BAWAG Group

HALF-YEAR FINANCIAL REPORT AS OF 30 June 2020

KEY FIGURES

Profit or loss statement (in € million)	**Q2 2020**	Q2 2019	Change (%)	**Jan-Jun 2020**	Jan-Jun 2019	Change (%)
Net interest income	227.8	220.6	3.3	447.7	435.1	2.9
Net fee and commission income	55.8	70.0	(20.3)	127.7	142.6	(10.4)
Core revenues	**283.6**	**290.6**	**(2.4)**	**575.4**	**577.7**	**(0.4)**
Other income[1)]	0.6	22.4	(97.3)	4.4	33.6	(86.9)
Operating income	**284.2**	**313.0**	**(9.2)**	**579.8**	**611.3**	**(5.2)**
Operating expenses	**(124.7)**	**(136.0)**	**(8.3)**	**(249.6)**	**(262.3)**	**(4.8)**
Pre-provision profit	**159.5**	**177.0**	**(9.9)**	**330.2**	**349.0**	**(5.4)**
Regulatory charges	(2.5)	(2.9)	(13.8)	(38.8)	(37.1)	4.6
Total risk costs	(74.6)	(15.3)	>100	(129.6)	(27.2)	>100
Profit before tax	**80.8**	**160.0**	**(49.5)**	**161.3**	**287.1**	**(43.8)**
Income taxes	(19.3)	(38.3)	(49.6)	(38.6)	(68.5)	(43.6)
Net profit	**61.2**	**121.7**	**(49.7)**	**122.3**	**218.6**	**(44.1)**

Share data	**Q2 2020**	Q2 2019	Change (%)	**Jan-Jun 2020**	Jan-Jun 2019	Change (%)
Pre-tax earnings per share (in €)[2)]	0.92	1.62	(43.4)	1.83	2.90	(37.0)
After-tax earnings per share (in €)[2)]	0.70	1.23	(43.3)	1.39	2.21	(37.1)
Book value per share (in €)	38.28	36.23	5.7	38.28	36.23	5.7
Tangible book value per share (in €)	31.96	30.45	4.9	31.96	30.45	4.9
Shares outstanding at the end of the period	87,937,130	98,794,893	(11.0)	87,937,130	98,794,893	(11.0)

Performance ratios (figures annualized)	**Q2 2020**	Q2 2019	Change (pts)	**Jan-Jun 2020**	Jan-Jun 2019	Change (pts)
Return on common equity[3)]	7.4%	13.7%	(6.3)	7.3%	12.5%	(5.2)
Return on tangible common equity[3)]	**8.9%**	**16.2%**	**(7.3)**	**8.8%**	**14.6%**	**(5.8)**
Net interest margin	2.27%	2.30%	(0.03)	2.28%	2.28%	0.00
Cost-income ratio	43.9%	43.5%	0.4	43.0%	42.9%	0.1
Risk costs / interest-bearing assets	0.74%	0.16%	0.58	0.66%	0.14%	0.52

Statement of financial position (in € million)	**Jun 2020**	Dec 2019	Change (%)	Jun 2019	Change (%)
Total assets	51,278	45,662	12.3	44,463	15.3
Interest-bearing assets	40,505	36,841	9.9	38,226	6.0
Customer loans	31,372	30,467	3.0	31,062	1.0
Customer deposits and own issues	35,858	35,827	0.1	35,286	1.6
Common equity[3)]	3,366	3,297	2.1	3,579	(6.0)
Tangible common equity[3)]	2,811	2,728	3.0	3,009	(6.6)
Risk-weighted assets	20,750	20,385	1.8	20,727	0.1

Balance sheet ratios	**Jun 2020**	Dec 2019	Change (pts)	Jun 2019	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**13.4%**	**13.3%**	**0.1**	**14.6%**	**(1.2)**
Total capital ratio (fully loaded)	17.0%	17.0%	0.0	18.4%	(1.4)
Leverage ratio (fully loaded)	5.9%	6.5%	(0.6)	7.4%	(1.5)
Liquidity coverage ratio (LCR)	209%	146%	63	148%	61
NPL ratio	1.6%	1.7%	(0.1)	1.8%	(0.2)
NPE ratio	1.7%	2.0%	(0.3)	1.9%	(0.2)

1) The term “Other income“ includes gains and losses on financial instruments and other operating income and expenses.
2) Before deduction of AT1 coupon.
3) Excluding AT1 capital and dividend accruals
Note: For details on definitions and caluclation methodology, please refer to the section entitled “Definitions” on pages 94-96.

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

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 Fellow Shareholders,

The first half of 2020 was marked by the outbreak of COVID-19, which was characterized as a global pandemic by the World Health Organization (WHO) in early March. Our thoughts and prayers are with all the individuals, families, healthcare workers and front-line employees most impacted by this health crisis in our local markets and across the globe.

The COVID-19 crisis triggered unprecedented market volatility and uncertainty not seen since the financial crisis. This has led to varying responses, and at varying speeds, from governments across the globe. The governments in the DACH region have gone to great lengths to support their economies and have put in place extensive stimulus packages and support measures, demonstrating their fiscal strength and capabilities. Austria, which is the core and foundation of our business, implemented a lockdown affecting all businesses with the exception of critical infrastructure earlier than most countries in mid-March. Austria has also been one of the early movers in gradually easing restrictions and beginning to open the economy only a month after the initial lockdown.

BAWAG Group entered into this health crisis from a position of strength, having transformed our business over the years to be able to withstand economic downturns. We have strong capital levels, solid funding and liquidity, and an efficient platform that generated mid-teen returns pre-COVID-19. This gives us room to play our part in supporting our customers and our local economies, protecting our franchise and grow our business.

We delivered a solid set of results in the first half 2020 with a net profit of € 122 million, and - after normalizing for front-loaded regulatory charges - a return on tangible common equity of 9.8%. The underlying operating performance of the business remained solid, with pre-provision profit of € 330 million, down 5% versus prior year impacted by lower revenues, offset by lower expenses. Revenues – in particular fee & commission income – were impacted by the lockdown measures primarily in the second quarter, which we see as a trough for the business. With our ongoing cost discipline, the cost-income ratio was 43% during the first half 2020. To address the deteriorating macroeconomic environment as well prudently provision against the observed build-up of customer payment deferrals due to COVID-19, a general reserve (ECL) of € 65 million was posted in the first half 2020, driven primarily by applying the most severe economic scenarios published by the ECB for the Euro area of 12.6% GDP decline in 2020, followed by a recovery of 3.3% in 2021. We are acting out of an abundance of caution in our provisioning, planning for the worst and hoping for the best.

The CET1 ratio was 13.4% at the end of June 2020 after deducting € 291 million of earmarked dividends, comprised of the full 2019 dividend of € 230 million and the H1 ’20 dividend accrual of € 61 million. We are fully committed to distributing our earmarked dividends, subject to regulatory approval. We fully understand the regulators' position on capital distributions in light of the COVID-19 crisis. We will remain patient, as we hope investors will too, as we wait for forthcoming guidance.

Our Retail & SME segment delivered a profit before tax of € 164 million during the first half of 2020 and a return on tangible common equity of 19.8%. While responding in real-time to our customer needs during the crisis, we continued to execute on our strategic initiatives. During the first half, we completed an important step in the simplification of our operations by consolidating our Austrian banking channels and brands under one organization. In Germany, we continued executing on our growth and profitability initiatives by building a strong front-end sales organization across key products and channels, while leveraging central functions in order to provide customers with a frictionless experience while driving synergies across the Group. Overall, we see customers acting out of an abundance of caution, no different than how companies have reacted. This has impacted consumer loan demand and depressed consumer spending levels, however, we are already seeing a resumption of activities beginning to normalize.

The Corporates & Public segment delivered a profit before tax of € 50 million during the first half 2020 and a return on tangible common equity of 8.7%. COVID-19 has also resulted in subdued loan demand across traditional commercial real estate and portfolio financing. However, we see good opportunities in the public sector space as well as idiosyncratic corporate lending transactions. We will continue to maintain our disciplined underwriting, focus on risk-adjusted returns and avoid blindly focusing on volume growth. This approach has served us well pre-COVID-19 and will continue to serve as the fundamental lending principles of our business.

In dealing with an unprecedented crisis, we have established measures to take care of our employees, support our customers and local communities, and protect our franchise. All of our branches in Austria and Germany remained open during the lockdown in our respective markets, 75% of our employees were working from home and we have extended voluntary home office through the end of the year with the goal of incorporating this permanently into our operating framework. We're proud to say we've also not tapped into any government furlough, employee subsidy or special assistance programs as these are earmarked for those most in need.

In light of the overall environment and challenges faced by many due to this health crisis, the Managing Board has voluntarily waived any potential bonuses for 2020, in addition to having already waived our bonuses for 2019. Additionally, we have implemented a special bonus program for all front-line employees supporting customers during these challenging times. For a more detailed discussion of COVID-19 measures for employees, customers and our communities, please refer to the ESG section of our website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG)

It goes without saying that our business will forever be changed by the events of the past few months. This is the future and the changes we have experienced will serve as a catalyst for accelerated changes across our organization in terms of customer engagement, adoption of digital end-to-end processes, more data-driven decision making and being laser focused on continuing to drive simplicity and standardization across the Group. Our leadership team has worked together for the better part of the past decade, having driven the transformation of the Group and embraced constant change, while never growing complacent. We will always continue to focus on the things we can control, be proactive and decisive, and not be deterred by the change ahead.

I could not be prouder of how the company has come together over the past few months, ensuring smooth operations, staying focused on execution and, most importantly, delivering for our customers and local communities. We will continue to support the economies we are operating in while being prudent and conservative to protect and grow our franchise.

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 US were influenced by the global COVID-19 pandemic as well as various countermeasures such as expansionary monetary and fiscal policies. After share prices corrected abruptly in the first quarter 2020, a recovery in prices took place in the second quarter 2020. The Euro Stoxx Banks, a subindex of the Euro Stoxx 600 and the benchmark index for banks operating in the Euro area, decreased by 34% in the first six months of 2020 compared to year-end 2019.

The financial performance of the corporate sector is beginning to reflect the impact of the pandemic and the corresponding lockdown. Earnings per share of the Euro Stoxx 600, the Euro Stoxx Banks and the S&P 500 decreased during the first six months of 2020. With declining earnings and a more pronounced fall in prices, the valuation metrics of most indices decreased in Europe while valuation metrics in the United States increased on the back of a stable price performance versus year-end 2019. While the price-to-earnings ratio of the Euro Stoxx 600 and the Euro Stoxx Banks decreased to 18.8x and 12.1x, respectively, the price-to-earnings ratio of the S&P 500 increased to 22.2x as of June 2020.

Global liquidity conditions remained ample and interest rates remained low in the first six months of 2020. Interest rate cuts have been implemented in the United States and additional quantitative easing measures by the ECB have been announced and introduced in Europe.

SHARE PERFORMANCE

BAWAG Group AG's shares closed the first six months of 2020 at a share price of € 30.74 compared to € 40.60 as of year-end 2019. During the same period, the share price high was at € 44.22 and the low at € 20.34.

BAWAG Group AG's share price was down -24% versus a total return of -34% for the Euro Stoxx Banks. Thus, BAWAG Group AG's shares outperformed the benchmark index for banks in the Euro area.

FUNDING AND INVESTOR RELATIONS

On the back of a € 1.0 billion mortgage covered bond issuance in 2019, BAWAG P.S.K. successfully issued a € 500 million mortgage covered bond in January 2020, demonstrating solid access to long-term funding at attractive terms.

In the first half 2020, members of the Managing Board together with the Investor Relations team attended conferences as well as held roadshows in the United Kingdom, the United States, France and Austria. Since the outbreak of COVID-19, investor conferences and meetings have been held virtually. The team attended eight conferences and organized virtual roadshows after quarterly results. Managing Board Members have also participated in multiple update calls with investors and analysts. The topics discussed were primarily related to asset quality, risk cost development, pre-provision profitability, capital distributions and the actions taken in relation to COVID-19.

ECONOMIC AND REGULATORY DEVELOPMENTS

ECONOMIC DEVELOPMENTS

Governments around the globe have implemented measures to counter the coronavirus (COVID-19) pandemic, which has resulted in subdued social and economic activity in various regions across the world that have had adverse effects on global economic growth. In addition, uncertainty about the future has resulted in a significant deterioration in market confidence during the first six months of 2020. Central banks, including the European Central Bank, the United States Federal Reserve and the Bank of England have implemented further expansionary monetary policy ranging from interest rate cuts, asset purchases and significant liquidity facilities for commercial banks. Additionally, governments have implemented stimulus measures to support the hardest hit sectors of the economy.

Governments with relatively balanced public finances and overall moderate debt levels before the pandemic acted quickly to support their national economies. Austria and Germany, introduced sizable stimulus packages totaling to 13% of GDP in Austria and approximately 30% of GDP in Germany.

The lockdown from 15 March to 14 April 2020 and the gradual restart of social and economic activity afterwards had a significant impact on most macroeconomic indicators in Austria. Austria's real gross domestic product (GDP) decreased by 2.6% in the first quarter 2020 versus the fourth quarter 2019, representing a less pronounced impact than in the Euro area, where GDP decreased by 3.6% versus the fourth quarter 2019. Leisure activities, tourism, restaurants and retail trade were most impacted by the lockdown while construction remained relatively stable. Manufacturing activity decreased due to the drag from international trade.

Unemployment peaked in April 2020 with more than half a million unemployed and recovered again in May. The government-funded short-time work initiative was utilized by up to 1.4 million people receiving close to full time equivalent compensation. As of July 2020, the number of employees under this initiative decreased to well below half a million. The unemployment rate of currently 5.4% (May 2020, Eurostat definition) is forecasted at 6.8% on average for the year 2020.

In Germany, GDP decreased by 2.2% in Q1 2020 versus Q4 2019. The uncertainty sourrounding international trade relations during the pandemic led to a significant decrease of investments in equipment.

Market developments

The challenging economic environment resulted in decreasing loan demand from private households for consumer loans on the Austrian lending market with outstanding volume decreasing by 5%[1)] since year-end 2019 and new business volume dropping. Deposits from Austrian households increased during the COVID-19 pandemic despite the low interest rate environment. Loan demand from Austrian corporations was stable to increasing, with an increase in demand for short-term loans.

Outlook

The unprecedented crisis is causing a high degree of uncertainty with regards to the economic outlook, triggering frequent revisions to forecasts that differ among various institutions. However, the scenarios of major forecasting institutions call for GDP decline in 2020 to be more pronounced than the contraction in the wake of the global economic and financial crisis of 2008/09. The ECB expects Euro Area GDP to decrease by 8.7% in 2020 under its baseline scenario and by 12.6% under its severe scenario of a prolonged pandemic and a second wave of infections. For comparison, in 2009 Euro Area GDP decreased by 4.5%, German GDP decreased by 5.7% and the Austrian GDP decreased by 3.8%.

1) Based on May 2020; Source Austrian National Bank (OeNB)

REGULATORY DEVELOPMENTS

The European Central Bank (ECB) continued its direct oversight of the Eurozone's main credit institutions, including BAWAG Group, under the Single Supervisory Mechanism (SSM). The main supervisory priorities in the first half 2020 were continuing balance sheet repair (including follow-ups on NPL guidance, on internal ratings-based models and trading risk and asset valuations), strengthening future resilience (including credit underwriting criteria and exposure quality, capital and liquidity management, ICAAP and ILAAP and further integration into SREP, business model sustainability, IT and cyber risk, EU-wide (biennial) and/or ECB stress test exercises and governance) and other topics like the follow-up on Brexit work.

Due to the withdrawal of the United Kingdom (UK) from the European Union (EU), uncertainties exist not only on the financial markets about the future status of the UK, but also within the regulatory environment. In order to assess the impact of Brexit on the UK operations and to reflect potential risks, BAWAG Group has established a Brexit team, supported by external advisers in Austria and in the UK.

The UK left the EU on 31 January 2020 and entered a transition period. During the transition period, EU law applies in the UK and passporting continues. The so-called temporary permissions regime (TPR) will enable relevant firms which passport into the UK to continue operating in the UK when the passporting regime falls away at the end of the transition period. The transitional period is due to end on 31 December 2020. According to the withdrawal agreement, the period can be extended until end of 2022. The regime is expected to be in place for a maximum of three years, within which time firms will be required to obtain authorization or recognition in the UK, if required. BAWAG Group applied for the TPR and the competent authorities in the UK – the PRA and FCA – confirmed TPR for BAWAG Group. Due to the size of the UK branch of BAWAG Group and the fact that business activities in the UK are carried out by the branch as an agent for BAWAG P.S.K., even the effects without the TPR will have a minor organizational impact.

