	27.9
Regulatory charges	(38.2)	(36.1)
Other operating income and expenses according to Consolidated Profit or Loss Statement	(31.0)	(8.2)

<i>in € million</i>	2019	2018
Operating expenses according to segment report	(529.7)	(517.9)
Regulatory charges	(4.1)	(4.0)
Operating expenses according to Consolidated Profit or Loss Statement	(533.8)	(521.8)

CAPITAL MANAGEMENT

The capital management of BAWAG Group is based on own funds as defined by the CRR (Capital Requirements Regulation) and the corresponding national regulations (Basel 3 Pillar 1) and the economic capital management approach (Basel 3 Pillar 2) related to the Internal Capital Adequacy Assessment Process (ICAAP).

The Group employs a centralized capital management process. The main responsibilities of this function are to continuously monitor the development of the Group's business, to analyze changes in its risk-weighted assets and to reconcile those with the available regulatory own funds or the ICAAP limit and utilizations for each segment.

BAWAG Group manages its capital position based on a fully loaded CRR environment and therefore without the benefit of any transitional rules regarding capital components and the calculation of risk-weighted assets. The capital management function is fully integrated into the Group's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon. Besides regulatory capital management, economic capital limits aligned with the business plan are assigned to the business segments as part of the ICAAP process.

The Capital Management Team gives recommendations to the Managing Board of BAWAG Group for strengthening and optimizing the own funds position when necessary and reports to the Bank's Enterprise Risk Meeting once a month.

The ICAAP is modeled taking into account the Group's business and risk profile and is an integral part of the planning and the control system. In the course of the

ICAAP, the risk-bearing capacity of the Group is ensured and the efficient use of capital for risk coverage monitored. In addition, stress tests complement the steering process.

As part of the SREP, minimum regulatory capital requirements as well as a Pillar 2 capital guidance are set for BAWAG Group. In addition to the minimum capital ratios required by the regulators, BAWAG Group defines early warning and recovery levels in BAWAG Group's recovery plan and the corresponding processes. The recovery and warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of the BaSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, the Austrian Banking Resolution and Recovery Act).

BAWAG Group constantly monitors its compliance with the warning and recovery levels and therefore at the same time with the stipulated own funds ratios on the basis of the notifications sent to Oesterreichische Nationalbank (the Austrian national bank) and on the basis of current business developments.

Additionally, the Capital Management Team tracks all regulatory changes in its field of responsibility, e.g. MREL or Basel IV/V. The impact of the regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and board members. Expected future regulatory requirements (e.g. MREL and leverage ratio requirements) are proactively integrated into the capital management process. This is intended to ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

Regulatory reporting on a consolidated basis is performed on the level of BAWAG Group as the EU parent financial holding company of the group of credit institutions.

requirement as of 31 December 2019 and 31 December 2018 pursuant to CRR applying IFRS figures and the CRR scope of consolidation. For further details regarding the 2019 share buyback, please refer to Note 30 Equity.

The following table shows the breakdown of own funds of BAWAG Group applying transitional rules and its own funds

in € million	BAWAG Group	
	31.12.2019	31.12.2018
Share capital and reserves (including funds for general banking risk) ¹⁾	3,382	3,636
Deduction of intangible assets	(491)	(427)
Other comprehensive income	(123)	(153)
IRB risk provision shortfalls	(71)	(34)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	12	0
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(4)	(49)
Excess of deduction from AT1 items over AT1 capital	–	–
Common Equity Tier I	2,705	2,974
Capital instruments eligible as additional Tier 1 capital	300	300
IRB risk provision shortfalls	–	–
Deduction of intangible assets	–	–
Excess of deduction from AT1 items over AT1 capital	–	–
Additional Tier I	300	300
Tier I	3,005	3,274
Supplementary and subordinated debt capital	484	96
Tier II capital in grandfathering	3	6
Excess IRB risk provisions	0	4
Less significant investments, IRB risk provision shortfalls	(24)	(33)
Tier II	463	73
Own funds	3,468	3,347

1) This item includes dividends in the amount of € 229.5 million in accordance with the dividend policy of BAWAG Group (2018: dividends in the amount of € 215.2 million)

In March 2019, BAWAG Group issued a bond with a notional value of € 400 million, which fulfills the criteria for eligibility as T2 capital (XS1968814332). T2 capital was reduced in 2018 due to the buyback of a T2 capital issue with a notional of € 300 million (XS0987169637), of which

€ 268.3 million have been bought back. For the part not repurchased, an application for re-eligibility was submitted to the ECB and was approved by the supervisory authority on 3 April 2019.

Capital requirements (risk-weighted assets) based on a transitional basis

in € million	BAWAG Group	
	31.12.2019	31.12.2018
Credit risk	18,258	18,601
Market risk	0	51
Operational risk	1,983	1,821
Capital requirements (risk-weighted assets)	20,241	20,473

Supplemental information on a fully loaded basis

	BAWAG Group	
	31.12.2019	31.12.2018
Common Equity Tier 1 capital ratio based on total risk	13.3%	14.5%
Total capital ratio based on total risk	17.0%	16.3%

Key figures according to CRR including its transitional rules

	BAWAG Group	
	31.12.2019	31.12.2018
Common Equity Tier 1 capital ratio based on total risk	13.4%	14.5%
Total capital ratio based on total risk	17.1%	16.4%

During the financial year 2019, BAWAG Group always complied with the regulatory capital requirement imposed

by the SREP of 10.44 % or 11.44 % including Pillar-2-Guidance.

FURTHER DISCLOSURES REQUIRED BY IFRS

31 | Fair value

The following tables depict a comparison of the carrying amounts and fair values for selected items on the Statement of Financial Position.

in € million	Carrying amount	Fair value	Carrying amount	Fair value
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Assets				
Cash reserves	1,424	1,424	1,069	1,069
Financial assets designated at fair value through profit or loss	100	100	114	114
Loans to customers	100	100	114	114
Financial assets mandatorily at fair value through profit or loss	640	640	390	390
Loans to customers	325	325	176	176
Securities	239	239	169	169
Subsidiaries and other equity investments	76	76	45	45
Financial assets at fair value through other comprehensive income	3,631	3,631	3,039	3,039
Debt instruments	3,425	3,425	2,804	2,804
Subsidiaries and other equity investments	206	206	235	235
Financial assets held for trading	353	353	351	351
At a amortized cost	37,556	37,834	38,334	38,596
Customers	30,467	30,736	30,482	30,704
Credit institutions	5,720	5,722	4,340	4,338
Securities	1,369	1,376	3,512	3,554
Valuation adjustment on interest rate risk hedged portfolios	5	5	1	1
Hedging derivatives	397	397	401	401
Property, plant and equipment	396	n/a	116	n/a
Investment properties	311	311	118	121
Intangible non-current assets	569	n/a	505	n/a
Other assets	280	n/a	260	n/a
Total assets	45,662		44,698	

in € million	Carrying amount	Fair value	Carrying amount	Fair value
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	369	369	576	576
Issued debt securities and other securitized liabilities	233	233	439	439
Subordinated and supplementary capital	130	130	131	131
Deposits from customers	6	6	6	6
Financial liabilities held for trading	334	334	301	301
Financial liabilities at amortized cost	38,543	38,621	38,325	38,336
Deposits from credit institutions	3,085	3,104	4,281	4,300
Deposits from customers	30,378	30,419	30,195	30,172
Issued bonds, subordinated and supplementary capital	5,080	5,098	3,849	3,864
Financial liabilities associated with transferred assets	729	729	150	150
Valuation adjustment on interest rate risk hedged portfolios	337	337	156	156
Hedging derivatives	116	116	104	104
Provisions	480	n/a	465	n/a
Other obligations	926	n/a	616	n/a
Equity	3,824	n/a	4,004	n/a
Non-controlling interests	4	n/a	1	n/a
Total liabilities and equity	45,662		44,698	

The fair values of investment properties were determined by external property valuers having appropriate recognized professional qualifications and recent experience in the location and category of property being valued. The carrying amount of other assets and other obligations is a

reasonable approximation of fair value. Therefore, information on the fair value of these items is not shown.

BAWAG Group does not intend to sell or derecognize significant investments in equity held at the reporting date in the near future.

Fair value hierarchy

The following table depicts an analysis of the fair values of financial instruments and investment properties on the basis of the fair value hierarchy in IFRS 13. The breakdown consists of the following groups:

- ▶ **Level 1:** The value of financial instruments is measured using a quoted price without adjustment. This includes government bonds, bonds with quoted prices and exchange-traded derivatives.
- ▶ **Level 2:** If no current, liquid market values are available, generally accepted, standard state-of-the-art methods of measurement are used. This applies to the category liabilities evidenced by paper (issued by BAWAG Group), and, in individual cases, other current financial assets in the Bank's trading portfolio where the valuation of plain vanilla securities was performed on the basis of the yield curve plus the current credit spread. The value is measured using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices.

This category includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognized at their fair values.

For customer receivables accounted for at fair value, modeling techniques following industry standard models are applied, for example discounted cash flow analysis and standard option pricing models. Market parameters such as interest rates, FX rates or volatilities are used as input to the valuation models to determine fair value. The discount curves used to determine the pure time value of money contain only instruments that assume no or only low default risk, such as swap rates. Spread curves that reflect the refinancing costs of the respective borrower are either derived from outstanding funding instruments, distinguished by seniority (senior unsecured, subordinated, collateralized funding), or benchmark yield curves (e.g. indices).

Linear derivative financial instruments containing no optional components (such as interest rate swaps, currency forwards and futures) were also measured using a present value technique (discounting of future cash flows applying the current swap curve, derivatives with counterparties with a Credit Support Annex [CSA] agreement are discounted by the OIS/EONIA curve).

Optional instruments were measured using option price models such as Black-Scholes (swaptions, caps, floors), Bachelier (caps, floors and swaptions in currencies with negative interest rates), Garman-Kohlhagen (currency options) or the Hull-White model (swaps with multiple cancellation rights), which were implemented and applied consistently in the front office systems.

The basic parameters on which the models are based (yield curves, volatilities and exchange rates) are input into the system by the Market Risk unit independently of the Treasury departments, which ensures the separation of front office functions from back office processing and control.

For more complex derivatives that are held for hedging purposes and that are concluded back to back, external valuations are obtained by the Market Risk unit and input into the systems for correct processing.

Standard providers such as Bloomberg and Markit are used to evaluate the spreads of issued securities recognized at fair value through profit or loss. A senior unsecured spread curve and an LT2 spread curve are calculated based on the term structure of the Austrian banking sector curve and the quotes of the international BAWAG P.S.K. issues. For covered issues, the spread curve is derived directly from the quotes of several BAWAG P.S.K. benchmark bonds. The securities prices for BAWAG P.S.K. issues are then calculated by discounting the swap curve adapted by the spread.

In 2019, the portion of change in fair values of securities issued by BAWAG Group accounted for solely by changes in the Group's credit spreads was minus € 1.1 million (plus € 8.9 million as of 31 December 2018). This is defined as the product of the credit spread base point value with the respective spread change, supplemented by the pull-to-par effect. As of 31 December 2019, the cumulative fair value change

resulting from changes in the Group's credit rating amounted to minus € 1.6 million (€ 0.5 million as of 31 December 2018).

A one basis point narrowing of the credit spread is expected to change their valuation by minus € 0.1 million (minus € 0.1 million as of 31 December 2018).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to minus € 0.0 million as of 31 December 2019 (minus € 0.5 million as of 31 December 2018) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to minus € 2.9 million (minus € 4.3 million as of 31 December 2018).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.06 million (plus € 0.07 million as of 31 December 2018).

► **Level 3:** The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid funds of Südwestbank as well as own issues of BAWAG P.S.K. Wohnbaubank, IMMO-BANK and Südwestbank. Loans and receivables and financial liabilities measured at amortized cost are valued using the discounted cash flow method using a spread-adjusted swap curve. This also pertains to stakes in non-consolidated subsidiaries that are classified as mandatorily at fair value through profit or loss or at fair value through other comprehensive income.

For the determination of the credit value adjustment for the credit risk of OTC derivatives, netting effects at the customer level within transactions of the same kind and currency are taken into account.

31.12.2019 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	100	–	100
Financial assets mandatorily at fair value through profit or loss	29	100	511	640
Financial assets at fair value through other comprehensive income	3,492	58	81	3,631
Debt instruments	3,366	58	1	3,425
Subsidiaries and other equity investments	126	–	80	206
Financial assets held for trading	0	353	–	353
At a mortized cost	180	5,606	32,048	37,834
Valuation adjustment on interest rate risk hedged portfolios	–	5	–	5
Hedging derivatives	–	397	–	397
Investment properties	–	–	311	311
Total assets	3,701	6,619	32,951	43,271
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	174	195	369
Issued debt securities and other securitized liabilities	–	38	195	233
Subordinated and supplementary capital	–	130	–	130
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	334	–	334
Financial liabilities at a mortized cost	–	6,637	31,984	38,621
Financial liabilities associated with transferred assets	–	729	–	729
Valuation adjustment on interest rate risk hedged portfolios	–	337	–	337
Hedging derivatives	–	116	–	116
Total liabilities	–	8,327	32,179	40,506

31.12.2018 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	114	–	114
Financial assets mandatorily at fair value through profit or loss	54	110	226	390
Financial assets at fair value through other comprehensive income	2,819	129	91	3,039
Debt instruments	2,674	129	1	2,804
Subsidiaries and other equity investments	145	–	90	235
Financial assets held for trading	–	351	–	351
At a amortized cost	2,246	5,174	31,176	38,596
Valuation adjustment on interest rate risk hedged portfolios	–	1	–	1
Hedging derivatives	–	401	–	401
Investment properties	–	–	121	121
Total assets	5,119	6,280	31,614	43,013
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	316	260	576
Issued debt securities and other securitized liabilities	–	179	260	439
Subordinated and supplementary capital	–	131	–	131
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	301	–	301
Financial liabilities at a amortized cost	–	6,138	32,198	38,336
Financial liabilities associated with transferred assets	–	150	–	150
Valuation adjustment on interest rate risk hedged portfolios	–	156	–	156
Hedging derivatives	–	104	–	104
Total liabilities	–	7,165	32,458	39,623

BAWAG Group recognizes transfers between levels as of the end of the reporting period during which the transfer has occurred.

Movements between Level 1 and Level 2

In 2019, securities at fair value through other comprehensive income with a book value of € 0 million (2018: € 69 million) were moved from Level 1 to Level 2 due to subsequent illiquid market prices. Securities at fair

value through other comprehensive income with a book value of € 68 million (2018: € 0 million) were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 Financial Instruments Measured at Fair Value

The changes in financial instruments accounted for at fair value in the Level 3 category were as follows:

in € million	Financial assets at fair value through other comprehensive income				
	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Debt instruments	Subsidiaries and other equity investments	Financial liabilities
Opening balance as of 01.01.2019	226	–	1	90	260
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	(4)	–	0	0	(6)
for assets no longer held at the end of the period	2	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	0	2
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	569	–	0	31	–
Redemptions	(273)	–	0	–	(61)
Sales	(42)	–	–	(9)	–
Foreign exchange differences	0	–	–	(1)	–
Change in scope of consolidation	–	–	–	2	–
Correction of editorial error	33	–	–	(33)	–
Transfers into or out of other levels	–	–	–	–	–
Closing balance as of 31.12.2019	511	–	1	80	195

in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Financial liabilities
			Debt instruments	Subsidiaries and other equity investments	
Opening balance as of 01.01.2018	295	–	1	54	363
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	6	–	0	–	(10)
for assets no longer held at the end of the period	2	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	0	3
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	33	–	0	36	0
Redemptions	(72)	–	0	–	(96)
Sales	(38)	–	–	0	–
Foreign exchange differences	0	–	–	0	–
Change in scope of consolidation	0	–	–	0	–
Transfers into or out of other levels	–	–	–	–	–
Closing balance as of 31.12.2018	226	–	1	90	260

Valuation (including the parameterization of observable input factors) is performed by a market-independent back office division within the risk group on a monthly basis. Changes that have occurred are verified, as far as possible, by comparing them to references observable on the market.

Quantitative and qualitative information regarding the valuation of Level 3 financial instruments

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank and IMMO-BANK is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The gross spread premium for own issues of BAWAG P.S.K. Wohnbaubank is currently 100 basis points (31 December 2018: 100 basis points) for all maturities (mid). For issues of IMMO-BANK, the spreads depend on the seniority of the bond and the maturity.

In general, the mentioned input parameter is dependent on the general market development of credit spreads within the banking sector and in detail on the credit rating development of the housing banks, with spread increases having a positive effect.

In general, the discounted cash flow method (DCF) is used to determine the fair values of loans. Caps, floors or simple call options, if existing, are measured using the Bachelier model. The discount factor used in the DCF consists of various parameters: the funding curve (derived from a peer group of European banks with the same rating as BAWAG P.S.K.) and a customer-specific credit spread curve (derived from the CDS or CDS Markit Sector curve, depending on availability; for retail and SME from an internally derived default probability), which is adjusted by the respective collateral ratio.

For Südwestbank funds that could not be sold in time for the published net asset values, a discount is applied as an input factor which is not directly observable, taking the expected selling price into account. The fair value is subsequently calculated as the difference between the net asset values and this liquidity discount. The funds are reported under Financial assets mandatorily at fair value through profit or loss.

The fair value of non-traded investment funds is based on fair value quotes provided by the fund manager.

For real estate investment funds, the underlying investments are appraised at least annually by an independent appraiser engaged by the fund manager; Net Asset Value (NAV) is determined at least quarterly. The Net Asset Value of the investment fund corresponds to the excess of the value of the investment fund's assets over the value of its liabilities.

Funds investing in loan portfolios are valued by an independent external valuation agent based on a discounted cash flow methodology that uses proprietary default and prepayment models to derive expected cash flows, which are discounted at a market rate. The model utilizes credit and performance as well as macroeconomic indicators to forecast cash flows for each loan pool segmented by origination, vintage, sub-grade and term. Net asset value is calculated on a monthly basis.

The fund's financial statements are prepared according to local GAAP and an independent auditor conducts the annual audit for the funds, providing assurance on the accuracy of the above.

The dividend discount and discounted earnings method is applied to a significant part of the investments in equity instruments. A smaller portion is valued based on external price indications and pro-rata equity.

Sensitivity analysis of fair value measurement from changes in unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters can be drawn from a range of reasonably possible alternatives. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank and IMMO-BANK. BAWAG Group had Level 3 financial assets recognized at their fair value in the amount of € 592 million as of 31 December 2019 (31 December 2018: € 317 million).

If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 31 December 2019 would have increased by € 0.5 million (31 December 2018: € 0.8 million). If the credit spread used in calculating the fair value of own issues decreased by 20 basis points, the

accumulated valuation result as of 31 December 2019 would have decreased by € 0.5 million (31 December 2018: € 0.8 million).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to plus € 1.6 million as of 31 December 2019 (31 December 2018: plus € 1.2 million) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to plus € 0.4 million (31 December 2018: plus € 1.3 million).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.07 million (31 December 2018: plus € 0.09 million).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 31 December 2019 would have decreased by € 7.6 million (31 December 2018: € 7.5 million). If the credit spread used in calculating the fair value of loans decreased by 100 basis points, the accumulated valuation result as of 31 December 2019 would have increased by € 8.5 million (31 December 2018: € 8.2 million).

If the liquidity discount of Südwesbank funds is increased by 10 percentage points, the valuation result as of 31 December 2019 would have decreased by € 1.9 million (31 December 2018: € 2.0 million). If the liquidity discount of Südwesbank funds is decreased by 10 percentage points, the valuation result as of 31 December 2019 would have increased by € 1.9 million (31 December 2018: € 2.0 million).

For the valuation of a part of the investments in equity instruments, the main input parameters are the discount factor, dividend income or earnings as well as (possibly) necessary capital measures. If the discount rate for investments in equity instruments is decreased by 100 basis points, the fair value would increase by € 7.0 million (thereof € 5.0 million FVTOCI and € 2.0 million FVTPL) (31 December 2018: € 7.0 million; thereof € 4.7 million FVTOCI and € 2.3 million FVTPL), whereas if the discount rate is increased by 100 basis points, the fair value would decrease by € 5.2 million (thereof € 3.7 million FVTOCI and

€ 1.5 million FVTPL) (31 December 2018: € 5.2 million; thereof € 3.5 million FVTOCI and € 1.7 million FVTPL). If changes in dividend income or net profit where applicable rose by 20%, the fair value of those assets would rise by € 1.3 million (thereof € 1.0 million FVTOCI and € 0.3 million FVTPL) (31 December 2018: € 1.6 million; thereof € 1.3 million FVTOCI and € 0.3 million FVTPL); if changes in dividend income or net profit where applicable declined by 20%, the fair value would decrease by € 1.2 million (thereof € 0.9 million FVTOCI and € 0.3 million FVTPL) (31 December 2018: 1.5 million; thereof € 1.2 million FVTOCI and € 0.3 million FVTPL).

A part of the investments in equity instruments is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 9.7 million (thereof € 5.1 million FVTOCI and € 4.6 million FVTPL) (31 December 2018: € 6.7 million, thereof € 5.4 million FVTOCI and € 1.3 million FVTPL). If these indications were 10% higher, the fair value of this portion would increase by € 9.7 million (thereof € 5.1 million FVTOCI and € 4.6 million FVTPL) (31 December 2018: € 6.7 million; thereof € 5.4 million FVTOCI and € 1.3 million FVTPL).

The smallest portion is valued based on pro-rata equity. If the equity was 10% lower, this would result in a decrease of € 0.9 million (thereof € 0.3 million FVTOCI and € 0.6 million FVTPL) (31 December 2018: € 1.1 million; thereof € 0.8 million FVTOCI and € 0.3 million FVTPL), whereas if the equity was 10% higher, there would be an increase of € 0.9 million (thereof € 0.3 million FVTOCI and € 0.6 million FVTPL) (31 December 2018: € 1.1 million; thereof € 0.8 million FVTOCI and € 0.3 million FVTPL).

