



HALF-YEAR FINANCIAL REPORT AS OF
30.6.2019

KEY FIGURES

Profit or loss statement in € million	Q2 2019	Q2 2018	Change (%)	Jan-Jun 2019	Jan-Jun 2018	Change (%)
Net interest income	220.6	203.1	8.6	435.1	411.2	5.8
Net fee and commission income	70.0	71.5	(2.1)	142.6	146.0	(2.3)
Core revenues	290.6	274.6	5.8	577.7	557.2	3.7
Other income ¹⁾	22.4	9.8	>100	33.6	25.1	33.9
Operating income	313.0	284.4	10.1	611.3	582.3	5.0
Operating expenses	(136.0)	(124.8)	9.0	(262.3)	(254.7)	3.0
Regulatory charges	(2.9)	(2.8)	3.6	(37.1)	(39.4)	(5.8)
Total risk costs	(15.3)	(4.9)	>100	(27.2)	(20.7)	31.4
Profit before tax	160.0	153.0	4.6	287.1	269.6	6.5
Income taxes	(38.3)	(36.5)	4.9	(68.5)	(66.4)	3.2
Net profit	121.7	116.5	4.5	218.6	203.2	7.6

Share data	Q2 2019	Q2 2018	Change (%)	Jan-Jun 2019	Jan-Jun 2018	Change (%)
Pre-tax earnings per share (in €) ²⁾	1.62	1.53	5.8	2.90	2.70	7.7
After-tax earnings per share (in €) ²⁾	1.23	1.17	5.7	2.21	2.03	8.8
Book value per share (in €)	37.33	35.71	4.5	37.33	35.71	4.5
Tangible book value per share (in €)	31.56	30.75	2.6	31.56	30.75	2.6
Shares outstanding at the end of the period	98,794,893	100,000,000	(1.2)	98,794,893	100,000,000	(1.2)

Performance ratios in € million	Q2 2019	Q2 2018	Change (pts)	Jan-Jun 2019	Jan-Jun 2018	Change (pts)
Return on common equity ³⁾	13.0%	13.1%	(0.1)	11.9%	11.6%	0.3
Return on tangible common equity³⁾	15.3%	15.3%	0.0	13.8%	13.5%	0.3
Net interest margin	2.30%	2.15%	0.15	2.28%	2.15%	0.13
Cost-income ratio	43.5%	43.9%	(0.4)	42.9%	43.7%	(0.8)
Risk costs / interest-bearing assets	0.16%	0.05%	0.11	0.14%	0.11%	0.03

Statement of financial position in € million	Jun 2019	Dec 2018	Change (%)	Jun 2018	Change (%)
Total assets	44,463	44,698	(0.5)	44,270	0.4
Customer loans	31,062	30,482	1.9	30,191	2.9
Customer deposits and own issues	35,286	34,620	1.9	34,816	1.3
Common equity	3,688	3,706	(0.5)	3,571	3.3
Tangible common equity	3,118	3,202	(2.6)	3,075	1.4
Risk-weighted assets	20,727	20,465	1.3	20,188	2.7

Balance sheet ratios	Jun 2019	Dec 2018	Change (pts)	Jun 2018	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	15.1%	14.5%	0.6	15.2%	(0.1)
Total capital ratio (fully loaded)	18.9%	16.3%	2.6	17.2%	1.7
Leverage ratio (fully loaded)	7.4%	7.1%	0.3	7.5%	(0.1)
Liquidity coverage ratio (LCR)	148%	179%	(31)	184%	(36)
NPL ratio	1.8%	1.7%	0.1	1.8%	0.0

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

2) Before deduction of AT1 dividend.

3) Excl. AT1 capital.

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 82-84.

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BAWAG Group's interim results are typically not indicative of expected full-year results. 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.

LETTER FROM THE CEO



Dear Shareholders,

We delivered a strong set of results in the first half of 2019, with profit before tax of € 287 million, up 6% compared to the first half of 2018. While the market environment for European financials continues to be challenging, the fundamentals of the bank remain strong. We delivered a return on tangible common equity of 13.8%, a cost-income ratio of 42.9% and a CET1 ratio of 15.1%. On a pro forma basis¹⁾ the return on tangible common equity was 17.8%, with a CET1 ratio of 12.7%. We're on track to deliver on all of our targets in 2019 as we continue to adapt to the changing operating environment and focus on the things that we can control.

In addition to our strong operating performance, we closed on our leasing and factoring acquisitions from 2018 and continued to make progress across various operational and strategic initiatives. The recently closed acquisitions complement our Retail & SME business in Germany and emphasize our focus on building out our Retail & SME business across the DACH region. In order to make this strategic focus more visible, we changed our segmentation at the beginning of the year.

Our **Retail & SME** segment delivered a profit before tax of € 185 million during the first of half 2019. Our stand-alone strategy in Austria, *Concept 21*, is progressing well with a full separation from the Austrian Post by the end of 2019. 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, our recently launched retail partnerships represent important new customer acquisition channels. In the first half 2019, we launched our partnerships with MediaMarktSaturn Austria, METRO Cash & Carry Austria and the jö bonus loyalty club of REWE Group (uniting largest retailers in Austria), of which we are the launch partner for the financial services sector.

In Germany, the transformation momentum continues with the integration of various businesses and launch of digital products. Our focus is on building a niche Retail &

SME platform while leveraging our digital capabilities across the Group.

The **Corporates & Public** segment delivered a profit before tax of € 95 million during the first half 2019. Core revenues remained broadly stable with a focus on risk-adjusted returns. 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.

In terms of **M&A**, we continue to assess various M&A opportunities, but will remain disciplined in following our underwriting guidelines on both strategic fit and value.

In addition to the positive operational developments, we have made good progress on our commitment to being good stewards of capital. The Managing Board proposed resolutions to buy back and cancel own shares of up to € 400 million, which was approved by the Annual General Meeting and is pending regulatory approval. Furthermore, we paid the 2018 dividend of € 215 million in May 2019, which is in line with our dividend policy.

All of our team members across BAWAG Group are focused on continuing to deliver value to our customers and shareholders. We will continue to execute on a number of operational and strategic initiatives during the remainder of 2019 and are confident in delivering on all of our targets. We will continue to focus on the things that we control, driving operational excellence, and continuing to pursue disciplined and profitable growth.



Anas Abuzaakouk, CEO of BAWAG Group AG

Half-Year Group Management Report

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKET

Equity markets in Europe and the United States were influenced by discussions on protectionist trade policy measures, lower global growth expectations and tendencies towards a more expansionary monetary policy. After subdued share price developments in 2018, the first half of 2019 was characterized by a decrease in price volatility and a more stable performance. The Euro Stoxx 600 Banks, a subindex of the Euro Stoxx 600 and the benchmark index for banks operating in the Euro area, increased by 1% during the first half 2019 compared to year-end 2018.

The financial performance of the corporate sector reflects the stable macroeconomic environment. Earnings per share of the Euro Stoxx 600, the Euro Stoxx 600 Banks and

the S&P 500 increased moderately during the first half 2019 compared to year-end 2018. With stable to increasing earnings and increasing prices, valuation metrics of most indices rose in Europe and the United States. While the price-to-earnings ratio of the ATX, Euro Stoxx 600 and S&P 500 increased to 10.4, 17.8 and 19.3, respectively, the price-to-earnings ratio of the Stoxx 600 Banks remained at a more moderate level of 9.6.

Global liquidity conditions remained ample and interest rates remained low in 2019. Still, there are discussions on interest rate cuts in the United States and additional quantitative easing measures such as a new round of TLTRO and an increase in net asset purchases by the ECB in Europe.

SHARE PERFORMANCE

BAWAG Group AG's shares closed the first half 2019 at a share price of € 36.86 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 € 36.10.

Taking into account the dividend of € 215 million for the year 2018 (distributed in May 2019), BAWAG Group AG's

shares had a total return of 8.4% versus a total return of 5.5% for the Euro Stoxx 600 Banks and a total return of 6.4% for the Euro Stoxx Banks during the first half 2019¹⁾. Thus, BAWAG Group AG's shares outperformed the benchmark indices for banks in the Euro area.

FUNDING AND INVESTOR RELATIONS

BAWAG Group completed the main elements of its total capital optimization. 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. successfully returned to the covered bond market by issuing a € 500 million mortgage covered bond with a tenor of

15 years in June 2019, demonstrating solid access to long-term funding at attractive terms.

In the first half 2019, members of the Managing Board together with the Investor Relations team met with a number of investors in the US, the UK, Germany, the Nordics, Benelux and Austria. BAWAG Group's strategy was presented and the financial performance discussed.

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	Q2 2019	Q2 2018	Change (%)	Jan-Jun 2019	Jan-Jun 2018	Change (%)
Interest income	286.3	283.9	0.8	575.3	576.9	(0.3)
Interest expense	(67.8)	(85.5)	(20.7)	(142.6)	(171.7)	(16.9)
Dividend income	2.1	4.7	(55.3)	2.4	6.0	(60.0)
Net interest income	220.6	203.1	8.6	435.1	411.2	5.8
Fee and commission income	93.0	93.3	(0.3)	186.6	189.0	(1.3)
Fee and commission expenses	(23.0)	(21.8)	5.5	(44.0)	(43.0)	2.3
Net fee and commission income	70.0	71.5	(2.1)	142.6	146.0	(2.3)
Core revenues	290.6	274.6	5.8	577.7	557.2	3.7
Gains and losses on financial instruments and other operating income and expenses ¹⁾	22.4	9.8	>100	33.6	25.1	33.9
Operating income	313.0	284.4	10.1	611.3	582.3	5.0
Operating expenses¹⁾	(136.0)	(124.8)	9.0	(262.3)	(254.7)	3.0
Regulatory charges	(2.9)	(2.8)	3.6	(37.1)	(39.4)	(5.8)
Operating profit	174.1	156.8	11.0	311.9	288.2	8.2
Total risk costs	(15.3)	(4.9)	>100	(27.2)	(20.7)	31.4
Share of the profit or loss of associates accounted for using the equity method	1.2	1.0	20.0	2.4	2.1	14.3
Profit before tax	160.0	153.0	4.6	287.1	269.6	6.5
Income taxes	(38.3)	(36.5)	4.9	(68.5)	(66.4)	3.2
Profit after tax	121.7	116.4	4.6	218.6	203.2	7.6
Non-controlling interests	0.0	0.0	–	0.0	0.0	–
Net profit	121.7	116.5	4.5	218.6	203.2	7.6

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 35.0 million for the first half year 2019. The item Operating expenses includes regulatory charges in the amount of € 2.1 million for the first half year 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 Interim Group Management Report.

Profit after tax increased by € 15.4 million, or 7.6%, to € 218.6 million in the first half 2019, mainly due to higher net interest income and gains and losses and other operating income and expenses.

Net interest income increased by € 23.9 million, or 5.8%, to € 435.1 million in the first half 2019 largely by optimizing the interest expenses.

Net fee and commission income decreased slightly by € 3.4 million, or 2.3%, compared to the first half 2018 mainly attributable to the Corporate & Public Segment.

Gains and losses on financial instruments and other operating income and expenses increased by € 8.5 million to € 33.6 million in the first half 2019 by higher realized gains on sales of bonds.

Operating expenses increased by 3.0% to € 262.3 million in the first half 2019 as a result of the newly acquired businesses.

Total risk costs increased by € 6.5 million to € 27.2 million in the first half 2019.

Income taxes amounted to € 68.5 million in the first half 2019.