In November 2016, the European Commission published a so-called Banking Package with amendments to the CRR (so-called CRR II or Regulation (EU) 2019/876), CRD IV (so-called CRD V or Directive (EU) 2019/878) and BRRD (so-called BRRD II or Directive (EU) 2019/879). The negotiations on the proposals between the European Council, the European Parliament and the European Commission started in July 2018 and were finalized by the middle of 2019. The Banking Package was published in the Official Journal of the EU and has been partly applicable since June 2019. Changes in the CRR and CRD include the introduction of the leverage ratio, the net stable funding ratio, a revised SME supporting factor and amendments to the buffer regime. While parts of CRR II are already applicable, other chapters will apply as of 28 June 2021. CRD V, on the other hand, has to be implemented by all EU member states by 28 December 2020. While the already applicable parts were implemented by BAWAG Group, we finalized a gap analysis and expect only a de-minimis impact from the further amendments.

Due to the global COVID-19 pandemic and the economic impact on the banking industry, the European Central Bank (ECB) published on 27 March 2020, recommendations on dividend distributions during the coronavirus pandemic. In the communication, the "ECB asks banks not to pay dividends or buy back shares during the COVID-19 pandemic". The communication concerns dividends for 2019 and 2020, as well as share buy backs, until at least 1 October 1 2020. The ECB also stated that they would further evaluate the situation after 1 October 2020.

Furthermore, a regulation amending the CRR was proposed by the European Commission in April 2020 and finalized in June 2020. The package is intended to encourage banks to make full use of the flexibility embedded in the EU´s prudential and accounting framework, so that banks can fully support citizens and companies during the pandemic by providing funding. The targeted amendments in this regulation concern inter alia:

- Transitional arrangements for mitigating the impact of IFRS 9 provisions on regulatory capital. The 5-year transition period for the IFRS 9 application that started in 2018 will be reset, so that it runs between 2020 and 2024
- Treatment of publicly guaranteed loans under the NPL prudential backstop
- The date of application of leverage ratio requirements is deferred by one year (until 1 January 2023)
- Exclusion of certain exposures from the leverage ratio calculation
- Date of application of the exemption of certain software assets from capital deductions
- Date of application of the specific treatment envisaged for certain loans backed by pensions or salaries
- Date of application of the revised SME supporting factor and the infrastructure supporting factor

Furthermore, the Basel Committee´s oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), has endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 on the global banking system. The measures endorsed by the GHOS comprise the following changes to the implementation timeline of the outstanding Basel III standards:

- The implementation date of the Basel III standards finalized in December 2017 has been deferred by one year to 1 January 2023. The accompanying transitional arrangements for the output floor have also been extended by one year to 1 January 2028
- The implementation date of the revised market risk framework finalized in January 2019 has been deferred by one year to 1 January 2023
- The implementation date of the revised Pillar 3 disclosure requirements finalized in December 2018 has been deferred by one year to 1 January 2023

In June 2019, the EBA launched a consultation on the guidelines on loan origination and monitoring in the EU. The guidelines were finalized in May 2020 and will be applicable as of 30 June 2021. The guidelines specify the internal governance arrangements for granting and monitoring of credit facilities throughout their life cycle. The guidelines apply to the risk management practices, policies, processes and procedures for loan origination and for monitoring of performing exposures, along with their integration into the overall management and risk management framework.

On 24 June 2020, the EBA published final draft comprehensive ITS on institutions' Pillar 3 disclosures and revised final draft ITS on supervisory reporting. The disclosure ITS implement the new requirements introduced by CRR II and aim to reinforce market discipline by increasing the consistency and comparability of institutions´ public disclosures. The updated reporting framework reflects changes in the CRR and introduces new reporting requirements on net stable funding ratio and counterparty credit risk.

At its 24th meeting on 15 June 2020, the Austrian Financial Market Stability Board (FMSB) focused on the effects of the COVID-19 crisis on financial market stability in Austria and decided to update the recommendations on structural macroprudential capital buffers. In addition, the committee recommended that the countercyclical capital buffer should be kept at 0%. With the introduction of the new EU Capital Requirements Directive (CRD V), systemic risk buffers and O-SII buffers will be added from the end of 2020. The higher of the two buffers will apply until year-end 2020. However, in its recommendation on buffer requirements from the end of 2020, the Committee has taken into account the high degree of uncertainty about the further course of the crisis. Therefore, the overall buffer requirements remain essentially unchanged.

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

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

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

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 36.3 million for the first half 2020. The item Operating expenses includes regulatory charges in the amount of € 2.5 million for the first half 2020 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

Profit after tax decreased by € 95.9 million, or 43.9%, to € 122.7 million in the first half 2020. While the underlying operating performance of the business remained solid, risk costs significantly increased in the first half 2020, addressing the deteriorating macroeconomic environment due to COVID-19.

Net interest income increased by € 12.6 million, or 2.9%, to € 447.7 million in the first half 2020. The increase was mainly driven by higher interest-bearing assets.

Net fee and commission income decreased by € 14.9 million, or 10.4%, compared to the first half 2019.

Gains and losses on financial instruments and other operating income and expenses decreased by € 29.2 million to € 4.4 million in the first half 2020.

Operating expenses decreased by 4.8% to € 249.6 million in the first half 2020 as a result of ongoing efficiency and centralization measures.

Total risk costs increased by € 102.4 million to € 129.6 million in the first half 2020, primarily related to the deteriorating macroeconomic outlook due to COVID-19. The macroeconomic outlook significantly changed with the European Central Bank forecasting a GDP decrease of 12.6% for 2020 under an adverse scenario and a GDP increase of 3.3% for 2021. To address this deteriorating macroeconomic environment as well prudently provision against the observed build-up of customer payment deferrals due to COVID-19, a general reserve (ECL) of approximately € 65 million was posted across segments.

Income taxes amounted to € 38.6 million in the first half 2020.

Total assets

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

The **cash reserves** decreased by € 581 million, or 40.8%, to € 843 million in the first half 2020.

The position **Fair value through OCI** increased by € 1,509 million or 41.6% in the first half 2020, primarily due to the purchase of high-quality securities.

The position **at amortized cost** increased by € 4,579 million, or 12.2% compared to year-end 2019, and stood at € 42,135 million as of 30 June 2020. This primarily reflects higher volumes at central banks impacted by the TLTRO III drawdown. The customer volumes increased by 3.0% with a strong performance in Retail housing loans, asset backed lending and public sector lending compensating for the decreasing volumes in corporate and consumer loans impacted by COVID-19 compared to year-end 2019. The increase of debt instruments reflects the investment in high-quality securities.

Tangible non-current assets decreased by € 206 million to € 501 million as of 30 June 2020 compared to year-end 2019, which is due to the reclassification of investment and other properties to the balance sheet position non-current assets held for sale according to IFRS 5.

Total liabilities and equity

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

Financial liabilities at amortized cost increased by € 4,961 million, or 12.9%, to € 43,504 million as of 30 June 2020 compared to year-end 2019. In June 2020 we participated in the TLTRO III capacity with the maximum of € 5.8 billion. At the same time we paid back the outstanding TLTRO II of € 0.6 billion. Furthermore, we issued a € 500 million mortgage covered bond in January 2020.

Total equity including Additional Tier 1 capital stood at € 3,959 million as of 30 June 2020. This position also includes the earmarked 2019 dividend of € 230 million, which has not yet been paid out following the recommendation of the ECB.

CAPITAL AND LIQUIDITY POSITION

Maintaining a strong capital position is considered a key strategic priority for BAWAG Group. We have set ourselves the target of maintaining a CET1 ratio of 13.0% on a fully loaded basis. The target CET1 ratio takes the regulatory capital requirements into account and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

Initially, the regulatory minimum CET1 ratio applicable to BAWAG Group according to the SREP was 10.19% (based on the Pillar 1 minimum of 4.50%, a Pillar 2 requirement of 2.0%, a capital conservation buffer of 2.50%, a systemic risk buffer of 1.0% and a countercyclical buffer of 0.19%). As part of the response to the outbreak of COVID-19, the European Central Bank moved forward the change in the composition of capital for the Pillar 2 requirement from 1 Jan 2021 to the first half 2020. To fulfill the total Pillar 2 requirement of 2.0%, 0.875% can be filled with Additional Tier 1/Tier 2 capital. Furthermore, many countries revoked the countercyclical buffer due to the outbreak of COVID-19. As a result, the regulatory minimum CET1 requirement decreased to 9.13% (based on the Pillar 1 minimum of 4.50%, a Pillar 2 CET1 requirement of 1.125%, a capital conservation buffer of 2.50%, a systemic risk buffer of 1.0% and a countercyclical buffer of 0.008%[1]) once the Pillar 2 requirement is filled with Additional Tier 1/Tier 2 capital.

In addition to the capital requirement, the SREP for 2020 also includes a Pillar 2 guidance, which is set at 1% for BAWAG Group. The regulator therefore expects us to maintain a CET1 ratio of 11.0%, or 10.13% (9.13% SREP requirement plus 1% Pillar 2 guidance) once the Pillar 2 requirement is filled with Additional Tier 1/Tier 2 capital.

At its meeting on 15 June 2020 the Austrian Financial Market Stability Board (FMSB) recommended that the combined capital buffers stay unchanged until the end of 2022. The buffers could have potentially doubled, as CRD V stipulates that the systemic risk buffer and the buffer for other systematically important institutions (O-SII) are calculated cumulatively. In order to keep the effective capital requirement unchanged, the FMSB suggested to cut the buffers in half.

As of 30 June 2020, a fully loaded CET1 ratio of 13.4%, a fully loaded Tier 1 ratio of 14.8% and a fully loaded total capital ratio of 17.0% exceed both the target ratio and the regulatory requirements detailed above. These ratios consider the deduction of the 2019 dividend of € 230 million and the accrual of the 2020 dividend based on a 50% payout ratio of net profit. In line with the ECB recommendation regarding capital distributions being postponed until further guidance is provided prior to 1 October 2020, we have postponed the AGM to 30 October 2020. This postponement will enable us to have more clarity on the consequences of COVID-19 and allow for the proper assessment of any further formal guidance or recommendations from the ECB or governmental bodies.

Based on the fully loaded capital ratios as of 30 June 2020, the maximum distributable amount above the regulatory requirements for 2020 (Pillar 1 minimum ratios, Pillar 2 requirement and combined buffer requirements) is € 725 million (after taking the € 230 million dividend for 2019 and € 61 million for H1 2020 into account). The MDA trigger is at 9.9%.

Our strong capital position enables us to support the real economy in Austria, Germany, Switzerland and other markets we operate in during the COVID-19 pandemic as well as support further growth and our capital distribution strategy. We target an annual dividend payout of 50% of net profit and aim to invest additional excess capital above the CET1 target ratio in organic growth and pursue earnings-accretive M&A at returns consistent with BAWAG Group's RoTCE target. To the extent excess capital is not deployed via such organic growth and M&A, we are committed to distributing excess capital to shareholders, based on a yearly assessment in the form of stock buybacks and/or special dividends.

At the end of June 2020, the liquidity buffer (including other marketable securities) was € 11.4 billion. The liquidity coverage ratio was at 209%.

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

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

[1] Based on RWA as of 30 June 2020
[2] Based on financial statements as of 31 December 2018
[3] Own funds instruments (i.e. CET1 instruments, Additional Tier 1 & Tier 2) remain eligible on a consolidated basis

In February 2020, BAWAG Group received a new MREL decision from the authorities. The new MREL decision sets an MREL requirement of 11.93% of TLOF, which equates to roughly 25.7% of RWA[2]. In line with our expectation, the new decision imposes a subordination requirement set at 8.19% of TLOF or approximatly 17.6% of RWA (of which up to 2.2% of RWA can be met with non-subordinated instruments) and applies the “hybrid approach” restricting the MREL eligibility to instruments issued by BAWAG P.S.K. AG only (i.e. the point of entry)[3].

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

Based on financials as of 30 June 2020 and applying the hybrid approach, an additional € 0.9 billion of MREL instruments would be necessary to meet an MREL requirement of 25.7% of RWA (only binding from the second quarter 2023). The next MREL decision, which will be based on the CRR II / BRRD II regulatory regime and the SRB’s new MREL policy, is expected to be received in Q1 2021 and might include interim targets. The future MREL requirement will be expressed as a percentage of RWAs.

KEY PERFORMANCE INDICATORS

in € million	**Q2 2020**	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Net interest income	227.8	219.9	223.9	220.0	220.6
Net fee and commission income	55.8	71.9	70.0	70.8	70.0
Core revenues	283.6	291.8	293.9	290.8	290.6
Operating income	284.2	295.6	314.3	314.9	313.0
Operating expenses	(124.7)	(125.0)	(133.9)	(133.4)	(136.0)
Pre-provision profit	**159.5**	**170.6**	**180.4**	**181.5**	**177.0**
Total risk costs	(74.6)	(55.0)	(25.0)	(17.1)	(15.3)
Profit before tax	80.8	80.5	153.8	163.5	160.0
Income taxes	(19.3)	(19.3)	(37.4)	(39.1)	(38.3)
Net profit	61.2	61.2	116.1	124.4	121.7

(figures annualized)					
Return on common equity[1)]	7.4%	7.5%	13.4%	13.8%	13.7%
Return on tangible common equity[1)]	**8.9%**	**9.1%**	**16.0%**	**16.4%**	**16.2%**
Net interest margin	2.27%	2.32%	2.36%	2.28%	2.30%
Cost-income ratio	**43.9%**	**42.3%**	**42.6%**	**42.4%**	**43.5%**
Risk costs / interest-bearing assets	0.74%	0.58%	0.27%	0.18%	0.16%
Tax rate	23.9%	24.0%	24.3%	23.9%	23.9%

1) Excluding AT1 capital and dividend accruals.
Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on pages 94-96.

BUSINESS SEGMENTS

RETAIL & SME

Strategy

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

The Austrian Retail & SME business services 2.3 million private and small business customers through a centrally managed branch network and online and mobile sales channels, supported by our customer care center and complemented by strategic long-term retail partnerships. We are one of the leading omni-channel retail banks in Austria, offering simple and secure products and high-quality financial advice through our sales channels with a strong and well-recognized national brand.

Our primary brands have complementary service models and customer bases. BAWAG P.S.K. is a market leader serving our customers with a full-service, high touch advisory experience combined with advanced analytics and digital offerings. easybank is the leading direct banking brand in Austria with the highest Net Promoter Score rankings nationally (Recommender Award). Our strength is founded in our share of primary relationships and daily banking products and allows us to understand our customers and deliver products and services across various channels. We leverage this competence centrally and achieve scale by unifying our resources and processes.

Our focus is on an efficient and simple delivery of core lending and savings products through our core network or through partnerships with leading consumer brands. Through partners and technology, we deliver financial products to the consumer at the point of need in their daily lives. 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 go about their daily lives.

Our Austrian Retail & SME focus continues to be on providing customers quality products and services they have come to expect and preserving the differentiated value propositions of our separate brands, while ensuring we maintain a single Group mindset as we address the domestic Austrian market and our 2.3 million customers. This means a renewed focus on financial advisory, enhanced data analytics, more retail partnerships, investing in platform lending and leveraging technology across all of our processes to better serve the needs of our customers.

Within the International Retail & SME segment, our focus is on building an international presence within the DACH region as well as other select developed markets in the West. Our strategy is to focus on providing Retail & SME customers a handful of products they need and leveraging digital capabilities to create frictionless customer experiences. Our products are distributed via various sales channels, predominantly via our direct channels today. As we evolve and continue to expand our footprint, 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. Core growth will be focused more on digital channels, more specialty finance-oriented and working to grow through various partnerships and platforms.

First Half 2020 Business Review

During the first half of 2020, the Retail & SME segment delivered a profit before tax of € 164 million, a return on tangible common equity of 19.8% and a cost-income ratio of 40%. While responding in real-time to our customer needs during the COVID-19 crisis, we continued to execute on our strategic initiatives in Austria as well as internationally, anchored by our platforms in Germany.

Domestic Retail & SME

The first half of 2020 was a time of significant transition, as we emerged into our new and redesigned branch footprint, and recommitted our branch network to advisory products for our customer base.

We started the year with continued momentum from 2019 in key products such as mortgage and securities. Mortgage volume in Q1 showed significant increases over prior-year levels, and new business in securities increased at a similar rate as well. Consumer lending volume remained relatively stable from the prior year, despite a nearly 13% decline on the market. This was made possible by cross-selling to our primary banking customers, where we have a tenured relationship and history of their transactional behavior.

Also in the first quarter, we reached a major milestone in our retail network transformation, Concept 21, resulting in a branch footprint of 88 branches for nationwide coverage (down from 142 in 2018), with a significant enhancement to our customer experience. As of year-end 2019, we had established a fully independent bank network, separate from the Austrian Post. We have finalized all customer shifts to our target network, with minimal disruption due to our coverage design and customer retention plan. Additionally, we have hired approximately 200 new advisors and opened 27 new fully redesigned branches. We have already achieved an overall productivity per FTE increase of 5% comparing Q1 2020 to 2019. The efficiency created by this transition allows us to reinvest in our network with an enhanced branch experience, digital products and key partnerships for new customer growth.