The fair value of two non-traded investment funds is based on fair value quotes provided by the fund manager. One fund has, based on the current portfolio allocation, an expected interest rate sensitivity of approximately minus € 1.2 million if rates rise by 100 bp and a credit spread sensitivity of minus € 1.4 million if credit spreads widen by 100bp (and vice versa). For the other fund the following applies: if the fair value indicated increased by 10%, the Group would recognize a gain of € 10.0 million in profit or loss. If the fair value indicated decreased by 10%, the Group would recognize a loss of € 10.0 million in profit or loss.

32 | Treatment of day one gain

IFRS 9.B5.1.2A states that the fair value on initial recognition will normally be equal to the transaction price. If the entity determines that the fair value on initial recognition differs from the transaction price and this fair value measurement is not evidenced by a valuation technique that uses only data from observable markets, the carrying amount of the financial instrument on initial recognition is adjusted. If the fair value of a loan portfolio differs from the transaction price, the initial recognition must be based on the fair value but will be adjusted for any day one profit or loss; this will eventually lead to a book value of the loan portfolio that equals the transaction price.

In the case of the acquisition of three loan portfolios, market interest rates on the transaction date were lower than when prices were negotiated. In all three cases, the seller wanted to exit the respective business. Therefore, the transaction prices in these cases did not represent the fair value of the loans. The initial recognition is based on the fair value of the acquired loans and receivables determined through a DCF method taking into consideration market conditions on the purchase date. Because the fair value

and therefore the day one gain is neither evidenced by a quoted price nor based on a valuation technique that uses only data from observable markets, the day one gain must not be realized on day one but must be accrued and the difference subsequently recognized as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. IFRS 9 does not state how to subsequently measure this difference.

IFRS does not provide guidance on the presentation of the amortization of day one profits. As the day one profit will be amortized on a systematic basis, BAWAG Group is of the view that this regular amortization income is similar to interest income. From an economic point of view, BAWAG Group earns a higher margin on the loans acquired. Consequently, BAWAG Group presents the systematic amortization of day one profits in the line item Interest income.

The following differences will be recognized in income in subsequent years:

in € million	31.12.2019	31.12.2018
Balance at the beginning of the period	55	70
New transactions	–	7
Amounts recognized in profit or loss during the period	(19)	(22)
FX effects	0	0
Balance at the end of the period	36	55

33 | Receivables from and payables to subsidiaries and associates

BAWAG Group's receivables from and payables to non-consolidated subsidiaries and associates were as shown

below. Business relationships with these entities were subject to normal banking terms and conditions.

Receivables from and payables to subsidiaries

in € million	31.12.2019	31.12.2018
Receivables from customers	28	32
Receivables from subsidiaries	28	32
Deposits from customers	4	9
Payables to subsidiaries	4	9

Interest income from business with subsidiaries in 2019 totaled € 3 million (2018: € 1 million) and interest expense € 2 million (2018: € 1 million).

Receivables from and payables to associates

in € million	31.12.2019	31.12.2018
Receivables from customers	37	77
Securities	24	22
Receivables from associates	61	99
Deposits from customers	20	21
Payables to associates	20	21

34 | Related parties
Owners of BAWAG Group AG

The shares of BAWAG Group AG were admitted for trading on the Vienna Stock Exchange as of 25 October 2017 (first day of trading). Pursuant to the major holdings notifications received by BAWAG Group AG, (i) several funds and accounts under management by or whose holdings in BAWAG Group AG are subject to an investment management agreement with Golden Tree Asset Management LP held 21.8%, (ii) funds and accounts under management by T.Rowe Price Group, Inc. and its affiliates held 5.6% and (iii) funds and accounts under management by Wellington Management Group LLP and its affiliates held 4.9% per 31 December 2019.

Major non-fully consolidated subsidiaries, joint ventures and equity investments of BAWAG P.S.K.
BAWAG P.S.K. Versicherung AG

BAWAG Group indirectly holds 25% plus one share of BAWAG P.S.K. Versicherung AG, Vienna. The majority of this company is owned by Generali Group. BAWAG P.S.K.

Versicherung AG is accounted for using the equity method in BAWAG Group's accounts. The business dealings between BAWAG Group and BAWAG P.S.K. Versicherung AG cover insurance products, all of which are offered at standard market terms. The business relations between BAWAG Group and Generali are governed by contracts with standard market terms, including a cooperation agreement, a license agreement, a commission agreement and others.

PSA Payment Services Austria GmbH

BAWAG Group holds 20.82% in PSA Payment Services Austria GmbH. PSA is owned by several Austrian banks and banking groups and is engaged in the service and organization of ATM card business. PSA is accounted for using the equity method in BAWAG Group's accounts.

Other subsidiaries

Please refer to Note 49 for a list of all non-consolidated subsidiaries.

Transactions with related parties

The following table shows transactions with related parties (data included in Statement of Financial Position as at 31 December 2019; P&L data are for the full year 2019 and thus include associates of former shareholders until their de-investment from BAWAG Group). There have been no related party transactions with entities with joint control of, or significant influence over, the entity (thus no further contribution to profit or loss from transactions with related parties) since 1 December 2019.

31.12.2019 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	38	1	73	–
Unutilised credit lines	–	–	4	22	33	–
Securities	–	–	–	24	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	5	90	1	0
Other liabilities (incl. derivatives)	–	–	–	0	–	–
Guarantees provided	–	–	–	–	1	–
Interest income ¹⁾	–	32.7	0.9	0.3	0.2	–
Interest expense	–	5.1	0.0	1.5	0.0	0.0
Net fee and commission income	–	–	0.0	8.2	0.0	0.0

1) Gross income; hedging costs not offset

31.12.2018 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	957	35	1	77	–
Unutilised credit lines	–	294	4	1	33	–
Securities	–	35	–	22	–	–
Other assets (incl. derivatives)	–	–	5	–	–	–
Financial liabilities – customers	–	0	9	99	1	0
Other liabilities (incl. derivatives)	–	–	–	1	–	–
Guarantees provided	–	–	0	–	1	–
Interest income ¹⁾	–	25.8	0.7	0.3	0.3	0.0
Interest expense	–	6.8	0.1	1.5	0.0	0.0
Net fee and commission income	–	–	0.0	9.6	0.0	0.0

1) Gross income; hedging costs not offset

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to € 0.0 million in 2019 (2018: € 0.0 million).

A loan loss provision of € 4 million was recognized in 2019 for one loan where related parties have been involved.

Information regarding natural persons

Key management

Key management of BAWAG Group refers to the members of the Managing Board and the Supervisory Board of BAWAG Group AG and BAWAG P.S.K. AG. Total personnel expenses for the key management amount to € 21.5 million (2018: € 28.8 million).

Expenses for remuneration (including accrued and deferred bonuses and payments to the pension fund) relating to active members of the Managing Board of BAWAG Group AG and BAWAG P.S.K. AG during the financial year amounted to € 19.8 million (2018: € 27.1 million). These expenses consist of short-term benefits in the amount of € 16.6 million, long-term bonus benefits in the amount of € 0.0 million and payments to the pension fund in the amount of € 3.2 million (2018: short-term benefits € 17.3 million, long-term bonus benefits € 6.6 million and payments to the pension fund € 3.2 million). Expenses for remuneration in 2019 for former members of the Managing Board amounted to € 0.0 million (2018: € 0.0 million).

As of 31 December 2019, contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members.

No bonus awards were awarded and recognized for 2019 for the Managing Board (2018: € 6.6 million). The Management Board has waived potential bonuses for 2019 to address the current macroeconomic environment and accelerate the continued transformation of the Group. Under consideration of the regulatory principles, a long-term incentive program was implemented in 2017, among others, for the Managing Board. The long-term incentive program is awarded 50% in shares and 50% in phantom shares or optionally 100% in shares of BAWAG Group AG under the precondition of long-term corporate success.

As of the reporting date, there was one outstanding loan to a member of the Managing Board in the amount of € 2.0 million (2018: € 0.1 million). In addition, an amount of € 1.0 million has been drawn under credit lines in the amount of € 3.4 million (2018: an amount of € 0.2 million had been drawn under a credit line in the amount of € 0.8 million). Loans, building society loans and leasing financing to members of the Supervisory Board totaled € 0.0 million

(2018: € 0.0 million). Repayments of loans granted to executives and staff took place as contractually agreed.

Furthermore, Managing Board and Supervisory Board members made no use of current account limits (2018: € 0.0 million) as of the reporting date. Turnover on credit cards guaranteed to third parties by the Bank that belong to Managing Board members amounted to € 0.0 million in December 2019 (2018: € 0.0 million). Turnover on guaranteed credit cards that belong to members of the Supervisory Board amounted to € 0.0 million in December 2019 (2018: € 0.0 million).

The remuneration scheme for Supervisory Board members approved at the Annual General Meeting stipulates that the Chairman of the Supervisory Board shall receive € 300,000 per calendar year, the Deputy Chairmen shall receive € 225,000 per calendar year and the members of the Supervisory Board selected at the Annual General Meeting shall each receive € 150,000 per calendar year. The Chairperson of the Audit and Compliance Committee receives € 35,000 and the compensation for chairing a committee other than the Audit and Compliance Committee is € 25,000. The (ordinary) seat in a committee is compensated with € 20,000.

Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG amounted to € 1.2 million in 2019 (2018: € 1.2 million). Works Council delegates to the Supervisory Board do not receive any incremental remuneration. Remuneration of members of the Supervisory Board of BAWAG Group AG amounted to € 0.4 million (2018: € 0.4 million).

There were no consulting expenses in 2019 and 2018.

Pension payments to former members of the Managing Board and their surviving dependents came to € 1.5 million (2018: € 1.5 million).

Expenditures for severance pay for former members of the Managing Board came to € 0.0 million (2018: € 0.0 million).

Long-term incentive program

BAWAG Group established a long-term incentive program (LTIP) for the members of the Managing Board and key senior leaders as well as certain advisors. The LTIP is intended to closely align the interests of the participants

with those of the shareholders. This shall be achieved by granting the bonus and part of the advisory fees in the form of shares in BAWAG Group AG to the participants based on the fulfillment of certain conditions. The LTIP represented initially an equity-settled share-based transaction only which is accounted for in accordance with IFRS 2.

The shares were granted in early 2018 by BAWAG Group, based on an assessment of the individual's performance in 2017 (and earlier years).

Vesting of 75% of the shares of each participant depends on a performance target based on average pre-tax EPS for 2018–2020, which will be evaluated in early 2021. Based on the achieved average pre-tax EPS of BAWAG Group, between 0% and 100% of those shares will be attributed (“part 1”). For part 1, vesting only depends on the achieved pre-tax EPS with no additional service condition.

For 25% of the shares of each participant, there is a service condition (“part 2”): Those shares may only vest in 2022 and 2023 if the participant keeps working for the Group until 31 March 2021. This part is lost if the participant terminates the employment prior to 31 March 2021 himself or is dismissed prior to a vesting date. Based on Austrian labor law requirements, a pro rata allocation of non-vested parts of the LTIP shall take place for “good leavers.”

After the regulatory required deferral period (including limitations to dividend payments), a retention period of one year is foreseen. For members of the Managing Board, the retention period for 50% of the shares will be set until the end of the mandate.

After fulfillment of the vesting conditions, the LTIP participants are entitled to the shares in BAWAG Group without providing any consideration in cash for the acquisition of the shares.

On 29 April 2019, the supervisory board of BAWAG Group decided to modify the LTIP program. The prior arrangement defined a 100% share settlement. According to the new arrangement, 50% of the bonus award will still be settled in shares whereas for 50% of the bonus award the beneficiaries may choose between settlement of the rewards in cash or settlement in shares. The cash payment will depend on the fair value of the shares of BAWAG Group (phantom shares). Vesting and market conditions remain unchanged.

As 50% of the awards now contain a cash settlement alternative, these 50% qualify as a cash settled share-based payment. Consequently, BAWAG Group recognized a liability to settle in cash at the modification date, based on the fair value of the shares at the modification date to the extent to which the specified services have been received. The initial recognition of this liability was P&L neutral, leading to a reduction of capital reserves in the amount of € 24.9 million.

The program includes a “net settlement feature” enabling BAWAG Group to withhold the number of shares necessary to pay the tax obligation (unless the participant pays the necessary amount to the employer). The following shares were awarded in 2018. No further shares were awarded in 2019:

	Number of shares	Fair Value in € million	Fair Value per share as of 31.12.2019
Granted as of 31.12.2019	1,318,498	53.5	40.60
Thereof awarded in part 1 of the LTIP program	988,873	40.1	40.60

The following table shows an overview of the shares awarded per group of beneficiaries:

Group of beneficiaries	Number of shares awarded in part 1 of the LTIP program	Number of shares awarded in part 2 of the LTIP program	Maximum number of shares to be actually allocated	Minimum number of shares to be actually allocated	Number of shares actually allocated on Grant date
Members of the Managing Board of the company					
Anas Abuzaakouk	169,880	56,626	226,506	–	–
Stefan Barth	60,497	20,166	80,663	–	–
David O’Leary	108,395	36,131	144,526	–	–
Sat Shah	136,979	45,660	182,639	–	–
Enver Sirucic	60,497	20,166	80,663	–	–
Andrew Wise	124,573	41,524	166,097	–	–
Senior leadership team of the company and its subsidiaries	319,358	106,453	425,810	–	–
Other share based payment	8,695	2,898	11,594	–	–
Total	988,874	329,624	1,318,498	–	–

Valuation

BAWAG Group used the fair value of the equity instruments granted to measure the fair value of the services received from its employees.

The fair value of the equity instruments at the grant date was based on the observable market price of BAWAG Group AG shares. No adjustment for expected dividends and dividend restrictions were incorporated into the measurement of fair value.

For part 1 of the LTIP program, market and non-vesting conditions are taken into account by estimating the probability of achieving the earnings per share target. This probability was estimated to be 100%.

Service conditions as agreed in part 2 of the LTIP program are not taken into account when measuring the grant date fair value of equity instruments. Instead, those are taken into account by adjusting the number of equity instruments included in the measurement of the transaction. BAWAG Group expects that all participants will satisfy the service condition.

Accounting for cancellations

If a grant of equity instruments (equity settled share-based payment) is cancelled or settled during the period between granting and vesting, the cancellation or settlement is

accounted for as an acceleration of vesting, and the amount that otherwise would have been recognized for services received over the remainder of the vesting period is immediately recognized in profit or loss. Any payment made to the employee on the cancellation or settlement of the grant is accounted for as a deduction from equity. If the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date, the exceeding amount is recognized as an expense.

If parts of the modified part of the LTIP (cash settled share-based payment) are cancelled or settled during the vesting period, the cancellation or settlement is also accounted for as an acceleration of vesting, and the amount that otherwise would have been recognized for services received over the remainder of the vesting period is immediately recognized in profit or loss. The liability is then remeasured at the current fair value on the reporting date taking into account all effects from cancellations and settlements through profit or loss.

Amounts recognized in the financial statements

The services received in an equity-settled share-based payment transaction are recognized as the services are received, with a corresponding increase in equity.

For the modified part of the LTIP program (which now classifies as cash settled), the grant date fair value of the shares granted continues to be recognized as a share-

based payment cost as if no modification had occurred. The expense is credited partially to the liability and partially to equity. The amount credited to the liability is the amount that equals the annual proportion of the fair value of the liability at the date of modification, without taking into account any subsequent changes in the value of the liability. The remainder is credited to equity. In a second step, the liability is remeasured based on the current share price of the instruments granted with all changes in the fair value recognized in profit or loss.

For part 1 of the LTIP program, there is no service period attached to the awards and the expense is recognized immediately.

For part 2, costs are recognized over the vesting period using a straight-line method following the modified grant-date method. According to this method, the fair value of the equity instruments is measured at the grant date, with some true-up for instruments that do not vest. Pro-rata expense was recognized in the financial statements for awards relating to part 2 of the LTIP program as these relate to the service periods 2018 to 2021.

The following amounts have been recognized in the Profit or Loss Statement for the period:

in € million	2019	2018
Expenses for equity settled share based payments	4.1	4.0
Thereof relating to		
Members of the Managing Board of the company	2.6	2.4
Members of the Managing Board of a subsidiary	0.0	0.0
Senior leadership team of the company and its subsidiaries	1.4	1.4
Other	0.1	0.2

in € million	2019	2018
Expenses/Income from cash settled share based payments	(2.7)	-
Thereof relating to		
Members of the Managing Board of the company	1.2	-
Members of the Managing Board of a subsidiary	0.0	-
Senior leadership team of the company and its subsidiaries	(2.0)	-
Other	(1.9)	-

Annual Bonus Program

Annual Bonus Awards are granted to selected employees and Managing Board Members. The bonus of this group is based on the annual result and defined external targets. If the individual bonus exceeds a certain limit, 50% (previous year: 50%) of the bonus is paid in cash and 50% (previous year: 50%) in the form of BAWAG Group AG shares (until 2018) respective phantom shares (since 2019). Shares that are actually allocated to the beneficiaries are share-based payments settled in equity instruments (until 2018) respective settled in cash (since 2019). The shares of BAWAG Group AG were acquired by BAWAG Group AG on the Vienna Stock Exchange. In 2019, no shares of BAWAG

Group AG were granted to employees of the Group for the services rendered in 2018 (2018: 55,025 shares for the services rendered in 2017). Of the shares granted in 2018, 22,600 shares with a purchase value of € 0.9 million were transferred to the employee trustee already in 2018. There were no transfers to the employee trustee in 2019.

The share bonus for 2019 benefits was not formally communicated to the selected employees. All expected bonus allocations for these employees that are granted for services rendered in 2019 were taken into account in the consolidated financial statements as of 31 December 2019 by recognition of a provision.

Employee participation

In 2018, an employee participation program was adopted. Under this program, all employees of BAWAG Group in Austria who did not participate in the LTIP received 23 shares of BAWAG Group AG. A total of 57,293 shares with a purchase value of € 2.2 million were transferred to the employees of BAWAG Group.

Business relations with related party individuals

The following breakdowns depict the business relations with related individuals and their family members. All business is conducted at standard industry and group terms for employees or at standard market terms.

in € million	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Current account deposits	4	4	6	4
Savings deposits	0	3	0	5
Loans	3	6	0	6
Building savings deposits	–	–	–	0
Leasing	–	0	–	0
Securities	0	0	0	0
Interest income	0.0	0.1	0.0	0.1
Interest expense	0.0	0.0	0.0	0.0

Number of shares	Key management of the entity or its parent	Other related parties	Key management of the entity or its parent	Other related parties
	31.12.2019	31.12.2019	31.12.2018	31.12.2018
Shares of BAWAG Group AG	111,923	3,073	46,923	1,530

35 | Major changes in the Group's holdings

Acquisition of Zahnärztekasse AG

On 1 March 2019, the Group acquired 99.632% of the shares of Zahnärztekasse AG, after receiving all the relevant approvals.

Zahnärztekasse AG operates in Switzerland in the city of Wädenswil and is a financial services provider in the health sector and with around 900 dental practices as customers, it has become the market leader in the Swiss dental factoring segment. Its customized and modular based services combined with an efficient IT infrastructure relieves medical practice teams of administrative tasks and secures the liquidity of its clients. Together with the newly acquired Health Coevo AG, the entities complement BAWAG Group's business model by providing a bolt-on opportunity for retail and SME business growth in Germany as well as expansion into Switzerland.

The initial purchase price was a fixed amount of € 49.3 million. BAWAG Group was able to buy some minority holdings and now owns 99.99% of the outstanding share capital.

Together with the acquisition of EOS Health Honorarmanagement AG (renamed to Health Coevo AG as of 1 July 2019), the Group incurred acquisition-related costs of € 0.6 million in consulting fees. These costs were included in the line item Other operating expenses.

The non-controlling interest in the acquisition amounted to € 0.1 million as of the acquisition date.

The goodwill arising from the acquisition is mainly attributable to the market leading position of the company in the Swiss dental factoring segment and the bolt-on opportunity it provides for business expansion into Switzerland.

The following table compares the recognized amount of assets and liabilities at the date of acquisition with the total consideration transferred:

in € million	2019
Financial assets at a mortized cost	50
Customers	41
Credit institutions	9
Property, plant and equipment	5
Intangible non-current assets	12
Other assets	1
Financial liabilities at a mortized cost	26
Customers	26
Provisions	3
Tax liabilities for current taxes	1
Tax liabilities for deferred taxes	2
Other obligations	7
Total identifiable net assets acquired	30
Total consideration transferred	50
Goodwill	20

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Intangible assets

BAWAG Group has recognized customer relationships and a brand name as separately identifiable intangible assets.

The valuation was carried out with the assistance of an external advisor using state-of-the-art valuation models. Customer relationships were valued using a multi-period excess earnings method (MPEEM). The valuation of the brand Zahnärztekasse AG is based on a brand equity approach. The following table summarizes the main assumptions:

	Customer relationships	Brand name
Valuation method	MPEEM	Brand equity approach
Income/expenses	Derived from BAWAG Group's business plan assumptions taking observable parameters of the peer group into account	
Term of model	9 years	indefinite
Cost of capital	9.02%	10.29%
Fair value	€ 5.4 million	€ 5.9 million

Financial assets

Group-wide valuation methodologies and standards are applied. Depending on the information available for the determination of the fair values, different approaches are chosen.

For financial instruments where the fair value cannot be determined directly by reference to market-observable information (Level 3), a discounted cash flow model is used. The valuation is based on expected future cash flows. Different parameters are used for the discounting of these expected cash flows, which can either be derived from market data or from internal information of the acquired company (e.g. expected credit losses). The discount rates that are then used for valuations are basically composed of a risk-free yield curve, refinancing costs, counterparty credit risk premiums and capital costs. In addition, a residual spread component is calculated to calibrate the applied discount spreads to current market observed transactions (e.g. new business margins that reflect current fair value spreads).