Total assets

in € million	Jun 2019	Dec 2018	Change (%)	Jun 2018	Change (%)
Cash reserves	803	1,069	(24.9)	937	(14.3)
Financial assets					
Held for trading	409	351	16.5	393	4.1
Fair value through profit or loss	537	504	6.5	510	5.3
Fair value through OCI	3,069	3,039	1.0	2,379	29.0
At amortized cost	37,631	38,334	(1.8)	38,640	(2.6)
Customers	31,062	30,482	1.9	30,191	2.9
Debt instruments	2,955	3,512	(15.9)	3,205	(7.8)
Credit institutions	3,614	4,340	(16.7)	5,244	(31.1)
Valuation adjustment on interest rate risk hedged portfolios	4	1	>100	–	–
Hedging derivatives	494	401	23.2	440	12.3
Tangible non-current assets	637	234	>100	224	>100
Intangible non-current assets	569	505	12.7	496	14.7
Tax assets for current taxes	12	15	(20.0)	20	(40.0)
Tax assets for deferred taxes	26	75	(65.3)	108	(75.9)
Other assets	272	170	60.0	123	>100
Total assets	44,463	44,698	(0.5)	44,270	0.4

The position **customers at amortized cost** increased by € 580 million, or 1.9% compared to year-end 2018, and stood at € 31,062 million as of 30 June 2019 mainly driven by the newly acquired business BFL Leasing GmbH.

Tangible non-current assets increased by € 403 million to € 637 million as of 30 June 2019 compared to year-end 2018, which is largely the result of the first-time application of IFRS 16 regulations with € 265 million.

Total liabilities and equity

in € million	Jun 2019	Dec 2018	Change (%)	Jun 2018	Change (%)
Total liabilities	40,477	40,693	(0.5)	40,400	0.2
Financial liabilities					
Fair value through profit or loss	515	576	(10.6)	948	(45.7)
Held for trading	348	301	15.6	295	18.0
At amortized cost	37,696	38,325	(1.6)	37,831	(0.4)
Customers	30,089	30,195	(0.4)	29,817	0.9
Issued securities	4,682	3,849	21.6	4,051	15.6
Credit institutions	2,925	4,281	(31.7)	3,963	(26.2)
Financial liabilities associated with transferred assets	99	150	(34.0)	–	–
Valuation adjustment on interest rate risk hedged portfolios	390	156	>100	130	>100
Hedging derivatives	39	104	(62.5)	131	(70.2)
Provisions	476	465	2.4	417	14.1
Tax liabilities for current taxes	18	8	>100	0	>100
Tax liabilities for deferred taxes	16	11	45.5	10	60.0
Other obligations	880	597	47.4	638	37.9
Total equity	3,986	4,005	(0.5)	3,870	3.0
Common equity	3,688	3,706	(0.5)	3,571	3.3
AT1 capital	297	298	(0.3)	298	(0.3)
Non-controlling interests	1	1	0.0	1	0.0
Total liabilities and equity	44,463	44,698	(0.5)	44,270	0.4

Financial liabilities at amortized cost decreased by € 629 million, or 1.6%, to € 37,696 million as of 30 June 2019 compared to year-end 2018, reflecting the partial repayment of TLTRO II by €1.75 billion within credit institutions and the increase in issued securities with a Tier 2 capital bond of € 400 million and a mortgage covered bond with € 500 million.

Other Obligations increased by the lease liability in the amount of € 266 million as a result of the first-time application of IFRS 16 regulations.

Total equity including Additional Tier 1 capital stood at € 3,986 million as of 30 June 2019, after the dividend distribution for 2018 of € 215 million in May 2019.

KEY PERFORMANCE INDICATORS

in € million	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	220.6	214.5	216.3	213.0	203.1
Net fee and commission income	70.0	72.5	70.2	66.6	71.5
Core revenues	290.6	287.1	286.5	279.6	274.6
Operating income	313.0	298.3	289.9	298.5	284.4
Operating expenses	(136.0)	(126.4)	(136.4)	(126.5)	(124.8)
Total risk costs	(15.3)	(11.9)	(13.2)	(11.2)	(4.9)
Profit before tax	160.0	127.0	143.0	160.4	153.0
Income taxes	(38.3)	(30.2)	(34.4)	(35.5)	(36.5)
Net profit	121.7	96.8	108.6	124.8	116.5
(figures annualized)					
Return on common equity ¹⁾	13.0%	10.3%	11.8%	13.8%	13.1%
Return on tangible common equity¹⁾	15.3%	12.0%	13.7%	16.0%	15.3%
Net interest margin	2.30%	2.26%	2.25%	2.28%	2.15%
Cost-income ratio	43.5%	42.4%	47.1%	42.4%	43.9%
Risk costs / interest-bearing assets	0.16%	0.13%	0.14%	0.12%	0.05%
Tax rate	23.9%	23.8%	24.1%	22.1%	23.9%

1) Excl. AT1 capital.

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 82-84.

BUSINESS SEGMENTS

RETAIL & SME

Strategy

The Retail & SME segment services 2.5 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, fair and transparent products and financial advice through our sales channels with a strong and well-recognized national brand. In Austria, we are a market leader serving our customers with a high touch advisory experience combined with advanced analytics and digital offerings. Our leading market share in daily banking products allows us to understand our customers and deliver products and services across various channels. Our focus is on an efficient and simple delivery of core lending and savings products, enhanced by partnerships that deliver new customers, and leading product sets in securities and insurance. 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.

In Germany and Switzerland, 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, roll out digital capabilities, grow through partnerships, and leverage our M&A competence to target niche areas of the market.

First Half 2019 Business Review

Austria

In the first half 2019, we continued our retail network transformation. Our branch network is being reinvented to focus on a high quality advisory experience, an upgraded sales force, simple and efficient transactional business, and an overall enhanced customer experience. We've also seen the early benefits of our retail partnerships, driving new customer growth to our platform with core products and a seamless customer experience through enhanced digital offerings. As the only bank partner of the newly founded and largest Austrian customer loyalty club jö, which unites the largest retailers in Austria, including REWE Group,

already reaching about 3.0 million customers with approximately 4 million planned by the end of the year, we bring incremental financial value for each jö affiliate transaction made by our customers. Additionally, our exclusive long-term partnerships with leading Austrian retailers such as MediaMarktSaturn Austria continue to ramp up, with full deployment across all outlets in Austria, as well as the online web shop. To date, we have attracted more than 20,000 new customers. By pairing these customers with our purchasing-probability models and next-best-action engine, we continue to optimize the personalization of our offerings and ultimately provide the products and services customers want and value. We are continuously optimizing and integrating our customer journeys through added functionalities, simplified servicing, purchasing journeys and virtual support. In May, we released our new mobile banking app "klar", providing our customers with an initial set of easy-to-use features, with a plan to roll out additional features and services on a continuous basis. We are also enhancing our SME offering through a simple online product and service offering through integrated technology partnerships.

From a network perspective, we made further progress on *Concept 21*, our retail transformation roadmap. Over the past 18 months, we've reshaped our network by successfully consolidating our resources into our target branch network, helping to drive growth in sales per FTE while delivering significant cost reduction and providing outstanding services to customers. We've already achieved an overall productivity per FTE increase of 5% year-over-year. The efficiency created by this transition allows us to reinvest in our network with enhanced branch experiences, digital products and key partnerships for new customer growth - all while maintaining efficient cost levels.

As of June 2019, 60% of customer shifts to new branches were successfully completed, with minimal disruption due to our coverage design and customer retention plan. Additionally, we've hired more than 160 new advisors and opened 14 new branches with our new design concept, with additional 15 new branches planned for the second half 2019. By the end of 2019 the separation of the branch network from the Austrian Post will be completed with an own branch network of approximately 90 branches. These branches offer our customers the opportunity to experience the benefits of our newly designed concept, which combines digitally integrated processes with customized service and advisory. The new branch design generated overwhelmingly positive customer feedback, with an

emphasis on a welcoming feel, efficient layout, and providing the highest levels of privacy expected for managing our customers' financial lives.

Our direct banking-platform, easybank, continued to focus on digitalization 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. The platform 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 financial services institution in Austria.

Germany & Switzerland

Our German/Swiss platform is expanding its footprint as we continue to grow in strategic areas across both markets. 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 GmbH 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 of 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 and brokers to partners and 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 work 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
- ▶ Continued focus on disciplined corporate lending
- ▶ Leveraging digital products across the Group and centralization of specific core 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 depository relationships and data-based customer analytics to offer value and assistance to our customers in their financial lives when most appropriate. 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 collaboration activities throughout the 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, leveraging digital capabilities across the Group, growing through partnerships and continuing to assess strategic M&A opportunities.

Financial Results

Income metrics (in € million)	Q2 2019	Q2 2018	Change (%)	Jan-Jun 2019	Jan-Jun 2018	Change (%)
Net interest income	156.8	141.9	10.5	303.7	285.1	6.5
Net fee and commission income	60.5	60.1	0.7	122.0	122.1	(0.1)
Core revenues	217.2	202.1	7.5	425.8	407.2	4.6
Gains and losses on financial instruments	0.0	0.0	0.0	0.0	8.5	>(100)
Other operating income and expenses	0.3	0.4	(25.0)	0.7	1.0	(30.0)
Operating income	217.5	202.4	7.5	426.4	416.7	2.3
Operating expenses	(98.2)	(86.7)	13.3	(185.3)	(173.8)	6.6
Regulatory charges	(0.8)	(1.2)	(33.3)	(24.0)	(28.3)	(15.2)
Total risk costs	(17.0)	(15.1)	12.6	(32.2)	(30.8)	4.5
Profit before tax	101.4	99.7	1.7	184.9	183.8	0.6
Income taxes	(25.4)	(24.9)	2.0	(46.2)	(45.9)	0.7
Net profit	76.1	74.8	1.7	138.7	137.8	0.7

Key ratios	Q2 2019	Q2 2018	Change (pts)	Jan-Jun 2019	Jan-Jun 2018	Change (pts)
Return on tangible common equity	22.2%	22.2%	0.0	20.2%	20.7%	(0.5)
Net interest margin	3.65%	3.40%	0.25	3.59%	3.41%	0.18
Cost-income ratio	45.1%	42.8%	2.3	43.5%	41.7%	1.8
Risk costs / interest-bearing assets	0.40%	0.36%	0.04	0.38%	0.37%	0.01
NPL ratio	1.9%	2.0%	(0.1)	1.9%	2.0%	(0.1)

Business volumes (in € million)	Jun 2019	Dec 2018	Change (%)	Jun 2018	Change (%)
Assets	17,446	16,905	3.2	16,699	4.5
Risk-weighted assets	8,235	7,617	8.1	8,138	1.2
Customer deposits	24,348	24,251	0.4	23,811	2.3
Own issues	3,330	2,807	18.6	3,035	9.7

Operating income increased by 2.3% to € 426.4 million compared to the first half 2018. This results from an improvement in net interest income, driven by the revenue contributions from our acquisitions start:bausparkasse (Germany) in September 2018, Zahnärztekasse AG in March 2019 as well as Health Coevo AG and BFL Leasing GmbH in May 2019 and a strong consumer lending performance in the Austrian business.

Operating expenses increased by 6.6% to € 185.3 million, which is due to the above-mentioned acquisitions.

Risk costs amounted to € 32.2 million, translating into a risk cost ratio of 38 basis points with a stable NPL ratio of 1.9%.

The segment delivered a **net profit** of € 138.7 million and a return on tangible common equity (after taxes) of 20.2% in the first half 2019.

Assets increased by 3.2% compared to year-end 2018, mostly coming from our recent acquisitions, compensated the run-down portfolios with the segment.

Customer deposits increased by 0.4% compared to year-end 2018 as a result of higher volumes on current accounts.

CORPORATES & PUBLIC

Strategy

The **Corporates and Public** segment focuses on domestic and international lending, deposits and payment services. Corporate lending includes Austrian as well as international lending focused on developed and mature markets in Western Europe and the United States. We focus primarily on 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.