During the first half 2020, we completed another critical step in the simplification of our operations by consolidating our Austrian banking brands and channels under one organization. This allows us to combine our best resources into product teams that serve multiple channels and customers sets. This provides the foundation for greater simplicity in our products and customer journeys and to achieve increased efficiency across our Austrian operations. We will continue to maintain our customer value propositions across all of our Austrian brands, while leveraging the best of the BAWAG Group capabilities.

COVID-19 response

The COVID-19 health crisis had a significant impact on our operations in the second quarter of 2020. We refocused our efforts on the well-being and full service of our customer base during these difficult times and circumstances.

In a challenging time for our customers and our employees, our response in the retail network was to stand by our customers and provide assistance in many forms, and to support our employees on the front lines. Our response to the health crisis differentiated us in the marketplace.

During this time, 100% of our branch network was open throughout the restriction period. In addition, our Customer Care Call Center, based in Austria, maintained full capacity and the shortest wait times compared to the competition.

We developed a simplified online application process for payment holidays for our customers and provided immediate access to government guarantee programs for our qualified SME clients. By the end of the first half, we had issued payment holidays equaling 7% of total Retail & SME assets as of 30 June 2020 across our entire Retail & SME business. While our customer base is highly concentrated in private customers, we were leaders in effectively supporting our 30,000 SME customers in Austria with € 54 million of bridge and guarantee loans.

We issued bonus payments of up to € 1,000 to our employees working on the front lines with our customers during the restriction period. The bonus was to help assist with family care, commuting costs and other challenges during this time, as well as express our appreciation for their commitment to helping our customers.

The second quarter demonstrated the resilience of our teams and the adaptability of our business model, as we shifted our focus based on our customers' needs and maintained 100% availability.

Throughout the period, we undertook "Take Care" calls to our customers to ensure they understood the capabilities of our many channels for banking services. We adapted our sales channels for key products to accommodate those that preferred to do transactions by phone. Mobile transactions per month increased by 20% compared to year-end 2019, while mobile logins grew by 7%.

Business development

As economic and customer activity slowly resumes, we have seen a shift in our customer behavior. Interest in investing products has increased, which we expect to continue as customers focus on building a financial cushion for their futures. In addition, housing activity has remained steady, which has supported the mortgage market. Our strategy to reposition our network to focus on high-quality advisory capabilities for these products through Concept 21 has supported this shift in customer behavior.

While the securities sales were supportive of our commission income during the period, we were impacted by the disruption in other areas that more than offset this positive development. Consumer discretionary spending decreased significantly during Q2 2020, which impacted the fee revenue on our credit card business. We observed lower transaction levels (-31% from Q2 2019) due to less travel abroad and decreased spending overall driving less fee income.

In addition, the economic disruption significantly reduced demand for consumer loans, which reduced fee revenues from insurance products related to the loans.

Nonetheless, we were encouraged by the signs of resilience in the customer base and flexibility of our business model. Our transformation in the BAWAG P.S.K. franchise to a high-tech, high-touch advisory, was advanced during this period and we expect to see these trends continue.

In the first half 2020, easybank, our direct banking channel, continued to focus on digitization measures, efficiency and customer satisfaction. For the tenth year in a row, easybank received the FMVO Recommender Award, a testimony to the strong digital brand and customer loyalty. This award is given to the bank with the highest Net Promoter Score. easybank maintained its leading position as not only the most recommended direct banking platform in Austria, but the platform with the highest Net Promoter Score of any other financial services institution in Austria. easybank's direct banking model and fully digital user base complements BAWAG P.S.K.'s advisory experience by serving different customer bases and expectations with two distinct channels and brands. This relationship is scaled by ensuring that our middle- and back-end services as well as core product technologies are aligned to maximize efficiency. We will continue to evaluate the additional opportunities and scale achievable across our highly complementary Austrian brands.

International Retail & SME

Our international Retail & SME platform is focused on being a niche specialty lender across the developed markets. As we expand our footprint both organically and inorganically, Germany continued to be our main country of focus in the first half 2020. While the markets we play in are over-banked, our strategy is to focus in niche lending areas, unique distribution channels via strategic partnerships and frictionless customer experiences – all underpinned with very efficient operations enabling us to compete in these markets generating mid-teen returns.

Overall international Retail & SME had a strong first half despite the COVID-19 crisis. We continued to build-out our front-end sales organizations while leveraging the Group synergies in order to provide customers with simple & easy experiences. We leveraged the COVID-19 slowdown to advance various non-commercial priorities to come out stronger when markets normalize. Our teams successfully finalized the integration of all our acquisitions well ahead of plan, fast-forwarded various digital technology developments and centralized operations to create better customer experiences. One example where considerable focus was placed was on improving our go-to-market strategy as well as operations for our Mortgage origination platforms in Germany and the Netherlands. We are now well positioned to grow these channels in the second half of 2020 and beyond. In addition we continue to focus on strategic partnerships to expand our distribution capabilities. In the first half of 2020, we signed 4 new partnerships where our financial solutions are offered alongside our partners products. These partnerships are win-win solutions for all parties involved – the customer, our partner & BAWAG. In the coming quarters we have additional strategic partnerships we anticipate will be announced.

We continue to build-out our multi-channel International platform from branches-to-brokers-to-partners-to-digital products. This will be a combination of leveraging:

- Südwestbank's growth in its Private Banking business as we increase our investments in this niche area and expand our offerings across the Baden Württemberg region
- start:bausparkasse is preparing to launch a new mortgage origination process which enables consumers to gain approval for a Mortgage within hours, creating a completely digital flow (to be launched in the second half of 2020)
- Qlick is performing very well offering consumers the ability to receive a consumer loan within minutes. The Qlick technology continues to be built out and is now leveraged across our Group, and has been instrumental in the launching of the various point of sale strategic partnerships signed in the first half of 2020
- BFL Leasing GmbH, Health Coevo AG and Zahnärztekasse AG completed their integrations into BAWAG Group and continue to offer niche leasing and factoring products. We began offering these products across the Group and are seeing successes across the larger customer base in Germany

Outlook

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

We will continue to further enhance our performance in specific product categories, such as mortgages and securities, as we see an opportunity to further penetrate our existing customer base alongside increasing demand. This provides both a significant growth opportunity as well as the possibility to fully utilize our high-quality sales force to ensure our customers` financial well-being in the future.

We have seen the trends in our customers´ behavior to focus on building a financial cushion for the future, managing risk, finding options for returns on savings and investing in home ownership. These trends have accelerated as we emerge from the health crisis in Q2 2020, and we believe that our focus on financial well-being and our commitment to advisory and alternative channels have positioned us well for this future.

As we are focused on providing a superior experience unified through all channels, we are progressing towards a consolidated, digitally integrated platform designed for our customers' needs. Most importantly, we will be realizing the impact of our shift in new customer acquisition to a partnership-led model with Austria's leading retailers. The partnerships are targeted at our areas of growth in consumer lending and SME, and we will continue to broaden our collaborations. In Germany, the focus will continue to be on multiple integration initiatives designed to create a focused Retail & SME platform, providing specific products, expanding our digital footprint and capabilities across the Group and growing through partnerships. Additionally, we will continue to assess strategic M&A opportunities both domestically and internationally that compliment our Retail & SME strategy and meet our Group return thresholds generating a RoTCE greater than 15%.

Financial Results

Income metrics (in € million)	**Q2 2020**	Q2 2019	Change (%)	**Jan-Jun 2020**	Jan-Jun 2019	Change (%)
Net interest income	166.2	156.8	6.0	334.3	303.7	10.1
Net fee and commission income	47.7	60.5	(21.2)	109.4	122.0	(10.3)
Core revenues	**213.8**	**217.2**	**(1.6)**	**443.7**	**425.8**	**4.2**
Gains and losses on financial instruments	1.4	0.0	>100	3.3	0.0	>100
Other operating income and expenses	0.3	0.3	0.0	0.9	0.7	28.6
Operating income	**215.6**	**217.5**	**(0.9)**	**447.9**	**426.4**	**5.0**
Operating expenses	**(90.0)**	**(98.2)**	**(8.4)**	**(180.1)**	**(185.3)**	**(2.8)**
Pre-provision profit	**125.6**	**119.3**	**5.3**	**267.8**	**241.1**	**11.1**
Regulatory charges	(0.7)	(0.8)	(12.5)	(25.9)	(24.0)	7.9
Total risk costs	(35.7)	(17.0)	>100	(77.9)	(32.2)	>100
Profit before tax	**89.1**	**101.4**	**(12.1)**	**164.0**	**184.9**	**(11.3)**
Income taxes	(22.3)	(25.4)	(12.2)	(41.0)	(46.2)	(11.3)
Net profit	**66.8**	**76.1**	**(12.2)**	**123.0**	**138.7**	**(11.3)**

Key ratios	**Q2 2020**	Q2 2019	Change (pts)	**Jan-Jun 2020**	Jan-Jun 2019	Change (pts)
Return on tangible common equity	22.1%	23.5%	(1.4)	19.8%	21.3%	(1.5)
Net interest margin	3.62%	3.65%	(0.03)	3.65%	3.59%	0.06
Cost-income ratio	41.7%	45.1%	(3.4)	40.2%	43.5%	(3.3)
Risk costs / interest-bearing assets	0.78%	0.40%	0.38	0.85%	0.38%	0.47
NPL ratio	2.1%	1.9%	0.2	2.1%	1.9%	0.2
NPE ratio	2.4%	2.2%	0.2	2.4%	2.2%	0.2

Business volumes (in € million)	**Jun 2020**	Dec 2019	Change (%)	Jun 2019	Change (%)
Assets	18,493	18,155	1.9	17,446	6.0
Risk-weighted assets	8,409	8,623	(2.5)	8,235	2.1
Customer deposits	24,878	24,848	0.1	24,348	2.2
Own issues	3,597	3,249	10.7	3,330	8.0

Operating income increased by 5.0% due to a stronger net interest income (+10.1%), which was supported by our acquisitions in the first half of 2019 (Zahnärztekasse AG, Health Coevo AG and BFL Leasing GmbH). While all branches remained open during the pandemic, the lockdown measures resulted in less advisory and transaction business, with the second quarter representing a trough of activity.

Operating expenses decreased slightly by 2.8% to € 180.1 million reflecting further efficiency measures.

The increase in **regulatory charges** stems from the contributions to the deposit guarantee scheme.

Risk costs for the first half 2020 include a general reserve (ECL) related to COVID-19 effects to address the deteriorating macroeconomic environment and to prudently provision against the build-up of the payment deferrals.

The segment delivered **net profit** of € 123.0 million and a return on tangible equity (after taxes) of 19.8% in the first half 2020.

Assets increased by 1.9% compared to year-end 2019, mostly driven by housing loans throughout our different sales channels and partnerships.

Customer deposits increased by 0.1% compared to year-end 2019. **Own issues** include a € 500 million mortgage covered bond issued in January 2020.

CORPORATES & PUBLIC

The **Corporates & Public** segment focuses on domestic and international lending, deposits and payment services. Corporate lending includes the DACH region as well as international lending, which is focused on developed and mature markets in Western Europe and the United States. We primarily target senior secured lending to strong sponsors on cash flow generating companies and assets. In the public sector business, our goal is to maintain our market position in Austria and retain our cash management business. 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 longer-term investors.

First half 2020 business review

During the first half 2020, the Corporates & Public segment delivered a profit before tax of € 49.9 million, a return on tangible common equity of 8.7% and a cost-income ratio of 30.0%. 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 the domestic public sector business and idiosyncratic corporate lending, but generally we continue to see pricing pressure across the corporate lending space.

The outbreak of COVID-19 resulted in subdued demand for commercial real estate and portfolio financing. Transactions that were in process were generally put on pause and inquiries for new borrowings from our clients came to a standstill.

Coordinated action from the various central banks provided stabilization to the markets and prompted clients to begin looking at new investments again. However, the type of transactions we are seeing have changed and are more idiosyncratic in nature. We are hopeful that commercial real estate and portfolio financing will pick up during the second half of the year as assets begin to trade, although to date activity in this areas has continued to be greatly reduced.

While some of our clients have experienced increased financial pressure during this crisis, overall we have been pleasantly surprised at how they have responded to date. We will remain vigilant in monitoring our portfolio to ensure performance continues and are cautiously optimistic that any stress in our portfolio will be minimal.

Outlook

We continue to see a solid pipeline with diversified opportunities in 2020, including positive development in the public sector business. However, competition for defensive, high-quality transactions will remain high. Our focus will continue to be on risk-adjusted returns, disciplined underwriting and being patient without ever chasing volume.

Financial Results

Income metrics (in € million)	Q2 2020	Q2 2019	Change (%)	Jan-Jun 2020	Jan-Jun 2019	Change (%)
Net interest income	59.5	61.3	(2.9)	117.9	126.0	(6.4)
Net fee and commission income	8.9	10.1	(11.9)	19.6	21.6	(9.3)
Core revenues	**68.4**	**71.4**	**(4.2)**	**137.5**	**147.7**	**(6.9)**
Gains and losses on financial instruments	0.2	(0.3)	-	1.8	0.0	>100
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**68.7**	**71.0**	**(3.2)**	**139.3**	**147.7**	**(5.7)**
Operating expenses	**(20.5)**	**(25.7)**	**(20.2)**	**(41.8)**	**(52.8)**	**(20.8)**
Pre-provision profit	**48.2**	**45.3**	**6.4**	**97.5**	**94.9**	**2.7**
Regulatory charges	(1.0)	(1.4)	28.6	(7.5)	(8.5)	11.8
Total risk costs	(28.3)	3.8	-	(40.2)	8.4	-
Profit before tax	**18.9**	**47.7**	**(60.4)**	**49.9**	**94.8**	**(47.4)**
Income taxes	(4.7)	(11.9)	(60.5)	(12.5)	(23.7)	(47.3)
Net profit	**14.2**	**35.8**	**(60.3)**	**37.4**	**71.1**	**(47.4)**

Key ratios	Q2 2020	Q2 2019	Change (pts)	Jan-Jun 2020	Jan-Jun 2019	Change (pts)
Return on tangible common equity	6.7%	13.6%	(6.9)	8.7%	13.2%	(4.5)
Net interest margin	1.70%	1.69%	0.01	1.71%	1.76%	(0.05)
Cost-income ratio	29.8%	36.2%	(6.4)	30.0%	35.7%	(5.7)
Risk costs / interest-bearing assets	0.81%	(0.10)%	-	0.58%	(0.12)%	-
NPL ratio	1.1%	1.2%	(0.1)	1.1%	1.2%	(0.1)
NPE ratio	1.3%	1.3%	0.0	1.3%	1.3%	0.0

Business volumes (in € million)	Jun 2020	Dec 2019	Change (%)	Jun 2019	Change (%)
Assets	13,902	13,141	5.8	14,196	(2.1)
Risk-weighted assets	7,652	7,932	(3.5)	8,523	(10.2)
Customer deposits (incl. other refinancing) and own issues	12,182	7,118	71.1	7,375	65.2

Operating income decreased by 5.7% to € 139.3 million compared to the first half 2019, driven primarily by lower volumes in corporate lending.

Operating expenses decreased by 20.8% to € 41.8 million, primarily resulting from lower staff costs as well as various efficiency measures.

Risk costs were driven by specific provisions for oil and gas exposures in the amount of € 16 million as well as general reserve build (ECL) related to deteriorating macroeconomic forecasts.

The segment contributed a **net profit** of € 37.4 million with a return on tangible equity of 8.7%.

Assets increased by 5.8% to € 13.9 billion versus year-end 2019.

Liabilities stood at € 12.2 billion.

CORPORATE CENTER AND TREASURY

First Half 2020 Developments

The **Corporate Center** contains central functions for BAWAG Group. Hence, the P&L comprises the FTP (funds transfer pricing) result as an outcome of the Asset & Liability Management function, 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. Treasury took advantage of the market sell-off during Q1 2020 to redeploy some of the liquidity into bonds from high-quality bank and corporate issuers. The overall composition of the portfolio reflects our strategy of maintaining high credit quality, short/medium 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.

As of 30 June 2020, the investment portfolio amounted to € 7.1 billion and the liquidity reserve was € 7.6 billion. The investment portfolio's average maturity was four years, comprised 97% of investment grade rated securities, of which 76% were rated in the single A category or higher. The portfolio had no direct exposure to China, Russia, CEE or South-Eastern Europe. Exposure to Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers.