Due to the short-term nature of the factoring receivables (45 days), credit risk and interest rate risks only have an immaterial impact on the fair value of receivables as compared to their initial value. Therefore, the acquired financial assets from customers in the amount of

€ 41 million represent the fair value as of the acquisition date. Additionally, financial assets from credit institutions in the amount of € 9 million were acquired. The total financial assets comprise gross amounts of € 51 million, of which € 1 million was expected to be uncollectable at the date of acquisition.

For the period from 1 March 2019 to 31 December 2019, Zahnärztekasse AG contributed core revenues (net interest income and net commission income) of € 10.5 million and a profit of € 2.5 million to the consolidated financial statements. If the acquisition had occurred on 1 January 2019, management estimates that Zahnärztekasse AG would have contributed core revenues of € 12.6 million and consolidated profit of € 3.1 million. In determining these amounts, management assumed that the provisionally determined fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

Acquisition of EOS Health Honorarmanagement AG

On 1 May 2019, the Group acquired 100% of the shares of EOS Health Honorarmanagement AG, after receiving all the relevant approvals. On 1 July 2019, EOS Health Honorarmanagement AG was renamed to Health Coevo AG.

Health Coevo AG is located in Hamburg and has a branch in Berlin. Health Coevo AG is a provider of financial and IT services for the health market. With more than 2,000 customers, it is one of the market leaders in German dental factoring. Since its establishment in 2005, the company has evolved from a factoring start-up to an independent company providing financial and technology services. Together with Zahnärztekasse AG, the entities complement BAWAG Group's business model by providing a bolt-on opportunity for retail and SME business growth in Germany as well as expansion into Switzerland.

Health Coevo AG was acquired for an amount of € 24.8 million.

The goodwill arising from the acquisition is mainly attributable to the market leading position of the company in the German dental factoring segment and the bolt-on opportunity it provides for retail and SME business growth in Germany.

The following table compares the recognized amount of assets and liabilities at the date of acquisition with the total consideration transferred:

in € million	2019
Financial assets at a mortized cost	114
Customers	107
Credit institutions	7
Property, plant and equipment	5
Intangible non-current assets	8
Other assets	2
Financial liabilities at a mortized cost	108
Customers	13
Others	95
Provisions	1
Tax liabilities for deferred taxes	2
Other obligations	9
Total identifiable net assets acquired	10
Total consideration transferred	25
Goodwill	15

The valuation techniques used for measuring the fair value of material assets and liabilities acquired were as follows:

Intangible assets

BAWAG Group has recognized customer relationships and a brand name as separately identifiable intangible assets.

The valuation was carried out with the assistance of an external advisor using state-of-the-art valuation models. Customer relationships were valued using a multi-period excess earnings method (MPEEM). The valuation of the brand Health Coevo AG is based on a brand equity approach. The following table summarizes the main assumptions:

	Customer relationships	Brand name
Valuation method	MPEEM	Brand equity approach
Income/expenses	Derived from BAWAG Group's business plan assumptions taking observable parameters of the peer group into account	
Term of model	8 years	indefinite
Cost of capital	9.16%	10.44%
Fair value	€ 2.1 million	€ 2.3 million

Financial assets and liabilities

Group-wide valuation methodologies and standards are applied for measuring the fair value of material assets acquired. Depending on the information available for the determination of the fair values, different approaches are chosen.

For financial instruments where the fair value cannot be determined directly by reference to market-observable information (Level 3), a discounted cash flow model is used. The valuation is based on expected future cash flows. Different parameters are used for the discounting of these expected cash flows, which can either be derived from market data or from internal information of the acquired company (e.g. expected credit losses). The discount rates that are then used for valuations are basically composed of a risk-free yield curve, refinancing costs, counterparty credit risk premiums and capital costs. In addition, a residual spread component is calculated to calibrate the applied discount spreads to current market observed transactions (e.g. new business margins that reflect current fair value spreads).

Due to the short-term nature of the factoring receivables (average maturity 38 days), credit risk and interest rate risks only have an immaterial impact on the fair value of receivables as compared to their initial value. Therefore,

the acquired financial assets from customers in the amount of € 107 million represent the fair value as of the acquisition date. Additionally, financial assets from credit institutions in the amount of € 7 million were acquired. The total financial assets comprise gross amounts of € 116 million, of which € 2 million was expected to be uncollectable at the date of acquisition.

Refinancing liabilities of the company to their former owner were redeemed before maturity shortly after closing and were therefore valued at their repayment price.

For the period from 1 May 2019 to 31 December 2019, Health Coevo AG contributed core revenues (net interest income and net commission income) of € 15.9 million and a loss of € 2.3 million (due to one-off effects stemming from integration into the Group) to the consolidated financial statements. If the acquisition had occurred on 1 January 2019, management estimates that Health Coevo AG would have contributed core revenues of € 23.9 million and consolidated loss of € 1.9 million. In determining these amounts, management assumed that the provisionally determined fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

Acquisition of BFL Leasing GmbH

On 2 May 2019, the Group acquired 100% of the shares of BFL Leasing GmbH, after receiving all the relevant approvals.

BFL Leasing GmbH, headquartered in Eschborn near Frankfurt, Germany, is a specialist financing provider offering technology and equipment leasing products and services. With its sales partners, BFL Leasing GmbH offers financing solutions for hardware and software, projects including software, licenses and services in the IT sector, office technology as well as information and communication technology. The company complements BAWAG Group's business model with its unique distribution model while providing a bolt-on opportunity for leasing growth in Germany.

BFL Leasing GmbH was acquired for an amount of € 44.8 million, which was paid in cash. The Group incurred acquisition-related costs of € 1.6 million in consulting and other fees. These costs were included in the line item Other operating expenses.

According to IFRS 3, the consolidation result was recognized in the Profit or Loss Statement in the line item Other operating income. The consolidation result mainly includes profits generated by BFL Leasing GmbH since January 2019, as the purchase price was agreed based on the 2018 financials.

The following table compares the recognized amount of assets and liabilities at the date of acquisition with the total consideration transferred:

in € million	2019
Financial assets at a mortized cost	521
Customers	520
Credit institutions	1
Intangible non-current assets	3
Statutory tax assets	1
Deferred tax assets	3
Other assets	11
Financial liabilities at a mortized cost	472
Customers	1
Others	471
Provisions	1
Other obligations	20
Total identifiable net assets acquired	46
Total consideration transferred	45
Consolidation result ¹⁾	1

1) Recognized under Other operating income.

The valuation techniques used for measuring the fair value of material assets and liabilities acquired were as follows:

Intangible assets

BAWAG Group has recognized dealer relationships and a brand name as separately identifiable intangible assets.

The valuation were carried out with the assistance of an external advisor using state-of-the-art valuation models. Dealer relationships were valued using a multi-period excess earnings method (MPEEM). The valuation of the brand BFL Leasing GmbH is based on a brand equity approach. The following table summarizes the main assumptions:

	Dealer relationship	Brand name
Valuation method	MPEEM	Brand equity approach
Income/expenses	Derived from BAWAG Group's business plan assumptions taking observable parameters of the peer group into account	
Term of model	10 years	indefinite
Cost of capital	9.41%	10.45%
Fair value	€ 3.2 million	€ 0.2 million

Financial assets and liabilities

Group-wide valuation methodologies and standards are applied for measuring the fair value of material assets acquired. Depending on the information available for the determination of the fair values, different approaches are chosen.

For financial instruments where the fair value cannot be determined directly by reference to market-observable information (Level 3), a discounted cash flow model is used. The valuation is based on expected future cash flows. Different parameters are used for the discounting of these expected cash flows, which can either be derived from market data or from internal information of the acquired company (e.g. expected credit losses). The discount rates that are then used for valuations are basically composed of a risk-free yield curve, refinancing costs, counterparty credit risk premiums and capital costs. In addition, a residual spread component is calculated to calibrate the applied discount spreads to current market observed transactions (e.g. new business margins that reflect current fair value spreads).

The acquired financial assets from customers in the amount of € 520 million represent the fair value as of the acquisition date. Additionally, financial assets from credit institutions in the amount of € 1 million were acquired. The

total financial assets comprise gross amounts of € 525 million, of which € 4 million was expected to be uncollectable at the date of acquisition. Due to the nature of the business, credit risk and interest rate risks only have an immaterial impact on the fair value of receivables as compared to their initial value.

Refinancing liabilities of the company to their former owner were redeemed before maturity shortly after closing and were therefore valued at their repayment price.

Other obligations include provisions for expected payments relating to the social plan agreed in 2018 in the amount of € 6 million.

For the period from 1 May 2019 to 31 December 2019, BFL Leasing GmbH contributed core revenues (net interest income and net commission income) of € 14.9 million and a profit of € 0.5 million to the consolidated financial statements. If the acquisition had occurred on 1 January 2019, management estimates that BFL Leasing GmbH would have contributed core revenues of € 22.4 million and consolidated profit of € 2.9 million. In determining these amounts, management assumed that the provisionally determined fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

36 | Acquisition of LSREF3 Tiger entities and Promontoria Holding 136 B.V.

In the second quarter 2019, the Group acquired LSREF3 Tiger Aberdeen S.à r.l., LSREF3 Tiger Falkirk I S.à r.l., LSREF3 Tiger Gloucester S.à r.l., LSREF3 Tiger Romford S.à r.l. and LSREF3 Tiger Southampton S.à r.l. in a share deal. The LSREF3 Tiger entities are real estate companies located in Luxembourg, each of which holds an investment property in the United Kingdom. Before the acquisition, BAWAG P.S.K. was senior mezzanine lender.

As these companies are not a business as defined in IFRS 3, the transaction is not accounted for as a business combination according to IFRS 3. The acquisition costs of BAWAG Group are allocated to the acquired assets and liabilities based on their relative fair values. No consolidation result or goodwill was recognized for the transactions.

In the fourth quarter 2019, the Group acquired Promontoria Holding 136 B.V. in a share deal. This entity is located in Amsterdam and holds an investment property in the United Kingdom.

37 | Assets pledged as collateral

in € million	31.12.2019	31.12.2018
Receivables and securities assigned to Oesterreichische Kontrollbank AG	206	303
Collateral pledged to the European Investment Bank	91	121
Cover pool for trust savings deposits	21	23
Cover pool for covered bonds	5,623	2,594
Collateral for RMBS	346	403
Collateral for tender facilities	1,034	3,018
Cash collateral for derivatives	68	34
Other collateral	212	73
Assets pledged as collateral	7,601	6,569

The Group pledges assets for repurchase agreements that are generally conducted under terms that are usual and customary for standard securitized borrowing contracts. In addition, the Group pledges collateral against other borrowing arrangements and for margining purposes on derivative liabilities. Receivables and securities are also pledged to Oesterreichische Kontrollbank AG in connection with export financing. Pledges for trust savings deposits are

conducted in accordance with legal regulations (section 68 BWG).

The cover pool for covered bonds is subject to the law on covered bank bonds (FBSchVG). Additionally, relevant collateral was provided for refinancing through the European Investment Bank.

38 | Total collateralized debt

The collateral listed in the table above corresponded to the following payables of BAWAG Group:

in € million	31.12.2019	31.12.2018
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	180	247
Payables arising due to refinancing by the European Investment Bank	53	61
Trust savings deposits	18	19
Payables secured by the cover pool for covered bonds	2,747	2,251
RMBS	260	324
Tender facilities	792	2,336
Negative market values of derivatives	60	37
Other collateral	133	51
Total collateralized debt	4,243	5,326

39 | Genuine repurchase agreements

in € million	31.12.2019	31.12.2018
Lender – receivables from credit institutions	–	–
Repurchaser – payables to credit institutions	729	150
Repurchase agreements	729	150

40 | Transferred assets that are not derecognized in their entirety

in € million	Financial assets at fair value through other comprehensive income	
	31.12.2019	31.12.2018
Carrying amount of transferred assets ¹⁾	782	153
Carrying amount of associated liabilities	729	150

1) All of the transferred assets are bonds.

Transferred assets that are not derecognized in their entirety relate to genuine repurchase agreements. Since BAWAG Group is still the owner of the transferred assets, it remains exposed to market, interest rate, currency and

credit risk with regard to these assets. The transferred assets are blocked for sale and are not taken into account in the liquidity calculation.

41 | Subordinated assets

Line items on the assets side of the Statement of Financial Position included the following subordinated assets:

in € million	31.12.2019	31.12.2018
At fair value through profit or loss	60	74
At fair value through other comprehensive income	126	145
Subordinated assets	186	219

42 | Offsetting financial assets and financial liabilities

BAWAG Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are generally aggregated into a single net amount that is payable by one party to the other. Under certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Statement of Financial Position. This is because BAWAG Group currently does not have any legally enforceable right to offset recognized amounts because the right to offset is enforceable only on the occurrence of

future events such as a default on the bank loans or other credit events.

Repo and reverse repo transactions are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

The disclosures in the tables below include financial assets and financial liabilities that:

- ▶ are offset in BAWAG Group's Statement of Financial Position; or
- ▶ are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Statement of Financial Position.

Financial assets

	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral received	
31.12.2019 in € million						
Derivatives (excluding hedging derivatives)	353	–	353	12	244	97
Hedging derivatives	397	–	397	78	313	6
Loans to and receivables from customers	380	316	64	–	–	64
Total	1,130	316	814	90	557	167

	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral received	
31.12.2018 in € million						
Derivatives (excluding hedging derivatives)	351	–	351	92	175	84
Hedging derivatives	401	–	401	197	200	4
Loans to and receivables from customers	489	408	81	–	–	81
Total	1,241	408	833	289	375	169

Financial liabilities

	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
31.12.2019 in € million						
Derivatives (excluding hedging derivatives)	334	–	334	268	36	30
Hedging derivatives	116	–	116	93	22	1
Repo transactions	729	–	729	729	–	–
Customer deposits	316	316	–	–	–	–
Total	1,495	316	1,179	1,090	58	31

	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
31.12.2018 in € million						
Derivatives (excluding hedging derivatives)	301	–	301	253	18	30
Hedging derivatives	104	–	104	86	15	3
Repo transactions	150	–	150	150	–	–
Customer deposits	408	408	–	–	–	–
Total	963	408	555	489	33	33

The following tables reconcile the net amounts of financial assets and financial liabilities presented in the Statement of Financial Position to the respective line items in the Statement of Financial Position:

Financial assets

31.12.2019 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excluding hedging derivatives)	Assets held for trading	353	–	353
Hedging derivatives	Hedging derivatives	397	–	397
Loans to and receivables from customers	Loans to and receivables from customers	30,467	30,403	64
Total		31,217	30,403	814

31.12.2018 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excluding hedging derivatives)	Assets held for trading	351	–	351
Hedging derivatives	Hedging derivatives	401	–	401
Loans to and receivables from customers	Loans to and receivables from customers	30,482	30,401	81
Total		31,234	30,401	833

Financial liabilities

31.12.2019 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excluding hedging derivatives)	Liabilities held for trading	334	–	334
Hedging derivatives	Hedging derivatives	116	–	116
Repo transactions	Financial liabilities associated with transferred assets	729	–	729
Customer deposits	Deposits from customers	30,378	30,378	–
Total		31,557	30,378	1,179

31.12.2018 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excluding hedging derivatives)	Liabilities held for trading	301	–	301
Hedging derivatives	Hedging derivatives	104	–	104
Repo transactions	Financial liabilities associated with transferred assets	150	–	150
Customer deposits	Deposits from customers	30,195	30,195	–
Total		30,750	30,195	555

43 | Contingent assets, contingent liabilities and unused lines of credit

in € million	31.12.2019	31.12.2018
Contingent assets	–	–
Contingent liabilities	372	291
Arising from guarantees	280	291
Other contingent liabilities	92	–
Unused customer credit lines	7,485	8,157
Thereof terminable at any time and without notice	5,769	6,270
Thereof not terminable at any time	1,716	1,887

Due to the acquisition of Südwestbank, BAWAG Group has, according to paragraph 5 section 10 of the statutes of the deposit protection fund, committed to release the Association of German Banks (Bundesverband deutscher Banken e. V.), Berlin, from any potential losses that might

arise due to actions supporting credit institutions that are controlled by BAWAG Group or where BAWAG Group owns a majority stake. The Group does not expect any payments resulting from this guarantee at this time.

44 | Foreign currency amounts

BAWAG Group had assets and liabilities in the following foreign currencies:

in € million	31.12.2019	31.12.2018
USD	2,410	2,264
CHF	1,380	1,411
GBP	2,131	2,230
Other	330	244
Foreign currency	6,251	6,149
EUR	39,411	38,549
Total assets	45,662	44,698
USD	338	297
CHF	214	163
GBP	475	462
Other	146	147
Foreign currency	1,173	1,069
EUR	44,489	43,629
Total liabilities	45,662	44,698

This table only includes Statement of Financial Position items and does not provide information about open currency positions due to off-balance hedging transactions.

45 | Information about geographical areas – Non-current assets

in € million	31.12.2019	31.12.2018
Austria	914	617
Western Europe	456	194
Total	1,370	811

Non-current assets consist of the balance sheet items Property, plant and equipment, Investment properties, Goodwill, Brand name and customer relationships,

Software and other intangible assets, Associates recognized at equity and Other assets with a remaining maturity of more than one year.

46 | Leasing

Finance leasing from the view of BAWAG Group as lessor

Finance lease receivables are included in the balance sheet position Loans and advances to customers.

BAWAG Group leases both movable property and real estate to other parties under finance lease arrangements.

The following table shows the reconciliation between gross investment value and present value, broken down according to maturity for all ongoing leasing contracts (without open items):

31.12.2019 in € million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	391	1,318	107	1,816
As yet unrealized financial income	29	61	6	96
Receivables from finance leases (net investment value)	362	1,257	101	1,720

31.12.2018 in € million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	421	707	60	1,188
As yet unrealized financial income	23	33	2	58
Receivables from finance leases (net investment value)	398	674	58	1,130

As of 31 December 2019, the non-guaranteed residual value amounts to € 25 million (2018: € 30 million).

No impairments were recognized in respect of irrecoverable minimum lease installments (2018: € 0.0 million).

Operating leasing from the view of BAWAG Group as lessee

BAWAG Group leases office premises, branches, equipment and vehicles under various rental agreements. The lease contracts are concluded under standard terms and conditions and include price adjustment clauses in line with general office rental market conditions. The lease agreements do not include any clauses that impose any restriction on the Group's ability to pay dividends, engage

in debt financing transactions or enter into further lease agreements.

As of 31 December 2019, the right-of-use assets amount to € 251.3 million and are presented within property, plant and equipment (€ 248.2 million) and receivables from customers at a mortized cost (€ 3.1 million). The following table presents the asset classes related to the right-of-use assets:

in € million	31.12.2019	01.01.2019
Land and buildings	250.1	261.1
Office furniture and equipment	1.2	-
Total right-of-use assets	251.3	261.1

Since the initial application of IFRS 16 on 1 January 2019, an addition to the right-of-use assets was recognized in the amount of € 23.7 million. On the one hand, this results from the acquisition of BFL Leasing GmbH, Zahnärztekasse AG and Health Coevo AG and the related recognition of additional right-of-use assets and, on the other hand, from the

expansion of BAWAG Group's branch network in line with *Concept 21*.

As of 31 December 2019, the lease liability amounts to € 252.8 million and is presented within other obligations. The following table presents a maturity analysis of the lease liability:

in € million	31.12.2019	31.12.2018
Up to 1 year	0.3	-
1-5 years	10.5	-
Over 5 years	242.0	-
Total lease liability	252.8	-

The following table presents the impact of IFRS 16 on profit or loss:

in € million	2019	2018
Depreciation of right-of-use assets	24.0	-
Land and buildings	23.7	-
Office furniture and equipment	0.3	-
Interest expense on lease liabilities	2.5	-
Expenses relating to short-term leases	0.5	-
Expenses relating to low-value assets	0.1	-
Expenses relating to variable lease payments independent from an index or rate	0.0	-
Total	27.1	-
Total rental payments for lease agreements	(25)	(26)
Rental income from subleasing right-of-use assets	1	1

In 2019, interest expenses in the amount of € 2.5 million and depreciation in the amount of € 24.0 million were recorded due to the adoption of IFRS 16. Rental expenses for operating leases in the amount of € 25.5 million were eliminated from

other operating expenses and administrative expenses, resulting in a decrease of net profit before tax in the amount of € 1.0 million.