First half 2019 business review

The Corporates & Public segment delivered a net profit of € 71 million during the first half 2019. We continued to focus on our loan origination opportunities primarily in select 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 for the remainder of 2019. 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)	Q2 2019	Q2 2018	Change (%)	Jan-Jun 2019	Jan-Jun 2018	Change (%)
Net interest income	61.3	59.7	2.7	126.0	124.2	1.4
Net fee and commission income	10.1	12.0	(15.8)	21.6	25.1	(13.9)
Core revenues	71.4	71.7	(0.4)	147.7	149.3	(1.1)
Gains and losses on financial instruments	(0.3)	2.8	-	0.0	2.9	>(100)
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	71.0	74.4	(4.6)	147.7	152.2	(3.0)
Operating expenses	(25.7)	(30.0)	(14.3)	(52.8)	(61.6)	(14.3)
Regulatory charges	(1.4)	(1.0)	(40.0)	(8.5)	(7.1)	(19.7)
Total risk costs	3.8	8.7	56.3	8.4	9.0	6.7
Profit before tax	47.7	52.2	(8.6)	94.8	92.5	2.5
Income taxes	(11.9)	(13.0)	(8.5)	(23.7)	(23.1)	2.6
Net profit	35.8	39.2	(8.7)	71.1	69.4	2.4

Key ratios	Q2 2019	Q2 2018	Change (pts)	Jan-Jun 2019	Jan-Jun 2018	Change (pts)
Return on tangible common equity	12.8%	13.8%	(1.0)	12.5%	12.5%	0.0
Net interest margin	1.69%	1.62%	0.07	1.76%	1.68%	0.08
Cost-income ratio	36.2%	40.3%	(4.1)	35.7%	40.5%	(4.8)
Risk costs / interest-bearing assets	(0.10)%	(0.24)%	0.14	(0.12)%	(0.12)%	0.00
NPL ratio	1.2%	1.2%	0.0	1.2%	1.2%	0.0

Business volumes (in € million)	Jun 2019	Dec 2018	Change (%)	Jun 2018	Change (%)
Assets	14,196	14,167	0.2	14,633	(3.0)
Risk-weighted assets	8,523	9,429	(9.6)	9,030	(5.6)
Customer deposits (incl. other refinancing) and own issues	7,375	9,438	(21.9)	9,338	(21.0)

Operating income decreased by 3.0% to € 147.7 million compared to the first half 2018, which is a result of a mix of lower net fee and commission income and lower gains of financial instruments. However, the net interest income increased by 1.4%.

Operating expenses improved by 14.3% to € 52.8 million, primarily resulting from lower staff costs as well as lower allocated costs.

Risk costs amounted to a net release of € 8.4 million, reflecting the low risk profile of our asset portfolio.

The segment contributed **net profit** of € 71.1 million with a return on tangible common equity (after taxes) of 12.5%.

Assets remained largely stable compared to year-end 2018 with a shift to asset backed lending.

Liabilities stood at € 7.4 billion. The significant reduction compared to year-end 2018 is primarily coming from the € 1.75 billion partial repayment of TLTRO II.

CORPORATE CENTER AND TREASURY

First Half 2019 Developments

The **Corporate Center** contains central functions for BAWAG Group. Hence, the PnL comprises the FTP (funds transfer pricing) 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. De-risking measures in the investment book led to a decreased investment portfolio and a liquidity reserve of € 3.4 billion at the end of the first half 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.

Financial Results

Income metrics (in € million)	Q2 2019	Q2 2018	Change (%)	Jan-Jun 2019	Jan-Jun 2018	Change (%)
Net interest income	2.5	1.4	78.6	5.4	1.9	>100
Net fee and commission income	(0.5)	(0.6)	16.7	(1.0)	(1.3)	23.1
Core revenues	2.1	0.8	>100	4.3	0.6	>100
Gains and losses on financial instruments	18.7	3.2	>100	28.1	9.7	>100
Other operating income and expenses	3.8	3.5	8.6	4.8	3.1	54.8
Operating income	24.5	7.4	>100	37.2	13.3	>100
Operating expenses	(12.0)	(8.2)	46.3	(24.3)	(19.3)	25.9
Regulatory charges	(0.7)	(0.6)	(16.7)	(4.6)	(4.0)	(15.0)
Total risk costs	(2.1)	1.4	-	(3.4)	1.1	-
Profit before tax	10.9	0.9	>100	7.4	(6.8)	-
Income taxes	(1.0)	1.5	-	1.4	2.8	50.0
Net profit	9.9	2.5	>100	8.8	(4.0)	-

Business volumes (in € million)	Jun 2019	Dec 2018	Change (%)	Jun 2018	Change (%)
Assets	12,821	13,626	(5.9)	12,936	(0.9)
Risk-weighted assets	3,968	3,419	16.1	3,021	31.3
Equity	3,985	4,005	(0.5)	3,868	3.0
Own issues and other liabilities	5,425	4,197	29.3	4,216	28.7

Operating income improved to € 37.2 million driven by lower funding costs due to the buyback of a Tier2 capital issuance in 2018 and higher realized gains on sales of bonds.

Operating expenses increased to € 24.3 million due to higher one-offs.

Assets (including the liquidity reserve) decreased by 5.9% compared to year-end 2018 mainly driven by de-risking activities in the investment book.

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 read the information in the Notes section.

OUTLOOK & TARGETS

BAWAG Group delivered strong results in the first half 2019 and anticipates that this performance will continue throughout the remainder of the year.

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

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

1) Before deduction of AT1 dividend; before capital measures.

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

The Managing Board is actively evaluating share buyback options. On 30 April 2019, the AGM approved our proposed resolutions to buy back and cancel own shares of up to € 400 million (pending regulatory approvals) and we paid a dividend of € 215 million (50% of 2018 attributable net profit) for 2018 on 10 May 2019.

Consolidated Half-Year Financial Statements

CONSOLIDATED ACCOUNTS

CONDENSED PROFIT OR LOSS STATEMENT

in € million	[Notes]	Jan–Jun 2019	Jan–Jun 2018 restated
Interest income		575.3	576.9
thereof calculated using the effective interest method		444.4	434.0
Interest expense		(142.6)	(171.7)
Dividend income		2.4	6.0
Net interest income	[1]	435.1	411.2
Fee and commission income		186.6	189.0
Fee and commission expenses		(44.0)	(43.0)
Net fee and commission income	[2]	142.6	146.0
Gains and losses on financial assets and liabilities	[3]	28.2	21.1
thereof gains from the derecognition of financial assets measured at amortized cost		38.8	14.5
thereof losses from the derecognition of financial assets measured at amortized cost		(0.3)	(0.7)
Other operating income		24.0	12.1
Other operating expenses		(53.6)	(45.8)
Operating expenses	[4]	(264.4)	(256.4)
thereof administrative expenses		(228.4)	(234.5)
thereof depreciation and amortization on tangible and intangible non-current assets		(36.0)	(21.9)
Provisions and impairment losses	[5]	(27.2)	(20.7)
thereof according to IFRS 9		(25.2)	(19.4)
Share of the profit or loss of associates accounted for using the equity method		2.4	2.1
Profit before tax		287.1	269.6
Income taxes		(68.5)	(66.4)
Profit after tax		218.6	203.2
Thereof attributable to non-controlling interests		0.0	0.0
Thereof attributable to owners of the parent		218.6	203.2

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) in the amount of € 35.0 million (Jan–Jun 2018: € 37.7 million). Expenses for the deposit guarantee scheme and for the single resolution fund comprise the total expected charges for 2019. The bank levy included in this item amounts to € 2.4 million for the first half year of 2019, compared to € 2.5 million for the first first half year of 2018.

The item Administrative expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of € 2.1 million (Jan–Jun 2018: € 1.7 million) as well. However, the Bank's management sees regulatory charges as a non-operating expense. Accordingly, they are shown in a separate expense line in the Half-Year Group Management Report.

Prior-year figures were adjusted due to a restatement in accordance with IAS 8.41 in December 2018.

Earnings per share

	Jan-Jun 2019	Jan-Jun 2018 restated
Net result attributable to owners of the parent (in € million)	218.6	203.2
AT1 dividend (in € million)	(7.5)	0.0
Net result attributable to owners of the parent after deduction of AT1 dividend (in € million)	211.1	203.2
Weighted average number of outstanding shares	98,794,893	100,000,000
Basic earnings per share (in €)	2.1	2.0
Weighted average diluted number of outstanding shares	98,860,852	100,000,000
Diluted earnings per share (in €)	2.1	2.0

Supplemental information on basic earnings per share according to BAWAG Group's internal definition (before deduction of AT1 coupon; not compliant with IAS 33)

	Jan-Jun 2019	Jan-Jun 2018 restated
Basic earnings per share (in €)	2.21	2.03

Changes in number of outstanding shares

	Jan-Jun 2019	Jan-Jun 2018
Shares outstanding at the beginning of the period	98,794,893	100,000,000
Shares outstanding at the end of the period	98,794,893	100,000,000
Weighted average number of outstanding shares	98,794,893	100,000,000
Weighted average diluted number of outstanding shares	98,860,852	100,000,000

Prior-year figures were adjusted due to a restatement in accordance with IAS 8.41 in December 2018.

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. A part of these shares bought back is used for a

part of our long-term incentive program which only has a service condition. For these shares, a potential dilutive effect is calculated.

STATEMENT OF COMPREHENSIVE INCOME

in € million	[Notes]	Jan–Jun 2019	Jan–Jun 2018 restated
Profit after tax		218.6	203.2
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial gain/loss on defined benefit plans		(19.0)	(2.0)
Shares and other equity investments at fair value through other comprehensive income		7.4	(5.9)
Change in credit spread of financial liabilities		0.2	20.0
Income tax on items that will not be reclassified		3.1	(3.4)
Total items that will not be reclassified to profit or loss		(8.3)	8.7
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign exchange differences		1.3	–
Hedge of net investment in foreign operations net of tax		(1.0)	–
Cash flow hedge reserve		(0.8)	(15.3)
thereof transferred to profit (-) or loss (+)		1.3	(3.2)
Debt securities at fair value through other comprehensive income		26.5	(41.2)
thereof transferred to profit (-) or loss (+)		(3.1)	(20.7)
Income tax relating to items that may be reclassified		(7.1)	14.4
Total items that may be reclassified subsequently to profit or loss		18.9	(42.1)
Other comprehensive income		10.6	(33.4)
Total comprehensive income, net of tax		229.2	169.8
Thereof attributable to non-controlling interests		0.0	0.0
Thereof attributable to owners of the parent		229.2	169.8

Prior-year figures were adjusted due to a restatement in accordance with IAS 8.41 in December 2018.

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	Jun 2019	Dec 2018
Cash reserves		803	1,069
Financial assets at fair value through profit or loss	[7]	537	504
Financial assets at fair value through other comprehensive income	[6]	3,069	3,039
Financial assets held for trading	[8]	409	351
At amortized cost	[9]	37,631	38,334
Customers		31,062	30,482
Credit institutions		3,614	4,340
Securities		2,955	3,512
Valuation adjustment on interest rate risk hedged portfolios		4	1
Hedging derivatives		494	401
Property, plant and equipment		391	116
Investment properties		246	118
Goodwill		93	59
Brand name and customer relationships		279	264
Software and other intangible assets		197	182
Tax assets for current taxes		12	15
Tax assets for deferred taxes		26	75
Associates recognized at equity		43	45
Other assets		229	125
Total assets		44,463	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 18 of this Half-Year Financial Report.