Financial Results

Income metrics (in € million)	Q2 2020	Q2 2019	Change (%)	Jan-Jun 2020	Jan-Jun 2019	Change (%)
Net interest income	2.0	2.5	(20.0)	(4.5)	5.4	-
Net fee and commission income	(0.7)	(0.5)	(40.0)	(1.3)	(1.0)	(30.0)
Core revenues	**1.3**	**2.1**	**(38.1)**	**(5.9)**	**4.3**	**-**
Gains and losses on financial instruments	(13.3)	18.7	-	(27.0)	28.1	-
Other operating income and expenses	12.0	3.8	>100	25.4	4.8	>100
Operating income	**0.0**	**24.5**	**>(100)**	**(7.5)**	**37.2**	**-**
Operating expenses	**(14.2)**	**(12.0)**	**18.3**	**(27.8)**	**(24.3)**	**14.4**
Pre-provision profit	**(14.2)**	**12.5**	**-**	**(35.3)**	**12.9**	**-**
Regulatory charges	(0.7)	(0.7)	0.0	(5.4)	(4.6)	(17.4)
Total risk costs	(10.6)	(2.1)	>100	(11.6)	(3.4)	>100
Profit before tax	**(27.2)**	**10.9**	**-**	**(52.6)**	**7.4**	**-**
Income taxes	7.7	(1.0)	-	14.9	1.4	>(100)
Net profit	**(19.9)**	**9.9**	**-**	**(38.0)**	**8.8**	**-**

Business volumes (in € million)	Jun 2020	Dec 2019	Change (%)	Jun 2019	Change (%)
Assets	18,882	14,366	31.4	12,821	47.3
Risk-weighted assets	4,689	3,829	22.5	3,968	18.2
Equity	3,663	3,594	1.9	3,877	(5.5)
Own issues and other liabilities	6,957	6,853	1.5	5,533	25.7

Operating income turned negative to € -7.5 million compared to the first half of 2019, reflecting negative gains and losses on financial instrumens.

Operating expenses slightly increased to € 27.8 million.

Assets (including the liquidity reserve) increased by 31.4% compared to year-end 2019, mainly driven by redeploying liquidity to bonds as well as a higher liquidity reserve impacted by the TLTRO III drawing.

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

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

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

Outlook 2020

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

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

Medium-term targets

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

In terms of capital generation and distributions, we target an annual dividend payout of 50% of net profit and will deploy additional excess capital to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our Group RoTCE targets. To the extent excess capital is not deployed via such organic growth and M&A, we are committed to distributing excess capital to shareholders, based on a yearly assessment, in the form of stock buybacks and/or special dividends.

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

Consolidated Half-Year Financial Statements

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in € million	[Notes]	Jan–Jun 2020	Jan-Jun 2019
Interest income		559.0	575.3
thereof calculated using the effective interest method		430.9	444.4
Interest expense		(113.5)	(142.6)
Dividend income		2.2	2.4
Net interest income	**[1]**	**447.7**	**435.1**
Fee and commission income		165.3	186.6
Fee and commission expenses		(37.6)	(44.0)
Net fee and commission income	**[2]**	**127.7**	**142.6**
Gains and losses on financial assets and liabilities	[3]	(21.9)	28.2
thereof gains from the derecognition of financial assets measured at amortized cost		0.0	38.8
thereof losses from the derecognition of financial assets measured at amortized cost		(0.8)	(0.3)
Other operating income		74.7	24.0
Other operating expenses		(84.8)	(53.6)
Operating expenses	[4]	(252.2)	(264.4)
thereof administrative expenses		(212.1)	(228.4)
thereof depreciation and amortization on tangible and intangible non-current assets		(40.1)	(36.0)
Risk costs	[5]	(129.6)	(27.2)
thereof according to IFRS 9		(127.9)	(25.2)
Share of the profit or loss of associates accounted for using the equity method		(0.3)	2.4
Profit before tax		**161.3**	**287.1**
Income taxes		(38.6)	(68.5)
Profit after tax		**122.7**	**218.6**
Thereof attributable to non-controlling interests		0.3	0.0
Thereof attributable to owners of the parent		**122.3**	**218.6**

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 € 36.3 million (Jan–Jun 2019: € 35.0 million). The bank levy included in this item amounts to € 2.6 million for the first half 2020, compared to € 2.4 million for the first half 2019.

The item Administrative expenses includes regulatory charges (national regulators and ECB supervisory charges) in the amount of € 2.5 million (Jan–Jun 2019: € 2.1 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.

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

Earnings per share

	Jan–Jun 2020	Jan-Jun 2019
Net result attributable to owners of the parent (in € million)	122.3	218.6
AT1 coupon (in € million)	(7.5)	(7.5)
Net result attributable to owners of the parent after deduction of AT1 coupon (in € million)	**114.8**	**211.1**
Weighted average number of outstanding shares	87,937,130	98,794,893
Basic earnings per share (in €)	**1.31**	**2.14**
Weighted average diluted number of outstanding shares	88,155,251	98,860,852
Diluted earnings per share (in €)	**1.30**	**2.11**

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

	Jan–Jun 2020	Jan-Jun 2019
Net result attributable to owners of the parent (in € million)	**122.3**	**218.6**
Weighted average number of outstanding shares	87,937,130	98,794,893
After-tax earnings per share in (€)	**1.39**	**2.21**

Changes in number of outstanding shares

	Jan–Jun 2020	Jan-Jun 2019
Shares outstanding at the beginning of the period	87,937,130	98,794,893
Shares outstanding at the end of the period	87,937,130	98,794,893
Weighted average number of outstanding shares	87,937,130	98,794,893
Weighted average diluted number of outstanding shares	88,155,251	98,860,852

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 the shares bought back in prior periods 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 OTHER COMPREHENSIVE INCOME

in € million	[Notes]	Jan–Jun 2020	Jan–Jun 2019
Profit after tax		122.7	218.6
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gain/loss on defined benefit plans		(1.1)	(19.0)
Shares and other equity investments at fair value through other comprehensive income		(38.3)	7.4
Change in credit spread of financial liabilities		3.0	0.2
Income tax on items that will not be reclassified		9.0	3.1
Total items that will not be reclassified to profit or loss		**(27.4)**	**(8.3)**
Items that may be reclassified subsequently to profit or loss			
Foreign exchange differences		1.8	1.3
Hedge of net investment in foreign operations net of tax		(1.7)	(1.0)
Cash flow hedge reserve		15.8	(0.8)
thereof transferred to profit (-) or loss (+)[1)]		2.5	1.3
Debt securities at fair value through other comprehensive income		37.8	26.5
thereof transferred to profit (-) or loss (+)		(9.4)	(3.1)
Income tax relating to items that may be reclassified		(13.3)	(7.1)
Total items that may be reclassified subsequently to profit or loss		**40.4**	**18.9**
Other comprehensive income		**13.0**	**10.6**
Total comprehensive income, net of tax		**135.7**	**229.2**
Thereof attributable to non-controlling interests		0.3	0.0
Thereof attributable to owners of the parent		**135.4**	**229.2**

1) To net interest income

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	Jun 2020	Dec 2019
Cash reserves		843	1,424
Financial assets at fair value through profit or loss	[7]	811	740
Financial assets at fair value through other comprehensive income	[6]	5,140	3,631
Financial assets held for trading	[8]	375	353
At amortized cost	[9]	42,135	37,556
Customers		31,372	30,467
Credit institutions		8,263	5,720
Securities		2,500	1,369
Valuation adjustment on interest rate risk hedged portfolios		17	5
Hedging derivatives		423	397
Property, plant and equipment	[10]	351	396
Investment properties	[10]	150	311
Goodwill	[11]	94	94
Brand name and customer relationships	[11]	262	274
Software and other intangible assets	[11]	199	201
Tax assets for current taxes		13	15
Tax assets for deferred taxes	[12]	7	8
Associates recognized at equity		42	48
Other assets		218	209
Non-current assets held for sale	[13]	198	–
Total assets		**51,278**	**45,662**

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 21 of this Half-Year Financial Report. For details regarding the line item Non-current assets held for sale, please refer to Note 13.

Total liabilities and equity

in € million	[Notes]	Jun 2020	Dec 2019
Total liabilities		**47,319**	**41,834**
Financial liabilities designated at fair value through profit or loss	[14]	332	369
Financial liabilities held for trading	[15]	355	334
Financial liabilities at amortized cost	[16]	43,504	38,543
Customers		30,249	30,378
Issued bonds, subordinated and supplementary capital		5,277	5,080
Credit institutions		7,978	3,085
Financial liabilities associated with transferred assets		918	729
Valuation adjustment on interest rate risk hedged portfolios		387	337
Hedging derivatives		61	116
Provisions	[17]	457	480
Tax liabilities for current taxes		44	34
Tax liabilities for deferred taxes		78	54
Other obligations		1,183	838
Total equity		**3,959**	**3,828**
Equity attributable to the owners of the parent (ex AT1 capital)		3,657	3,527
AT1 capital		297	297
Non-controlling interests		4	4
Total liabilities and equity		**51,278**	**45,662**

STATEMENTS OF CHANGES IN EQUITY

in € million	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings	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	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2019	**99**	**1,151**	**298**	**2,603**	**(8)**	**(82)**	**(11)**	**1**	**5**	**(52)**	**–**	**–**	**4,004**	**1**	**4,005**
Transactions with owners	–	(26)	–	(215)	–	–	–	–	–	–	–	–	(241)	–	(241)
Dividends	–	–	–	(215)	–	–	–	–	–	–	–	–	(215)	–	(215)
Share-based payment	–	(26)	–	–	–	–	–	–	–	–	–	–	(26)	–	(26)
AT1 capital	–	–	0	–	–	–	–	–	–	–	–	–	0	–	–
AT1 coupon	–	–	–	(8)	–	–	–	–	–	–	–	–	(8)	–	(8)
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	–	–	–	–	0	–
Total comprehensive income	–	–	–	219	0[1)]	(14)	19[2)]	–	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**
Balance as of 01.01.2020	**88**	**1,126**	**298**	**2,444**	**(17)**	**(104)**	**29**	**4**	**11**	**(54)**	**2**	**(3)**	**3,824**	**4**	**3,828**
Transactions with owners	–	2	–	–	–	–	–	–	–	–	–	–	2	–	2
Dividends	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Share-based payment	–	2	–	–	–	–	–	–	–	–	–	–	2	–	2
AT1 capital	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
AT1 coupon	–	–	–	(8)	–	–	–	–	–	–	–	–	(8)	–	(8)
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	–	–	–	–	0	0
Total comprehensive income	–	–	–	122	12[1)]	(1)	29[2)]	–	(28)	2	(2)	2	135	0	136
Balance as of 30.06.2020	**88**	**1,128**	**298**	**2,559**	**(5)**	**(105)**	**58**	**4**	**(17)**	**(52)**	**0**	**(1)**	**3,955**	**4**	**3,959**

1) Thereof transferred to profit or loss: plus € 1.9 million (H1 2019: plus € 1.0 million)
2) Thereof transferred to profit or loss: minus € 6.7 million (H1 2019: minus € 2.4 million)
This table may contain rounding differences.

CONDENSED CASH FLOW STATEMENT

in € million	Jan–Jun 2020	Jan–Jun 2019
Profit (after tax, before non-controlling interests)	**122**	**219**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(223)	(392)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	1,781	(1,167)
Interest receipts	538	600
Interest paid	(133)	(142)
Dividend receipts	8	6
Taxes paid	(12)	(9)
Net cash from operating activities	**2,081**	**(885)**
Cash receipts from sales of associates	0	9
Cash receipts from sales of		
Financial investments	504	1,427
Tangible and intangible non-current assets	3	3
Cash paid for		
Financial investments	(3,114)	(848)
Tangible and intangible non-current assets	(15)	(16)
Acquisition of subsidiaries, net of cash acquired	0	(118)
Net cash used in investing activities	**(2,622)**	**457**
Dividends paid	0	(215)
AT1 coupon	(8)	(8)
Cash paid for amounts included in lease liabilities	(12)	(11)
Issuance / Redemption of subordinated liabilities (including those designated at fair value through profit or loss)	(20)	396
Net cash from financing activities	**(40)**	**162**
Cash and cash equivalents at end of previous period	**1,424**	**1,069**
Net cash from operating activities	**2,081**	**(885)**
Net cash used in investing activities	**(2,622)**	**457**
Net cash from financing activities	**(40)**	**162**
Cash and cash equivalents at end of period	**843**	**803**

NOTES

The condensed Consolidated Half-Year Financial Statements of BAWAG Group as of 30 June 2020 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 2020 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in preparing these Consolidated Half-Year Financial Statements are the same as those applied in the consolidated annual financial statements as of 31 December 2019, with the following exception: The change in accounting policy for investment properties (IAS 40), which is reflected in the 2019 financial statements, was not taken into account in the H1 2019 comparative figures, as an adjustment would have had only an insignificant impact on the comparative figures.

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. With respect to COVID-19, please refer to the bullet point on IFRS 9.

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

- recoverability of intangible assets
- 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 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. In light of the ongoing COVID-19 pandemic, assessment regarding the measurement of individual financial assets, 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 are based on the latest observations available to us. The long-term impact of the pandemic on economic development, development of labor and other industry-specific markets as well as the payment holidays granted inside and outside of state or industry moratoria may be overestimated or underestimated when applying hindsight in the future. For details regarding quantitaive effects of COVID-19 as at 30 June 2020, please refer to the Risk Report.
- fair value calculation for unquoted financial instruments where some parameters required for the valuation model are not observable in the market (Level 3)

Miscellaneous

As of 30 June 2020, the Group consists of 62 (31 December 2019: 62) fully consolidated entities and 2 (31 December 2019: 2) entities that are accounted for using the equity method in Austria and abroad.

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. The London Clearing House, through which some of BAWAG Group's hedging derivatives have been cleared, has kept its status as a central clearing counterparty (CCP) until the end of the financial year 2020. For further information, please refer to the consolidated financial statements as of 31 December 2019.

BAWAG Group participated in the ECB's TLTRO III facility in June 2020 for an amount of € 5.8 billion. The proceeds are partially being used to refinance existing ECB funding, including a full repayment of remaining TLTRO II amounts.

The Half-Year Financial Report as of 30 June 2020 was not audited or reviewed by the external auditor.

The tables in this report may contain rounding differences.

CLAIM AGAINST THE CITY OF LINZ

As no material changes have occurred since year-end 2019, we refer to the Notes to the consolidated financial statements as of 31 December 2019.

MAJOR EVENTS AFTER THE REPORTING DATE

Commerzialbank Mattersburg im Burgenland Aktiengesellschaft

On 14 July 2020, the Austrian Financial Market Authority prohibited Commerzialbank Mattersburg im Burgenland Aktiengesellschaft from continuing its business operations. The bank is expected to be wound up and secured deposits will be paid out by the Austrian deposit guarantee scheme (ESA/ Einlagensicherung Austria). It is not yet possible to estimate the financial impact on BAWAG Group. BAWAG Group has no direct exposure to Commerzialbank Mattersburg im Burgenland Aktiengesellschaft.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 | Net interest income

in € million	Jan–Jun 2020	Jan–Jun 2019
Interest income	559.0	575.3
Interest expense	(113.5)	(142.6)
Dividend income	2.2	2.4
Net interest income	**447.7**	**435.1**

2 | Net fee and commission income

Jan–Jun 2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**141.9**	**23.1**	**0.1**	**0.2**	**165.3**
Payment transfers	92.2	14.8	0.1	0.2	107.3
Lending	11.5	1.7	–	–	13.2
Securities and custody business	23.6	5.7	–	–	29.3
Other	14.6	0.9	–	–	15.5
Fee and commission expenses	**(32.5)**	**(3.5)**	**–**	**(1.6)**	**(37.6)**
Payment transfers	(28.6)	(0.3)	–	–	(28.9)
Lending	(2.8)	(0.5)	–	–	(3.3)
Securities and custody business	0.0	(2.0)	–	(1.5)	(3.5)
Other	(1.1)	(0.7)	–	(0.1)	(1.9)
Net fee and commission income	**109.4**	**19.6**	**0.1**	**(1.4)**	**127.7**

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**

Net fee and commission income includes an amount of € 1.4 million (H1 2019: € 1.1 million) for fiduciary transactions. Income and expense from payment transfers and securities and custody business is recognized mainly at a point in time. Income and expense from lending is recognized mainly over time. Other income and expense is recognized using a mix of point in time and over time.