47 | Derivative financial transactions**Derivative financial transactions as of 31.12.2019**

31.12.2019 in € million		Nominal amount/maturity ¹⁾				Fair value ¹⁾	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		7,256	22,799	17,574	47,629	725	(279)
Thereof	interest rate swaps banking book	6,906	22,182	16,864	45,952	698	(237)
	interest rate options banking book	350	617	710	1,677	27	(42)
	interest rate swaps trading book	–	–	–	–	–	–
	interest rate options trading book	–	–	–	–	–	–
Currency related business		2,462	3,054	749	6,265	23	(165)
Thereof	currency swaps banking book	597	2,918	749	4,264	10	(148)
	foreign currency forward transactions and options banking book	1,862	136	–	1,998	13	(17)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	3	–	–	3	–	0
Securities related business		1	40	27	68	3	(6)
Thereof	securities related business banking book	1	40	27	68	3	(6)
Total		9,719	25,893	18,350	53,962	751	(450)
Thereof	banking book business	9,716	25,893	18,350	53,959	751	(450)
	trading book business	3	–	–	3	–	0

1) Banking book derivatives include fair value hedging, cash flow hedging and net investment hedging instruments

The table above includes the following figures for fair value hedges, cash flow hedges and net investment hedges:

31.12.2019 in € million		Nominal amount/maturity				Fair Value	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business	Fair Value Hedge – Interest rate risk	901	6,859	10,450	18,210	380	(47)
Currency related business	Cash Flow Hedge – FX risk	565	2,211	588	3,364	15	(68)
Currency related business	Net Investment Hedge – FX risk	235	–	–	235	2	0
Total		1,701	9,070	11,038	21,809	397	(115)

Derivative financial transactions as of 31.12.2018

31.12.2018 in € million		Nominal amount/maturity ¹⁾				Fair value ¹⁾	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		6,483	17,683	15,350	39,516	722	(256)
Thereof	interest rate swaps banking book	5,264	15,819	13,469	34,552	593	(176)
	interest rate options banking book	155	400	509	1,064	11	(29)
	interest rate swaps trading book	768	1,127	1,151	3,046	101	(44)
	interest rate options trading book	296	337	221	854	17	(7)
Currency related business		2,859	2,493	1,310	6,662	27	(145)
Thereof	currency swaps banking book	675	2,341	1,310	4,326	15	(133)
	foreign currency forward transactions and options banking book	2,172	151	–	2,323	12	(12)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	12	1	–	13	–	–
Securities related business		16	37	32	85	3	(4)
Thereof	securities related business banking book	16	37	32	85	3	(4)
Total		9,358	20,213	16,692	46,263	752	(405)
Thereof	banking book business	8,282	18,748	15,320	42,350	634	(354)
	trading book business	1,076	1,465	1,372	3,913	118	(51)

1) Banking book derivatives include fair value hedging and cash flow hedging instruments

The table above includes the following figures for fair value hedges and cash flow hedges:

31.12.2018 in € million		Nominal amount/maturity				Fair value	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business	Fair value hedge – Interest rate risk	1,651	7,082	8,436	17,169	383	(45)
Currency related business	Cash flow hedge – FX risk	623	1,806	933	3,362	18	(59)
Total		2,274	8,888	9,369	20,531	401	(104)

48 | List of consolidated subsidiaries

	31.12.2019		31.12.2018	
Banks				
BAWAG P.S.K. AG, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
easybank AG, Vienna	-	-	F	100.00%
IMMO-BANK Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
start:bausparkasse AG, Hamburg (formerly: DEUTSCHER RING Bausparkasse AG)	F	100.00%	F	100.00%
start:bausparkasse AG, Vienna	F	100.00%	F	100.00%
Südwestbank Aktiengesellschaft, Stuttgart	F	100.00%	F	100.00%
Real estate				
LSREF3 Tiger Aberdeen S.à r.l., Luxembourg	F	100.00%	-	-
LSREF3 Tiger Falkirk I S.à r.l., Luxembourg	F	100.00%	-	-
LSREF3 Tiger Gloucester S.à r.l., Luxembourg	F	100.00%	-	-
LSREF3 Tiger Romford S.à r.l., Luxembourg	F	100.00%	-	-
LSREF3 Tiger Southampton S.à r.l., Luxembourg	F	100.00%	-	-
Promontoria Holding 136 B.V., Amsterdam	F	100.00%	-	-
R & B Leasinggesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
SWBI Darmstadt 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Mainz 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI München 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 2 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 3 GmbH, Stuttgart	F	100.00%	F	100.00%
Leasing				
ACP IT-Finanzierungs GmbH, Vienna	F	75.00%	F	75.00%
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BFL Leasing GmbH, Eschborn	F	97.51%	-	-
BPI Holding GmbH & Co KG., Vienna	F	100.00%	F	100.00%
CVG Immobilien GmbH, Vienna	F	100.00%	F	100.00%
easyleasing GmbH, Vienna	F	100.00%	F	100.00%
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
KLB Baulandentwicklung GmbH, Vienna	F	100.00%	F	100.00%
Leasing-west GmbH, Kiefersfelden	F	100.00%	F	100.00%
Morgenstern Miet + Leasing GmbH, Eschborn	F	92.64%	-	-
P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%

	31.12.2019		31.12.2018	
Other non-credit institutions				
AUSTWEST ANSTALT GmbH, Triesen	F	100.00%	F	100.00%
BAWAG Education Trust Corp., Wilmington	F	100.00%	–	–
BAWAG Group Germany GmbH, Eschborn (formerly: BAWAG P.S.K. Deutschland Holding GmbH, Stuttgart)	F	100.00%	–	–
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
Bonnie RE UK 1 B.V., Amsterdam	F	100.00%	–	–
BV Vermögensverwaltung GmbH, Vienna	F	100.00%	F	100.00%
BVV Cayman Ltd., George Town	F	100.00%	–	–
E2E Kreditmanagement GmbH, Vienna	F	100.00%	F	100.00%
E2E Service Center Holding GmbH, Vienna	F	100.00%	F	100.00%
E2E Transaktionsmanagement GmbH, Vienna	F	100.00%	F	100.00%
FCT Pearl, Pantin	F	100.00%	F	100.00%
Feldspar 2016-1 Mortgage Holding Limited, London ¹⁾	F	0.00%	F	0.00%
Feldspar 2016-1 PLC, London ¹⁾	F	0.00%	F	0.00%
Health Coevo AG, Hamburg	F	100.00%	–	–
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	F	100.00%	F	100.00%
MF BAWAG Blocker LLC, Wilmington	F	100.00%	F	100.00%
Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH, Vienna	–	–	F	100.00%
PFH Properties Funds Holding GmbH, Vienna (formerly: START Immobilienleasing GmbH, Vienna)	F	100.00%	F	100.00%
PSA Payment Services Austria GmbH, Vienna	E	20.82%	E	20.82%
P.S.K. Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
ROMAX Immobilien GmbH, Vienna	F	100.00%	–	–
SWB Immowert GmbH, Stuttgart	F	100.00%	F	100.00%
Tiger Retail UK RE 1 S.à r.l., Luxembourg	F	100.00%	–	–
Tiger Retail UK RE 2 S.à r.l., Luxembourg	F	100.00%	–	–
Zahnärztekasse AG, Wädenswil	F	99.99%	–	–

F ... Full consolidation, E ... Equity method

1) As these entities are set up for the funding and refinancing of BAWAG P.S.K. and BAWAG P.S.K. determines all contracts and processes, BAWAG P.S.K. is obligated to consolidate these entities according to IFRS 10

Material subsidiaries are fully consolidated on the basis of IFRS 10, whereas material associates are at-equity consolidated according to IAS 28.

Subsidiaries are entities that BAWAG Group controls in accordance with IFRS 10. BAWAG Group controls an entity when it is exposed or has rights to variable returns from its involvement with a subsidiary and has the ability to influence those returns through its power over the subsidiary.

Associates in accordance with IAS 28 are all entities over which BAWAG Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

The classification of whether a subsidiary/associate is material is reviewed once a year.

49 | List of subsidiaries and associates not consolidated due to immateriality

	31.12.2019	31.12.2018
Real estate		
N & M Immobilienentwicklungs GmbH, Vienna	100.00%	100.00%
ROMAX Immobilien GmbH, Vienna	–	100.00%
LSREF3 Tiger Falkirk IIS.à r.l., Luxembourg	100.00%	–
Leasing		
BAWAG Leasing & fleets.r.o., Prague	100.00%	100.00%
BAWAG Leasings.r.o., Bratislava	100.00%	100.00%
Fides Leasing GmbH, Vienna	50.00%	50.00%
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%	100.00%
HFE alpha Handels-GmbH, Vienna	50.00%	50.00%
Kommunalleasing GmbH, Vienna	50.00%	50.00%
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	100.00%
Other non-credit institutions		
Athena Burgenland Beteiligungen AG, Eisenstadt	38.30%	38.30%
Athena Wien Beteiligungen GmbH in Liqu., Vienna	–	50.00%
AUSTOST ANSTALT, Balzers	100.00%	100.00%
BAWAG Education Trust Corp., Wilmington	–	100.00%
BAWAG Finance Malta Ltd. in Liqu, Sliema	100.00%	100.00%
BAWAG Group Germany GmbH, Eschborn (formerly: BAWAG P.S.K. Deutschland Holding GmbH, Stuttgart)	–	100.00%
BAWAG P.S.K. Equity Finance Limited, St. Helier	100.00%	100.00%
BFL Vertriebspartner BeteiligungsgesmbH, Eschborn	68.92%	–
easy green energy GmbH, Vienna	49.00%	49.00%
easy green energy GmbH & Co KG, Vienna	49.00%	49.00%
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna	35.92%	35.92%
ESG Entwicklungsgesellschaft mbH. i.L., Stuttgart	100.00%	100.00%
Finventum GmbH, Munich	49.00%	–
Finventum IT GmbH, Vienna	49.00%	–
FlexSi Finanz Vermittlungsgesellschaft m.b.H., Hamburg	100.00%	100.00%
GemeloLux S.A., Luxembourg	–	100.00%
GTA Global Transformation Advisors GmbH, Eschborn	49.00%	–
Omnicas Management AG, Wädenswil	99.99%	–
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	–	50.00%
Savity Vermögensverwaltungs GmbH, Vienna	49.00%	–
SPG Software Solutions Limited, Minsk	25.03%	–
SPGR Financial Solutions GmbH, Vienna	25.03%	–
SWB Treuhand Gesellschaft mit beschränkter Haftung i.L., Stuttgart	100.00%	100.00%
TwinLux Value Invest S.A., Luxembourg	–	100.00%
Vertiva Family Office GmbH, Stuttgart	100.00%	100.00%

50 | Associates not accounted for using the equity method due to immateriality

The following table shows key financial indicators for the Bank's unconsolidated associates:

in € million	31.12.2019	31.12.2018
Cumulated assets	232	246
Cumulated equity	0	9
Cumulated net profit	(1)	2

The amounts presented in the table above are based on the latest available financial statements of the respective companies that have been prepared in accordance with the applicable accounting standards. At the time the annual financial statements of BAWAG Group as of 31 December 2019 were being prepared, financial statements as of 31 December 2018 were available for the majority of the respective entities (prior year: 31 December 2017).

From an economic point of view, we would like to note that the table above does not take the economic share invested into consideration. The average economic share is 45% (2018: 47%).

For further details, please refer to Note 34 Related parties.

51 | Involvement with associated companies

Investments in associates disclosed in this note are accounted for using the equity method. BAWAG Group includes two companies that are accounted for using the equity method: BAWAG P.S.K. Versicherung AG,

Vienna, and PSA Payment Services Austria GmbH, Vienna. The table below presents aggregated financial information on the Group's share in associates that are considered to be immaterial compared to the Group's total assets and profit or loss.

in € million	31.12.2019	31.12.2018
Carrying amounts of all associates	48	45
Aggregated amount of the Group's share of profit or loss	5.2	5.1
Aggregated amount of the Group's share of other comprehensive income	2.3	(0.9)
Aggregated amount of the Group's share of total comprehensive income	7.5	4.2

52 | Non-consolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor for determining control over the entity. This is the case, for example, when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following attributes:

- ▶ Restricted activities
- ▶ A narrow and well defined objective
- ▶ Insufficient equity
- ▶ Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The entities covered by this disclosure note are not consolidated because the Group does not control them

through voting rights, contract, funding agreements or other means. The Group's exposure to unconsolidated structured entities comprises leasing companies engaging in special leasing to which BAWAG Group provides the financing.

The Group provides a different measure for the size of structured entities depending on their nature. Regarding other structured entities, the total assets of these entities in the amount of € 87 million (2018: € 92 million) best

measure their size. For securitizations, this is the notional of notes in issue in the amount of € 935 million (2018: € 957 million).

The table below shows an analysis of the carrying amounts of assets and liabilities of unconsolidated structured entities recognized by the Group and income from those structured entities. The maximum exposure to loss is the carrying amount of the assets held.

<i>in € million</i>	2019	2018
Carrying amounts of assets in connection with investments in structured entities	980	1,002
shown on the balance sheet under At amortized cost	980	1,002
Carrying amounts of liabilities in connection with investments in structured entities	0	0
Income	8.2	7.0
Interest income	8.2	7.0
Losses incurred during the reporting period	0	0
Maximum exposure to loss	980	1,002

BAWAG Group neither provided any financial or other support to an unconsolidated securitization vehicle during

the financial year nor does it have any current intention to do so.

RISK REPORT

The operational and strategic risk management functions and the relevant committees of BAWAG Group are responsible for the identification, quantification, limitation, monitoring and steering of all risks BAWAG Group is exposed to. At all organizational levels, business and risk functions are strictly separated.

The Managing Board defines the overall risk appetite and risk strategy on an annual basis. All risk management principles, the defined limits for all material risks and the established procedures for monitoring these risks are documented in risk manuals and guidelines. The Managing Board is continuously and proactively informed on the overall risk situation. The monthly risk reporting is based on clearly defined risk metrics and encompasses all Pillar I and Pillar II relevant topics as well as non-financial risk topics and additionally relevant specific risk topics. Quarterly risk reports are submitted to the monitoring and control committees of the Supervisory Board.

Risk management policies are reviewed regularly to reflect adjustments to the business strategy, regulatory requirements as well as market conditions. Particular attention is paid to the need for adjustment following BAWAG Group's expansion strategy. Moreover, starting in 2019, BAWAG group implemented the requirements of the ECB ICAAP guide, covering in particular the two perspectives, Normative and Economic.

The following divisions oversee the implementation and execution of risk-related guidelines:

- ▶ Chief Data & Risk Control Office
 - Strategic Risk Management
 - Market & Liquidity Risk Management
 - Risk Management Services & Integration
 - Data Office
 - Data Solution Services

- ▶ Commercial Risk Management
- ▶ Retail Risk Management
- ▶ Non-Financial Risk Management & Regulatory Compliance

The risk self-assessment (RSA), which is conducted on an annual basis, provides an overview of BAWAG Group's risk situation using quantitative and qualitative evaluation methods, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, materiality and their impact on BAWAG Group. All material and non-material risks are considered under the economic perspective, while the normative perspective encompasses Pillar I risks (credit risk, market risk, operational risk) and all other material risks.

The following risks including their respective sub-risk types are considered within BAWAG Group:

- ▶ Credit risk
- ▶ Market risk
- ▶ Liquidity risk
- ▶ Non-financial risk
- ▶ Other risks

The risks of BAWAG Group are described on the following pages, in respect to their consideration in the Normative and Economic perspectives.

The outbreak of the coronavirus COVID-19 will most likely have an impact on the economies we are doing business in. This may result in an overall challenged and volatile market environment. We classified this event as a non-adjusting event for accounting purposes. We did not adjust our targets nor plans given the uncertainties on scope and length as well as the ongoing developments. Thus, we cannot give any accurate or reliable estimates on potential quantitative impacts.

53 | Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing

BAWAG Group's economic perspective compares the quantified risks with the risk-bearing capacity. The risk quantification is based on a confidence level of 99.9%, which represents the probability of potential losses not exceeding the quantified risks. Limits are determined for all defined risk categories and portfolios as part of the risk strategy in accordance with the annual budget (dynamic balance sheet). Compliance with the limits is monitored in

the Portfolio Steering Committee (PSC) on a monthly basis according to the actual utilization. If the predefined warning levels are reached or limits are exceeded, escalation processes are initiated.

In connection with the evaluation of the risk-bearing capacity, the individual risks are quantified, subsequently aggregated to the total risk and, in a further step, compared

with BAWAG Group's risk coverage capacity. The following risk types are considered and quantified:

- ▶ **Credit risk:** The quantification of credit risk is based on the IRB approach for all portfolio segments. Additional capital surcharges are applied for concentration risk in connection with loans to major customers/to groups of affiliated customers, for the FX-induced credit risk as well as for the risk arising from credit lines not subject to capital requirements under legal regulations.
- ▶ **Market risk:** BAWAG Group has identified interest rate risk in the banking book and credit spread risk as the relevant market risks. Both risk types are measured using value-at-risk models. In addition, various stress tests are applied. The interest rate risk in the banking book and the credit spread risk are aggregated taking conservative correlation assumptions into account. Simplified quantifications are used for other market risk types like foreign currency risk in the banking book.
- ▶ **Liquidity risk:** Structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of spreads in connection with a notional spread widening on the market. Simplified quantifications are used for market liquidity risk in the banking book and basis spread risk. All types of liquidity risks are quantified in Market & Liquidity Risk Management and are managed operationally in Treasury.
- ▶ **Non-financial risk:** This risk category includes operational risk (including compliance risk), quantified using a value-at-risk model and in the future with the standardized approach prescribed by Basel IV, as well as reputation risk, which is assessed using a simplified valuation model.
- ▶ **Other risks:** This risk category includes participation risk, macroeconomic risk, strategic risk and capital risk. Participation risk is quantified using the PD/LGD approach based on IFRS book values, while capital is held for the macroeconomic risk based on expert assumptions. For all other mentioned risk types, the required economic capital is quantified using simplified models.

The risk-bearing capacity is reported to the Managing Board via the Enterprise Risk Meeting (ERM) on a monthly basis.

The normative perspective is also fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

In connection with the normative perspective, Pillar I risks as well as material risks are quantified, projected and subsequently considered in the respective capital (RWA) and P&L views. The following risk types are considered and quantified:

- ▶ **Credit risk:** The quantification of credit risk is based on the regulatory approach (Pillar I view) and is considered under the capital view (RWA). Credit risk losses are also accounted in the P&L view in the form of expected credit losses.
- ▶ **Market risk:** The quantification of market risk for the trading book is based on the regulatory approach (Pillar I view) and is considered under the capital view (RWA). BAWAG Group has identified interest rate risk in the banking book and credit spread risk as the material market risks and are considered in the P&L under net interest income, gains & losses and other comprehensive income.
- ▶ **Operational risk:** The quantification of operational risk is based on the regulatory approach (Pillar I view) and is considered under the capital view (RWA). Operational risk losses are also accounted for in the P&L view.

The stress test exercises, including those for both ICAAP perspectives, are fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

The methodology and results of both ICAAP perspectives as well as of the stress test exercises are discussed in the regular Stress Testing Committee (STC) on quarterly basis and reported to the ERM. The ERM oversees the assessment of the results of the exercises and defines any corrective action for the risk appetite or business strategy, where necessary.

The link between the ICAAP perspectives, the stress test exercises and capital management is formally defined within the internal risk and capital governance.

The capital ratios defined within the capital planning process and monitored on a monthly basis by the Capital Management Meeting are used as a benchmark for the normative perspective and for stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the normative perspective and stress test exercises, senior management reviews whether the stressed capital ratios remain above the recovery levels. In case of

breach of the recovery levels measures need to be taken to improve the capital position sufficiently in order to keep the capital ratios above the recovery levels even under a stressed scenario.

54 | Credit risk

Credit risk is defined as the risk of loss due to a party in a financial transaction failing to pay its obligation to the other party.

The operational credit risk divisions are specifically set up to ensure functional risk management expertise for commercial and institutional (Commercial Risk Management) and the retail and small business (Retail Risk Management) customers. The Credit Approval Committee (CAC), a specific committee at the Managing Board level, is responsible for approval of loan applications within the authorities defined in the Competence and Power Regulation. The division Strategic Risk Management is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

In addition to clearly defined lending guidelines for retail and small business customers, creditworthiness is assessed via automated scorecards. The scoring is based on statistical models that cover both application scoring as well as behavioral scoring based on the customer's account usage. In addition, external data (e.g. credit bureau information) is also factored into the customer scoring. Based on this information, the individual customer credit ratings are updated monthly.

In addition to the credit rating, the loss given default (LGD) and the expected utilization of the off-balance-sheet exposure value at the time of default (credit conversion factor, CCF) are also estimated for retail and small business

customers. The estimate, which is based on data from the observed customer behavior, is calculated using various statistical methods and models.

For each commercial loan application, the borrower's credit rating is assessed using an internal rating method specific to each business segment. The rating methods are based on a broad spectrum of quantitative and qualitative factors. Specific rating grades, which represent an individually estimated probability of default, are assigned to each customer using a uniform master scale.

To manage overall concentration risk at the client and group of affiliated customers level, exposure limits are defined, monitored and reported on a monthly basis.

BAWAG Group is a banking group that applies the internal rating-based (IRB) approach and as such sets high standards with regard to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to risk quantification methods. Specific standards are in place for all sub-portfolios that are monitored and validated on a regular basis. Due to the centralized structure and coordination of BAWAG Group, new risk regulations or changing market situations are considered in a timely manner within the risk management strategies. The following sections provide an overview of the structure and the portfolio quality in the individual segments.

Lending and securities portfolio by business segment

31.12.2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total portfolio
Lending portfolio	17,862	12,718	4,821	1,156	36,557
Securities	134	358	4,734	0	5,226
Off-balance business	3,676	1,688	31	2,006	7,401
Total	21,672	14,764	9,586	3,162	49,184
thereof collateralized ¹⁾	12,737	4,810	12	568	18,127
thereof NPE (gross view)	467	239	–	257	962
thereof NPL (gross view)	422	154	–	257	833

1) Economic view – all collateral types are applied

31.12.2018 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total portfolio
Lending portfolio	16,712	13,827	3,854	723	35,116
Securities	38	238	6,335	29	6,640
Off-balance business	4,221	2,244	469	654	7,589
Total	20,971	16,309	10,658	1,406	49,345
thereof collateralized ¹⁾	12,826	5,061	47	321	18,255
thereof NPE (gross view)	467	197	–	255	919
thereof NPL (gross view)	392	188	–	255	835

1) Economic view – all collateral types are applied

The table below provides a reconciliation between book values of loans and receivables, the risk report and the segment report.