Total liabilities and equity

in € million	[Notes]	Jun 2019	Dec 2018
Total liabilities		40,477	40,693
Financial liabilities designated at fair value through profit or loss	[10]	515	576
Financial liabilities held for trading	[11]	348	301
Financial liabilities at amortized cost	[12]	37,696	38,325
Customers		30,089	30,195
Issued bonds, subordinated and supplementary capital		4,682	3,849
Credit institutions		2,925	4,281
Financial liabilities associated with transferred assets		99	150
Valuation adjustment on interest rate risk hedged portfolios		390	156
Hedging derivatives		39	104
Provisions	[13]	476	465
Tax liabilities for current taxes		18	8
Tax liabilities for deferred taxes		16	11
Other obligations		880	597
Total equity		3,986	4,005
Equity attributable to the owners of the parent (ex AT1 capital)		3,688	3,706
AT1 capital		297	298
Non-controlling interests		1	1
Total liabilities and equity		44,463	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 securities at fair value through other comprehensive income net of tax excluding equity associates	Debt securities 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	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
in € million															
Balance as of 01.01.2018	100	1,146	–	2,278	3	(77)	48	2	13	(59)	–	–	3,454	1	3,455
Transactions with owners	–	5	–	(58)	–	–	–	–	–	–	–	–	(53)	0	(53)
Dividends	–	–	–	(58)	–	–	–	–	–	–	–	–	(58)	0	(58)
Share-based payments	–	5	–	–	–	–	–	–	–	–	–	–	5	–	5
AT1 capital	–	–	298	–	–	–	–	–	–	–	–	–	298	–	298
Total comprehensive income	–	–	–	204	(12)	(1)	(31)	–	(5)	15	–	–	170	0	170
Balance as of 30.06.2018	100	1,151	298	2,424	(9)	(78)	17	2	8	(44)	–	–	3,869	1	3,870
Balance as of 01.01.2019	99	1,151	298	2,603	(8)	(82)	(11)	1	5	(52)	–	0	4,004	1	4,005
Transactions with owners	–	(26)	–	(215)	–	–	–	–	–	–	–	–	(241)	–	(241)
Dividends	–	–	–	(215)	–	–	–	–	–	–	–	–	(215)	–	(215)
Share-based payments	–	(26)	–	–	–	–	–	–	–	–	–	–	(26)	–	(26)
AT1 capital	–	–	0	–	–	–	–	–	–	–	–	–	0	–	–
AT1 dividend	–	–	–	(8)	–	–	–	–	–	–	–	–	(8)	–	(8)
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	–	–	–	–	0	0
Total comprehensive income	–	–	–	219	0	(14)	19	–	6	0	(1)	1	229	0	229
Balance as of 30.06.2019	99	1,125	298	2,600	(8)	(96)	8	1	11	(52)	(1)	1	3,985	1	3,986

Prior-year figures were adjusted due to a restatement in accordance with IAS 8.41 in December 2018.

CONDENSED CASH FLOW STATEMENT

<i>in € million</i>	Jan–Jun 2019	Jan–Jun 2018 restated
Cash and cash equivalents at end of previous period	1,069	1,180
Profit (after tax, before non-controlling interests)	219	203
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(392)	(281)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(1,167)	(2,752)
Interest receipts	600	575
Interest paid	(142)	(163)
Dividend receipts	6	9
Taxes paid	(9)	(7)
Net cash from operating activities	(885)	(2,416)
Cash receipts from sales of associates	9	2
Cash receipts from sales of		
Financial investments	1,427	2,469
Tangible and intangible non-current assets	3	3
Cash paid for		
Financial investments	(848)	(473)
Tangible and intangible non-current assets	(16)	(33)
Acquisition of subsidiaries, net of cash acquired	(118)	0
Net cash used in investing activities	457	1,968
Dividends paid	(215)	(58)
Cash receipts from the issuance of AT1 capital	0	298
AT1 dividend	(8)	0
Cash paid for amounts included in leases liabilities	(11)	0
Issuance / redemption of subordinated liabilities (including those designated at fair value through profit or loss)	396	(35)
Net cash from financing activities	162	205
Cash and cash equivalents at end of period	803	937

Prior-year figures were adjusted due to a restatement in accordance with IAS 8.41 in December 2018.

NOTES

The condensed Consolidated Half-Year Financial Statements of BAWAG Group as of 30 June 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC) to the extent adopted by the EU.

These Consolidated Half-Year Financial Statements for the first half year of 2019 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in preparing these Consolidated Half-Year Financial Statements are, with the exception of the requirements pursuant to IFRS 16 Leases and changes in IAS 12, the same as those used for the preparation of the consolidated financial statements as of 31 December 2018.

The Consolidated Half-Year Financial Statements include values which are determined, as permitted, on the basis of estimates and judgments. 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 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 the 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)

As of 30 June 2019, the following new standard is mandatory for periods beginning on 1 January 2019: IFRS 16 Leases.

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 recognition of assets and liabilities also 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 a 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.

Quantitative impacts of IFRS 16 application as of 30 June 2019

The right-of-use asset in the amount of € 265.4 million is presented within property, plant and equipment and the lease liability in the amount of € 266.3 million is presented within other obligations.

The recognized right-of-use assets relate to the following types of assets:

in € million	Jun 2019	01.01.2019
Land and buildings	264.3	261.1
Office furniture and equipment	1.1	-
Total right-of-use assets	265.4	261.1

Since the initial application of IFRS 16 on 1 January 2019, an addition to the right-of-use asset in the amount of € 15.3 million was recognized. 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. Moreover, the increase arises from the expansion of BAWAG Group's branch network in line with *Concept 21*.

In the first half 2019, interest expenses in the amount of € 1.1 million and depreciation in the amount of € 11.0 million were recorded due to the adoption of IFRS 16. Rental expenses for operating leases in the amount of € 11.7 million are eliminated, resulting in a decrease of net profit before tax in the amount of € 0.4 million. Expenses relating to short-term leases and leases of low value assets amount to € 0.3 million. There were no variable lease payments that do not depend on an index or a rate.

Definition of a lease

At 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 obtains substantially all of the economic benefits from the use and the lessee has the right to control the asset.

BAWAG Group as a lessee

BAWAG Group leases various office premises, branches and equipment.

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, the Group uses the effective interest rate in the lease or, if not readily available, the Group's incremental borrowing rate. 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.

BAWAG Group as a lessor

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. Hence, the Bank has had no major impact from transition to IFRS 16.

Transition to IFRS 16 as of 1 January 2019

As of the effective date, BAWAG Group applied the practical expedient in IFRS 16.C3 not to 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

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 will elect to use the following practical exemptions for previously classified operating leases as permitted by IFRS 16.C10 for transition:

- ▶ 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

IAS 12 Income Taxes

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 € 1.9 million from equity to profit or loss in the first quarter 2019.

Beyond that, there have been no significant changes in accounting policies since 31 December 2018 resulting from the application of interpretations or amendments to existing standards or new standards.

Miscellaneous

As of 30 June 2019, the Group consists of 59 (31 December 2018: 47) fully consolidated entities and 2 (31 December 2018: 2) entities that are accounted for using the equity method in Austria and abroad. In the first quarter of 2019, Zahnärztekasse AG was acquired and the entities Tiger Retail UK RE 1 S.à r.l. and Tiger Retail UK RE 2 S.à r.l. were founded. In the second quarter of 2019, EOS Health Honorarmanagement AG (renamed to Health Coevo AG as of 1 July 2019), Morgenstern Miet und Leasing GmbH and BFL Leasing GmbH were acquired and Romax Immobilien GmbH and five real estate entities were consolidated for the first time. For further details on acquisitions, please refer to Note 15.

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 is not affected.

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 a hard Brexit will cause a minor organizational impact. For further information, please refer to the consolidated financial statements as of 31 December 2018.

The Half-Year Financial Report as of 30 June 2019 was not audited or reviewed by the external auditor.

The tables in this report may contain rounding differences.

CLAIM AGAINST THE CITY OF LINZ

Except for the following development, no material changes have occurred since year-end 2018. For a full description of the case, we refer to the Notes to the consolidated financial statements as of 31 December 2018.

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 transaction is valid, which the court envisages to clarify upfront before dealing with the amount of the claim of the City of Linz and the counterclaim of BAWAG Group. The court 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. The court of first instance has not yet taken a decision.

MAJOR EVENTS AFTER THE REPORTING DATE

There were no major events after the reporting date.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 | Net interest income

in € million	Jan–Jun 2019	Jan-Jun 2018
Interest income	575.3	576.9
Interest expense	(142.6)	(171.7)
Dividend income	2.4	6.0
Net interest income	435.1	411.2

2 | Net fee and commission income

Jan–Jun 2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	164.4	22.1	0.1	–	186.6
Payment transfers	110.1	15.1	–	–	125.2
Lending	15.8	2.0	–	–	17.8
Securities and custody business	25.4	1.9	0.1	–	27.4
Other	13.1	3.1	–	–	16.2
Fee and commission expenses	(42.4)	(0.5)	–	(1.1)	(44.0)
Payment transfers	(32.8)	0.0	–	–	(32.8)
Lending	(3.6)	(0.4)	–	–	(4.0)
Securities and custody business	(1.9)	(0.1)	–	(1.0)	(3.0)
Other	(4.1)	–	–	(0.1)	(4.2)
Net fee and commission income	122.0	21.7	–	(1.1)	142.6

Jan–Jun 2018 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	163.4	25.6	–	0.0	189.0
Payment transfers	106.3	15.7	–	0.0	122.0
Lending	14.1	2.3	–	0.0	16.4
Securities and custody business	29.1	1.7	–	0.0	30.8
Other	13.9	5.9	0.0	0.0	19.8
Fee and commission expenses	(41.3)	(0.5)	0.0	(1.2)	(43.0)
Payment transfers	(31.3)	(0.1)	–	0.0	(31.4)
Lending	(0.7)	(0.4)	–	0.0	(1.1)
Securities and custody business	(2.0)	–	–	(1.2)	(3.2)
Other	(7.3)	–	–	0.0	(7.3)
Net fee and commission income	122.1	25.1	0.0	(1.2)	146.0

3 | Gains and losses on financial assets and liabilities

in € million	Jan-Jun 2019	Jan-Jun 2018
Realized gains on sales of subsidiaries and securities	38.6	32.7
Fair value losses	(14.9)	(17.4)
Gains from fair value hedge accounting	2.9	0.7
Others	1.6	5.1
Gains and losses on financial assets and liabilities	28.2	21.1

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 the first half 2019, fair value losses in the amount of € 0.8 million (H1 2018: losses in the amount of

€ 15.3 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.

4 | Operating expenses

<i>in € million</i>	Jan-Jun 2019	Jan-Jun 2018
Staff costs	(150.8)	(145.8)
Other administrative expenses	(77.6)	(88.7)
Administrative expenses	(228.4)	(234.5)
Depreciation and amortization on tangible and intangible assets	(36.0)	(21.9)
Operating expenses	(264.4)	(256.4)

5 | Provisions and impairment losses

<i>in € million</i>	Jan-Jun 2019	Jan-Jun 2018
Loan-loss provisions and changes in provisions for off-balance credit risk	(24.9)	(19.7)
Provisions and expenses for operational risk	(2.3)	(1.0)
Provisions and impairment losses	(27.2)	(20.7)

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 | Financial assets at fair value through other comprehensive income

in € million	Jun 2019	Dec 2018
Debt instruments	2,869	2,804
Bonds and other fixed income securities	2,869	2,804
Bonds of other issuers	2,766	2,704
Public sector debt instruments	103	100
Subsidiaries and other equity investments	200	235
AT1 capital	153	145
Investments in non-consolidated subsidiaries	5	14
Interests in associates	16	16
Other shareholdings	26	60
Financial assets at fair value through other comprehensive income	3,069	3,039

7 | Financial assets at fair value through profit or loss

in € million	Jun 2019	Dec 2018
Financial assets designated at fair value through profit or loss	110	114
Financial assets mandatorily at fair value through profit or loss	427	390
Financial assets at fair value through profit or loss	537	504

8 | Financial assets held for trading

in € million	Jun 2019	Dec 2018
Derivatives in trading book	135	118
Foreign currency derivatives	0	0
Interest rate derivatives	135	118
Derivatives in banking book	274	233
Foreign currency derivatives	14	11
Interest rate derivatives	260	222
Financial assets held for trading	409	351

9 | At amortized cost

The following breakdown depicts the composition of the item "At amortized cost" according to the Group's

segments. Prior-year values for the segments were adapted. For details, please refer to Note 16.