3 | Gains and losses on financial assets and liabilities

in € million	Jan–Jun 2020	Jan–Jun 2019
Realized gains on sales of securities	8.8	38.6
Fair value losses	(30.7)	(14.9)
Gains from fair value hedge accounting	4.0	2.9
Others	(4.0)	1.6
Gains and losses on financial assets and liabilities	**(21.9)**	**28.2**

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 2020, fair value gains in the amount of € 15.8 million (H1 2019: losses in the amount of € 0.8 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

in € million	Jan–Jun 2020	Jan–Jun 2019
Staff costs	(138.2)	(150.8)
Other administrative expenses	(73.9)	(77.6)
Administrative expenses	**(212.1)**	**(228.4)**
Depreciation and amortization on tangible and intangible assets	(40.1)	(36.0)
Operating expenses	**(252.2)**	**(264.4)**

5 | Risk Costs

in € million	Jan–Jun 2020	Jan–Jun 2019
Changes in provisions for financial assets at amortized cost recognized in profit or loss statement	(115.3)	(31.6)
Stage 1	(17.6)	4.7
Stage 2	(36.9)	10.3
Stage 3	(60.8)	(46.6)
Changes in provisions for off-balance credit risk recognized in profit or loss statement	(1.4)	6.2
Stage 1	(2.2)	2.2
Stage 2	(2.0)	–
Stage 3	2.8	4.0
Changes in provisions for financial assets at fair value through other comprehensive income	(3.6)	0.1
Stage 1	(3.7)	0.1
Stage 2	0.1	
Provisions and expenses for operational risk	(1.7)	(2.3)
Impairment losses on non-financial assets	(7.6)	–
Other provisions	–	0.4
Risk costs	**(129.6)**	**(27.2)**

For details regarding expected credit losses please refer to the Risk Report. The impairment losses on non-financial assets in the first half of 2020 are impairments of intangible assets. For details please refer to Note 11.

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 | Financial assets at fair value through other comprehensive income

in € million	Jun 2020	Dec 2019
Debt instruments	**4,904**	**3,425**
Bonds and other fixed income securities	4,904	3,425
Bonds of other issuers	4,818	3,263
Public sector debt instruments	86	162
Subsidiaries and other equity investments	**236**	**206**
AT1 capital	169	126
Investments in non-consolidated subsidiaries	18	8
Interests in associates	10	11
Other shareholdings	39	61
Financial assets at fair value through other comprehensive income	**5,140**	**3,631**

7 | Financial assets at fair value through profit or loss

in € million	Jun 2020	Dec 2019
Financial assets designated at fair value through profit or loss	95	100
Financial assets mandatorily at fair value through profit or loss	716	640
Financial assets at fair value through profit or loss	**811**	**740**

8 | Financial assets held for trading

in € million	Jun 2020	Dec 2019
Derivatives in banking book	**375**	**353**
Foreign currency derivatives	33	11
Interest rate derivatives	342	342
Financial assets held for trading	**375**	**353**

9 | At amortized cost

The following breakdown depicts the composition of the item “At amortized cost” according to the Group’s segments.

Jun 2020 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	18,187	(34)	(32)	(141)	17,980
Corporates & Public	13,345	(19)	(21)	(60)	13,245
Treasury	10,422	0	0	0	10,422
Corporate Center	489	0	0	(1)	488
Total	**42,443**	**(53)**	**(53)**	**(202)**	**42,135**

Dec 2019 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	17,903	(15)	(9)	(135)	17,744
Corporates & Public	12,737	(15)	(7)	(42)	12,673
Treasury	5,985	(2)	0	0	5,983
Corporate Center	1,156	0	0	0	1,156
Total	**37,781**	**(32)**	**(16)**	**(177)**	**37,556**

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

Receivables from customers – Breakdown by credit type

in € million	**Jun 2020**	Dec 2019
Loans	27,596	26,954
Current accounts	1,296	1,466
Finance leases	1,759	1,744
Cash advances	136	160
Money market	585	143
Receivables from customers	**31,372**	**30,467**

10 | Property, plant and equipment, Investment properties

Changes in property, plant and equipment as of 30.06.2020

in € million	Carrying amount 31.12.2019	Acquisition cost 01.01.2020	Change in scope of consolidation Acquisition cost	Change in foreign exchange differences	Additions	Disposals	Reclassification to non-current assets held for sale	Write-downs cumulative	Carrying amount 30.06.2020	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**396**	**561**	**–**	**–**	**14**	**(11)**	**(37)**	**(176)**	**351**	**(19)**
Land and buildings used by the enterprise for its own operations	58	87	–	0	0	0	(37)	(30)	20	(1)
Office furniture and equipment	86	199	–	0	4	(7)	–	(111)	85	(6)
Plant under construction	4	4	–	–	6	0	–	–	10	–
Right-of-use assets IFRS 16	248	271	–	0	4	(4)	–	(35)	236	(12)

Changes in investment properties as of 30.06.2020

in € million	Carrying amount 31.12.2019	Change in scope of consolidation	Change in foreign exchange differences	Changes in Fair Value valuation in accordance with IAS 40	Additions	Disposals	Reallocations	Reclassification to non-current assets held for sale	Carrying amount 30.06.2020
Investment properties	**311**	**–**	**(11)**	**11**	**–**	**–**	**–**	**(161)**	**150**

In the first half 2020, investment properties in Germany with a carrying amount of € 161 million and operationally-used real estate with a carrying amount of € 37 million were reclassified as non-current assets held for sale. The corresponding resolutions were passed, and a broker was appointed. In the course of this process, external expert opinions were obtained for the investment properties reclassified in accordance with IFRS 5, and for the operationally-used real estate, which is measured at cost, we have ascertained that the fair value less directly related costs to sell covered the carrying amount.

Changes in property, plant and equipment as of 31.12.2019

in € million	Carrying amount 31.12.2018	Acquisition cost 01.01.2019	Change in scope of consoli-dation Acquisi-tion cost	Change in foreign exchange differ-ences	Additions	Disposals	Realloca-tions	Write-downs cumulative	Carrying amount 31.12.2019	Deprecia-tion (-), impair-ments (-) and reversal of impair-ments (+) Financial year
Property, plant and equipment	**116**	**506**	**10**	**–**	**66**	**(35)**	**14**	**(165)**	**396**	**(36)**
Land and buildings used by the enterprise for its own operations	64	77	0	0	0	(4)	14	(29)	58	(1)
Office furniture and equipment	35	155	2	0	47	(21)	16	(113)	86	(12)
Plant under construction	17	17	–	–	3	0	(16)	–	4	–
Right-of-use assets IFRS 16	–	257	8	0	16	(10)	–	(23)	248	(23)

Changes in investment properties as of 31.12.2019

in € million	Carrying amount 31.12.2018	Change in scope of consoli-dation	Change in foreign exchange differ-ences	Changes in Fair Value valuation in accor-dance with IAS 40	Additions	Disposals	Realloca-tions	Reclas-sification to non-current assets held for sale	Carrying amount 31.12.2019
Investment properties	**118**	**181**	**6**	**9**	**1**	**(6)**	**2**	**–**	**311**

11 | Goodwill, brand names and customer relationships and Software and other intangible assets

The brand name "BAWAG P.S.K." with a book value of € 114 million (2019: € 114 million), customer relationships of Group companies with a total book value of € 136 million (2019: € 148 million) and software and other intangible assets with a total book value of € 199 million (2019: € 201 million) are the Bank's most important intangible non-current assets. The book value of the customer relationships is amortized straight-line pro rata temporis.

Changes in Goodwill, Software and other intangible assets as of 30.06.2020

in € million	Carrying amount 31.12.2019	Acquisition cost 01.01.2020	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 30.06.2020	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**94**	**624**	**–**	**–**	**–**	**–**	**(530)**	**94**	**–**
Brand name and customer relationships	**274**	**475**	**–**	**–**	**–**	**–**	**(213)**	**262**	**(12)**
Software and other intangible assets	**201**	**579**	**–**	**17**	**(2)**	**–**	**(395)**	**199**	–
Software and other intangible non-current assets	192	555	–	13	(2)	2	(380)	188	(19)
Thereof purchased	130	482	–	6	(2)	1	(363)	124	(13)
Thereof internally generated	62	73	–	7	–	1	(17)	64	(6)
Intangible non-current assets in development	9	9	–	4	0	(2)	–	11	–
Thereof purchased	3	3	–	1	–	(1)	–	3	–
Thereof internally generated	6	6	–	3	–	(1)	–	8	–
Rights and compensation payments	–	15	–	–	–	–	(15)	–	–

Changes in Goodwill, Software and other intangible assets as of 31.12.2019

in € million	Carrying amount 31.12.2018	Acquisition cost 01.01.2019	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2019	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**59**	**624**	**–**	**35**	**–**	**–**	**(565)**	**94**	**–**
Brand name and customer relationships	**264**	**456**	**–**	**19**	**–**	**–**	**(201)**	**274**	**(9)**
Software and other intangible assets	**182**	**533**	**6**	**60**	**(20)**	**–**	**(378)**	**201**	**(34)**
Software and other intangible non-current assets	157	493	2	55	(19)	24	(363)	192	(34)
Thereof purchased	111	445	2	37	(18)	16	(352)	130	(24)
Thereof internally generated	46	48	0	18	(1)	8	(11)	62	(10)
Intangible non-current assets in development	25	25	4	5	(1)	(24)	–	9	–
Thereof purchased	17	17	–	3	(1)	(16)	–	3	–
Thereof internally generated	8	8	4	2	0	(8)	–	6	–
Rights and compensation payments	–	15	–	–	–	–	(15)	–	–

The following table shows the material intangible assets with their respective book value and their remaining useful life:

Intangible assets	Book value as of 30.06.2020 in € million	Remaining useful life	Book value as of 31.12.2019 in € million
Total goodwill	**94**		**94**
thereof: goodwill easybank franchise	59	Indefinite	59
thereof: goodwill Zahnärztekasse	21	Indefinite	20
thereof: goodwill Health Coevo	15	Indefinite	15
Total brand names	**126**		**126**
thereof: brand name BAWAG P.S.K.	114	Indefinite	114
Total customer relationships	**136**		**148**
thereof: customer relationships BAWAG P.S.K.	101	10–19 years	104
thereof: customer relationships start:bausparkasse Austria	8	16 years	15
thereof: customer relationships IMMO-BANK	2	16 years	3
Total other intangibles	**199**		**201**
thereof: core banking system for Austrian operations (Allegro)	43	13 years	44

Brand names have an indefinite useful life and are therefore tested for impairment at the end of each financial year or when an impairment trigger exists based on the current business plan.

If the carrying amount of the brand name is higher than the recoverable amount (BAWAG Group uses the brand's value in use as its recoverable amount), an impairment loss will be recognized. The recoverable amount is calculated using a modified relief from royalty method.

Cash flow projections are based on the five-year business plan and a 1% growth rate of cash flows after this period. The after-tax discount rate was set at 9.49% (2019: 8.57%).

As of 30 June 2020, the individual impairment tests for the brand names resulted in an impairment of € 0.1 million (2019: € 0.0 million).

Customer relationships were reviewed for impairment triggers by comparing the planned number of customers or customer volume with the actual figures. If the customer numbers fell below the initial expectations, the value in use was calculated for the relevant customer relationship taking into account a revised customer retention plan, current cash flow forecasts and discount rates.

After reviewing the planning projections regarding COVID-19, the expected cash flows were adjusted. Impairment was booked for the customer relationships of start:bausparkasse Austria (€ -6.7 million) and IMMO-BANK (€ -0.8 million). The discount rates used for the impairment tests were 15.41% for start:bausparkasse Austria (original discount rate: 12.94%) and 15.01% for IMMO-BANK (original discount rate: 12.97%). Both customer relationships are part of the corporate center segment. The planning periods of both start:bausparkasse Austria and IMMO-Bank last until 2056. The original valuation was performed by an external advisor; the impairment test was carried out internally.

Impairment testing for cash-generating units with goodwill

For the purposes of impairment testing, goodwill is assigned to the following cash-generating units (CGU) as follows:

in € million	30.06.2020	31.12.2019
easybank franchise, Vienna	59	59
Zahnärztekasse AG, Wädenswil	20	20
Health Coevo AG, Hamburg	15	15
Goodwill	**94**	**94**

The material assumptions made in estimating the recoverable amount are explained below. Material assumptions are based on assessments of future developments in the relevant sectors and are based on information obtained from external and internal sources.

Currently, the market is characterized by uncertainties due to the COVID-19 crisis. For the financial markets in particular, the full impact cannot yet be fully assessed. There is still great uncertainty as to how the COVID-19 pandemc will develop, both in terms of the duration of the pandemic as weill as the scope of the economic recovery in financial year 2020.

The forecast is subject to greater uncertainty due to COVID-19, which has been reflected in the current cash flow projections. These projections take into account most recent forecasts including observed and expected impact of the COVID-19 pandemic on the relevant CGU’s profitability. When planning the results for the next 5 years, we assume a negative effect due to the COVID-19 pandemic in 2020 and 2021. For the following years we expect a return to the originally planned level.

in %	30.06.2020	31.12.2019
Pre-tax discount rate easybank franchise, Vienna	12.6%	11.2%
Pre-tax discount rate Zahnärztekasse AG, Wädenswil	11.3%	10.7%
Pre-tax discount rate Health Coevo AG, Hamburg	12.1%	10.8%
Planned profit growth rate (2019: average for the next five years; 2020: average for the years 2022-2025) easybank franchise, Vienna	(4.2)%	(2.7)%
Planned profit growth rate (2019: average for the next five years; 2020: average for the years 2022-2025) Zahnärztekasse AG, Wädenswil	4.5%	0.1%
Planned profit growth rate (2019: average for the next five years; 2020: average for the years 2022-2025) Health Coevo AG, Hamburg	7.4%	5.6%
Sustainable growth rate easybank franchise, Vienna	1.0%	1.0%
Sustainable growth rate Zahnärztekasse AG, Wädenswil	0.5%	0.5%
Sustainable growth rate Health Coevo AG, Hamburg	1.0%	1.0%

The discount rate is before taxes and was estimated based on average equity returns in the sector. The risk-free interest rate used is the yield on government bonds with a remaining term to maturity of 30 years published by the German central bank. This discount rate is adjusted by applying a risk premium that reflects the higher general risk associated with an equity investment and the specific risk of the individual cash-generating unit.

The cash flow projections are based on the annual profits planned by the management for the next five years and a perpetual growth rate thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make. In order to keep growth properly equity backed, profit retentions have been considered in the valuation, both in the planned period and in the calculation of the continuing value.

Sensitivity analysis as of 30.06.2020

A sensitivity analysis was used to test the robustness of the impairment test for goodwill, which was based on the assumptions outlined above. A change in the discount rate and a change in growth were chosen as the relevant parameters. The table below shows to what extent an increase in the discount rate or a decline in growth after 2020 could occur without the fair value of the cash-generating unit falling below the carrying value (equity plus goodwill).

	Change in discount rate (in percentage pts)	Change in growth after 2021 (in %)
easybank franchise, Vienna	2.93	(1.88)%
Zahnärztekasse AG, Wädenswil	4.36	(10.47)%
Health Coevo AG, Hamburg	2.42	(7.90)%

Sensitivity analysis as of 31.12.2019

	Change in discount rate (in percentage pts)	Change in growth after 2020 (in %)
easybank franchise, Vienna	3.36	(2.33)%
Zahnärztekasse AG, Wädenswil	5.66	(14.30)%
Health Coevo AG, Hamburg	7.09	(15.79)%

Goodwill of entities accounted for using the equity method

The assessment of the recoverability of goodwill that is part of an investment accounted for using the equity method is based on the same principles as for fully consolidated companies.

In connection with COVID-19, the planning projections were adjusted and the goodwill of a company accounted for using the equity method was written down by € 1 million in the first half of 2020.

The underlying pre-tax discount rate is 11.8% (previous year: 11.2%) and the sustainable growth rate after the detailed planning phase was assumed to be 1.0% (previous year: 1.0%). When planning the results during the detailed planning phase, the expected negative effect due to the COVID-19 pandemic was taken into account.

12 | Net deferred tax assets and liabilities on Statement of Financial Position

The deferred tax assets and liabilities reported on the Statement of Financial Position are the result of temporary differences between the carrying amounts pursuant to IFRS and the valuations of the following items according to the tax requirements:

in € million	30.06.2020	31.12.2019
Financial liabilities designated at fair value through profit or loss	24	30
Financial liabilities at amortized cost	187	168
Provisions	61	57
Tax loss carryforwards	19	39
Other	5	5
Deferred tax assets	**296**	**299**
Financial assets at fair value through profit or loss	10	10
Financial assets at fair value through other comprehensive income	33	25
Financial assets at amortized cost	55	53
Assets held for trading	33	33
Hedging derivatives	142	129
Internally generated intangible assets	2	16
Other intangible assets	80	69
Property, plant and equipment	12	10
Deferred tax liabilities	**367**	**345**
Net deferred tax assets/liabilities	**(71)**	**(46)**
Deferred tax assets reported on the balance sheet[1)]	**7**	**8**
Deferred tax liabilities reported on the balance sheet	**78**	**54**

1) Representing deferred tax assets of three companies that were not part of the tax group.

For each Group member, the deferred tax assets and liabilities pertaining to the same local tax authority were offset against each other and reported under Tax assets or Tax liabilities.

Deferred tax assets and deferred tax liabilities have a remaining maturity of more than one year.

COVID-19 has no effect on the utilizability of unused tax losses of BAWAG Group.