31.12.2019 in € million	Note 15	Notes 12, 13	Risk view	Segment report	
	At amortized cost	Loans & Bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
Retail & SME	17,744	252	17,996	159	18,155
Corporates & Public	12,673	403	13,076	65	13,141
Treasury	5,983	3,572	9,555	519	10,074
Corporate Center	1,156	0	1,156	3,136	4,292
Total	37,556	4,227	41,783	3,879	45,662

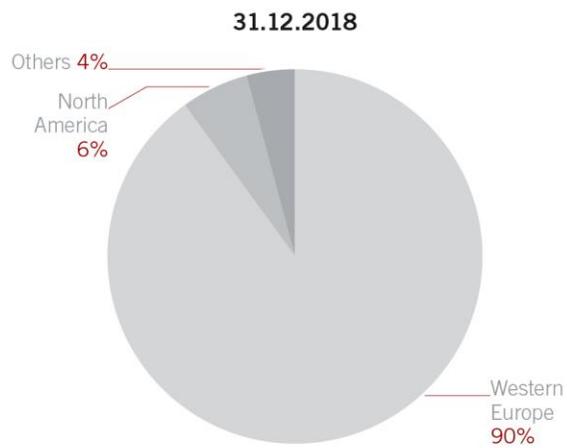
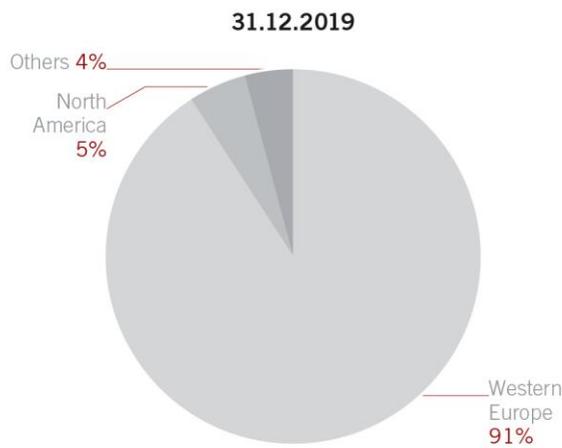
31.12.2018 in € million	Note 15	Notes 12, 13	Risk view	Segment report	
	At amortized cost	Loans & Bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
Retail & SME	16,624	126	16,750	155	16,905
Corporates & Public	13,813	252	14,065	102	14,167
Treasury	7,175	3,014	10,189	2	10,191
Corporate Center	722	30	752	2,683	3,435
Total	38,334	3,422	41,756	2,942	44,698

Geographical distribution of the lending and securities portfolio

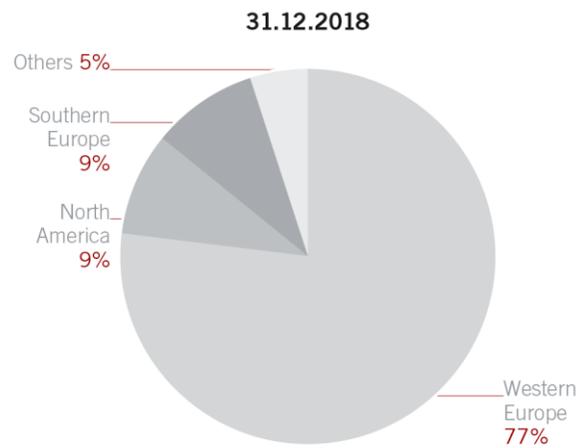
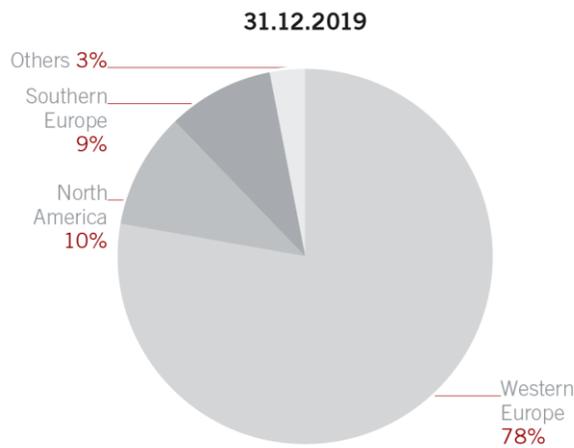
The geographic distribution of the lending portfolio is in line with BAWAG Group’s strategy of focusing on stable economies and currencies. A total of 96% (2018: 96%) of

the lending portfolio¹⁾ and 88% (2018: 86%) of the securities portfolio²⁾ is located in Western Europe and North America.

Geographical distribution of the lending portfolio



Geographical distribution of securities



1) The major share of the lending portfolio is allocated to Austria with 60% (Dec 2018: 58%), Germany with 17% (Dec 2018: 16%), Great Britain with 6% (Dec 2018: 7%), the United States with 5% (Dec 2018: 5%) and France with 2% (Dec 2018: 3%)
 2) The major share of the securities portfolio is allocated to Great Britain with 12% (Dec 2018: 10%), the United States with 10% (Dec 2018: 7%), Austria with 8% (Dec 2018: 11%), France with 8% (Dec 2018: 10%) and Germany with 6% (Dec 2018: 6%)

Lending and securities portfolio by currencies

Consistent with BAWAG Group's overall positioning, the major share of financing is denominated in EUR. The

following table depicts the currency distribution of the lending and securities portfolio.

in € million	Book value		in %	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
EUR	35,963	35,747	86.1%	85.5%
USD	2,366	2,238	5.7%	5.4%
GBP	1,809	2,120	4.3%	5.1%
CHF	1,338	1,407	3.2%	3.4%
Others	307	244	0.7%	0.6%
Total	41,783	41,756	100.0%	100.0%

Credit quality overview: Lending, provisions, delinquencies and collateral

The following table shows the days past due, NPE ratio, NPL ratio and provisioning of the lending portfolio. The low risk profile is reflected by the low NPE ratio, NPL ratio, low delinquency of loan volumes and good provisioning level

and collateral coverage across the portfolios. More than 84% (2018: 81%) of the total exposure can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

in € million	Book value ¹⁾		in %	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
At a amortized cost (gross)	37,781	38,601	100.0%	100.0%
Provisions	225	267	0.6%	0.7%
thereof ECL	48	72	0.1%	0.2%
At a amortized cost (net)	37,556	38,334	99.4%	99.3%
NPE ratio ²⁾	–	–	2.0%	1.9%
NPL ratio ²⁾	–	–	1.7%	1.7%
NPL LLP coverage ratio	–	–	32.6%	31.8%
NPL coverage ratio (collateral + LLP)	–	–	75.1%	79.2%

Additional information:

Total unprovisioned outstandings past due	337	317	0.9%	0.8%
1–30 days	203	198	0.5%	0.5%
31–60 days	32	23	0.1%	0.1%
61–90 days	18	15	0.1%	0.0%
91–180 days	11	11	0.0%	0.0%
More than 180 days	73	70	0.2%	0.2%

1) Securities are not included since the securities portfolio does not show any days past due or any signs of non-performance

2) including City of Linz

The following table shows the days past due, the NPE ratio and the NPL ratio for the segments Retail & SME and Corporates & Public.

in € million	Retail & SME		Corporates & Public	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Total	17,996	16,750	13,076	14,065
1–30 days	0.5%	0.3%	0.2%	0.2%
31–60 days	0.2%	0.1%	0.0%	0.0%
61–90 days	0.1%	0.1%	0.0%	0.3%
NPE ratio	2.2%	2.2%	1.6%	1.2%
NPL ratio	1.9%	1.9%	1.0%	1.2%
NPL LLP coverage ratio	33.1%	31.8%	31.3%	31.7%
NPL coverage ratio (collateral + LLP)	78.9%	83.1%	65.0%	71.0%

The following table shows the distribution by ratings for the portfolio which is neither overdue nor impaired. The risk profile is stable.

in %	Total portfolio		Retail & SME		Corporates & Public	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Rating class 1	22.3%	19.9%	0.6%	0.5%	17.6%	13.9%
Rating class 2	6.1%	7.4%	3.7%	3.8%	9.9%	9.1%
Rating class 3	11.3%	13.2%	18.9%	19.3%	4.7%	7.8%
Rating class 4	31.8%	32.2%	37.7%	39.7%	41.3%	42.5%
Rating class 5	21.3%	20.1%	31.3%	28.7%	22.7%	23.8%
Rating class 6	3.0%	2.8%	4.9%	4.7%	2.6%	2.4%
Rating class 7	4.2%	4.4%	2.9%	3.3%	1.1%	0.5%

Internal rating classes correspond to Moody's rating in the following way: Rating class 1 corresponds to Moody's rating Aaa–Aa2, rating class 2 to Aa3–A1, rating class 3 to A2–A3,

rating class 4 to Baa1–Baa3, rating class 5 to Ba1–B1, rating class 6 to B2–Caa2 and rating class 7 to Caa3.

Collateral

BAWAG Group's strategy is to hold collateral and other credit enhancements against credit exposures, where never possible. Collateral serves as essential support for the lending business and loss-reducing in the event of default of the debtor. However, the focus during the decision-making process is on the affordability of the borrower.

All acceptable collateral types are recorded in the Group Collateral Catalogue, where the principles for the valuation and revaluation of collateral are also defined. The catalogue defines which combinations of goods (characteristics of the economic good/asset) and collateral (to which BAWAG Group has title) are deemed acceptable and which value (market value, nominal value, etc.) has to be applied. The Enterprise Risk Management Committee decides if a type of collateral is accepted for credit risk mitigation taking the corresponding haircuts into consideration.

The following types of collateral are accepted:

- ▶ Real estate properties: residential real estate and commercial real estate
- ▶ Other collateral: vehicles and other physical collateral (at the moment not used for capital mitigation), pledging or assignment of life insurance policies

- ▶ Financial guarantees: financial collateral, securities, cash deposits at own bank
- ▶ Credit enhancements: guarantees and co-obligations

In order to be used as a credit risk mitigation technique, collateral must meet the general legal and regulatory requirements and internal requirements defined in Group-wide internal policies. These policies are revised at least once a year. Any exceptions from internal rules must be well-founded, separately requested and explicitly approved.

Real estate valuation is centralized as far as possible to ensure a standard valuation approach. Only appraisers who are not involved in the credit decision process are permitted to conduct real estate valuations. IT-supported automated valuation for residential real estate is confirmed by independent internal appraisers. Commercial real estate is assessed by independent experts.

The basis for the collateral table is the market value of all available collateral, reduced by internal haircuts. Furthermore, real estate properties are reduced by senior liens and the value is capped at the mortgage value.

The following table contains the split of collateral by categories. It shows a strong focus on real estate.

in %	Total portfolio		Retail & SME		Corporates & Public	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Real estate	78.3%	78.7%	78.4%	80.3%	77.8%	75.2%
thereof residential	70.6%	71.8%	94.6%	93.7%	13.9%	21.0%
thereof commercial	29.4%	28.2%	5.4%	6.3%	86.1%	79.0%
Guarantees	11.4%	11.7%	7.8%	7.9%	19.9%	19.9%
Other collateral	7.6%	6.5%	10.2%	7.7%	1.7%	4.0%
Financial collateral	2.7%	3.1%	3.6%	4.1%	0.6%	0.9%

Received collateral for the NPL portfolio

31.12.2019 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Improvements in credit quality
Lending portfolio	822	380	83	8	39
Securities	–	–	1	2	3
Off-balance business	11	8	23	0	1
Total	833	388	107	10	43

31.12.2018 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Improvements in credit quality
Lending portfolio	814	339	86	12	107
Securities	–	–	–	–	–
Off-balance business	21	10	22	0	9
Total	835	349	108	12	116

Expected credit loss

As of 1 January 2018, BAWAG Group calculates allowances for non-impaired loans according to IFRS 9. The 12-month expected credit loss (ECL) or, in case of a significant credit deterioration, the lifetime ECL determines the loss allowance assigned to financial assets. A significant credit deterioration of assets is identified through several criteria. Notably, quantitative criteria are used to measure the risk parameter deterioration since the initial recognition of assets. The other criteria involve qualitative information which assesses the credit risk quality of assets.

Based on historical observations parameters are estimated, which form the basis of ECL determination. Then parameters are further adjusted with the forward-looking information, represented by forecasts of major macroeconomic variables such as GDP growth or unemployment Rate.

Within BAWAG Group, 18.5% (31 Dec 2018: 15.1%) of the total exposure has no ECLs due to full collateralization at 31 December 2019. Of these, 18.4% (31 Dec 2018: 14.9%) are lending and 0.1% (31 Dec 2018: 0.2%) are off-balance.

Reconciliation of book values by stage

31.12.2019 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Closing balance
Book values for impairments in Stage 1 (without POCI)	39,244	12,127	(13,711)	2,287	39,947
Lending portfolio	32,885	12,127	(9,994)	(239)	34,779
Securities	6,359	–	(3,717)	2,526	5,168
Book values for impairments in Stage 2 (without POCI)	1,884	142	(407)	(431)	1,188
Lending portfolio	1,599	142	(407)	(204)	1,130
Securities	285	–	–	(227)	58
Book values for impairments in Stage 3 (without POCI)	614	15	(62)	77	644
Lending portfolio	614	15	(62)	77	644
Securities	–	–	–	–	–
Total POCI	14	–	–	(10)	4
Lending portfolio	14	–	–	(10)	4
Securities	–	–	–	–	–

Reconciliation of impairments per stage

The reason for the decrease of the impairments over the year 2019 is the enhancement of the underlying risk models as well as an improvement of the quality of the credit exposures.

31.12.2019 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes in existing assets	Closing balance
Impairments Stage 1 (without POCI)	50	4	(5)	(10)	39
Lending portfolio	37	4	(2)	(4)	35
Securities	5	–	(0)	(2)	3
Off-balance business	8	0	(3)	(4)	1
Impairments Stage 2 (without POCI)	34	1	(2)	(16)	17
Lending portfolio	32	1	(2)	(16)	15
Securities	2	–	(0)	0	2
Off-balance business	0	0	(0)	0	0
Impairments Stage 3 (without POCI)	213	21	(59)	30	205
Lending portfolio	192	4	(54)	32	174
Securities	–	–	–	–	–
Off-balance business	21	17	(5)	(2)	31
Total POCI	4	–	–	(1)	3
Lending portfolio	4	–	–	(1)	3
Securities	–	–	–	–	–
Off-balance business	–	–	–	–	–

Transition of impairments by financial instruments

31.12.2019 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	9	21	1	22	0	0
Securities	0	–	–	–	–	–
Off-balance business	0	–	0	–	0	0
Total	9	21	1	22	0	0

Distribution of book values by impairment stage and rating

31.12.2019 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	9,824	2,441	4,577	12,652	8,149	921	1,383	–	39,947
Lending portfolio	7,671	1,855	3,916	11,876	8,131	916	415	–	34,779
Securities	2,153	586	661	776	18	5	968	–	5,168
Book values for impairments in Stage 2 (without POCI)	1	36	15	167	431	310	227	–	1,188
Lending portfolio	1	36	15	167	373	310	227	–	1,130
Securities	–	–	–	–	58	–	–	–	58
Book values for impairments in Stage 3 (without POCI)	–	–	–	–	–	–	–	644	644
Lending portfolio	–	–	–	–	–	–	–	644	644
Securities	–	–	–	–	–	–	–	–	–
Total POCI	–	–	–	–	–	–	–	4	4
Lending portfolio	–	–	–	–	–	–	–	4	4
Securities	–	–	–	–	–	–	–	–	–
Total	9,825	2,477	4,592	12,819	8,581	1,231	1,610	648	41,783

31.12.2018 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	8,573	3,067	5,435	12,779	7,473	857	1,060	–	39,244
Lending Portfolio	5,818	1,881	4,461	12,192	7,368	857	305	–	32,885
Securities	2,755	1,186	974	587	105	0	755	–	6,359
Book values for impairments in Stage 2 (without POCI)	13	8	13	319	755	275	501	–	1,884
Lending Portfolio	13	8	13	319	755	275	216	–	1,599
Securities	–	–	–	–	–	–	285	–	285
Book values for impairments in Stage 3 (without POCI)	–	–	–	–	–	–	–	614	614
Lending Portfolio	–	–	–	–	–	–	–	614	614
Securities	–	–	–	–	–	–	–	–	–
Total POCI	–	–	–	–	–	–	–	14	14
Lending Portfolio	–	–	–	–	–	–	–	14	14
Securities	–	–	–	–	–	–	–	–	–
Total	8,585	3,075	5,448	13,098	8,228	1,133	1,561	628	41,756

Sensitivity Analysis

BAWAG Group has developed a scenario-weighted approach for assessing the expected credit loss allowance based on a range of macro-economic parameters such as:

- ▶ gross domestic product
- ▶ inflation rate and
- ▶ housing prices

which affect all portfolio types. The unemployment rate and long-term government benchmark bond yields are also incorporated in our IFRS9 models and scenarios.

The distribution among three scenarios (baseline 32.5%, pessimistic 37.5% and optimistic 30%) allows us to maintain a stable level of expected credit losses. These scenarios have been chosen as the most appropriate scenarios for the BAWAG portfolio.

The following table illustrates the weighted impairment allowance as well as a 100% weighting of corresponding scenario with a relatively small range of € 6 million between the optimistic and pessimistic scenarios.

31.12.2019 in € million	Weighted Scenario (30%/32.5%/37.5%)	100% Optimistic	100% Baseline	100% Pessimistic
Stage 1 & Stage 2 Impairments	57	54	56	60

The full allocation of impairment allowance to Stage 1 shows the low risk profile of the total portfolio:

31.12.2019 in € million	Weighted Scenario (30%/32.5%/37.5%)	100% Stage 1 allocation	100% Stage 2 allocation
Stage 1 & Stage 2 Impairments	57	49	153

Impaired loans

As of 1 January 2018, BAWAG Group calculates provisions according to IFRS 9 that are booked on loans for which full recovery is unlikely. The main components of the provisioning framework are shown in the following paragraphs. The volume reported as NPLs includes all claims against customers classified as being in default and against customers for which specific impairment provisions have been formed.

Automatic loan loss provision

Loan loss provisions are booked automatically in the core banking system based on defined standards in the case of 90 days past due or when legal action is initiated.

Manual loan loss provisions

For exposures that are not subject to automatic loan loss provisioning, an appropriate impairment test is performed. The extent of impairment is assessed after a detailed analysis on an individual basis and loan loss provisions are created manually.

Non-performing Exposures (NPEs)

The non-performing flag will be set for all customer credit risk exposures in default in accordance with Article 178 CRR (internal risk class 8) and for all forbore accounts with more than 30 days past due at the account level.

Non-performing loans (NPLs)

Non-performing loans (NPLs) are defined as all customer credit risk exposures in default in accordance with Article 178 CRR (internal risk class 8).

Forborne loans and forbearance measures

Measures of forbearance can be granted if borrowers face financial difficulties and are considered to be unable to meet contractual obligations. BAWAG Group has sound and transparent processes in place to define the conditions under which concessions, in the form of the modification of terms and conditions, may be granted. Depending on the customer segment, possible measures include the temporary postponement or reduction of interest or principal payments, the restructuring of credit facilities or other forbearance measures. In exceptional cases, a temporary or permanent reduction of interest rates may be granted.

Forbearance or refinancing measures are instruments intended to ultimately reduce the existing risk and avoid default with respect to debt claims, if it is expected that a default can thereby be forestalled. However, forbearance measures are by no means used to avoid or postpone the recognition of an unavoidable impairment or disguise the level of credit risk resulting from forbore assets.

By implementing forbearance measures that are appropriate in terms of time and scope, BAWAG Group supports clients in maintaining financial stability. If the supporting measures are not successful, exposures will be recognized as non-performing and impaired according to regulatory and accounting standards.

For reporting as well as internal risk management purposes, BAWAG Group implemented processes and methods according to regulatory standards¹⁾ in order to identify exposures for which forbearance measures have been extended. These are classified as forbore.

Collateral and valuation of residential and commercial real estate

All types of acceptable collateral are listed in the BAWAG Group Collateral Catalogue. Adequate haircuts are defined for each type of collateral.

The centralized Residential Real Estate Appraisal team determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. Valuation of real estate properties in other countries is also done by independent experts according to international standards. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich*) for Austrian residential properties, on the Halifax House Price Index for residential properties in Great Britain and by MAC (*MeilleursAgents.com*) for French residential properties. The values of the properties in the Netherlands are periodically updated based on CBS index (*Centraal Bureau voor de Statistiek*).

The values of commercial properties are appraised individually by experts in the centralized Commercial Real Estate Appraisal team, by selected external appraisers commissioned by BAWAG Group or by a syndicate partner

1) Commission Implementing Regulation (EU) 2015/227, Annex V, Art. 145–183

after an inspection of the property and completion of a full appraisal report.

Workout departments

The workout and collection departments (retail/non-retail) are responsible for the processing, administration and restructuring or collection of troubled and defaulted loan commitments. The primary objective is to minimize losses and to maximize recoveries.

Early recognition of troubled assets

Customers that trigger defined early-warning signals for various reasons (e.g. general deterioration of creditworthiness, significant decline in the stock price, rise in CDS spreads, negative press reports/ad-hoc publicity, unusual risk concentrations, etc.) are placed on the Watch List and discussed in the Watch Loan Committee, which is made up of members of the relevant business and risk units. This committee develops and elaborates on risk mitigation actions for single exposures and oversees consistent monitoring of all cases with an elevated probability of default.

Retail & SME

The Retail & SME portfolio is comprised of 66% housing loans (2018: 71%), 19% consumer lending (2018: 16%), 9% leasing (2018: 7%) and 6% SME lending (2018: 6%). The segment comprises the Austrian and the international portfolios of the Group.

The mortgage portfolio is characterized by strong collateral coverage and shows low LTV's. As specified in the retail strategy, new business volumes were originated primarily from consumer lending and mortgages.

The core products have detailed underwriting standards that focus on collateral coverage, overall customer indebtedness and assessing customers' ability to service the loan that ensure the high quality of the portfolio. In addition to that, special emphasis is placed on fraud detection via sophisticated techniques and sound processes to proactively prevent the inflow of fraudulent new business.