Jun 2019 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	17,313	(15)	(10)	(136)	17,152
Corporates & Public	13,943	(19)	(11)	(74)	13,839
Treasury	6,098	0	(2)	0	6,096
Corporate Center	550	0	0	(6)	544
Total	37,904	(34)	(23)	(216)	37,631

Dec 2018 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	16,598	(15)	(11)	(129)	16,443
Corporates & Public	13,914	(23)	(20)	(59)	13,812
Treasury	7,178	–	(2)	–	7,176
Corporate Center	911	0	0	(8)	903
Total	38,601	(38)	(33)	(196)	38,334

The following table depicts the breakdown of receivables from customers by credit type:

Receivables from customers – Breakdown by credit type

in € million	Jun 2019	Dec 2018
Loans	27,227	27,500
Current accounts	1,553	1,454
Finance leases	1,713	1,173
Cash advances	283	268
Money market	286	87
Receivables from customers	31,062	30,482

10 | Financial liabilities designated at fair value through profit or loss

in € million	Jun 2019	Dec 2018
Issued debt securities and other securitized liabilities	378	439
Subordinated and supplementary capital	130	131
Deposits from customers	6	6
Financial liabilities designated at fair value through profit or loss	515	576

11 | Financial liabilities held for trading

in € million	Jun 2019	Dec 2018
Derivatives trading book	76	51
Derivatives banking book	272	250
Financial liabilities held for trading	348	301

12 | Financial liabilities measured at amortized cost

in € million	Jun 2019	Dec 2018
Deposits from banks	2,925	4,281
Deposits from customers	30,089	30,195
Savings deposits – fixed interest rates	796	882
Savings deposits – variable interest rates	6,801	6,988
Deposit accounts	5,819	5,758
Current accounts – Retail	9,509	9,375
Current accounts – Corporates	3,808	3,993
Other deposits ¹⁾	3,356	3,199
Issued bonds, subordinated and supplementary capital	4,682	3,849
Issued debt securities and other securitized liabilities	4,176	3,747
Subordinated and supplementary capital	506	102
Financial liabilities measured at amortized cost	37,696	38,325

1) Primarily term deposits.

13 | Provisions

in € million	Jun 2019	Dec 2018
Provisions for social capital	400	382
Anticipated losses from pending business	25	33
Other items including legal risks	51	50
Provisions	476	465

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method. The change of the interest rate from 1.70% to 1.30%, which took place in the first half 2019, resulted in a negative net impact of

€ 14 million in other comprehensive income and € 1.2 million in profit.

As of 30 June 2019 and 31 December 2018, the line item Other items including legal risks includes provisions for

expected refunds of negative interest due to supreme court rulings regarding negative interest reference rates in Austria in the amount of € 1 million.

14 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Jun 2019 in € million						
Receivables from customers	–	1,019	47	1	76	–
Unutilized credit lines	–	254	4	23	32	–
Securities	–	35	–	24	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	1	7	95	0	0
Other liabilities (incl. derivatives)	–	–	–	1	–	–
Guarantees provided	–	–	–	–	1	–
Interest income	–	20.4	0.4	0.1	0.1	–
Interest expense	–	2.7	0.0	0.8	0.0	0.0
Net fee and commission income	–	–	0.0	4.2	0.0	0.0

	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Dec 2018 in € million						
Receivables from customers	–	957	35	1	77	–
Unutilized 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	–	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

	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Jun 2018 in € million						
Receivables from customers	–	543	36	1	83	–
Unutilized credit lines	–	183	7	1	27	–
Securities	–	35	–	22	–	–
Other assets (incl. derivatives)	–	–	5	–	–	–
Financial liabilities – customers	–	0	8	98	0	0
Other liabilities (incl. derivatives)	–	–	–	1	–	–
Guarantees provided	–	–	0	–	1	–
Interest income	–	9.3	0.4	0.1	0.1	0.0
Interest expense	–	3.5	0.0	0.7	0.0	0.0
Net fee and commission income	–	–	0.0	6.5	0.0	0.0

Information regarding natural persons

The following breakdown depicts 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	Other related parties	Key management of the entity	Other related parties
	30.06.2019	30.06.2019	31.12.2018	31.12.2018
Current account deposits	4	4	6	4
Savings deposits	0	4	0	5
Loans	0	6	0	6
Building savings deposits	–	0	–	0
Leasing	–	0	–	0
Securities	0	0	0	0
Interest income	0.0	0.0	0.0	0.1
Interest expense	0.0	0.0	0.0	0.0

Number of shares	Key management of the entity	Other related parties	Key management of the entity	Other related parties
	30.06.2019	30.06.2019	31.12.2018	31.12.2018
Shares of BAWAG Group AG	76,923	2,011	46,923	1,530

Adjustments to the long-term incentive program (LTIP) in 2019

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. 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 PnL neutral, leading to a reduction of capital reserves in the amount of € 24.9 million.

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 equity held at the reporting date in the near future. 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.

Accounting for cancellations

If a grant of equity instruments (equity settled share-based payment) is cancelled or settled during the vesting period, 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.

15 | 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 approx. 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 purchase price was a fixed amount of € 49.3 million.

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 have been included in the line item Other operating expenses.

The non-controlling interest in the acquisition recognized at the acquisition date amounts to € 0.1 million.

The goodwill arising from the acquisition is attributable mainly to the company being the market leader in the Swiss dental factoring segment and a bolt-on opportunity 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 amortized cost	50
Customers	41
Credit institutions	9
Property, plant and equipment	5
Intangible non-current assets	12
Other assets	1
Financial liabilities at amortized 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	49
Goodwill	19

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 has been carried out with the assistance of an external advisor using state-of-the-art valuation models. Customer relationships have been 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 which 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 which reflect current fair value spreads).

Due to the short-term nature of the factoring receivable (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.

The business combination is based on provisional amounts. The amounts measured on a provisional basis are fair values of intangible assets, pending completion of a final valuation by an external advisor. Should we obtain new information about facts or circumstances that existed as of the acquisition date and that – if known – would have resulted in the recognition of additional assets or liabilities, the accounting for the business combination would have to be adapted according to IFRS 3.45. However, currently BAWAG Group does not expect any major impacts.

For the period from 1 March 2019 to 30 June 2019, Zahnärztekasse AG contributed core revenues (net interest income and net commission income) of € 4.1 million and a profit of € 0.6 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 € 6.1 million, and consolidated profit of € 1.0 million. In determining these amounts, management has 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 with a branch operated 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 attributable mainly to the company being one of the market leaders in the German dental factoring segment and a bolt-on opportunity 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 amortized cost	114
Customers	107
Credit institutions	7
Property, plant and equipment	5
Intangible non-current assets	8
Other assets	2
Financial liabilities at amortized 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 has been carried out with the assistance of an external advisor using state-of-the-art valuation models. Customer relationships have been 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	9.17%	10.49%
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 which 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 which 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 prematurely shortly after closing and have therefore been valued at their repayment price.

The business combination is based on provisional amounts. The amounts measured on a provisional basis are fair values of intangible assets, pending completion of a final valuation by an external advisor. Should we obtain new information about facts or circumstances that existed as of the acquisition date and that – if known – would have resulted in the recognition of additional assets or liabilities, the accounting for the business combination would have to be adapted according to IFRS 3.45. However, currently BAWAG Group does not expect any major impacts.

For the period from 1 May 2019 to 30 June 2019, Health Coevo AG contributed core revenues (net interest income and net commission income) of € 3.9 million and a profit of € 0.2 million 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 € 11.7 million, and consolidated profit of € 0.6 million. In determining these amounts, management has 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 have been 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 on 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 amortized 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 amortized 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 has been carried out with the assistance of an external advisor using state-of-the-art valuation models. Dealer relationships have been valued using a multiperiod 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 which 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 which 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 short duration of the acquired leasing receivables, 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 prematurely shortly after closing and have therefore been 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.

The business combination is based on provisional amounts. The amounts measured on a provisional basis are fair values of intangible assets, pending completion of a final valuation by an external advisor. Should we obtain new information about facts or circumstances that existed as of the acquisition date and that – if known – would have resulted in the recognition of additional assets or liabilities, the accounting for the business combination would have to be adapted according to IFRS 3.45. However, currently the Group does not expect any major impacts.

For the period from 1 May 2019 to 30 June 2019, BFL Leasing GmbH contributed core revenues (net interest income and net commission income) of € 3.8 million and a loss of € (1.3) million due to one-off effects 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 € 11.4 million, and consolidated profit of € 1.3 million. In determining these amounts, management has 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 LSREF3 Tiger entities

On 11 April 2019, the Group acquired 100% of the shares of 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.

The LSREF3 Tiger entities are real estate companies located in Luxembourg and each of them holds an investment property in the United Kingdom.

Before the acquisition, BAWAG P.S.K. was senior mezzanine lender.

The following table compares the provisionally recognized amount of assets and liabilities at the date of acquisition with the total consideration transferred:

<i>in € million</i>	2019
Financial assets at amortized cost	8
Customers	2
Credit institutions	6
Investment properties	134
Financial liabilities at amortized cost	134
Mezzanine debt	29
Credit institutions	105
Provisions	2
Other obligations	6
Total identifiable net assets acquired	0
Total consideration transferred	0
Consolidation result	0

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Investment properties

Fair values are based on external appraisals prepared by an independent third party and are measured using the income approach method based on the current and future income streams of the respective property.

The basis of the income approach method is the sustainable net annual income from the premises, which is the balance between the gross annual income and the non-recoverable expenses normally to be covered by the landlord. The gross annual income includes all revenues sustainably achievable from the property, in particular rents and leases. The net income from the buildings is capitalized at an appropriate yield.

Financial assets

The acquired financial assets are payable on demand and therefore represent their fair value as of the acquisition date.

The business combination is based on provisional amounts. The amounts measured on a provisional basis are fair values of investment properties, pending completion of a final valuation by an external advisor. Should we obtain new information about facts or circumstances that existed as of the acquisition date and that – if known – would have resulted in the recognition of additional assets or liabilities, the accounting for the business combination would have to be adapted according to IFRS 3.45. However, currently the Group does not expect any major impacts.

For the period from the acquisition date to 30 June 2019, the LSREF3 Tiger entities contributed rental income of € 2.3 million and a profit of € 0.4 million to the consolidated financial statements. If the acquisition had occurred on 1 January 2019, management estimates that the entities would have contributed rental income of

€ 4.7 million, and consolidated profit of € 0.7 million. In determining these amounts, management has 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.

16 | Segment reporting

This information is based on the Group structure as of 30 June 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 depreciation 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 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. 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:

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

Jan-Jun 2018 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
Net interest income	285.1	124.2	23.9	(22.0)	411.2
Net fee and commission income	122.1	25.1	0.0	(1.2)	146.0
Core revenues	407.2	149.3	23.9	(23.2)	557.2
Gains and losses on financial instruments	8.5	2.9	28.1	(18.4)	21.1
Other operating income and expenses	1.0	0.0	0.0	3.0	4.0
Operating income	416.7	152.2	52.0	(38.6)	582.3
Operating expenses	(173.8)	(61.6)	(14.5)	(4.8)	(254.7)
Regulatory charges	(28.3)	(7.1)	(4.0)	0.0	(39.4)
Total risk costs	(30.8)	9.0	1.3	(0.2)	(20.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	2.1	2.1
Profit before tax	183.8	92.5	34.8	(41.5)	269.6
Income taxes	(45.9)	(23.1)	(8.7)	11.3	(66.4)
Profit after tax	137.8	69.4	26.1	(30.1)	203.2
Non-controlling interests	–	–	–	0.0	0.0
Net profit	137.8	69.4	26.1	(30.1)	203.2
Business volumes					
Assets	16,699	14,633	10,086	2,852	44,270
Liabilities	26,846	9,338	2,599	5,487	44,270
Risk-weighted assets	8,138	9,030	1,495	1,525	20,188

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 at a single entity level.

As an Austrian bank, BAWAG Group generates 68% of its core revenues in Austria. The business is focused on the DACH region, supported by Südwestbank and the corporate business.