13 | IFRS 5 Non-current assets held for sale

In the first half-year 2020, BAWAG Group decided to sell certain real estate properties of the sub-group Südwestbank. After relevant resolutions were passed, a broker was appointed for the sales process, which is expected to be completed within a year. Since the criteria according to IFRS 5 were met, the relevant real estate properties were classified as non-current assets held for sale. The non-current assets held for sale include investment properties carried at fair value of € 161 million, which are under the fair value model according to IAS 40 and and operationally-used real estate with a carrying amount of € 37 million, which is under the cost model according to IAS 16. The non-current assets held for sale are reported in the segment Corporate Center.

According to IFRS 5.15, an entity shall measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. Immediately before the initial classification of the real estate properties as held for sale, the carrying amounts of the assets were measured in accordance with applicable IFRS. As the operationally-used real estate is valued at cost and has a carrying amount below the fair value less costs to sell, no impairment loss has been identified. Investment properties classified as held for sale carried at fair value increased by € 19.1 million (less costs to sell) recognized in other operating income in accordance with IAS 40.

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

in € million	Jun 2020	Dec 2019
Issued debt securities and other securitized liabilities	220	233
Subordinated and supplementary capital	106	130
Deposits from customers	6	6
Financial liabilities designated at fair value through profit or loss	**332**	**369**

15 | Financial liabilities held for trading

in € million	Jun 2020	Dec 2019
Derivatives trading book	–	0
Derivatives banking book	355	334
Financial liabilities held for trading	**355**	**334**

16 | Financial liabilities measured at amortized cost

in € million	Jun 2020	Dec 2019
Deposits from banks	**7,978**	**3,085**
Deposits from customers	**30,249**	**30,378**
Savings deposits – fixed interest rates	643	713
Savings deposits – variable interest rates	6,138	6,488
Deposit accounts	5,993	5,905
Current accounts – Retail	11,380	10,212
Current accounts – Corporates	2,785	4,020
Other deposits[1)]	3,310	3,040
Issued bonds, subordinated and supplementary capital	**5,277**	**5,080**
Issued debt securities and other securitized liabilities	4,784	4,220
Subordinated and supplementary capital	493	860
Financial liabilities measured at amortized cost	**43,504**	**38,543**

1) Primarily term deposits.

17 | Provisions

in € million	Jun 2020	Dec 2019
Provisions for social capital	384	396
Anticipated losses from pending business	37	37
Other items including legal risks	36	47
Provisions	**457**	**480**

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method. An interest rate of 1.00% was used for calculation (31 December 2019:

1.00%). Actuarial adjustments resulted in a negative net impact of € 0.9 million in other comprehensive income and a positive net impact of € 0.2 million in profit.

18 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

Jun 2020 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables from customers	–	–	39	1	71	0
Unutilized credit lines	–	–	5	23	34	–
Securities	–	–	–	25	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	4	93	0	0
Other liabilities (incl. derivatives)	–	–	–	0	–	–
Guarantees provided	–	–	–	–	1	–
Interest income	–	–	0.3	0.0	0.1	–
Interest expense	–	–	0.0	0.7	0.0	0.0
Fees and expenses	–	–	0.0	2.4	0.0	0.0

Dec 2019 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables from customers	–	–	38	1	73	–
Unutilized credit lines	–	–	4	22	33	–
Securities	–	–	–	24	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	5	90	1	0
Other liabilities (incl. derivatives)	–	–	–	0	–	–
Guarantees provided	–	–	–	–	1	–
Interest income	–	32.7	0.9	0.3	0.2	–
Interest expense	–	5.1	0.0	1.5	0.0	0.0
Fees and expenses	–	–	0.0	8.2	0.0	0.0

Jun 2019 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables 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
Fees and expenses	–	–	0.0	4.2	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.

	Key management of the entity	Other related parties	Key management of the entity	Other related parties
in € million	**30.06.2020**	**30.06.2020**	31.12.2019	31.12.2019
Current account deposits	5	5	4	4
Savings deposits	0	4	0	3
Loans	3	6	3	6
Building savings deposits	–	0	–	–
Leasing	–	0	–	0
Securities	1	0	0	0
Interest income	0.0	0.0	0.0	0.1
Interest expense	0.0	0.0	0.0	0.0

	Key management of the entity	Other related parties	Key management of the entity	Other related parties
Number of shares	**30.06.2020**	**30.06.2020**	31.12.2019	31.12.2019
Shares of BAWAG Group AG	1,453,411	78,477	111,923	3,073

19 | Segment reporting

This information is based on the Group structure as of 30 June 2020.

The segment reporting presents the results of the operating business segments of BAWAG Group. The following segment information is based on IFRS 8 *Operating Segments*, which follows the management approach. In this, the segment information is prepared based on the internal reports used by the Managing Board to assess the performance of the segments and to make decisions on allocating resources to the segments.

The breakdown of the net interest income and its allocation to the segments in the management report is based on the principles of the market interest rate method, also taking into account allocated liquidity costs and premiums. According to this method, it is assumed that asset and liability items are refinanced by means of money and capital market transactions with corresponding maturities, and that there is therefore no interest rate risk. The interest rate risk is managed actively through asset and liability management, and the related results are reported in the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective business units based on where they are incurred. The overhead costs and planned depreciations are assigned to the individual segments according to an allocation factor. Regulatory charges and corporate tax are allocated based on relevant input parameters.

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

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

As the internal and external reporting of BAWAG Group is fully harmonized, the total of reportable segment measures of profit or loss do not differ from the Bank's profit or loss. Therefore, no separate reconciliation column is shown in the segment tables.

Geographical split

The tables below show a geographical split of the business segments based on the risk-related assignment of individual customers to a country. Customer groups are not aggregated and assigned to a single country (i.e. the country of the parent company) but allocated to their respective countries on a single entity level.

As an Austrian bank, BAWAG Group generates 63% of its core revenues in Austria. The business is focused on the DACH region, supported by German and Swiss subsidiaries and corporate business.

The following tables show core revenues per segment and geography:

Jan-Jun 2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH	419.3	57.0	3.7	(33.1)	446.9
thereof Austria	355.4	37.6	1.5	(30.5)	364.0
thereof Germany/CH	63.9	19.4	2.2	(2.6)	82.9
Western Europe/USA	24.4	80.5	20.5	3.1	128.5
Total	**443.7**	**137.5**	**24.2**	**(30.0)**	**575.4**

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**

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

in € million	Jan–Jun 2020	Jan–Jun 2019
Other operating income and expenses according to segment report	26.3	5.4
Regulatory charges	(36.3)	(35.0)
Other operating income and expenses according to consolidated profit or loss statement	**(10.1)**	**(29.6)**

in € million	Jan–Jun 2020	Jan–Jun 2019
Operating expenses according to segment report	(249.6)	(262.3)
Regulatory charges	(2.5)	(2.1)
Operating expenses according to consolidated profit or loss statement	**(252.2)**	**(264.4)**

20 | 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 per 30 June 2020 and 31 December 2019 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

in € million	Jun 2020	Dec 2019
Share capital and reserves (including funds for general banking risk)[1)]	3,325	3,382
Deduction of intangible assets	(495)	(491)
Other comprehensive income	(125)	(123)
IRB risk provision shortfalls	(84)	(71)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	10	12
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(1)	(4)
Less non-significant investments	(2)	–
Common Equity Tier I	**2,628**	**2,705**
Capital instruments eligible as additional Tier 1 capital	300	300
Less non-significant investments	(5)	–
Additional Tier I	**295**	**300**
Tier I	**2,923**	**3,005**
Supplementary and subordinated debt capital	475	484
Tier II capital in grandfathering	1	3
Excess IRB risk provisions	–	0
Less significant investments, IRB risk provision shortfalls	(25)	(24)
Tier II	**451**	**463**
Own funds	**3,375**	**3,468**

1) In this position, dividends for financial year 2019 in the amount of € 229.5 million were deducted in accordance with the dividend policy of BAWAG Group.

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

in € million	Jun 2020	Dec 2019
Credit risk	18,726	18,258
Market risk	0	0
Operational risk	2,024	1,983
Capital requirements (risk-weighted assets)	**20,750**	**20,241**

Supplemental information on a fully loaded basis (including interim profit)

	Jun 2020	Dec 2019
Common Equity Tier I capital ratio based on total risk	13.4%	13.3%
Total capital ratio based on total risk	17.0%	17.0%

Key figures according to CRR including its transitional rules

	Jun 2020	Dec 2019
Common Equity Tier I capital ratio based on total risk (excl. interim profit)	12.7%	11.8%
Total capital ratio based on total risk (excl. interim profit)	16.3%	15.6%
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	13.4%	13.4%
Total capital ratio based on total risk (incl. interim profit)	17.0%	17.1%

21 | 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 Jun 2020	Fair value Jun 2020	Carrying amount Dec 2019	Fair value Dec 2019
Assets				
Cash reserves	843	843	1,424	1,424
Financial assets designated at fair value through profit or loss	95	95	100	100
Loans to customers	95	95	100	100
Financial assets mandatorily at fair value through profit or loss	716	716	640	640
Loans to customers	199	199	239	239
Securities	447	447	325	325
Subsidiaries and other equity investments	70	70	76	76
Financial assets at fair value through other comprehensive income	5,140	5,140	3,631	3,631
Debt instruments	4,904	4,904	3,425	3,425
Subsidiaries and other equity investments	236	236	206	206
Financial assets held for trading	375	375	353	353
At amortized cost	42,135	42,490	37,556	37,834
Customers	31,372	31,700	30,467	30,736
Credit institutions	8,263	8,265	5,720	5,722
Securities	2,500	2,525	1,369	1,376
Valuation adjustment on interest rate risk hedged portfolios	17	17	5	5
Hedging derivatives	423	423	397	397
Property, plant and equipment	351	n/a	396	n/a
Investment properties	150	150	311	311
Intangible non-current assets	555	n/a	569	n/a
Other assets	280	n/a	280	n/a
Non-current assets held for sale	198	204	–	–
Total assets	**51,278**		**45,662**	

in € million	Carrying amount Jun 2020	Fair value Jun 2020	Carrying amount Dec 2019	Fair value Dec 2019
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	332	332	369	369
Issued debt securities and other securitized liabilities	220	220	233	233
Subordinated and supplementary capital	106	106	130	130
Deposits from customers	6	6	6	6
Financial liabilities held for trading	355	355	334	334
Financial liabilities at amortized cost	43,504	43,537	38,543	38,621
Deposits from banks	7,978	7,999	3,085	3,104
Deposits from customers	30,249	30,266	30,378	30,419
Issued bonds, subordinated and supplementary capital	5,277	5,272	5,080	5,098
Financial liabilities associated with transferred assets	918	918	729	729
Valuation adjustment on interest rate risk hedged portfolios	387	387	337	337
Hedging derivatives	61	61	116	116
Provisions	457	n/a	480	n/a
Other obligations	1,305	n/a	926	n/a
Equity	3,954	n/a	3,824	n/a
Non-controlling interests	4	n/a	4	n/a
Total liabilities and equity	**51,278**		**45,662**	

The fair values of material investment properties are based on external and internal valuations. For details regarding the reclassification of a subset of Investment properties to Non-current assets held for sale, please refer to Note 13. 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.

Market standard valuation methods are used to determine the fair value of assets and liabilities. With regard to Level 3 assets and liabilities for which non-observable valuation parameters are used for measurement, the current COVID-19 situation results in increased uncertainty with regard to the measurment of fair value of these items.

Fair value hierarchy

The following table depicts an analysis of the fair values of financial instruments and investment properties on the basis of the fair value hierarchy in IFRS 13. The breakdown consists of the following groups:

- **Level 1:** The value of financial instruments is measured using a quoted price without adjustment. This includes government bonds, bonds with quoted prices and exchange-traded derivatives.

- **Level 2:** If no current, liquid market values are available, generally accepted, standard state-of-the-art methods of measurement are used. This applies to the category liabilities evidenced by paper (issued by BAWAG Group), and, in individual cases, other current financial assets in the Bank's trading portfolio where the valuation of plain vanilla securities was performed on the basis of the yield curve plus the current credit spread. The value is measured using input factors (default rates, costs, liquidity, volatility, interest rates, etc.) to derive values from quoted prices (Level 1). This pertains to prices that are calculated using internal models or using valuation methods, as well as to external price quotes for securities that are traded on markets with limited liquidity and that are demonstrably based on observable market prices.

  This category includes the majority of the OTC derivative contracts, corporate bonds and other bonds for which no quoted price is available, as well as the majority of the Group's own issues that are recognized at their fair values.

  For customer receivables accounted for at fair value, modeling techniques following industry standard models are applied, for example discounted cash flow analysis and standard option pricing models. Market parameters such as interest rates, FX rates or volatilities are used as inputs to the valuation models to determine fair value. The discount curves used to determine the pure time value of money contain only instruments that assume no or only low default risk, such as swap rates. Spread curves that reflect the refinancing costs of the respective borrower are either derived from outstanding funding instruments, distinguished by seniority (senior unsecured, subordinated, collateralized funding), or benchmark yield curves (e.g. indices).

  Linear derivative financial instruments containing no optional components (such as interest rate swaps, currency forwards and futures) were also measured using a present value technique (discounting of future cash flows applying the current swap curve, derivatives with counterparties with a Credit Support Annex [CSA] agreement are discounted by the OIS/EONIA curve). Optional instruments were measured using option price models such as Black-Scholes (swaptions, caps, floors), Bachelier (caps, floors and swaptions in currencies with negative interest rates), Garman-Kohlhagen (currency options) or the Hull-White model (swaps with multiple cancellation rights), which were implemented and applied consistently in the front office systems.

The basic parameters on which the models are based (yield curves, volatilities and exchange rates) are input into the system by the Market Risk unit independently of the Treasury departments, which ensures the separation of front office functions from back office processing and control.

For more complex derivatives that are held for hedging purposes and that are concluded back to back, external valuations are obtained by the Market Risk unit and input into the systems for correct processing.

Standard providers such as Bloomberg and Markit are used to evaluate the spreads of issued securities recognized at fair value through profit or loss. A senior unsecured spread curve and an LT2 spread curve are calculated based on the term structure of the Austrian banking sector curve and the quotes of the international BAWAG P.S.K. issues. For covered issues, the spread curve is derived directly from the quotes of several BAWAG P.S.K. benchmark bonds. The securities prices for BAWAG P.S.K. issues are then calculated by discounting the swap curve adapted by the spread.

As of 30 June 2020, the portion of change in fair values of securities issued by BAWAG Group accounted for solely by changes in the Group's credit spreads was plus € 2.7 million (minus € 1.1 million as of 31 December 2019). This is defined as the product of the credit spread basis point value with the respective spread change, supplemented by the pull-to-par effect. As of 30 June 2020, the cumulative fair value change resulting from changes in the Group's credit rating amounted to plus € 1.4 million (minus € 1.6 million as of 31 December 2019).

A one basis point narrowing of the credit spread is expected to change their valuation by minus € 0.05 million (minus € 0.1 million as of 31 December 2019).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to minus € 1.1 million as of 30 June 2020 (€ 0.0 million as of 31 December 2019) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to minus € 1.1 million (minus € 2.9 million as of 31 December 2019).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.06 million (plus € 0.06 million as of 31 December 2019)

- **Level 3:** The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid funds of Südwestbank as well as own issues of BAWAG P.S.K. Wohnbaubank, IMMO-BANK and Südwestbank. Loans and receivables and financial liabilities measured at amortized cost are valued using the discounted cash flow method using a spread-adjusted swap curve. This also pertains to stakes in non-consolidated subsidiaries that are classified as mandatorily at fair value through profit or loss or at fair value through other comprehensive income.

Regarding the determination of fair values of material investment properties please refer to page 63.

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.

To determine the fair value of the participations, the present value of the projected potential dividends was calculated by using the risk-weighted pre-tax discount rate in the market applicable to the participation in question.

These projections take into account most recent forecasts including observed and expected impact of the COVID-19 pandemic on the relevant entity's profitability.

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

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

The post-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. The following parameters are used as of 30 June 2020:

- The risk-free rate (-0.02%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank.
- The source for the country-specific market risk premium is the website of Damodaran in conjunction with the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose Business valuation working group sets a range from 7.5% to 9%. Due to the low level of the risk-free rate, a market risk premium of 8.27% was chosen.
- The applied beta factor for banks and financial service companies (1.15) is the two-year weekly average beta of 12 banks listed on European stock exchanges with retail as their core business. Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 and/or a value for the t-test (hypothesis test) of at least 1.98 qualify for the peer group. The applied beta factor for stock exchanges is 0.86.

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

In the first half 2020, fair value changes of minus € 25.8 million were booked in other comprehensive income and minus € 3.2 million in profit or loss.