New business is managed according to the Bank's stated risk appetite using clear guidelines. Decisions at the point of sale are taken on the basis of automated scoring systems or, in certain cases, manual decisions by the Risk department. A key focus in this portfolio is placed on compliance with policies and ensuring high data quality already at the time of application. To this end, a central monitoring function drives ongoing quality assurance and sustains lending discipline.

For existing business, comprehensive portfolio steering (e.g. monitoring of portfolio trends, delinquency reporting along with default type analyses, NPL recovery and lending policy adjustments) is key to proactively managing the risks of BAWAG Group's retail lending business.

Therefore, having well-defined policies, procedures and analytical tools in place is essential for this flow-oriented business. The credit risk is measured continuously using the following methods:

- ▶ Scorecard performance: approval rate and manual decisions
- ▶ Portfolio trends in terms of credit affordability and collateralization
- ▶ Performance monitoring of fraud detection
- ▶ Portfolio trends in terms of risk class distribution and risk concentrations
- ▶ Portfolio trends in terms of overdue/late payments (e.g. vintage and flow rate analyses)
- ▶ Portfolio trends with regard to defaulted loan facilities
- ▶ Portfolio trends in terms of incurred risk costs and losses

The results of the analysis are presented to the Managing Board and the relevant decision makers as part of the established operating process. This process ensures a regular and standardized flow of information and enables BAWAG Group to respond directly to changes in risk indicators and market conditions.

Lending portfolio and securities by products

Retail & SME in € million	Book value		NPE ratio	NPL ratio	NPL coverage ratio
	31.12.2019	31.12.2018	31.12.2019	31.12.2019	31.12.2019
Consumer lending	3,346	2,734	2.0%	1.9%	50.9%
thereof portfolio	518	332	0.1%	0.1%	41.3%
Housing loans	11,859	11,955	2.1%	1.8%	93.0%
thereof portfolio	2,805	3,229	6.1%	5.0%	94.2%
Leasing	1,726	1,132	1.6%	1.3%	80.2%
thereof portfolio	172	173	0.1%	0.1%	100.0%
SME lending	1,065	929	4.1%	3.9%	85.1%
thereof portfolio	220	–	0.7%	0.7%	72.4%
Total	17,996	16,750	2.2%	1.9%	78.9%

The NPL ratio of the Retail & SME portfolio is 1.9% (2018: 1.9%). The NPL coverage ratio of 78.9% (2018: 83.1%) convey the risk profile of this portfolio.

The Retail & SME mortgage portfolio is characterized by standard LTVs, a low NPL ratio, a high coverage ratio and good geographic diversification. The weighted average tenor of the housing loan portfolio is less than 19 years (2018: 19 years). Mortgages comprise both EUR- and CHF-denominated mortgages. The CHF-denominated mortgage portfolio stood at € 1.0 billion at year-end 2019 (2018: € 1.1 billion). The volume in CHF-denominated mortgages is down by over CHF 1.4 billion since the discontinuation of the product in 2008 (reduction of more than 50%). This is a portfolio that is proactively being wound down and/or converted to EUR-denominated

loans. The LTV of the CHF portfolio was 70% as of year-end 2019 (2018: 70%).

The consumer lending portfolio consists of unsecured private loans, overdrafts and credit cards generated by the national and international sales-channels of the group. In addition, an exclusive long-term partnership with MediaMarktSaturn was rolled out in all of its Austrian stores and online webshop in order to supplement the portfolio with goods loans. The focus has been on developing robust risk scorecards and processes to support the growth of this core segment.

Leasing is characterized by a mix of leasing assets (car leasing, equipment and real estate leasing).

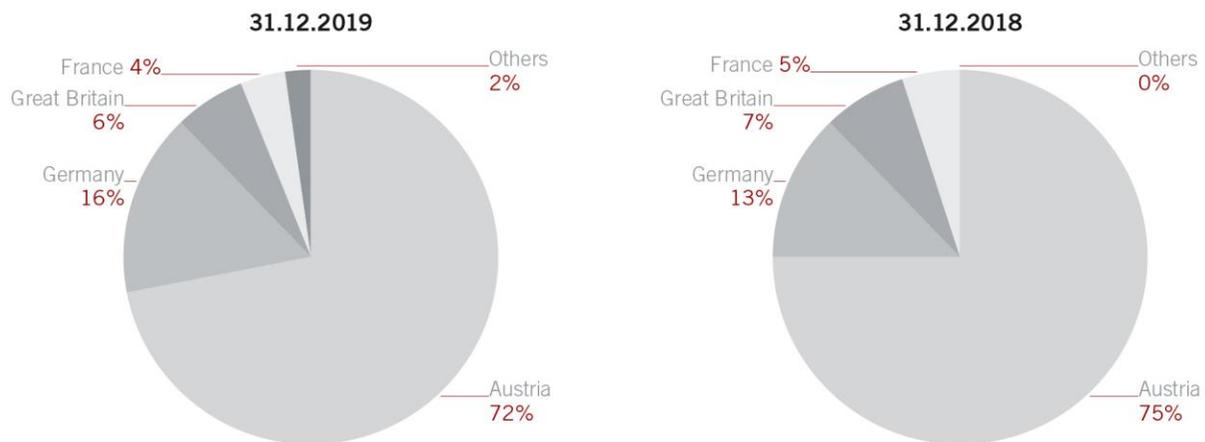
Small business lending is proactively monitored to ensure the potential identification of weakening credits and if required, countermeasures are initiated.

rigorous management of non-performing loans in order to achieve low NPL volumes and to concentrate on the main business focus. In addition, the early detection, collection and recovery processes were further improved with a view to successfully repaying loans from a technical and risk perspective.

For the Retail & SME segment, the overall NPL and coverage ratios reflect a stable and low-risk portfolio. BAWAG Group has continued to apply the strategy of

Retail assets – regional distribution

Geographical distribution of the lending portfolio



Forbearance by products

Retail & SME in € million	Consumer lending		Housing loans		Leasing		SME lending		Total	
	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018
Forborne assets	67	90	183	193	13	0	9	14	272	297
thereof non-performing	22	16	53	41	0	0	5	5	80	62
Impairments	7	8	5	5	0	-	3	2	15	14
Collateral	3	3	274	247	4	0	13	19	294	269

Days past due

The product portfolio is monitored by days past due (i.e. delinquency buckets) on an ongoing basis. The aim is to ensure early identification of negative credit developments within the portfolio and to work with customers on a proactive basis to ensure the full repayment of loans.

The Retail & SME portfolio is 98.0% (2018: 99.1%) current (i.e. no days past due). Overall, the low days past due volumes, the stable vintages and the product-specific scorecard results reflect the strong credit quality of the portfolio.

	Consumer lending		Housing loans		Leasing		SME lending	
Retail & SME in € million	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018
Total	3,346	2,734	11,859	11,955	1,726	1,132	1,065	929
1–30 days	1.3%	1.2%	0.1%	0.2%	1.2%	0.3%	1.5%	1.1%
31–60 days	0.5%	0.3%	0.1%	0.1%	0.3%	0.2%	0.2%	0.2%
61–90 days	0.3%	0.2%	0.1%	0.0%	0.1%	0.2%	0.1%	0.1%

Corporates & Public

in € million	Book value		NPE ratio	NPL ratio	NPL coverage ratio	Investment grade
	31.12.2019	31.12.2018	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Corporate lending	5,128	6,765	2.7%	2.5%	67.2%	62.2%
Asset Backed Lending	4,595	4,197	1.8%	0.2%	85.1%	64.6%
Public	3,353	3,103	–	–	–	100.0%
Total	13,076	14,065	1.6%	1.0%	65.0%	73.5%

The corporate lending portfolio as well as the asset backed lending portfolio includes DACH and international assets. This business is characterized by proactive risk management, disciplined growth in stable western economies and the maintenance of a disciplined approach to risk-adjusted pricing. The overall portfolio breaks down into 62.2% investment grade assets for corporate lending and 64.6% for real estate respectively. The total NPL ratio improved from 1.2% to 1.0%. Of the NPL volume, 65.0% is secured by collateral and provisions (2018: 71.0%). The portfolio Public includes Austrian and German clients being characterized by an increasing book value of about € 3.3 billion with 0% NPL ratio for this segment.

Corporate lending business is characterized predominantly by a moderate (net) debt/EBITDA ratio of <4.0x and a good

risk/return profile. The asset backed lending portfolio has an average LTV of below 60% and is very well diversified in terms of regions and asset classes.

Material credit decisions are made by the Credit Approval Committee (CAC), a special body at the Managing Board level. Every credit decision is strictly reviewed, discussed and coordinated in accordance with BAWAG Group's guidelines. BAWAG Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international business. For loan applications below a certain threshold, risk managers are granted authority to approve credit applications.

Forbearance

in € million	Corporates & Public	
	31.12.2019	31.12.2018
Forborne assets	72	116
thereof non-performing	53	38
Impairments	16	20
Collateral	45	54

Particular risk concentrations in the lending portfolio

A major focus of risk management in the Corporates & Public segment is centered on managing concentration risk. Concentration risk arises from large exposures in

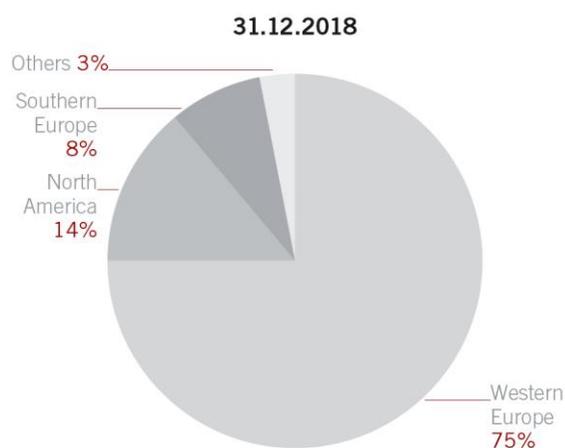
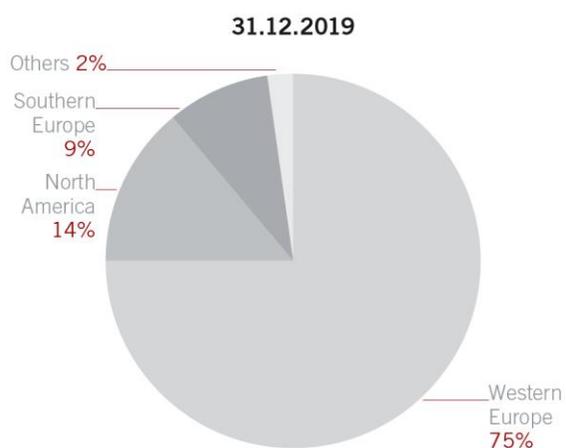
individual customer segments or from large industry/country/foreign currency exposures.

Currency distribution of the lending and securities portfolio

Corporates & Public in € million	Book value		in %	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
EUR	9,980	10,729	76.3%	76.3%
USD	1,944	2,029	14.9%	14.4%
GBP	713	910	5.4%	6.5%
SEK	257	105	2.0%	0.7%
CHF	172	191	1.3%	1.4%
Others	10	101	0.1%	0.7%
Total	13,076	14,065	100.0%	100.0%

Corporates & Public assets – Regional distribution

Geographical distribution of the lending portfolio



Risk concentrations by industry segmentation

The presentation of industries is based on the Austrian Statistical Classification of Economic Activities, which is comparable to the Statistical Classification of Economic Activities in the European Community, commonly referred to as 'NACE', the industry standard classification system used in the European Union. The bank may internally use a different sector classification in case the NACE system lacks sufficient differentiation of industries.

31.12.2019 in € million	Asset Backed Lending	Public	Corporate Lending	Total
Real Estate	4.507	131	580	5.218
Government	0	2.063	–	2.063
Services	23	171	1.439	1.633
Public Sector	44	871	176	1.091
Beverages, Food & Tobacco	–	–	388	388
Pharmaceuticals & Health Care	15	2	344	361
Engineering & B–2–B	–	–	326	326
Utilities	–	37	195	232
Leisure	–	3	222	225
Telecommunication	–	–	218	218
Automotive	–	–	185	185
Chemicals	–	–	177	177
B–2–C Products	–	–	138	138
Retail – Food	–	–	136	136
Leasing	–	–	132	132
Export Finance	–	–	119	119
Wood & Paper	–	–	82	82
Transport	–	4	59	63
Insurance	–	45	–	45
Commodity	–	–	42	42
Mining & Metals	–	–	40	40
Construction & Building Materials	–	–	34	34
Hotels	–	–	29	29
Investment Funds	–	–	29	29
Social Housing	–	23	–	23
Media	–	–	19	19
Gaming	–	–	16	16
NGO	–	3	8	11
Total	4.595	3.353	5.128	13.076

31.12.2018 in € million	Asset Backed Lending	Public	Corporate Lending	Total
Real Estate	4.123	125	817	5.065
Services	31	184	2.118	2.333
Government	0	1.814	27	1.841
Public Sector	8	853	46	907
Beverages, Food & Tobacco	2	–	531	532
Engineering & B–2–B	–	–	430	430
Telecommunication	–	–	426	426
Pharmaceuticals & Health Care	15	2	404	421
Leisure	–	4	318	322
Utilities	–	58	233	291
Chemicals	–	–	213	213
Automotive	3	–	184	187
Leasing	–	–	168	168
B–2–C Products	0	–	166	166
Export Finance	–	–	165	165
Wood & Paper	–	–	102	102
Social Housing	–	60	–	60
Media	–	0	54	54
Transport	–	–	54	54
Mining & Metals	–	–	53	53
Commodity	–	–	51	51
Hotels	–	–	46	46
Insurance	–	0	43	43
Construction & Building Materials	–	0	40	40
Investment Funds	3	–	35	39
Retail -- Food	–	–	26	26
Gaming	–	–	17	17
NGO	–	3	10	13
Total	4.197	3.103	6.765	14.065

Treasury

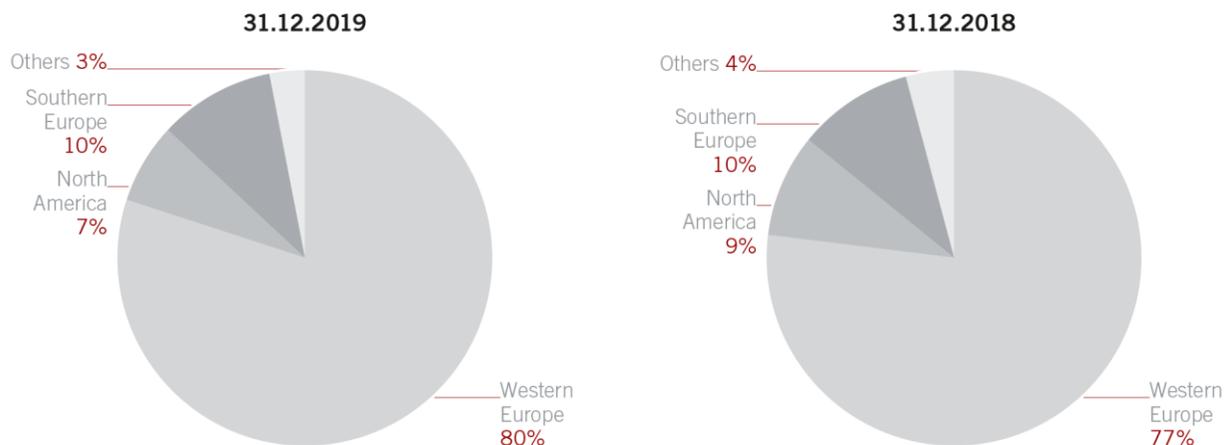
in € million	Book value		Investmentgrade	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Banks	3,684	4,389	96.3%	95.2%
Sovereigns	4,655	4,358	100.0%	100.0%
CLOs	935	957	100.0%	100.0%
Others	281	485	81.8%	82.3%
Total	9,555	10,189	98.9%	98.7%

Treasury acts as a service center for BAWAG Group’s customers, subsidiaries and partners through treasury activities and selected investment activities. The investment strategy continues to focus on investment grade securities predominantly representing secured and unsecured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures. In addition, the Bank also selectively invests in structured credit (CLOs) with high credit quality (AAA and AA) and which show a high degree of diversification with respect to countries and industries.

The investment portfolio of the segment Treasury amounts to 50% of the total book value and is comprised 96.1% of

investment grade rated securities (2018: 95.6%), of which 74% were rated in the single A category or higher (2018: 82%). As of 31 December 2019, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK focuses on internationally diversified issuers with solid credit quality. Exposure to Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers. The overall composition of the investment portfolio reflects the strategy of maintaining high credit quality, short duration and strong liquidity in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Geographical distribution of the securities portfolio¹⁾



1) Investment book only. These regions include Great Britain with 13% (Dec 2018: 10%), France with 8% (Dec 2018: 10%), Austria with 7% (Dec 2018: 8%), the United States with 6% (Dec 2018: 7%) and Germany with 6% (Dec 2018: 6%)

Currency distribution of the lending and securities portfolio

in € million	Book value		in %	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
EUR	9,215	9,960	96.4%	97.8%
USD	264	201	2.8%	2.0%
Others	76	28	0.8%	0.2%
Total	9,555	10,189	100.0%	100.0%

Corporate Center

The Corporate Center includes unallocated items related to support functions for the entire Group, accounting positions (e.g. market values of derivatives) and select results related to subsidiary and participation holdings. Regulatory charges (except for deposit guarantee scheme contributions) and

corporate taxes are assigned to the Corporate Center as well. The focus of Corporate Center is set on non-business related positions.

55 | Market risk

Market risk is defined as the risk of losses caused by open risk positions in the market and the adverse development of market risk factors (interest rates, foreign exchange rates, equity prices, volatilities, credit spreads). Market risk can arise in conjunction with trading and non-trading activities.

The primary market risk components for BAWAG Group are interest rate and credit spread risk. Both risk categories are measured and monitored via sensitivity, value-at-risk (VaR) and scenario-based approaches. In addition, the financial treatment of the positions is considered in the risk reporting.

Market risk in the trading book

Since the Managing Board's resolution of September 2012, there has been no active proprietary trading in the trading book and all new transactions have only served to close out positions or reduce risk. In July 2019, the Managing Board resolved to transfer the remaining derivative positions from the trading book to the banking book in order to reflect the strategic focus of the derivatives business on non-trading activities. The approval covered all derivatives of BAWAG P.S.K. The remaining positions of Südwestbank AG fall below the insignificance threshold and expire in May 2020.

No trading activities are currently planned for the entire group.

Market risk in the banking book

The primary components of market risk for BAWAG Group are interest rate risk and credit spread risk.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (SALCO) has assigned interest rate risk limits to the Treasury & Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the BAWAG Group level. The Market & Liquidity Risk Management division reports to the SALCO on a daily basis for some areas as well as monthly at the BAWAG Group level on limit utilization and the distribution of risk.

The target interest rate risk structure defined by the SALCO is implemented by the Treasury & Markets division. BAWAG Group uses interest rate derivatives:

- ▶ to implement the interest risk strategy within the requirements and limits defined by the SALCO
- ▶ to manage the sensitivity of the valuation result and the revaluation reserve
- ▶ to hedge the economic risk position, thereby taking the accounting treatment into consideration

BAWAG Group uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to mitigate market risks:

Micro fair value hedge

Hedging of financial assets or financial liabilities against changes in its fair value. The decision on instruments is to

be assigned to micro hedge accounting is made in the context of the overall interest rate risk position.

Portfolio fair value hedge (“EU carve-out”):

BAWAG Group has identified sight deposits in euros as a portfolio that is to be protected against interest rate risks. These deposits are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG Group determines an amount of liabilities from the identified portfolio that corresponds to the amount to be hedged as the underlying for the portfolio fair value hedge using a bottom layer approach. At the end of 2019, almost 25% of the total volume of sight deposits was allocated to a portfolio fair value hedge.

In addition, contractually agreed interest rate caps and/or floors embedded in financial assets (e.g. loan receivables or securities) or liabilities (e.g. savings deposits) are designated to portfolio fair value hedge accounting in order to mitigate changes in fair value of these instruments resulting from changes in interest rates. The decision on the amount to be designated to portfolio fair value hedge accounting is determined using a bottom layer approach and made in the context of the overall interest rate risk position and limit framework.

Interest rate derivatives that are not assigned to a hedge accounting relationship are recognized at their fair values.

Interest rate risk is measured using sensitivities based on the present value of a basis point (PVBP) concept. The PVBP, which is derived from the duration of interest-bearing financial instruments, reflects the impact on net asset value resulting from an upward parallel shift of the yield curves by one basis point (0.01%). The following table depicts BAWAG Group’s interest rate risk sensitivities as of 31 December 2019 on the basis of the PVBP concept:

Interest rate sensitivity

31.12.2019 in € thousand	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
EUR	87	444	(150)	(96)	317	50	651
USD	0	(4)	(5)	0	(5)	(5)	(20)
CHF	3	(8)	13	(13)	(8)	(11)	(24)
GBP	14	5	(6)	15	1	2	31
Other currencies	2	(10)	(8)	(1)	0	0	(16)
Total	106	427	(157)	(94)	304	36	622

31.12.2018 in € thousand	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
EUR	(243)	(351)	(239)	(204)	(32)	(242)	(1,311)
USD	20	17	2	(16)	(5)	(1)	17
CHF	4	(8)	0	4	(5)	(9)	(15)
GBP	20	14	1	0	1	4	39
Other currencies	(1)	(5)	(14)	(1)	0	0	(21)
Total	(200)	(332)	(251)	(217)	(42)	(250)	(1,291)

The impact upon the Profit or Loss Statement and Other Comprehensive Income of fair value changes arising from interest rate changes is calculated and monitored separately. The sensitivity of financial assets designated at fair value through profit or loss amounted to plus € 235 thousand on 31 December 2019 (average 2019: plus € 219 thousand, 31 December 2018: plus € 242 thousand). For the fair value through other comprehensive income assets, the sensitivity amounted to minus € 222 thousand (31 December 2018: minus € 311 thousand).