The following tables show core revenues per segment and geography:

Jan-Jun 2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH	402.8	65.9	10.9	(19.5)	460.1
thereof Austria	361.9	39.9	9.7	(18.1)	393.4
thereof Germany/CH	40.9	26.0	1.2	(1.3)	66.8
Western Europe/USA	23.0	81.8	12.8	0.0	117.6
Total	425.8	147.7	23.7	(19.5)	577.7

Jan-Jun 2018 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH	379.8	84.0	11.8	(23.2)	452.4
thereof Austria	353.6	45.9	9.4	(23.9)	385.0
thereof Germany/CH	26.2	38.1	2.4	0.6	67.3
Western Europe/USA	27.4	65.3	12.1	0.0	104.8
Total	407.2	149.3	23.9	(23.2)	557.2

Other operating income and expenses and Operating expenses are reconciled with the consolidated profit or loss statement as follows:

in € million	Jan-Jun 2019	Jan-Jun 2018
Other operating income and expenses according to segment report	5.4	4.0
Regulatory charges	(35.0)	(37.7)
Other operating income and expenses according to consolidated profit or loss statement	(29.6)	(33.7)

in € million	Jan-Jun 2019	Jan-Jun 2018
Operating expenses according to segment report	(262.3)	(254.7)
Regulatory charges	(2.1)	(1.7)
Operating expenses according to consolidated profit or loss statement	(264.4)	(256.4)

17 | Capital management

Regulatory reporting is performed on the level of BAWAG Group. The following table shows the breakdown of own funds of BAWAG Group applying transitional rules and its

own funds requirement as of 30 June 2019 and 31 December 2018 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

in € million	Jun 2019	Dec 2018
Share capital and reserves (including funds for general banking risk) ¹⁾	3,629	3,636
Deduction of intangible assets	(499)	(427)
Other comprehensive income	(153)	(153)
IRB risk provision shortfalls	(69)	(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	1	0
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(20)	(49)
Less non-significant investments	(1)	–
Common Equity Tier I	2,888	2,974
Capital instruments eligible as additional Tier 1 capital	300	300
Less non-significant investments	(3)	–
Additional Tier I	297	300
Tier I	3,185	3,274
Supplementary and subordinated debt capital	506	96
Tier II capital in grandfathering	4	6
Excess IRB risk provisions	–	4
Less significant investments, IRB risk provision shortfalls	(24)	(33)
Tier II	486	73
Own funds	3,671	3,347

1) In this position, dividends in the amount of € 215.2 million were deducted in 2018 in accordance with the dividend policy of BAWAG Group.

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 issuance 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, which was approved by the supervisory authority on 3 April 2019.

Capital requirements (risk-weighted assets) based on a transitional basis

in € million	Jun 2019	Dec 2018
Credit risk	18,619	18,601
Market risk	53	51
Operational risk	1,878	1,821
Capital requirements (risk-weighted assets)	20,550	20,473

Supplemental information on a fully loaded basis (including interim profit; dividend accruals considered)

	Jun 2019	Dec 2018
Common Equity Tier I capital ratio based on total risk	14.6%	14.5%
Total capital ratio based on total risk	18.4%	16.3%

Key figures according to CRR including its transitional rules

	Jun 2019	Dec 2018
Common Equity Tier I capital ratio based on total risk (excl. interim profit)	14.1%	14.0%
Total capital ratio based on total risk (excl. interim profit)	17.9%	15.7%
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	14.6%	14.5%
Total capital ratio based on total risk (incl. interim profit)	18.5%	16.4%

MREL

On 3 June 2019, BAWAG P.S.K. received its first formal MREL decision from the authorities. The MREL requirement has been set at 11.94% of Total Liabilities and Own Funds (TLOF) and is applicable at the consolidated level of BAWAG P.S.K. AG. This is in line with the previously communicated expectation of BAWAG P.S.K. AG being the resolution entity under a single point of entry resolution strategy. It was calibrated to equate to approximately 25.6% of RWA¹⁾. The MREL decision does not contain a subordination requirement.

As of 30 June 2019, BAWAG P.S.K. AG on a consolidated level had MREL eligible instruments²⁾ of approximately 28.5% of RWA or 13.8% of TLOF, based on the current

legal framework and the SRB's MREL policy for the first wave of resolution plans published on 20 November 2018. BAWAG is in full compliance with the MREL requirement amounting to 11.94% of TLOF. Therefore, the current MREL decision does not provide for a transition period and is applicable with immediate effect.

As previously communicated, BAWAG expects future MREL decisions for 2020 and beyond to introduce stricter rules. This is likely to include a formal subordination requirement as well as the MREL eligibility being restricted to instruments issued by BAWAG P.S.K. AG only (i.e. the point of entry)³⁾.

1) Based on financial statements as of 31 December 2017.

2) Own funds and RWA on a fully-loaded basis, including H1 profit and after deduction of pro-forma dividend for H1.

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

18 | Fair value

The following table depicts 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
	Jun 2019	Jun 2019	Dec 2018	Dec 2018
Assets				
Cash reserves	803	803	1,069	1,069
Financial assets designated at fair value through profit or loss	110	110	114	114
Loans to customers	110	110	114	114
Financial assets mandatorily at fair value through profit or loss	427	427	390	390
Loans to customers	182	182	176	176
Securities	168	168	169	169
Subsidiaries and other equity investments	77	77	45	45
Financial assets at fair value through other comprehensive income	3,069	3,069	3,039	3,039
Debt instruments	2,869	2,869	2,804	2,804
Subsidiaries and other equity investments	200	200	235	235
Financial assets held for trading	409	409	351	351
At amortized cost	37,631	38,020	38,334	38,596
Customers	31,062	31,389	30,482	30,704
Credit institutions	3,614	3,616	4,340	4,338
Securities	2,955	3,015	3,512	3,554
Valuation adjustment on interest rate risk hedged portfolios	4	4	1	1
Hedging derivatives	494	494	401	401
Property, plant and equipment	391	n/a	116	n/a
Investment properties	246	249	118	121
Intangible non-current assets	569	n/a	505	n/a
Other assets	310	n/a	260	n/a
Total assets	44,463		44,698	

in € million	Carrying amount	Fair value	Carrying amount	Fair value
	Jun 2019	Jun 2019	Dec 2018	Dec 2018
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	515	515	576	576
Issued debt securities and other securitized liabilities	378	378	439	439
Subordinated and supplementary capital	130	130	131	131
Deposits from customers	6	6	6	6
Financial liabilities held for trading	348	348	301	301
Financial liabilities at amortized cost	37,696	37,784	38,325	38,336
Deposits from banks	2,925	2,932	4,281	4,300
Deposits from customers	30,089	30,141	30,195	30,172
Issued bonds, subordinated and supplementary capital	4,682	4,711	3,849	3,864
Financial liabilities associated with transferred assets	99	99	150	150
Valuation adjustment on interest rate risk hedged portfolios	390	390	156	156
Hedging derivatives	39	39	104	104
Provisions	476	n/a	465	n/a
Other obligations	914	n/a	616	n/a
Equity	3,985	n/a	4,004	n/a
Non-controlling interests	1	n/a	1	n/a
Total liabilities and equity	44,463		44,698	

The fair values of investment properties were determined by external property valuers having appropriately 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 their 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 financial instruments recognized at their fair values on the basis of the fair value hierarchy in IFRS 13. BAWAG Group recognizes transfers between levels as of the end of the reporting period during which the transfer has occurred. 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 which 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 Reuters are used to evaluate the spreads of issued securities recognized at fair value through profit or loss; for this, a BAWAG P.S.K. senior unsecured spread curve is derived from a defined pool of bank bonds, additionally taking into account a liquidity and rating premium. For covered issues, the spread curve is derived from the quotations of 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.

- ▶ **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 and IMMO-BANK. 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.

Jun 2019
in € million

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	110	–	110
Financial assets mandatorily at fair value through profit or loss	50	112	265	427
Financial assets at fair value through other comprehensive income	2,901	120	48	3,069
Debt instruments	2,748	120	1	2,869
Subsidiaries and other equity investments	153	–	47	200
Financial assets held for trading	0	409	–	409
Valuation adjustment on interest rate risk hedged portfolios	0	4	–	4
Hedging derivatives	–	494	–	494
Total fair value assets	2,951	1,249	313	4,513
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	287	228	515
Issued debt securities and other securitized liabilities	–	150	228	378
Subordinated and supplementary capital	–	130	–	130
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	348	–	348
Valuation adjustment on interest rate risk hedged portfolios	–	390	–	390
Hedging derivatives	–	39	–	39
Total fair value liabilities	–	1,064	228	1,292

Dec 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	0	351	–	351
Valuation adjustment on interest rate risk hedged portfolios	–	1	–	1
Hedging derivatives	–	401	–	401
Total fair value assets	2,873	1,106	317	4,296
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
Valuation adjustment on interest rate risk hedged portfolios	–	156	–	156
Hedging derivatives	–	104	–	104
Total fair value liabilities	–	877	260	1,137

Movements between Level 1 and Level 2

In the first half 2019, securities at fair value through other comprehensive income with a book value of € 5 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 € 14 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 through profit or loss in the Level 3 category were as follows:

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		
			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	0	–	0	–	(3)
for assets no longer held at the end of the period	2	–	–	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	(1)	1
for assets no longer held at the end of the period	–	–	0	–	–
Purchases/Additions	39	–	0	–	–
Redemptions	(13)	–	0	0	(30)
Sales	(22)	–	–	(9)	0
Foreign exchange differences	0	–	–	–	–
Change in scope of consolidation	–	–	–	0	–
Correction of editorial error	33	–	–	(33)	–
Transfers into or out of other levels	–	–	–	–	–
Closing balance as of 30.06.2019	265	–	1	47	228

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 value 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.

For a significant part of the investments in equity instruments, the dividend discount and discounted earnings method is applied. 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 € 313 million as of 30 June 2019 (31 December 2018: € 317 million).

If the credit spread used in calculating the fair value of own issues is increased by 20 basis points, the accumulated valuation result as of 30 June 2019 would have increased by € 0.6 million (31 December 2018: € 0.8 million). If the credit spread used in calculating the fair value of own issues is decreased by 20 basis points, the accumulated valuation result as of 30 June 2019 would have decreased by € 0.6 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 € 1.3 million as of 30 June 2019 (31 December 2018: € 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 year-to-date fair value change amounted to plus € 0.1 million (annual change as of 31 December 2018: € 1.3 million).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.08 million (31 December 2018: € 0.09 million).

If the credit spread used in calculating the fair value of loans is increased by 100 basis points, the accumulated valuation

result as of 30 June 2019 would have decreased by € 8.4 million (31 December 2018: € 7.5 million). If the credit spread used in calculating the fair value of loans is decreased by 100 basis points, the accumulated valuation result as of 30 June 2019 would have increased by € 9.3 million (31 December 2018: € 8.2 million).

If the liquidity discount of Südwestbank funds is increased by 10 percentage points, the valuation result as of 30 June 2019 would have decreased by € 2.0 million (31 December 2018: € 2.0 million). If the liquidity discount of Südwestbank funds is decreased by 10 percentage points, the valuation result as of 30 June 2019 would have increased by € 2.0 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 € 6.5 million (thereof € 4.3 million FVTOCI and € 2.2 million FVTPL); whereas if the discount rate is increased by 100 basis points, the fair value would decrease by € 4.9 million (thereof € 3.2 million FVTOCI and € 1.6 million FVTPL). If changes in dividend income or net profit where applicable rose by 20%, the fair value of those assets would rise by € 1.5 million (thereof € 1.2 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 € 1.4 million (thereof € 1.2 million FVTOCI and € 0.2 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 € 6.3 million (thereof € 1.2 million FVTOCI and € 5.1 million FVTPL). If these indications were 10% higher, the fair value of this portion would increase by € 6.3 million (thereof € 1.2 million FVTOCI and € 5.1 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 € 0.8 million (thereof € 0.8 million FVTOCI), whereas if the equity was 10% higher, there would be an increase of € 0.8 million (thereof € 0.8 million FVTOCI).

19 | Treatment of a 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 both 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 is 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	Jan–Jun 2019	Jan–Dec 2018
Balance at the beginning of the period	55	70
New transactions	0	7
Amounts recognized in profit or loss during the period	(10)	(22)
FX effects	0	0
Balance at the end of the period	45	55

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 of these risks are documented in risk manuals and guidelines. The Managing Board is continuously and proactively informed of 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 matters 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 due to BAWAG Group's expansion strategy.