Jun 2020 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	95	–	95
Financial assets mandatorily at fair value through profit or loss	30	97	589	716
Financial assets at fair value through other comprehensive income	4,728	345	67	5,140
Debt instruments	4,559	345	1	4,905
Subsidiaries and other equity investments	169	–	66	235
Financial assets held for trading	0	375	–	375
Valuation adjustment on interest rate risk hedged portfolios	–	17	–	17
At amortized cost	1,013	8,646	32,831	42,490
Hedging derivatives	–	423	–	423
Investment properties	–	–	150	150
Non-current assets held for sale	–	–	204	204
Total assets	**5,771**	**9,998**	**33,841**	**49,610**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	148	184	332
Issued debt securities and other securitized liabilities	–	36	184	220
Subordinated and supplementary capital	–	106	–	106
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	355	–	355
Financial liabilities at amortized cost	–	12,283	31,254	43,537
Financial liabilities associated with transferred assets	–	918	–	918
Valuation adjustment on interest rate risk hedged portfolios	–	387	–	387
Hedging derivatives	–	61	–	61
Total liabilities	**–**	**14,152**	**31,438**	**45,590**

Dec 2019 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	100	–	100
Financial assets mandatorily at fair value through profit or loss	29	100	511	640
Financial assets at fair value through other comprehensive income	3,492	58	81	3,631
Debt instruments	3,366	58	1	3,425
Subsidiaries and other equity investments	126	–	80	206
Financial assets held for trading	0	353	–	353
At amortized cost	180	5,606	32,048	37,834
Valuation adjustment on interest rate risk hedged portfolios	–	5	–	5
Hedging derivatives	–	397	–	397
Investment properties	–	–	311	311
Total assets	**3,701**	**6,619**	**32,951**	**43,271**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	174	195	369
Issued debt securities and other securitized liabilities	–	38	195	233
Subordinated and supplementary capital	–	130	–	130
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	334	–	334
Financial liabilities at amortized cost	–	6,637	31,984	38,621
Financial liabilities associated with transferred assets	–	729	–	729
Valuation adjustment on interest rate risk hedged portfolios	–	337	–	337
Hedging derivatives	–	116	–	116
Total liabilities	**–**	**8,327**	**32,179**	**40,506**

Movements between Level 1 and Level 2

In the first half 2020, there were no movements of securities measured at fair value between Level 1 and Level 2 (31 December 2019: Securities at fair value through other comprehensive income with a book value of € 68 million were moved from Level 2 to Level 1 due to a more liquid market).

Movements in Level 3 financial instruments measured at fair value

The changes in financial instruments accounted for at fair value in the Level 3 category were as follows:

			Financial assets at fair value through other comprehensive income		
in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Debt instruments	Subsidiaries and other equity investments	Financial liabilities
Opening balance as of 01.01.2020	**511**	**–**	**1**	**80**	**195**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	(1)	–	0	–	(3)
for assets no longer held at the end of the period	0	–	–	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	(26)	0
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	134	–	0	12	0
Redemptions	(17)	–	–	–	(8)
Sales	(38)	–	–	0	0
Foreign exchange differences	0	–	–	0	–
Change in scope of consolidation	0	–	–	0	0
Transfers into or out of other levels	–	–	–	–	–
Closing balance as of 30.06.2020	**589**	**–**	**1**	**66**	**184**

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 01.01.2019	**226**	**–**	**1**	**90**	**260**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	(4)	–	0	0	(6)
for assets no longer held at the end of the period	2	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	0	2
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	569	–	0	31	–
Redemptions	(273)	–	0	–	(61)
Sales	(42)	–	–	(9)	–
Foreign exchange differences	0	–	–	(1)	–
Change in scope of consolidation	–	–	–	2	–
Correction of editorial error	33	–	–	(33)	–
Transfers into or out of other levels	–	–	–	–	–
Closing balance as of 31.12.2019	**511**	**–**	**1**	**80**	**195**

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 depends on the maturity and is currently 117 basis points (31 December 2019: 100 basis points) for 5 years (mid). For issues of IMMO-BANK, the spreads depend on the seniority of the bond and the maturity.

In general, the mentioned input parameter is dependent on the general market development of credit spreads within the banking sector and in detail on the credit rating development of the housing banks, with spread increases having a positive effect.

In general, the discounted cash flow method (DCF) is used to determine the fair values of loans. Caps, floors or simple call options, if existing, are measured using the Bachelier model. The discount factor used in the DCF consists of various parameters: the funding curve (derived from a peer group of European banks with the same rating as BAWAG P.S.K.) and a customer-specific credit spread curve (derived from the CDS or CDS Markit Sector curve, depending on availability; for retail and SME, from an internally derived default probability), which is adjusted by the respective collateral ratio.

For Südwestbank funds that could not be sold in time for the published net asset values, a discount is applied as an input factor which is not directly observable, taking the expected selling price into account. The fair value is subsequently calculated as the difference between the net asset values and this liquidity discount. The funds are reported under Financial assets mandatorily at fair value through profit or loss.

The fair value of non-traded investment funds is based on fair value quotes provided by the fund manager.

For real estate investment funds, the underlying investments are appraised at least annually by an independent appraiser engaged by the fund manager; Net Asset Value (NAV) is determined at least quarterly. The Net Asset Value of the investment fund corresponds to the excess of the value of the investment fund's assets over the value of its liabilities.

Funds investing in loan portfolios are valued by an independent external valuation agent based on a discounted cash flow methodology that uses proprietary default and prepayment models to derive expected cash flows, which are discounted at a market rate. The model utilizes credit and performance as well as macroeconomic indicators to forecast cash flows for each loan pool segmented by origination, vintage, sub-grade and term. Net asset value is calculated on a monthly basis.

The fund's financial statements are prepared according to local GAAP and an independent auditor conducts the annual audit for the funds, providing assurance on the accuracy of the above.

The dividend discount and discounted earnings method is applied to a significant part of the investments in equity instruments. A smaller portion is valued based on external price indications and pro-rata equity.

Expected dividends and earnings as well as external price indications take into account the most recent forecasts, including the observed and expected impact of the COVID 19 pandemic on the profitability of the companies concerned.

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. The current COVID-19 situation results in increased uncertainty with regard to unobservable input parametes and the measurment of fair value of such items.

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 € 656 million as of 30 June 2020 (31 December 2019: € 592 million).

If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 30 June 2020 would have increased by € 0.3 million (31 December 2019: € 0.5 million). If the credit spread used in calculating the fair value of own issues decreased by 20 basis points, the accumulated valuation result as of 30 June 2020 would have decreased by € 0.3 million (31 December 2019: € 0.5 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 € 1.0 million as of 30 June 2020 (31 December 2019: plus € 1.6 million) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to minus € 0.6 million (31 December 2019: plus € 0.4 million).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.1 million (31 December 2019: plus € 0.07 million).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 30 June 2020 would have decreased by € 7.3 million (31 December 2019: € 7.6 million). If the credit spread used in calculating the fair value of loans decreased by 100 basis points, the accumulated valuation result as of 30 June 2020 would have increased by € 8.2 million (31 December 2019: € 8.5 million).

If the liquidity discount of Südwestbank funds is increased by 10 percentage points, the valuation result as of 30 June 2020 would have decreased by € 1.4 million (31 December 2019: € 1.9 million). If the liquidity discount of Südwestbank funds is decreased by 10 percentage points, the valuation result as of 30 June 2020 would have increased by € 1.4 million (31 December 2019: € 1.9 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 € 4.6 million (thereof € 3.1 million FVTOCI and € 1.5 million FVTPL) (31 December 2019: € 7.0 million; thereof € 5.0 million FVTOCI and € 2.0 million FVTPL), whereas if the discount rate is increased by 100 basis points, the fair value would decrease by € 3.6 million (thereof € 2.4 million FVTOCI and € 1.2 million FVTPL) (31 December 2019: € 5.2 million; thereof € 3.7 million FVTOCI and € 1.5 million FVTPL). If changes in dividend income or net profit where applicable rose by 20%, the fair value of those assets would rise by € 0.6 million (thereof € 0.4 million FVTOCI and € 0.2 million FVTPL) (31 December 2019: € 1.3 million; thereof € 1.0 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 € 0.6 million (thereof € 0.4 million FVTOCI and € 0.2 million FVTPL) (31 December 2019:€ 1.2 million; thereof € 0.9 million FVTOCI and € 0.3 million FVTPL).

A part of the investments in equity instruments is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 9.6 million (thereof € 4.1 million FVTOCI and € 5.5 million FVTPL) (31 December 2019: € 9.7 million, thereof € 5.1 million FVTOCI and € 4.6 million FVTPL). If these indications were 10% higher, the fair value of this portion would increase by € 9.6 million (thereof € 4.1 million FVTOCI and € 5.5 million FVTPL) (31 December 2019: € 9.7 million; thereof € 5.1 million FVTOCI and € 4.6 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 € 1.0 million (thereof € 0.6 million FVTOCI and € 0.4 million FVTPL) (31 December 2019: € 0.9 million; thereof € 0.3 million FVTOCI and € 0.6 million FVTPL), whereas if the equity was 10% higher, there would be an increase of € 1.0 million (thereof € 0.6 million FVTOCI and € 0.4 million FVTPL) (31 December 2019: € 0.9 million; thereof € 0.3 million FVTOCI and € 0.6 million FVTPL).

The fair value of two non-traded investment funds is based on fair value quotes provided by the fund manager. One fund has, based on the current portfolio allocation, an expected interest rate sensitivity of approximately minus € 1.8 million if rates rise by 100 bp and a credit spread sensitivity of minus € 2.1 million if credit spreads widen by 100bp (and vice versa).

For the other fund, the following applies: if the fair value indicated increased by 10%, the Group would recognize a gain of € 15.2 million in profit or loss. If the fair value indicated decreased by 10%, the Group would recognize a loss of € 15.2 million in profit or loss.

22 | 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 all 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 using 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 2020**	Jan–Dec 2019
Balance at the beginning of the period	**36**	**55**
New transactions		–
Amounts recognized in profit or loss during the period	(6)	(19)
FX effects	0	0
Balance at the end of the period	**30**	**36**

23 | Contingent assets, contingent liabilities and unused lines of credit

in € million	Jun 2020	Dec 2019
Unused customer credit lines	**7,085**	**7,485**
Thereof terminable at any time and without notice	5,586	5,769
Thereof not terminable at any time	1,499	1,716

Due to the acquisition of Südwestbank, BAWAG Group has, according to paragraph 5 section 10 of the statutes of the deposit protection fund, committed to release the Association of German Banks (Bundesverband deutscher Banken e. V.), Berlin, from any potential losses that might arise due to actions supporting credit institutions that are controlled by BAWAG Group or where BAWAG Group owns a majority stake. The Group does not expect any payments resulting from this guarantee at this time.

RISK REPORT

The operational and strategic risk management functions and the relevant committees of BAWAG Group are responsible for the identification, quantification, limitation, monitoring and steering of all risks BAWAG Group is exposed to. At all organizational levels, business and risk functions are strictly separated.

The Managing Board defines the overall risk appetite and risk strategy on an annual basis. All risk management principles, the defined limits for all material risks and the established procedures for monitoring these risks are documented in risk manuals and guidelines. The Managing Board is continuously and proactively informed on the overall risk situation including daily COVID-19 reports. The monthly risk reporting is based on clearly defined risk metrics and encompasses all Pillar I and Pillar II relevant topics as well as operational risk topics and additionally relevant specific risk topics. Quarterly risk reports are submitted to the monitoring and control committees of the Supervisory Board.

Risk management policies are reviewed regularly or ad hoc in case of extraordinary circumstances to reflect adjustments to the business strategy, regulatory requirements as well as market conditions. Particular attention is paid to the need for adjustment following BAWAG Group's expansion strategy. Moreover, starting in 2019, BAWAG group implemented the requirements of the ECB ICAAP guide, covering in particular the two perspectives, Normative and Economic.

The following divisions are responsible for risk management functions:

- Chief Data & Risk Control Office
  - Risk Controlling
  - Strategic Risk Management
  - Data Office & Project Governance
  - Data Solution Services
- Commercial Risk Management
- Retail Risk Management
- International Retail Risk Management
- Financial Crime Management & Compliance

The risk self-assessment (RSA), which is conducted on an annual basis, provides an overview of BAWAG Group's risk situation using quantitative and qualitative evaluation methods, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, materiality and their impact on BAWAG Group. All material and not material risks are considered under the Economic perspective, while the Normative perspective is limited to material risks as well as to Pillar I risks (Credit risk, Market risk, Operational risk).

The following risks including their respective sub-risk types are considered within BAWAG Group:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Other risks

The risks of BAWAG Group are described on the following pages, in respect to their consideration in the Normative and Economic perspectives.

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

BAWAG Group's Economic perspective, which compares the quantified risks with the risk-bearing capacity, is evaluated on a quarterly basis according to the budget (dynamic balance sheet). The risk quantification is based on a confidence level of 99.9%, which represents the probability of potential losses not exceeding the quantified risks. Limits are determined for all defined risk categories and portfolios as part of the risk strategy according to the budget (dynamic balance sheet). Compliance with the limits is monitored in the Portfolio Steering Committee (PSC) on a monthly basis according to the actual utilization. If the predefined warning levels are reached or 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. Both risks are measured using value-at-risk models. In addition, various stress tests are applied. The interest rate risk in the banking book and the credit spread risk are aggregated taking conservative correlation assumptions into account.

- Liquidity risk: Structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of spreads in connection with a notional spread widening on the market. Simplified quantifications are used for market liquidity risk in the banking book and basis spread risk.

- Operational risk: The quantification of operational risk is realized by using the Standardized Approach prescribed by Basel IV.

- Other risks: This risk category includes reputation risk, participation risk and strategic risk. Participation risk is quantified using the PD/LGD approach based on IFRS book values, while for all other mentioned risk types, the required economic capital is quantified using simplified models.

The risk-bearing capacity is reported to the Managing Board via the Enterprise Risk Meeting (ERM) on a monthly basis.

The Normative perspective is also fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

In connection with the Normative perspective, Pillar I risks as well as material risks are quantified, projected and subsequently considered in the respective Capital (RWA) and P&L views. The following risk types are considered and quantified:

- Credit risk: The quantification of credit risk is based on the regulatory approach (Pillar I view) and is considered under the Capital view (RWA). Credit risk losses are also accounted in the P&L view in the form of expected credit losses.

- Market risk: The quantification of market risk for trading book is based on the regulatory approach (Pillar I view) and is considered under the Capital view (RWA). BAWAG Group has identified interest rate risk in the banking book and credit spread risk as the material market risks and are considered in the P&L under net interest income, gains & losses and other comprehensive income.

- Operational risk: The quantification of operational risk is based on the regulatory approach (Pillar I view) and is considered under the Capital view (RWA). Operational risk losses are also accounted in the P&L view.

The stress test exercises are fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

The methodology and results of both ICAAP perspectives as well as of the stress test exercises are discussed on a quarterly basis in the ICAAP & Stress Testing Committee (ISTC) and reported to the ERM. The ERM oversees the assessment of the results of the exercises and defines any corrective action for the risk appetite or business strategy, where necessary.

The link between the ICAAP perspectives, the stress test exercises and capital management is formally defined within the internal risk and capital governance.

The capital ratios defined within the capital planning process and monitored on a monthly basis by the Capital Management Meeting are used as a benchmark for the Normative perspective and for stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the Normative perspective and stress test exercises, senior management reviews whether the stressed capital ratios remain above the recovery levels. 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.

25 | 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) and the retail and small business (Retail Risk Management) customers. The Credit Approval Committee (CAC), a specific committee at the Managing Board level, is responsible for approval of loan applications within the authorities defined in the Competence and Power Regulation. The division Risk Controlling is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

In addition to clearly defined lending guidelines for retail and small business customers, creditworthiness is assessed via automated scorecards. The scoring is based on statistical models that cover both application scoring as well as behavioral scoring based on the customer’s account usage. In addition, external data (e.g. credit bureau information) is also factored into the customer scoring. Based on this information, the individual customer credit ratings are updated monthly.

In addition to the credit rating, the loss given default (LGD) and the expected utilization of the offbalance sheet exposure value at the time of default (credit conversion factor, CCF) are also estimated for retail and small business customers. The estimate, which is based on data from the observed customer behavior, is calculated using various statistical methods and models.

For each commercial loan application, the borrower’s credit rating is assessed using an internal rating method specific to each business segment. The rating methods are based on a broad spectrum of quantitative and qualitative factors. Specific rating grades, which represent an individually estimated probability of default, are assigned to each customer using a uniform master scale.

To manage overall concentration risk at the client and group of affiliated customers level, exposure limits are defined, monitored and reported on a monthly basis.

BAWAG Group 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 rapidly and holistically within the risk 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 2020

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

The **Retail & SME** segment is centered upon the high level of primary banking and savings relationships for the customer base. The daily banking relationship, permits in-depth knowledge of customer behavior, which leads the strategy to provide the core financial products including consumer, mortgage and small business lending to the customer base. Underwriting standards and processes are administered through automated and dynamic underwriting models and processes. They are applied across sales channels for consistency and governance purposes.