Furthermore, a value-at-risk calculation for BAWAG Group is conducted within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) on a monthly basis.

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by BAWAG Group to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The basis point value reflects the impact on net asset value resulting from an upward parallel shift of the credit spreads by one basis point (0.01%). The following table shows the total credit spread sensitivity of BAWAG Group along with the breakdown by accounting categories impacting the Profit or Loss Statement and Other Comprehensive Income:

Credit spread sensitivity

in € thousand	31.12.2019	31.12.2018
Total portfolio	(2,136)	(3,023)
Financial assets at fair value through profit or loss	(162)	(184)
Financial assets at fair value through other comprehensive income	(1,341)	(1,075)
Financial assets at a amortized cost	(633)	(1,764)

The risk indicators “value-at-risk” and “expected shortfall” are also calculated and scenario calculations are run, both on a monthly basis.

Credit spread risk is also taken into account and limited for BAWAG Group as a whole in the ICAAP and is part of the Bank-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and by backtesting.

FX risk in the banking book

The extent of open foreign exchange positions in BAWAG Group’s banking book is managed by conservative limits in order to ensure that only marginal FX risks are carried in the banking book. Compliance with these limits is observed on a daily basis.

The following table shows sensitivities of foreign currencies due to the open currency positions. None of the currencies poses a significant valuation risk.

in € thousand	USD		GBP		CHF		Other FX	
FX change (in %)	(10)	10	(10)	10	(10)	10	(10)	10
Impact	(460)	460	943	(943)	(84)	84	(723)	723

For managing FX risks, BAWAG Group also applies hedge accounting pursuant to IAS 39.

Cash Flow Hedge

FX risk from the future credit spread income of BAWAG Group’s foreign currency portfolios is mitigated by the implementation of a cash flow hedge for FX margins. BAWAG Group applies a bottom layer approach designating defined amounts of cash flows for a defined period of time as hedged item. Currently cash flows resulting from margin income denominated in GBP, USD and CHF are hedged via FX forwards. Following target hedge ratios for future FX credit spread income apply:

- ▶ USD: 70% of next 12 months USD credit spread income
- ▶ GBP: 70% of next 36 months GBP credit spread income
- ▶ CHF: 70% of next 36 months CHF credit spread income

BAWAG Group also applies the cash flow hedge for cross currency basis risk. The hedged risk is the FX risk of future cash flows of notional and indicator-based payments (‘reference rate’ – e.g. cash flows based on LIBOR rates)

including FX related lending spreads of BAWAG Group’s foreign currency portfolios. BAWAG Group has implemented a bottom layer approach in regard to notional/tenor of the hedged item. Therefore, the amounts of hedged risk and hedging instruments (cross currency swaps) have to be adjusted and rolled over continuously in regard to replaced/new business up to the dedicated bottom layers in order to meet the bank’s hedging requirements. At the end of 2019 approximately 65% and 60% of the total notional available have been designated to Cash Flow Hedge accounting of USD and GBP respectively.

Net Investment Hedge

A foreign currency exposure also arises from the group’s net investment in a subsidiary that has a CHF functional currency and in a subsidiary that has a USD functional currency. The risk arises from the fluctuation in spot exchange rates between the CHF and the EUR and between the USD and the EUR, which causes the amount of the net investment to vary.

The hedged risk in the net investment hedge is the risk of a weakening CHF against the EUR or the USD against the EUR that will result in a reduction in the carrying amount of the Group's net investment in the CHF functional currency subsidiary or in the USD functional currency subsidiary, respectively.

The full amount of the Group's net investment in its CHF functional currency subsidiary is hedged by a foreign exchange swap between EUR and CHF (notional amount: CHF 55 million (2018: CHF 0)), which mitigates the foreign currency risk arising from the subsidiary's net assets. Part of the Group's net investment in its USD functional currency subsidiary is hedged by a foreign exchange swap between EUR and USD (notional amount: USD 150 million (2018: USD 0)), which mitigates the foreign currency risk arising from the subsidiary's net assets. The foreign exchange swaps are designated as hedging instruments for the changes in the value of the net investment that is attributable to changes in the EUR/CHF and EUR/USD spot rates.

56 | Liquidity risk

Liquidity risk is the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk) or only being able to meet these obligations at higher refinancing costs (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold or that doing so is only achievable at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The objective of BAWAG Group's liquidity risk management framework is to ensure that BAWAG Group can fulfill its obligations at all times and to manage liquidity risk within the risk appetite.

Liquidity risk management framework

In accordance with the ECB's Supervisory Review and Evaluation Process (SREP), BAWAG Group has implemented an annual Internal Liquidity Adequacy Assessment Process (ILAAP), which forms the basis for the Group-wide assessment, management and monitoring of liquidity risks.

The Managing Board defines the liquidity and funding risk strategy as well as the overall liquidity risk appetite. At least once per year the Managing Board reviews the ILAAP and

The Group's policy is to hedge the net investment up to 100% of the net investment amount.

Concentration risk

All essential risk factors are incorporated within VaR models/scenario analyses and stress test calculations, which are applied to all trading and bank book positions. Instabilities of correlations which could result in an overestimation of diversification are taken into consideration by the fact that only correlations within a specific risk factor (interest, FX, volatilities) and (after a comprehensive analysis of empirical coefficients) between interest rate risk in the banking book and credit spread risk are employed, whereas no diversification beyond these is assumed. Stress test results are also broken down, calculated, reported and limited by risk factor category in order to identify any correlations within a single risk factor.

approves the Group-wide limit framework and funding plans.

The main decision-making body for liquidity risk is the Strategic Asset Liability Committee (SALCO), in which all board members are represented. The SALCO is informed at least once a month about the performance compared to the risk metrics.

Treasury is responsible for managing the overall liquidity and funding position. Market & Liquidity Risk Management acts as an independent risk control function and is responsible for reviewing the ILAAP framework.

Liquidity strategy

BAWAG Group's overall strategy has an explicit commitment to a deposit-based funding strategy. Retail and corporate savings products have been the core part of the funding strategy over the years and will continue to be the dominant source of funding for the balance sheet. The deposit base is supplemented with a diversified strategy of wholesale funding. BAWAG Group has issued both unsecured bonds as well as bonds secured by mortgages.

Liquidity management

Liquidity management is performed on a group-wide basis.

For managing short-term liquidity, a 30-day liquidity forecast is prepared daily, which allows for the close tracking and management of the short-term liquidity position.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared and reported monthly to the SALCO. As part of the forecast process, which takes scenario analyses for planned measures and assumptions on customer behavior into account, the development of all major liquidity risk metrics is projected based on the underlying business plans to ensure compliance with the overall risk appetite.

Long-term liquidity management is conducted as part of the annual planning process for the coming five years. Strategic measures are also analyzed during the course of the year.

Liquidity stress testing

Liquidity stress testing and scenario analyses are applied to evaluate BAWAG Group’s liquidity position, determine the

limit framework and calibrate the liquidity buffers. They complement the operational liquidity management and the mid- to long-term liquidity strategy.

Stress testing is conducted at the BAWAG Group level and the subsidiaries level and covers scenarios that differ in length and severity (systemic stress, idiosyncratic stress, combined stress). The results of the stress tests are reported to the SALCO monthly.

Liquidity buffer

BAWAG Group maintains a liquidity buffer to cover unexpected liquidity outflows in a stress scenario. The liquidity buffer is kept as a preventive measure against liquidity risk. The liquidity buffer consists of a portfolio of liquid assets which can be used to generate cash in a stress situation in order to prevent the illiquidity of the bank. BAWAG Group’s liquidity buffer only includes assets that can be liquidated with minimal execution risk within 30 days. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the liquidity buffer composition based on the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in € million	31.12.2019	31.12.2018
Balances at central banks	5,801	4,363
Securities eligible for Eurosystem operations	1,885	4,405
Other assets eligible for Eurosystem operations	1,544	209
Short-term liquidity buffer	9,230	8,977
Other marketable securities	1,389	1,307
Total	10,619	10,284

Maturity analysis of contractual undiscounted cash flows of financial assets and liabilities

31.12.2019 in € million	Contractual cash flows	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(3,362)	(1,014)	(375)	(625)	(618)	(730)
Deposits from customers	(30,937)	(27,281)	(514)	(720)	(1,531)	(890)
Debt securities issued	(5,992)	(16)	(152)	(694)	(2,097)	(3,033)
Subtotal	(40,290)	(28,311)	(1,042)	(2,039)	(4,246)	(4,653)
Derivative liabilities	(665)	(144)	(48)	(33)	(70)	(371)
Other off-balance-sheet financial obligations	(1,996)	(1,996)	0	0	0	0
Total	(42,952)	(30,450)	(1,089)	(2,072)	(4,317)	(5,024)

31.12.2018 in € million	Contractual cash flows	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(4,335)	(410)	(446)	(252)	(2,482)	(745)
Deposits from customers	(30,708)	(25,914)	(390)	(542)	(1,781)	(2,081)
Debt securities issued	(5,051)	(69)	(30)	(702)	(2,483)	(1,767)
Subtotal	(40,094)	(26,393)	(867)	(1,496)	(6,746)	(4,592)
Derivative liabilities	(540)	(8)	(35)	(112)	(307)	(79)
Other off-balance-sheet financial obligations	(2,178)	(2,178)	0	0	0	0
Total	(42,812)	(28,579)	(901)	(1,608)	(7,053)	(4,670)

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial liabilities. They are assigned to time buckets on the basis of their contractual maturities. Deposits with non-defined maturity profiles are presented in the shortest time bucket. In the case of call or put options, the end of the term equals the next day on which the option can be exercised.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in a strong liquidity coverage ratio (LCR) of 146% at the end of 2019. BAWAG Group thereby significantly exceeds the regulatory LCR requirement.

The year 2019 was characterized by a solid liquidity situation as well as stable core refinancing sources and a balanced liability structure. The funding strategy is still focused on retail deposits.

In addition to the strong deposit base, BAWAG Group issued Tier 2 Notes with a € 400 million principal amount in March 2019. Furthermore, in September 2019 a Senior Non-Preferred Note was issued with principle amount of € 500 million. In the course of 2019 BAWAG Group also issued two mortgage-backed covered bonds with nominal value of € 500 million each.

57 | Non-financial risk

BAWAG Group applies the Standardized Approach for the calculation of the regulatory own fund requirements according to Article 317 CRR to assess operational risk. However, the realized operational risk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The operational risk RWAs are assigned to the segments based on revenues.

For the purpose of ICAAP, a statistical model is used to calculate the value-at-risk based on operational risk losses and risk potential resulting from the annual risk control self-assessments (RCSAs).

The losses resulting from operational risk are collected in a centrally administrated web-based database within clearly defined regulations and processes.

Key risk indicators (KRI) are implemented as additional steering instruments to identify and forecast negative trends or a changed risk profile in company workflows and divisions/subsidiaries in a timely manner. Each KRI is monitored via a traffic light system (green/yellow/red). For KRIs with a red status, the definition and implementation of appropriate countermeasures is mandatory.

According to Austrian Banking Act section 39 paragraph 6, credit institutions must define appropriate criteria and procedures in writing taking into consideration the nature, scale and complexity of their business activities. In addition, a regular update is necessary to avoid the risk of disregarding of guidelines as well as to reveal the associated risks and to keep such risks to a minimum ("BWG compliance").

Using the RCSAs framework, all organizational units and subsidiaries identify and assess their material processes, operational risks, the risk of disregarding regulatory requirements and the effectiveness of their control measures on a yearly basis via a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of appropriate measures is mandatory.

The identification and assessment of potential risks and measures in the case of ad hoc issues is realized through clearly defined processes, especially for outsourcings and the implementation of new products.

Additionally, the Non-Financial Risk Management & Regulatory Compliance division ensures the comprehensive and integrated management of all non-financial risks. This setup helps to address and mitigate potentially upcoming or increased risks (e.g. reputation risk, compliance risk) in a timely manner and to optimally use synergies when implementing risk preventing measures. The Managing Board receives regular reports about current developments in the dedicated Non-Financial Risk and ESG Committee (NFR & ESGC).

A clear organizational structure and authorization levels form the basis of operational risk governance. Additionally, a consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are in place to manage BAWAG Group's operational risk/non-financial risk.

58 | Other risks

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential write-offs on the carrying amount of investments and low profitability of non-consolidated equity investments. Participation risk does not include consolidated operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such. Participation risk is considered as non-material.

Impairment tests are conducted every year to validate the values of the equity investments in BAWAG Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. P&L, balance sheet and cash flow) prepared for future periods by the management of each entity. The results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the entity based on BAWAG Group's

shareholding is then compared with the carrying amount of the investment.

Contrary to the procedure described above, there are simplified procedures for very small investments or if the book value is covered by the proportionate equity or other value indicators, such as the substance value in the case of real estate companies. The overall results of the impairment tests are reviewed and confirmed by the Credit Risk Management team.

Macroeconomic risk

Macroeconomic risk covers potential losses, which are induced by exposures to macroeconomic risk factors such as a significant deterioration of the real GDP growth rate, a significant increase of the unemployment rate or a significant change of the inflation rate. Quantification of the risk is performed on the basis of the stress test impacts on P&L, considering the effects of a substantially severe scenario on the entire banking group profile. The severe stress test scenario from the ECB/SREP stress test exercise of 2018 was applied for 2019.

Strategic risk

Strategic risk refers to the risk that business strategy is focused on the wrong markets or that the development of

the markets falls short of expectations. BAWAG Group has a clearly defined, well positioned business strategy with retail business in DACH region as core element supported by Corporate and public business. Further opportunistic lending is performed in Western Europe and Northern America. In connection with the international mortgage portfolios which the Bank has acquired, as well as acquisition of new subsidiaries in the leasing & factoring business area, the Bank sees no strategic risk as detailed due diligence processes have been performed regarding the alignment with BAWAG Group's business and risk strategy. Due to close monitoring and reporting and immediate compensating measures in case of negative business development the risk level is assessed as not material.

Capital risk

BAWAG Group has a sound capital position as of December 2019 even after taking into account the share buyback of € 400 million, as evidenced by the Total Capital Ratio level of 17.01%. This ratio ensures a comfortable buffer on top of the minimum regulatory requirements as well as the defined thresholds from the recovery plan. Based on the current capital levels there is no capital shortfall, also in the case of both capital decrease and RWA downside occurring. Therefore, the capital risk is classified as not material.

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

59 | Fiduciary assets

in € million	31.12.2019	31.12.2018
Fiduciary assets	91	135
Receivables from customers	91	135
Fiduciary liabilities	91	157
Deposits from credit institutions	80	151
Deposits from customers	11	6

60 | Breakdown of securities pursuant to the Austrian Banking Act (BWG)

The following table breaks down securities in accordance with section 64 paragraph 1 line 10 and line 11 BWG as of 31 December 2019 (IFRS figures):

in € million	Not listed	Total	Listed At amortized cost	Other measurements	BAWAG Group Total 2019
Bonds and other fixed-income securities	1,332	3,550	507	3,043	4,882
Shares and other variable-income securities	287	88	–	88	375
Shares in associates and other shares	133	–	–	–	133
Shares in non-consolidated subsidiaries	11	–	–	–	11
Total securities	1,763	3,638	507	3,131	5,401

The securities shown in the table are mainly non-current assets.

The difference between carrying amounts and lower repayment amounts for the purposes of section 56 paragraph 2 BWG amounted to € 18 million (2018: € 27 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG amounted to € 4 million (2018: € 8 million).

Own issues amounting to a repayment amount of € 731 million and bonds and other fixed-income securities amounting to a repayment amount of € 312 million will come due in 2020 under the corresponding contracts.

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are all bullet bonds. Supplementary and subordinated capital bonds are subscribed by private Austrian and German investors and sold to major domestic and international investors.

As of 31 December 2019, the average weighted nominal interest rate on supplementary and subordinated capital bonds issued by BAWAG P.S.K. AG was 6.84% (2018: 6.84%), and the average remaining term to maturity was 3.6 years (2018: 4.6 years). The supplementary capital bond (Tier II) issued by BAWAG Group AG has a fixed coupon of 2.375% and matures in 2029.

61 | Collateral received

Different types of collateral have been pledged to BAWAG Group as part of its business transactions. To reduce credit risk for derivative instruments, the Bank received consideration (collateral deals) in the amount of € 565

million (2018: € 398 million) and paid consideration (collateral deals) in the amount of € 68 million (2018: € 34 million).

in € million	Collateralized on- balance-sheet claims	Collateralized off- balance-sheet claims	Total
Financial collateral			
Stocks	5	–	5
Cash deposits	135	1,299	1,434
Bonds	4	–	4
Real estate			
Commercial properties	818	9	827
Private properties	9,714	95	9,809
Personal collateral			
Guarantees	1,410	26	1,436
Other forms of collateral			
Assignment of claims	5	–	5
Life insurance policies	9	1	10
Collateral received	12,100	1,430	13,530

62 | Human resources**Headcount – salaried employees**

	31.12.2019	31.12.2018
Number of employees on reporting date	4,353	4,141
Average number of employees	4,367	4,108

Full-time equivalents – salaried employees

	31.12.2019	31.12.2018
Number of employees on reporting date	3,696	3,474
Average number of employees	3,694	3,439
Active employees ¹⁾	3,249	2,999

1) Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme

63 | Branches

in € million	31.12.2019	31.12.2018
Name of branch	BAWAG P.S.K. International	BAWAG P.S.K. International
Business segment	Corporates & Public	Corporates & Public
Country of residence	Great Britain	Great Britain
Net interest income	0.0	0.0
Operating revenue ¹⁾	55.3	59.3
Number of full-time employees	33.0	30.0
Profit/Loss before tax ¹⁾	22.1	29.7
Income tax accrued	4.2	5.8
Government aid received	0.0	0.0

1) BAWAG P.S.K. International: Income is based on internal funds transfer pricing

Due to the size of the UK branch of BAWAG P.S.K. and the fact that business activities in the UK are carried out by the branch as an agent for BAWAG P.S.K., the effects of Brexit will cause a minor organizational impact.

in € million	31.12.2019	31.12.2018
Name of branch	-	easybank branch Germany
Business segment	-	Retail & SME
Country of residence	-	Germany
Net interest income	-	0.0
Operating revenue	-	0.0
Number of full-time employees	-	5
Profit/Loss before tax	-	(2.7)
Income tax accrued	-	0.0
Government aid received	-	0

The easybank branch in Germany closed its operations as of 31 December 2018.

64 | Trading book

BAWAG Group maintains a securities trading book, which breaks down by volume as follows:

in € million	31.12.2019	31.12.2018
Derivative financial instruments in the trading book (nominal value)	3	3,913
Trading book by volume	3	3,913

65 | Geographical regions

Gross income of BAWAG Group relates to the following geographical regions according to IFRS 8:

in € million	Austria	Western Europe ¹⁾	North America	Rest of the world	Total
Interest and similar income	592.0	389.3	104.1	68.7	1,154.1
Income from securities and equity interests	2.7	0.9	0.0	0.0	3.6
Fee and commission income	322.1	50.8	0.2	1.6	374.7
Gains and losses on financial instruments	75.5	(4.6)	0.0	(0.2)	70.7
Other operating income	19.5	91.5	0.0	0.0	111.0

1) Includes Germany

66 | Other disclosures required by BWG and Austrian GAAP (UGB)

The Statement of Financial Position entry for Land and buildings includes land with a carrying amount of € 39 million (2018: € 174 million). The decrease compared to the previous year can mainly be attributed to the requalification of these properties into investment properties.

The Statement of Financial Position as of 31 December 2019 contains accrued interest on supplementary capital bonds in the amount of € 7 million (2018: € 0 million).

Expenses for subordinated liabilities amounted to € 27 million (2018: € 32 million).

Expenses for BAWAG Group's group auditor in the current financial year amount to € 2.0 million (2018: € 2.3 million)

and comprise audit fees in the amount of € 1.5 million (2018: € 2.2 million), tax advisory fees of € 0.0 million (2018: € 0.1 million) as well as other advisory fees in the amount of € 0.5 million (2018: € 0.0 million).

As of 31 December 2019, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 1.01% (2017: 0.98%).

BAWAG Group uses the Internet as the medium for publishing disclosures under section 65 BWG and the Disclosure Regulation. Details are available on the website of BAWAG Group at <https://www.bawaggroup.com/financial-results>.

67 | Own funds of BAWAG P.S.K. AG (individual financial institution)

The following table depicts the composition of BAWAG P.S.K. AG's AGAAP own funds applying transitional rules as of 31 December 2019 and 2018 according to CRR:

in € million	31.12.2019	31.12.2018
Share capital	250	250
Reserves including profit for the fiscal year	2,258	2,276
Deduction of intangible assets	(126)	(122)
IRB risk provision shortfalls	(71)	(30)
Common Equity Tier I	2,311	2,374
Additional Tier I	300	300
Supplementary and subordinated debt capital	516	111
Deduction participations	(24)	(22)
Excess IRB risk provisions	-	4
Tier II	492	93
Own funds	3,103	2,767

68 | Date of release for publication

The Group financial statements were approved by the Managing Board for submission to the Supervisory Board on 13 March 2020. The Supervisory Board is responsible

for reviewing and acknowledging the Group financial statements.

69 | Events after the reporting date

easybank AG/Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH

By decision of 20 February 2020, the merger of easybank AG and Pa-Zweiundsechzigste WT Beteiligungsverwaltungs GmbH with BAWAG P.S.K. AG was approved by the ECB.

The merger is expected to be entered in the Austrian commercial register at the end of March 2020.