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 and the risk management of the individual risk types 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, their impact on BAWAG Group as well as their coverage through existing risk management procedures. The quantification of these risks is considered in the risk-bearing capacity.

The following risks including their respective sub-risks are considered as material for BAWAG Group:

- ▶ Credit risk
- ▶ Market risk
- ▶ Liquidity risk
- ▶ Non-financial risk
- ▶ Other risks

The material risks of BAWAG Group are described on the following pages.

20 | Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing

BAWAG Group's economic risk-bearing capacity, which compares the quantified risks with the risk coverage capacity, is evaluated on a monthly basis. 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 limit categories and portfolios as part of the risk strategy. Compliance with the limits is monitored in the Portfolio Steering Committee (PSC) on a monthly basis. If the predefined warning levels are reached or the 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. Interest rate risk is measured using value-at-risk models, whereas a scenario-based approach is used for measuring credit spread risks. 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 and market risk in the trading book.
- ▶ **Liquidity risk:** The structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deterioration 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 & Markets.
- ▶ **Non-financial risk:** The risk category includes operational risk (including compliance risk), quantified using a value-at-risk model, 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

21 | 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 operative credit risk divisions are specifically set up to ensure functional risk management expertise for commercial and institutional (Commercial Risk Management) as well as 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

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 ICAAP stress test is fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group. The methodology and results of internal and/or external stress tests are discussed and presented in the regular Stress Testing Committee (STC). Furthermore, results of the ICAAP stress test are reported directly to the ERM. The ERM is in charge of assessing the results of the exercise and defining any corrective action for the risk appetite or business strategy, where necessary.

The link between the internal stress tests 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 stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the internal stress tests, senior management reviews whether the stressed capital ratios remain above the recovery levels. A breach of the recovery levels needs to be soundly justified, or 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.

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, the 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 to the Managing Board and Supervisory Board on a regular 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.

Business segment development in the first half 2019

BAWAG Group's risk and business strategies are aligned to focus on maintaining a low-risk balance sheet, focusing on developed economies, maintaining strong levels of capital, low levels of leverage and pursuing profitable/disciplined growth defined on a risk-adjusted return basis.

The **Retail & SME** segment focuses on the core products consumer, mortgage and small business lending. Significant efforts were undertaken to further develop overall underwriting standards and processes through

automated and continuously enhanced underwriting models and processes, as well as the further development of online sales channels.

The Retail & SME segment also includes our direct banking subsidiary easybank, PayLife, start:bausparkasse in Austria and Germany, our auto and mobile leasing platforms as well as our performing residential mortgage portfolios in Western Europe. This portfolio consists of the UK (outstanding balance as of 30.6.2019: GBP 1.0 billion; as of 31.12.2018: GBP 1.1 billion) and French (outstanding balance as of 30.6.2019: € 0.8 billion; as of 31.12.2018: € 0.9 billion) mortgage portfolios.

Health Coevo AG and Zahnärztekasse AG are two leading dental factoring market players offering dental financing products and services. 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.

BFL Leasing GmbH creates a foundation for BAWAG Group to establish its leasing franchise in Germany.

The risk policy of easybank and the Austrian leasing platform is defined in accordance with BAWAG Group's guidelines and is characterized by a conservative, low risk appetite with an emphasis on risk-adjusted returns. The risk policy of the leasing companies is closely aligned to the guidelines of BAWAG Group. The risk systems, which have been adapted to the special requirements of the leasing business, are part of the overall risk architecture of BAWAG Group.

The segment **Corporates & Public** is characterized by proactive risk management, disciplined lending in developed markets and maintaining a disciplined approach on risk-adjusted pricing. Consequently, exposures with unfavorable risk profiles (i.e. "watch loans") are actively managed and reduced within the Group's early warning process.

Südwestbank focuses on retail and corporate customers mostly in the region of Baden-Württemberg, hence it is part of Retail & SME as well as Corporates & Public. With regard to loan processing, the focus in 2019 is full integration into the BAWAG Group risk steering framework. Additionally, there will be further alignment and harmonization of risk processes, models, reporting and policies. Südwestbank

also originates German consumer loans digitally under the brand „Qlick“.

Treasury acts as a service center for BAWAG Group’s customers, subsidiaries and partners through treasury activities such as ALM, funding, market execution and select 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 credits (CLOs) with high credit quality (AAA and AA), which show a high degree of diversification with respect to countries and industries.

The Corporate Center is comprised primarily of positive market values from derivatives and non-core participations.

Lending and securities portfolio by business segment

30.06.2019 in € million	Retail & SME	Corporate & Public	Treasury	Corporate Center	Total portfolio
Lending Portfolio	17,284	13,841	3,344	544	35,013
Securities	–	252	5,831	30	6,113
Off-balance business	3,964	1,558	187	1,488	7,197
Total	21,248	15,651	9,362	2,062	48,323
thereof collateralized ¹⁾	12,701	5,012	54	578	18,345
thereof NPL (gross view) ²⁾	408	191	–	258	857

1) Collateral comprises residential and commercial real estate, guarantees, life insurance, etc.

2) Taking into consideration the fair value of Südwestbank at initial recognition according to IFRS 3.

The NPLs as of 30.06.2019 without IFRS 3 effects for Südwestbank would have been as follows: Retail & SME € 417 million, Corporates & Public € 217 million and Total € 892 million.

31.12.2018 in € million	Retail & SME	Corporate & Public	Treasury	Corporate Center	Total portfolio
Lending Portfolio	16,529	13,827	3,854	902	35,112
Securities	64	238	6,335	7	6,644
Off-balance business	4,221	2,244	469	654	7,589
Total	20,814	16,309	10,658	1,563	49,345
thereof collateralized ¹⁾	12,826	5,061	47	321	18,255
thereof NPL (gross view) ²⁾	392	188	–	255	835

1) Collateral comprises residential and commercial real estate, guarantees, life insurance, etc.

2) Taking into consideration the fair value of Südwestbank at initial recognition according to IFRS 3.

The NPLs as of 31.12.2018 without IFRS 3 effects for Südwestbank would have been as follows: Retail & SME € 401 million, Corporates & Public € 219 million and Total € 875 million.

The table below provides a reconciliation between book values of loans and receivables, the risk report and the segment report.

30.06.2019 in € million	Note 9		Risk view		Segment Report
	At amortized cost	Loans & Bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
Retail & SME	17,151	133	17,284	162	17,446
Corporate & Public	13,840	253	14,093	103	14,196
Treasury	6,096	3,079	9,175	2	9,177
Corporate Center	544	30	574	3,070	3,644
Total	37,631	3,495	41,126	3,337	44,463

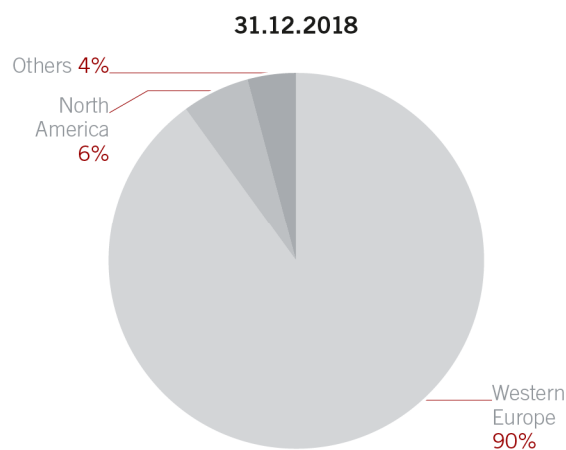
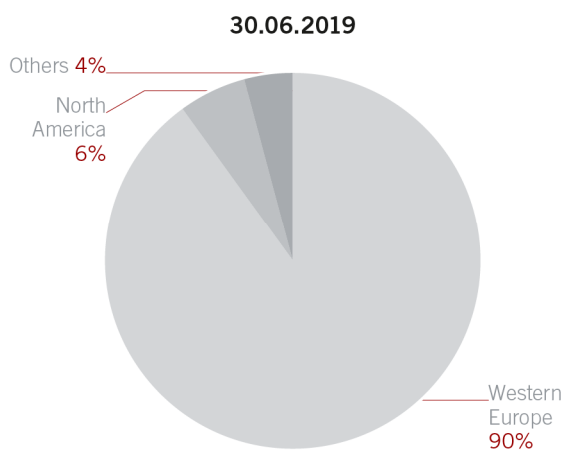
31.12.2018 in € million	Note 9		Risk view		Segment Report
	At amortized cost	Loans & Bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
Retail & SME	16,443	150	16,593	155	16,748
Corporate & Public	13,812	253	14,065	102	14,167
Treasury	7,175	3,014	10,189	2	10,192
Corporate Center	903	6	909	2,683	3,591
Total	38,334	3,423	41,756	2,940	44,698

Geographical distribution of the lending and securities portfolio

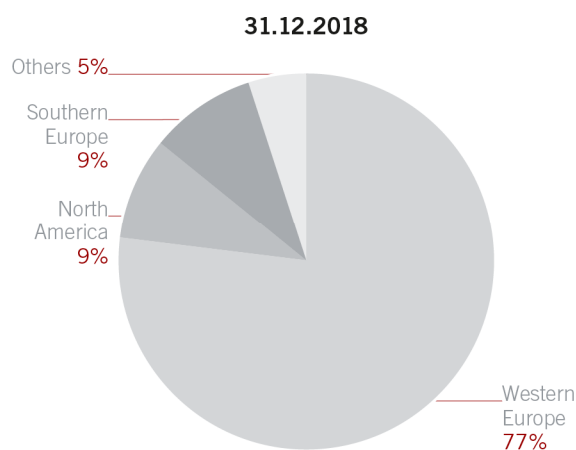
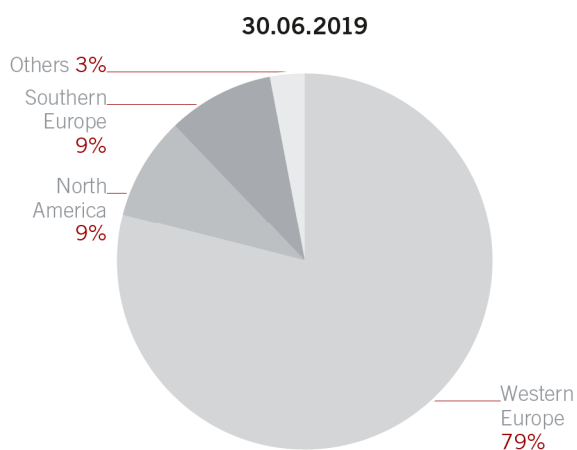
The geographical distribution of the lending portfolio is in line with BAWAG Group's strategy of focusing on stable geographies and currencies. A total of 96% (as of

31.12.2018: 96%) of the lending portfolio¹⁾ and 88% (as of 31.12.2018: 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 loan portfolio is allocated to Austria with 57% (Dec 2018: 58%), Germany with 17% (Dec 2018: 16%), Great Britain with 7% (Dec 2018: 7%), the United States with 6% (Dec 2018: 5%) and France with 3% (Dec 2018: 3%).
 2) The major share of the securities portfolio is allocated to Austria with 11% (Dec 2018: 11%), Great Britain with 11% (Dec 2018: 10%), France with 10% (Dec 2018: 10%), the United States with 7% (Dec 2018: 7%) and Germany with 6% (Dec 2018: 6%).

Lending and securities portfolio by currencies

in € million	Book value		in %	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
EUR	34,889	35,747	84.8%	85.6%
USD	2,433	2,238	5.9%	5.4%
GBP	2,163	2,120	5.3%	5.1%
CHF	1,396	1,407	3.4%	3.4%
Others	245	244	0.6%	0.6%
Total	41,126	41,756	100.0%	100.0%

Risk concentrations by industry segment in the business segment Corporates & Public

Corporates & Public in € million	Book value		in %	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Real Estate	5,279	5,063	37.5%	36.0%
Services	1,971	2,333	14.0%	16.6%
Government	1,776	1,841	12.6%	13.1%
Public Sector	1,162	908	8.2%	6.5%
Engineering & B-2-B	496	429	3.5%	3.1%
Beverages, Food & Tobacco	488	532	3.5%	3.8%
Telecommunication	429	426	3.0%	3.0%
Pharmaceuticals & Health Care	404	421	2.9%	3.0%
Utilities	275	292	2.0%	2.1%
Gaming & Leisure	272	339	1.9%	2.4%
Banks	236	165	1.7%	1.2%
Chemicals	200	213	1.4%	1.5%
Automotive	192	187	1.4%	1.3%
B-2-C Products	155	166	1.1%	1.2%
Retail – Food	136	26	1.0%	0.2%
Leasing	136	168	1.0%	1.2%
Transport	77	54	0.5%	0.4%
Wood & Paper	73	102	0.5%	0.7%
Social Housing	58	60	0.4%	0.4%
Hotels	49	46	0.3%	0.3%
Mining & Metals	48	53	0.3%	0.4%
Insurance	43	43	0.3%	0.3%
Construction & Building Materials	41	41	0.3%	0.3%
Investment Funds	39	39	0.3%	0.3%
Commodity	24	51	0.2%	0.4%
Media	20	54	0.1%	0.4%
NGO	14	13	0.1%	0.1%
Total	14,093	14,065	100.0%	100.0%

Expected credit loss

As of 1 January 2018, BAWAG Group calculates allowances for non-impaired loans according to IFRS 9. The expected economic credit loss (ECL) over the next 12 months or over the remaining life of the facility in case of a significant credit deterioration determines the allowance of each non-impaired facility. IRB models form the basis of the IFRS 9 estimates, and the conservatism was removed where necessary and the models were adjusted to produce point-in-time (PiT) estimates.

BAWAG Group is using through-the-cycle (TTC) and point-in-time models in determining the IFRS 9 parameters. Monthly forecasted macro variables (forward-looking information) are incorporated into the calculation of the PiT component of the parameter models.

Within BAWAG Group, 16.5% (31.12.2018: 15.1%) of the total exposure has no ECLs due to full collateralization. Of these, 16.4% (31.12.2018: 14.9%) are lending and 0.1% (31.12.2018: 0.2%) are off-balance.

Reconciliation of book values by stage

	Starting balance				Closing balance
	31.12.2018	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	30.06.2019
in € million					
Book values for assets without increase in credit risk since initial recognition (Stage 1 without POCI)	39,244	7,069	(7,079)	(422)	38,812
Lending Portfolio	32,885	7,069	(7,079)	(74)	32,801
Securities	6,359	–	–	(348)	6,011
Book values with increase in risk since initial recognition but not credit-impaired (Stage 2 without POCI)	1,884	183	(263)	(108)	1,696
Lending Portfolio	1,599	183	(263)	(106)	1,413
Securities	285	–	–	(2)	283
Book values for credit-impaired debt instruments (Stage 3 without POCI)	614	11	(24)	10	611
Lending Portfolio	614	11	(24)	10	611
Securities	–	–	–	0	–
Total POCI	14	–	–	(7)	7
Lending Portfolio	14	–	–	(7)	7
Securities	–	–	–	–	–

Reconciliation of ECL per stage

The reduction in the ECL over the first half year 2019 stems from a continuous enhancement of the underlying risk

models as well as an improvement in the quality of the credit exposures.

	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Closing balance
	31.12.2018				30.06.2019
in € million					
Allowances for assets without increase in credit risk since initial recognition (Stage 1 without POCI)	50	7	(4)	(9)	44
Lending Portfolio	38	7	(3)	(8)	34
Securities	5	0	(0)	(0)	5
Off-balance business	7	0	(1)	(1)	5
Allowances with increase in risk since initial recognition but not credit-impaired (Stage 2 without POCI)	34	1	(1)	(11)	23
Lending Portfolio	32	1	(1)	(11)	21
Securities	2	–	(0)	(0)	2
Off-balance business	0	0	(0)	0	0
Allowances for credit-impaired debt instruments (Stage 3 without POCI)	213	4	(30)	41	228
Lending Portfolio	192	4	(30)	45	211
Securities	–	–	–	–	–
Off-balance business	21	–	–	(4)	17
Total POCI	4	–	–	–	4
Lending Portfolio	4	–	–	–	4
Securities	–	–	–	–	–
Off-balance business	–	–	–	–	–

Transition of ECLs by financial instruments during the first half year 2019

30.06.2019 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	8	16	1	39	0
Securities	0	0	0	0	0	–
Off-balance business	0	–	0	–	0	0
Total	8	16	1	39	0	0

Distribution of book values by ECL stage and rating

30.06.2019 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 assets without increase in credit risk since initial recognition (Stage 1 without POCI)	7,770	2,852	4,271	13,798	8,133	888	1,100	–	38,812
Lending Portfolio	5,301	2,126	3,410	12,887	8,112	883	82	–	32,801
Securities	2,469	726	861	911	21	5	1,018	–	6,011
Book values with increase in risk since initial recognition but not credit-impaired (Stage 2 without POCI)	12	6	15	224	552	301	586	–	1,696
Lending Portfolio	12	6	15	224	552	301	303	–	1,413
Securities	–	–	–	–	–	–	283	–	283
Book values for credit-impaired debt instruments (Stage 3 without POCI)	–	–	–	–	–	–	–	611	611
Lending Portfolio	–	–	–	–	–	–	–	611	611
Securities	–	–	–	–	–	–	–	–	–
Total POCI	–	–	–	–	–	–	–	7	7
Lending Portfolio	–	–	–	–	–	–	–	7	7
Securities	–	–	–	–	–	–	–	–	–
Total	7,782	2,858	4,286	14,022	8,685	1,189	1,686	618	41,126

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 assets without increase in credit risk since initial recognition (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 with increase in risk since initial recognition but not credit-impaired (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 credit-impaired debt instruments (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

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 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 extended 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 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.

Measures of forbearance or refinancing are instruments 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 forborne 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 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 forborne.

22 | 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 in the banking book.

All market risk categories are measured via sensitivity, value-at-risk (VaR) and scenario-based approaches, and are fully embedded in the Bank's ICAAP framework. The accounting treatment of the positions is considered in the risk reporting concepts.

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 target interest rate risk structure defined by the SALCO is implemented by the Treasury & Markets division. BAWAG Group uses interest rate derivatives in order to:

- ▶ implement the interest risk strategy within the requirements and limits defined by the SALCO

- ▶ manage the sensitivity of the valuation result and the revaluation reserve
- ▶ 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 value interest rate risk hedges on the balance sheet:

- ▶ Micro fair value hedge: hedging against the risk of interest rate changes for fixed-interest instruments held as assets and liabilities
- ▶ Portfolio fair value hedge (“EU carve-out”): application to sub-portfolios of sight deposits that are available for the long term after derivation of a bottom layer

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 along with the breakdown by accounting categories impacting the Profit or Loss Statement and Other Comprehensive Income as of 30 June 2019 on the basis of the PVBp concept:

Interest Rate Sensitivity

30.06.2019
in € thousand

	<1Y	1Y(3)Y	3Y(5)Y	5Y(7)Y	7Y(10)Y	>10Y	Total
EUR	(138)	(170)	(135)	(291)	(37)	(20)	(791)
USD	17	(1)	2	(1)	(2)	(1)	14
CHF	(7)	(8)	7	(13)	(13)	(10)	(45)
GBP	16	8	0	1	(1)	3	27
Other currencies	(3)	(7)	(7)	(1)	0	0	(18)
Total	(115)	(179)	(133)	(305)	(52)	(29)	(814)

31.12.2018
in € thousand

	<1Y	1Y(3)Y	3Y(5)Y	5Y(7)Y	7Y(10)Y	>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)

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 concept).

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	30.06.2019	31.12.2018
Total portfolio	(2,802)	(3,023)
Financial assets designated at fair value through profit or loss	(180)	(184)
Financial assets designated at fair value through Other Comprehensive Income	(1,180)	(1,075)
Financial assets designated at Amortized Cost	(1,442)	(1,764)

Market risk in the trading book

The strategy to discontinue proprietary trading activities resulted in a further reduction in derivative volume in the trading book in the first half 2019.

In the trading book, risk mitigating measures are performed only if deemed necessary. The risk quantification, limitation and monitoring within the ICAAP framework is carried out using a historical VaR simulation approach.

In the first half 2019, the average value-at-risk of the trading book was measured at minus € 0.074 million (Jan–Jun 2018 average: minus € 0.44 million) and the value-at-risk as of 30 June 2019 was measured at minus € 0.052 million (31 December 2018: minus € 0.39 million) based on a confidence interval of 99% and a one-day holding period. The regulatory capital requirement is calculated using the Standardized Approach.

23 | 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.

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 (covered bonds & RMBS) and public sector loans.

The first half 2019 was characterized by a solid liquidity position with stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. The liquidity risk metric LCR (Liquidity coverage ratio) has decreased to 148% at the end of June 2019 compared to 179% at year-end 2018, which is mainly a result of balance sheet optimization on the funding side as BAWAG Group repayed € 1,750 million of TLTRO II. In addition to the strong deposit base, in March 2019, BAWAG Group issued Tier 2 instruments with a € 400 million principal amount. Furthermore, in June 2019 a € 500 million 15 years mortgage covered bond was successfully placed on the market. Both transactions proved BAWAG Group's strong capital markets access and the positive perception among investors.

24 | Non-financial risk

BAWAG Group continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements according to Regulation (EU) No 575/2013 Article 317 to assess operational risk. However, the realized OpRisk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The OpRisk RWAs are assigned to the segments based on revenues.

For the purpose of internal economic capital steering (ICAAP), a statistical model is used to calculate the value-at-risk based

on operational risk losses and risk potential resulting from the yearly 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").

The RCSAs are another tool for managing operational risk. 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 using this 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 case of ad hoc issues is realized through clearly defined processes especially for outsourcing and the implementation of new products.

Additionally, the division Non-Financial Risk Management & Regulatory Compliance ensures the comprehensive and integrated management of all non-financial risks. This setup helps to address and mitigate potentially upcoming or increased risk (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 Committee (NFRC).

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.

STATEMENT OF ALL LEGAL REPRESENTATIVES

“We confirm to the best of our knowledge that the condensed consolidated Half-Year 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 Half-Year Group Management Report

gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated Half-Year Financial Statements and of the principal risks and uncertainties for the remaining six months of the financial year.”

29 July 2019



Anas Abuzaakouk
Chief Executive Officer



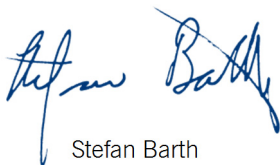
David O'Leary
Member of the Managing Board



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

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	Average of month-end interest-bearing assets within the quarter or the year	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 / 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) including interim profit, excluding any transitional capital (fully loaded); no dividend accruals considered	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 costs	The book value of customer loans measured at amortized costs
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.
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 in absolute amounts for the respective period as presented in the consolidated financial statements that is available for profit distribution to the shareholders.
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 of the Group’s credit risk management.
NPL coverage ratio	Loan loss provisions and collateral / NPL	The total of impairment write-downs and collateral relative to the NPL exposure
NPL LLP coverage ratio	Loan loss provision / NPL	Impairment write-downs relative to NPL exposure
Off-balance business	CCF weighted off-balance business	The off-balance 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 excl. AT1 capital	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 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.
Return on tangible common equity (RoTCE)	Net profit / average tangible common equity excl. AT1 capital	

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 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) including interim profit, 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.
Total capital ratio	Total capital / risk-weighted assets	Therefore, BAWAG Group focuses more on CET1 capital and the CET1 ratio.

OWNER AND PUBLISHER

BAWAG Group AG
Wiedner Gürtel 11, A-1100 Vienna, Austria
Companies Registry number: 269842b
EU VAT number: ATU72252867
Telephone: +43 (0)5 99 05-0
Internet: www.bawaggroup.com

Investor Relations:
investor.relations@bawaggroup.com

Media:
communications@bawaggroup.com

Typesetting:
In-house using firesys