Coronavirus-COVID-19

The outbreak of the coronavirus COVID-19 will most likely have an impact on the economies we are doing business in. Given the uncertainties on scope and length as well as the ongoing developments, we cannot give any accurate or reliable estimates on potential quantitative impacts currently. This may result in an overall challenged and

volatile market environment. We will closely monitor the development and we will work to address to the best of our ability during the course of the year.

13 March 2020



Anas Abuzaakouk
Chief Executive Officer



David O'Leary
Member of the Managing Board



Enver Sirucic
Member of the Managing Board



Andrew Wise
Member of the Managing Board



Stefan Barth
Member of the Managing Board



Sat Shah
Member of the Managing Board

STATEMENT OF ALL LEGAL REPRESENTATIVES

“We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a

true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.”

13 March 2020



Anas Abuzaakouk
Chief Executive Officer



David O'Leary
Member of the Managing Board



Enver Sirucic
Member of the Managing Board



Andrew Wise
Member of the Managing Board



Stefan Barth
Member of the Managing Board



Sat Shah
Member of the Managing Board

BOARDS AND OFFICERS OF BAWAG GROUP AG

MANAGING BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2019

Anas ABUZAAKOUK

Chairman of the Managing Board of BAWAG Group AG from 19 August 2017

Stefan BARTH

Member of the Managing Board of BAWAG Group AG from 19 August 2017

David O'LEARY

Member of the Managing Board of BAWAG Group AG from 19 August 2017

Sat SHAH

Member of the Managing Board of BAWAG Group AG from 19 August 2017

Enver SIRUCIC

Member of the Managing Board of BAWAG Group AG from 19 August 2017

Andrew WISE

Member of the Managing Board of BAWAG Group AG from 19 August 2017

SUPERVISORY BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2019

Chairman

Egbert FLEISCHER

(from 12 December 2019,

Deputy Chairman of the Supervisory Board of BAWAG Group AG from 15 September 2017 until 12 December 2019,

Member from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2022)

Deputy Chairman

Kim FENNEBRESQUE

(from 12 December 2019,

Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2022)

Members

Frederick HADDAD

(Member of the Supervisory Board of BAWAG Group AG from 19 August 2017 until revoked)

Adam ROSMARIN

(Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2022)

Further Members 2019

Pieter KORTEWEG

(Chairman of the Supervisory Board of BAWAG Group AG from 15 September 2017 until 12 December 2019,

Member of the Supervisory Board of BAWAG Group AG from 19 August 2017 until 12 December 2019)

Christopher BRODY

(Deputy Chairman of the Supervisory Board of BAWAG Group AG from 15 September 2017 until 12 December 2019,

Member of the Supervisory Board of BAWAG Group AG from September 2017 until 12 December 2019)

Works Council Delegates

Ingrid STREIBEL-ZARFL

(from 25 October 2017)

Verena SPITZ

(from 25 October 2017)

Further Works Council Delegates 2019

Beatrix PRÖLL

(from 25 October 2017 until 12 December 2019)

COMMITTEES OF BAWAG GROUP AG AS OF 31 DECEMBER 2019

Risk and Credit Committee

Frederick HADDAD
Chairman

Kim FENNEBRESQUE

Adam ROSMARIN

Ingrid STREIBEL-ZARFL
Works Council Delegate

Verena SPITZ
Works Council Delegate

Audit and Compliance Committee

Adam ROSMARIN
Chairman

Egbert FLEISCHER

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Verena SPITZ
Works Council Delegate

Nomination and Remuneration Committee

Egbert FLEISCHER
Chairman

Kim FENNEBRESQUE

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Verena SPITZ
Works Council Delegate

AUDITOR'S OPINION

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated financial statements of **BAWAG Group AG, Vienna, Austria** and its subsidiaries ("the Group"), which comprise the consolidated Statement of Financial Position as at 31 December 2019, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the Austrian commercial and banking law as well as the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB and Section 59a BWG.

Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

We have identified the following key audit matters:

1. Valuation of loans and advances to customers
2. Valuation of claims and provisions from litigation with City of Linz
3. Initial recognition of assets and liabilities from a business combination

Valuation of loans and advances to customers

A breakdown of financial assets at a mortized cost as well as impairments (Stage 1, Stage 2 and Stage 3) is provided in Note 15 "At a mortized cost".

Risk to the Consolidated Financial Statements

The receivables from customers amount to EUR 30.5 bn and are mainly comprised of the segments "Retail & SME" and "Corporates & Public".

The bank evaluates in the context of credit risk management whether default events exist and specific loan loss provisions need to be recognized. This includes an assessment whether customers are able to meet their contractual liabilities in full.

The calculation of the risk provision for defaulted individually significant customers is based on an analysis of the estimated scenario-weighted future recoveries. This analysis reflects the assessment of the economic situation and development of the individual customer, the valuation of collateral and the estimation of the amount and timing of future cashflows derived thereof.

The bank calculates the loan loss provision for defaulted individually not significant customers automatically on the basis of unpaid instalments and continuous overdraft of current accounts. This automatically calculated general loan loss provision is determined either by days past due or a legal case as well as corresponding general provisioning levels. The parameters used in the valuation model are based on statistical assumptions.

For all non-defaulted loans and off-balance exposures a loan loss credit provision for expected credit losses ("ECL")

is recognized. The basis for the loan loss credit provision is the 12-month-ECL (Stage 1). In Case of a significant increase in credit risk ("SICR"), the ECL is calculated on a lifetime basis (Stage 2).

The calculation of ECLs is highly dependent on assumptions and estimates, which include rating based probabilities of default ("PD") and loss given default ("LGD") that are derived from current and forward-looking information.

The risk to the consolidated financial statements results from the fact that the staging transfer as well as the calculation of the provisioning amounts significantly depend on the assumptions and estimates stated above, leading to margins of discretions and estimate uncertainty with regard to the amount of the provision.

Our Audit Approach

- ▶ We have analyzed the existing documentation regarding the processes of monitoring and the risk provisioning for customer loans and critically assessed whether these processes are suitable to identify impairment triggers and to adequately reflect the valuation of loans and advances to customers. Moreover, we have evaluated the process workflows as well as significant controls by inspecting the IT-Systems and testing the design and implementation of key controls. Furthermore, we have evaluated the effectiveness of key controls through sample testing.
- ▶ We have examined whether there were any indicators of loan defaults on the basis of a sample of loans from different portfolios. The selection of the sample was performed risk-oriented and with special regard to ratings and industries with higher probability of default risk. For defaults – referred to outstanding Blankoobligi – of individually significant loans in samples we assessed the bank's assumptions with respect to conclusiveness, constituency and consistency.
- ▶ We have analyzed the bank's documentation and methodology of ECLs if they comply with the requirements of IFRS 9. Based on the bank's backtesting of validations of actual parameters, we have evaluated the adequacy of the models used to calculate ECLs. Additionally we have assessed the adequacy of PDs and LGDs based on the 12-month and lifetime models, in particular the suitability of the statistical

models and parameters used as well as the mathematical functionality. Furthermore we have analyzed staging transfer and parameters including the selection and assessment regarding forward-looking estimates. We have involved our internal financial mathematicians and financial risk management specialists to re-calculate the loan loss credit provisions based on the basis of a sample. Lastly we have consulted our internal IT-specialists to assess the effectiveness of automated controls of the underlying IT-systems of the model.

- ▶ Finally, we assessed whether the disclosures on the measurement of receivables from customers in the notes to the consolidated financial statements are appropriate.

Valuation of claims and provisions from litigation with City of Linz

Management describes the uncertainty of estimates and the course of the litigation with regard to a Swiss Franc swap with the City of Linz in the Note 1 "Accounting principles" section "Latitude of Judgment and Uncertainty of Estimates – City of Linz".

Risk to the Consolidated Financial Statements

Since November 2011, BAWAG P.S.K. is engaged in a lawsuit with the City of Linz in connection with this Swiss Franc swap. City of Linz has filed a lawsuit at the Commercial Court of Vienna (Handelsgericht Wien) against BAWAG P.S.K. claiming a payment of CHF 30.6 million. BAWAG P.S.K. filed a (counter)suit against the City of Linz to enforce its contractual entitlements in the amount of EUR 417.7 million.

The claim against the City of Linz is presented under the receivables from customers and amounts to the market value of the swap on the date of early termination. The assessment of the carrying amount of the receivables was based on management estimate taking into consideration the risks related to this assessment. These estimates comprise the duration and costs of the lawsuit as well as its outcome, especially from negligent actions from one of the parties as well as assumptions regarding claims resulting thereof. Management based its assessment for the valuation and the related uncertainties on legal opinions from external legal counsels, who represent the bank legally, as well as opinions of the internal legal department

and the analysis of the professional opinions of the appointed court experts.

The risk to the consolidated financial statements results from the assessment of the above-mentioned factors, especially the probability of success of the ongoing litigation and the amount and timing of cash flows arising from the lawsuit. Moreover, the lawsuit has gained increased public and political interest. The proceeding is already ongoing for several years. In 2020 the court issued a non-final interim judgement (Zwischenurteil) in which it held that the swap agreement is void. A decision on the mutual payment claims has not yet been made. Thus, the valuation of the claims and provisions from the lawsuit against the City of Linz are affected by estimate uncertainties.

Our Audit approach

We have evaluated whether the valuation of the claims against the City of Linz as well as provisions connected to the lawsuit have been determined adequately and whether the estimates with regard to this litigation are appropriate.

We have critically assessed the estimations of the board and of the bank's internal and external legal experts. We have obtained and analysed statements of the involved law firms addressing the state of the lawsuit. We have analysed whether the amount of the claim is consistent with the contractual terms and the market parameters on the closure date as well as whether the assumptions for the valuation of the claim on the reporting date are consistent with the current assessment of the progress of the litigation and current market parameters. We have consulted our internal legal experts to analyse the experts' statements provided.

Finally, we have evaluated whether the disclosures in Note 1 "Accounting principles" section "Latitude of Judgment and Uncertainty of Estimates – City of Linz" are adequate.

Initial recognition of assets and liabilities from a business combination

The bank acquired 100 % of the shares of BFL Leasing GmbH, Germany, on 2 May 2019 (date of acquisition) for

a purchase price of EUR 44.8 million, 99.632 % and afterwards 0.358% of the shares of Zahnärztekasse AG, Switzerland, on 1 March 2019 (date of acquisition) for a total purchase price of EUR 49.5 million and 100 % of the shares of Health Coevo AG, Germany, on 1 May 2019 (date of acquisition) for a purchase price of EUR 24.8 million. The bank describes this transaction in Note 35 "Major changes in the Group's holdings". Further disclosures on the determination of fair values is given in Note 1 "Accounting policies" section "Latitude of Judgment and Uncertainty of Estimates".

Risk to the Consolidated Financial Statements

Acquired assets and assumed liabilities identified as part of the purchase price allocation are to be recognized at fair value at the time of acquisition. The identification and determination of fair values of assets and liabilities on the acquisition date depend on management's estimates, assumptions and valuation models. Such estimates and assumptions in particular include the valuation of receivables from and payables to customers and credit institutions.

The risk to the consolidated financial statements results from the recognition and the valuation of the identified assets and liabilities acquired in connection with the purchase price allocation, which are significantly influenced by management's estimate and margins of discretions.

Our Audit approach

- ▶ We have analysed the purchase agreement and assessed whether the criteria for control of the acquired companies were met and the definition of a business combination is fulfilled on the acquisition date.
- ▶ We have assessed the assumptions, plans and valuation models used by the Bank to determine the fair values of the individual items with the involvement of our valuation specialists. We have analysed whether the plan values and underlying assumptions are consistent and conclusive and whether the discount rates used are within a reasonable range of publicly available information and market data. In addition, we have reconstructed the mathematical mode of operation of the models and the accompanying random sampling of the arithmetical accuracy of the fair values.

- ▶ Finally, we have analysed the adequacy of the disclosure in connection with the business combinations provided in the notes to the consolidated financial statements.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements pursuant to Section 245a UGB and Section 59a BWG and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the AP Regulation and Austrian Standards on Auditing, we exercise

professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- ▶ We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- ▶ We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ We obtain sufficient appropriate audit evidence regarding the financial information of the entities and

business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- ▶ We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- ▶ We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any

relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards

- ▶ From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

Group Management Report

In accordance with Austrian company law, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report, and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Additional Information in accordance with Article 10 AP Regulation

At the Annual General Meeting dated 3 May 2018, we were elected as group auditors. We were appointed by the Supervisory Board on 8 May 2018.

On 30 April 2019 we were elected as group auditors for the year ended 31 December 2020. We were appointed by the Supervisory Board on 20 May 2019.

We have been the Group's auditors from the year ended 31 December 2015, without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner

The engagement partner is Mr. Bernhard Mechtler

Engagement Partner

The engagement partner is Mr Bernhard Mechtler.

Vienna, 13 March 2020

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
After-tax earnings per share	Net profit / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit per every individual share (diluted) of the stock.
Average interest-bearing assets	Month-end interest-bearing assets / number of months	Average of month-end interest-bearing assets within the quarter or the year is used for calculating net interest margin and risk cost ratio (see KPIs below)
Basic earnings per share	(Net profit - AT1 dividend) / weighted average number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 dividend) per every individual share of the stock.
Book value per share	Common equity (excluding AT1 capital and dividends) / number of shares outstanding	Book value per share represents the total amount of common equity divided by the number of shares outstanding at the end of the period.
Common equity	Equity attributable to the owners of the parent	Common equity as presented in the consolidated financial statements
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	CET1 capital is defined by the CRR and represents the highest quality of capital. It therefore only comprises capital instruments that are available to the bank for unrestricted and immediate use to cover risks or losses as soon as they occur. The higher the bank's CET1 capital, the higher its resilience against such risks or losses.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets	The CET1 ratio is one of the most important regulatory metrics and demonstrates the bank's financial strength by providing a measure for how well a bank can withstand financial stress. The ratio is consistently monitored to ensure compliance with regulatory minimum requirements. Before any business opportunities are entered into, they are thoroughly assessed with regard to their impact on the CET1 ratio.
Core revenues	The total of net interest income and net fee and commission income	Core revenues total the line items net interest income and net fee and commission income and demonstrate the success of the bank in its core activities.
Cost-income ratio (CIR)	Operating expenses / operating income	The cost-income ratio shows the company's operating expenses in relation to its operating income. The ratio gives a clear view of operational efficiency. BAWAG Group uses the cost-income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions.
Customer loans	Customer loans measured at amortized cost	The book value of customer loans measured at a mortized cost.
Diluted earnings per share	(Net profit - AT1 dividend) / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 dividend) per every individual share (diluted) of the stock.
Interest-bearing assets	Financial assets + Assets at amortized cost – Assets at central banks	Interest-bearing assets comprise the line items Financial assets and Assets at amortized cost excluding Assets at central banks
Leverage ratio	Tier 1 capital / total exposure (calculation according to CRR)	The leverage ratio is a regulatory metric and expresses the relationship between the bank's Tier 1 capital and its total exposure, where total exposure includes on-balance and certain off-balance exposures but not on a risk-weighted basis. The ratio provides a metric to judge how leveraged a bank is. The higher the leverage ratio, the lower a bank is leveraged and the higher the likelihood of a bank withstanding negative shocks to its balance sheet.

Liquidity coverage ratio (LCR)	Liquid assets/net liquid outflows (calculation according to CRR)	The liquidity coverage ratio is a regulatory metric that ensures that banks maintain adequate levels of liquidity, i.e. sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, the bank shall sustain any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements and short-term liquidity needs.
Loan-to-Value (LTV)	Mortgage loans / appraised value (market value) of the property	The LTV ratio is a financial term to express the ratio of a mortgage loan in relation to the value in use or market value of the underlying property.
Net interest margin	Net interest income / average interest-bearing assets	The net interest margin is a performance measure and is expressed as a percentage of what a bank earns on loans and other assets in a time period less the interest it pays on deposits and other liabilities divided by average interest-bearing assets. It is used for external comparison with other banks as well as internal profitability measurement of products and segments.
Net profit	Profit after tax attributable to owners of the parent	This profitability measure represents the profit after tax that is available for distribution to the shareholders in absolute amounts for the respective period as presented in the consolidated financial statements.
NPL ratio	Non-performing loans (NPLs) / exposure	The NPL ratio is an economic ratio to demonstrate the proportion of credit risk exposure that has been classified as non-performing in relation to the entire credit risk exposure. The ratio reflects the quality of the portfolio and of the Group's credit risk management.
NPE ratio	Non-performing loans (NPEs) / exposure	The NPE ratio is an economic ratio to demonstrate the proportion of credit risk exposures that have been classified as non-performing (NPEs) in relation to the entire credit risk exposure.
NPL coverage ratio	Loan loss provisions, reserves and collateral / NPL	The total of LLPs, reserves and collateral relative to the NPL exposure
NPL LLP coverage ratio	Loan loss provision and reserves / NPL	The total of LLPs and reserves relative to the NPL exposure
Off-balance business	CCF weighted off-balance business	The off-balance business in the risk report is CCF weighted.
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses	As presented in the respective line item in the income statement
Operating profit	Operating income less operating expenses and regulatory charges	As presented in the respective line item in the income statement
Pre-tax earnings per share	Profit before tax / weighted average diluted number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax per every individual share (diluted) of the stock.
Return on common equity (RoCE)	Net profit / average common equity excluding AT1 capital and dividends	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the income statement as a percentage of the respective underlying (either equity related or asset related).
Return on tangible common equity (RoTCE)	Net profit / average tangible common equity excluding AT1 capital and dividends	Return on common equity and return on tangible common equity demonstrate profitability of the bank on the capital invested by its shareholders and thus the success of their investment. The "Return on ..." measures are useful for easily comparing the profitability of the bank with other financial institutions. Allocated equity to segments is based on an internal model taking into account risk-weighted assets and balance sheet size of the respective segment.

Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Group, fully loaded)	The calculation of risk-weighted assets is defined in the CRR. The figure describes the total amount of exposure at risk for a bank and includes both on-balance and off-balance positions. When calculating the amount, the bank can consider risk-mitigating elements (e.g. collateral) and has to derive regulatory risk weights for each position depending on the (external) credit rating of the counterparty or customer. Risk-weighted assets are used as the denominator for calculating the CET1 ratio (see above). "Fully loaded" refers to the full application of the CRR without any transitional rules.
Risk costs / interest-bearing assets; (risk cost ratio)	Provisions and loan loss provisions, impairment losses and operational risk (total risk costs) / average interest-bearing assets	This ratio is a measure for the quality of credit risk management and the loan portfolio itself. It provides a relative view of the risk costs for the period based on the average interest-bearing assets and allows benchmarking with other banks. Low risk costs may result from a high collateralization and/or a close monitoring of the credit rating of the customers. As a result, this implies that there are only few actual credit losses and little need for provisioning.
RWA density	Risk-weighted assets / total assets	The RWA density is a metric to obtain an "average risk weight" for a bank's balance sheet, i.e. the bank's total risk-weighted assets (see above) compared to the total assets. The ratio indicates the average risk weightings of the assets based on their regulatory assessment, which can be impacted by asset quality, the collateralization level or the applied models for assessing the risk weights.
Tangible book value per share	Tangible common equity (excluding AT1 capital and dividends) / number of shares outstanding	Tangible book value per share represents the total amount of common equity less intangible assets divided by the number of shares outstanding at the end of the period.
Tangible common equity	Common equity reduced by the carrying amount of intangible assets	Tangible common equity is another viability indicator for banks and facilitates the comparison of equity figures excluding intangible assets. It is used as the denominator of the return on tangible equity calculation (see below).
Total capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	Total capital and total capital ratio are regulatory metrics and compare to CET1 capital and the CET1 ratio in a way that the eligible capital for this purpose is extended by other instruments (e.g. Additional Tier 1 and Tier 2 instruments) not falling within the strict Common Equity Tier 1 definition. The total capital ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements. However, CET1 capital is of higher significance as it is also the base for prudential thresholds such as the SREP requirement. Therefore, BAWAG Group focuses more on CET1 capital and the CET1 ratio.
Total capital ratio	Total capital / risk-weighted assets	
Value-at-risk (VaR)	Measure of risk of investments	A method for quantifying risks that measures the potential maximum future losses that can occur within a specific period and with a certain probability.

GLOSSARY

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
AML	Anti-Money-Laundering
Backtesting	A method for verifying projected VaR values by comparing them with the actual developments.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
Cash flow hedge	A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CLO	Collateralized loan obligation; securities that are collateralized by a pool of credit claims.
Cross-selling	The active selling of complementary products and services to existing customers.
CRR	Capital Requirements Regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Expected credit loss	IFRS 9 requires a bank to determine the expected credit loss (ECL) based on a probability assessment of future cash flows and losses. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries).
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
Fair value hedge	Assets or liabilities, generally with fixed interest rates, are protected against changes in their fair value using derivatives.
Futures	Standardized, exchange-traded forward agreements in which an asset must be delivered or purchased at a specific time and at a price that is agreed in advance.
Hedge accounting	An accounting technique that aims to minimize the effects that the opposing developments in the value of a hedge transaction and its underlying transaction have on the income statement.
Hedging	Protecting against the risk of disadvantageous interest rate and price changes.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
Impairments stage 1	Impairments (ECL) for assets without increase in credit risk since initial recognition.
Impairments stage 2	Impairments (ECL) with increase in risk since initial recognition but not credit-impaired.
Impairments stage 3	Impairments (provisions and reserves) for credit-impaired debt instruments.
Industry segmentation	Allocation to individual industries based on internal industry codes.
Investment properties	Properties held as financial investments, primarily to generate rental income.
Monte Carlo simulation	A numerical method for solving mathematical problems by modelling random values.
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time.
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
Swap	A financial instrument that is generally used to exchange payment flows between two parties.
Trading book	All positions that a bank holds in financial instruments for the purpose of sale again in the short term when the best result can be achieved depending on the development of prices and interest rates. Positions that are not assigned to the trading book are managed in the banking book.

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