The Retail & SME segment includes the brands easybank and PayLife, the subsidiaries start:bausparkasse in Austria and Germany, the auto and mobile leasing platforms as well as performing residential mortgage portfolios in Western Europe.

BAWAG Group has integrated several small operating platforms with complementary financing capabilities, that have served to provide growth in Germany and Switzerland, such as leasing and medical factoring. While these acquisitions have minimal materiality, they serve as established financing platforms to broaden BAWAG Group's reach and leverage the core competency in lending products across platforms.

The risk policy of BAWAG Group and its subsidiaries 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 systems, which have been adapted to the special requirements of the leasing business, are part of the overall risk architecture of BAWAG Group.

In connection with COVID-19 Bawag Group took proactively a series of measures to mitigate negative effects on credit risk in the segment Retail & SME:

- adaptation of underwriting criteria for new loans and loan increases
- analysis of lending processes and if applicable their modification or termination
- adaptation of lending processes (bridging loans for SME) in accordance to the governmental COVID-19 measures
- adaptation of deferral processes for SME and private customers in accordance to the governmental COVID-19 measures
- establishment of separate monitoring and reporting

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.

Regarding COVID-19, various measures were taken in corporate segment with a focus on supporting government measures as well as identifying potential deteriorations in customer performances by close portfolio monitoring and active management. Actions included providing bridge financings and deferrals/payment holidays with extended and granular reporting, in addition to regular and proactive update-calls with relevant counterparties.

Treasury acts as a service center for BAWAG Group's subsidiaries, partners and customers 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 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

30.06.2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total portfolio
Lending Portfolio	18,084	13,074	8,254	530	39,942
Securities	203	727	7,087	–	8,017
Off-balance business	3,990	1,451	1,472	1,209	8,123
Total	**22,277**	**15,252**	**16,814**	**1,739**	**56,082**
thereof collateralized[1)]	13,254	4,488	58	634	18,434
thereof NPE (gross view)	526	199	–	256	981
thereof NPL (gross view)	457	172	–	256	884

1) Economic view – all collateral types are applied

31.12.2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total portfolio
Lending Portfolio	17,862	12,718	4,821	1,156	36,557
Securities	134	358	4,734	0	5,226
Off-balance business	3,676	1,688	31	2,006	7,401
Total	**21,672**	**14,764**	**9,586**	**3,162**	**49,184**
thereof collateralized[1)]	12,737	4,810	12	568	18,127
thereof NPE (gross view)	467	239	–	257	962
thereof NPL (gross view)	422	154	–	257	833

1) Economic view – all collateral types are applied

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

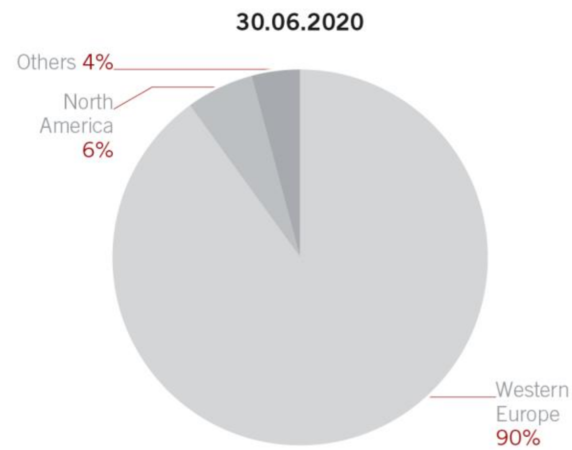
	Note 9		Risk view		Segment Report
30.06.2020 in € million	At amortized cost	Loans & Bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
Retail & SME	17,980	307	18,287	206	18,493
Corporates & Public	13,245	557	13,802	100	13,902
Treasury	10,421	4,920	15,341	843	16,184
Corporate Center	489	40	529	2,170	2,699
Total	**42,135**	**5,824**	**47,959**	**3,318**	**51,278**

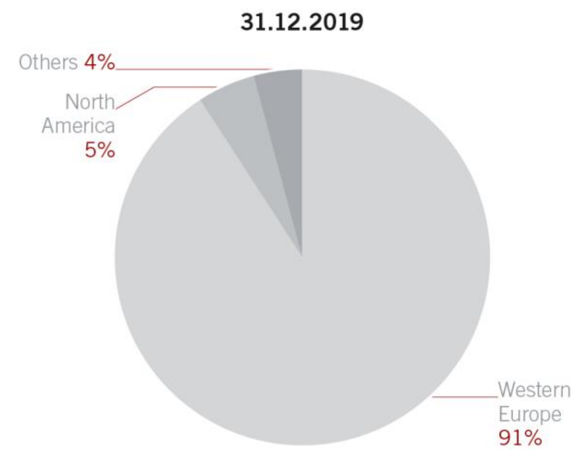
	Note 9		Risk view		Segment Report
31.12.2019 in € million	At amortized cost	Loans & Bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
Retail & SME	17,744	252	17,996	159	18,155
Corporates & Public	12,673	403	13,076	65	13,141
Treasury	5,983	3,572	9,555	519	10,074
Corporate Center	1,156	–	1,156	3,136	4,292
Total	**37,556**	**4,227**	**41,783**	**3,879**	**45,662**

Geographical distribution of the lending and securities portfolio

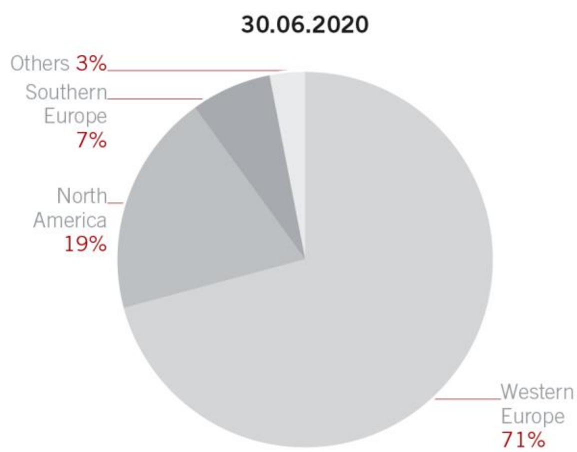
The geographical distribution of the lending portfolio is in line with BAWAG Group's strategy of focusing on stable geographies and currencies. A total of 96% (as of 31.12.2019: 96%) of the lending portfolio[1)] and 90% (as of 31.12.2019: 88%) of the securities portfolio[2)] is located in Western Europe and North America.

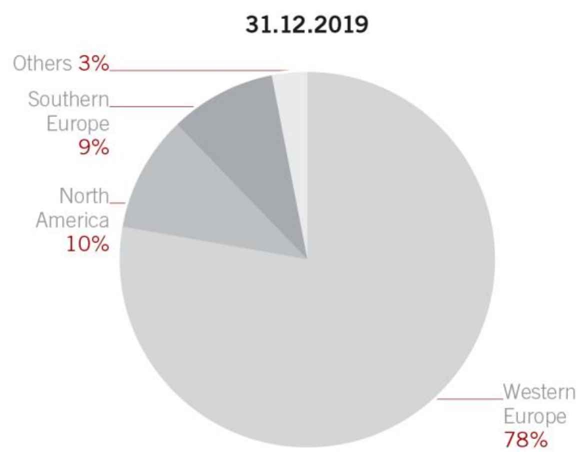
Geographical distribution of the lending portfolio





Geographical distribution of securities





1) The major share of the loan portfolio is allocated to Austria with 61% (Dec 2019: 57%), Germany with 16% (Dec 2019: 17%), United Kingdom with 6% (Dec 2019: 7%), the United States with 6% (Dec 2019: 6%) and France with 2% (Dec 2019: 3%).
2) The major share of the securities portfolio is allocated to the United States with 18% (Dec 2019: 7%), United Kingdom with 13% (Dec 2019: 11%), Austria with 10% (Dec 2019: 11%), France with 9% (Dec 2019: 10%), and Germany with 5% (Dec 2019: 6%).

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

Corporates & Public in € million	Book value 30.06.2020	Book value 31.12.2019	in % 30.06.2020	in % 31.12.2019
Real Estate	5,183	5,147	37.6%	39.4%
Public Sector	4,364	3,532	31.6%	27.0%
Services	884	763	6.4%	5.8%
Food & Beverages	847	807	6.1%	6.2%
Health Care	457	444	3.3%	3.4%
Engineering and B–2–B	348	369	2.5%	2.8%
Lender Financing	308	390	2.2%	3.0%
B–2–C Products	263	289	1.9%	2.2%
Pharmaceuticals	268	136	1.9%	1.0%
Telecommunication	192	196	1.4%	1.5%
Other	688	1,003	5.0%	7.7%
Total	**13,802**	**13,076**	**100.0%**	**100.0%**

Using internal industry segmentation.

Lending and securities portfolio by currencies

in € million	Book value 30.06.2020	Book value 31.12.2019	in % 30.06.2020	in % 31.12.2019
EUR	41,260	35,963	86.1%	86.1%
USD	3,594	2,366	7.5%	5.7%
GBP	1,635	1,809	3.4%	4.3%
CHF	1,164	1,338	2.4%	3.2%
Others	306	307	0.6%	0.7%
Total	**47,959**	**41,783**	**100.0%**	**100.0%**

Credit quality overview: Lending, provisions, delinquencies and collateral

	Book value[1]		in %	
in € million	30.06.2020	31.12.2019	30.06.2020	31.12.2019
At amortized cost (gross)	**42,440**	**37,781**	**100.0%**	**100.0%**
Provisions	306	225	0.7%	0.6%
thereof ECL	106	48	0.2%	0.1%
At amortized cost (net)	42,135	37,556	99.3%	99.4%
NPE Ratio[2]	–	–	1.7%	2.0%
NPL Ratio[2]	–	–	1.6%	1.7%
NPL LLP coverage ratio	–	–	35.7%	32.6%
NPL coverage ratio (collateral + LLP)	–	–	79.0%	75.1%
Additional information:				
Total unprovisioned outstandings past due	**336**	**337**	**0.8%**	**0.9%**
1–30 days	117	203	0.3%	0.5%
31–60 days	36	32	0.1%	0.1%
61–90 days	24	18	0.1%	0.1%
91–180 days	60	11	0.1%	0.0%
More than 180 days	98	73	0.2%	0.2%

1) Securities are not included since the securities portfolio does not show any days past due or any signs of non-performance
2) including City of Linz

Received collateral for the NPL portfolio

30.06.2020 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Improvements in credit quality
Lending Portfolio	873	221	9	20	14
Securities	–	0	–	–	–
Off-balance business	11	6	0	1	0
Total	**884**	**227**	**10**	**21**	**15**

31.12.2019 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Improvements in credit quality
Lending Portfolio	822	211	10	22	16
Securities	–	1	–	–	–
Off-balance business	11	6	1	0	0
Total	**833**	**218**	**11**	**22**	**16**

Payment moratoria related to COVID-19

The following table provides an overview of the book values of the payment moratoria that were granted in the first of 2020 as support for Retail & SME and Corporates & Public customers affected by COVID-19.

30.06.2020 in € million	Retail & SME	Corporates & Public
Private moratorium	320	–
Legal moratorium	684	56
Other moratorium	137	64
Total	**1,141**	**120**

Private and legal moratoria fall under the EBA definition of a legislative or non-legislative moratorium.
Note: Retail & SME amounts to 6.2% of total assets in the segment. In addition 0.6% were work in progress at HYE and got granted in the meantime.

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 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.

In addition to its quantitative risk models, BAWAG Group applies expert credit judgement for calculating ECL allowances. The degree of judgement depends on model outcome, materiality and information available and incorporates factors not captured by the models.

Expert judgement was used for COVID-19 related effects in the first and second quarters of 2020. The model overlays were determined through top-down scenario analysis combined with bottom-up customer analysis of unsecured Retail & SME customers, corporate customers and financial Institutions. Quantitative and qualitative indicators were used to determine a significant increase in credit risk. Such overlays include stage transfers of selected corporate names and financial institutions based on analysis of idiosyncratic risk factors and expected additional provisioning requirements for unsecured Retail & SME exposures, which are currently under a payment moratorium.

Following the COVID-19 pandemic, governments and banks have established measures such as payment moratoria to support corporates and retail customers. For customers who have made use of a payment deferral in connection with the COVID-19 pandemic and falling under the EBA definition of a legislative or non-legislative moratorium, the bank has refrained from classifying these customers as forborne and thereby pausing an automatic transfer to stage 2 with increased ECL allowances.

Key macroeconomic variable assumptions for calculating ECL

BAWAG Group has developed a scenario-weighted approach for assessing the expected credit loss allowance based on a range of macroeconomic parameters which affect all portfolio types such as:

- gross domestic product
- inflation rate and
- housing prices

The unemployment rate and long-term government benchmark bond yields are also incorporated in the IFRS 9 models and scenarios. For the monthly ECL calculations different economic scenarios and probabilities are assigned (baseline scenario 32.5% probability, pessimistic scenario 37.5% probability and optimistic scenario 30% probability) to maintain a stable level of expected credit losses.

The scenarios and probability weightings applied changed significantly in the second quarter 2020 following the revised economic outlook as a result of the COVID-19 pandemic. BAWAG Group has decided to take a conservative stance with regard to the macroeconomic variables used to determine expected credit loss in order to take into account the high degree of uncertainty regarding the further development of the COVID-19 pandemic, the speed of economic recovery and potential setbacks from a second wave of COVID-19 infections. The macroeconomic variables applied for Q2 2020 ECL calculations have been derived from ECB's Eurosystem staff macroeconomic projections for the Euro Area countries (published by the European Central Bank on 4th June 2020), whereby BAWAG Group applies an economic outlook comparable to ECB's severe scenario (GDP drop up to 12.6% in 2020 for the Euro Area, GDP recovery of 3.3% for 2021 and 3.8% for 2022 respectively) with a scenario probability of 100% (i.e. ECB's mild and baseline scenarios not factored in). This negative scenario assumes a strong resurgence of infections, an extension of strict containment measures until mid-2021 and an economic recovery which is significantly delayed. For non-Euro Area countries consistent assumptions with the ECB severe scenario have been used.

Within BAWAG Group, 17.1% (31 Dec 2019: 18.5%) of the total exposure has no ECLs due to full collateralization. Of these, 17.0% (31 Dec 2019: 18.4%) are lending and 0.1% (31 Dec 2019: 0.1%) are off-balance.

Reconciliation of IFRS 9 book values by stage

in € million	Starting balance 31.12.2019	Increases due to origination and acquisition	Decreases due to derecognition	Changes on existing assets	Closing balance 30.06.2020
Book values for impairments in Stage 1 (without POCI)	**37,728**	**5,849**	**(3,480)**	**1,602**	**41,699**
Lending Portfolio	32,962	3,642	(3,156)	800	34,248
Securities	4,766	2,207	(324)	802	7,451
Book values for impairments in Stage 2 (without POCI)	**1,170**	**254**	**(156)**	**1,568**	**2,836**
Lending Portfolio	1,113	254	(156)	1,625	2,835
Securities	57	–	–	(57)	1
Book values for impairments in Stage 3 (without POCI)	**644**	**11**	**(24)**	**31**	**662**
Lending Portfolio	644	11	(24)	31	662
Securities	–	–	–	–	–
Total POCI	**4**	**–**	**–**	**(1)**	**3**
Lending Portfolio	4	–	–	(1)	3
Securities	–	–	–	–	–

An update to the starting balance was made to be in line with IFRS9 relevant on-balance book values only.

Reconciliation of mpairments per stage

in € million	Starting balance 31.12.2019	Increases due to origination and acquisition	Decreases due to derecognition	Changes on existing assets	Closing balance 30.06.2020
Impairments Stage 1 (without POCI)	**39**	**15**	**(7)**	**20**	**67**
Lending Portfolio	35	10	(5)	11	51
Securities	2	5	(1)	2	8
Off-balance business	2	0	(1)	7	8
Impairments Stage 2 (without POCI)	**17**	**5**	**(3)**	**37**	**56**
Lending Portfolio	15	5	(4)	37	53
Securities	2	0	–	(3)	0
Off-balance business	0	0	0	3	3
Impairments Stage 3 (without POCI)	**205**	**3**	**(22)**	**40**	**226**
Lending Portfolio	174	2	(20)	43	199
Securities	–	–	–	–	–
Off-balance business	31	1	(2)	(3)	27
Total POCI	**3**	**–**	**–**	**(0)**	**3**
Lending Portfolio	3	–	–	(0)	3
Securities	–	–	–	–	–
Off-balance business	–	–	–	–	–

Transition of Impairments by financial instruments during the first half year 2020

30.06.2020 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	31	16	0	21	3	0
Securities	–	–	0	–	–	–
Off-balance business	2	–	0	–	0	0
Total	**33**	**16**	**0**	**21**	**3**	**0**

Distribution of IFRS 9 book values Impairments by stage and rating

30.06.2020 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**13,833**	**2,896**	**4,487**	**13,313**	**6,468**	**622**	**81**	**–**	**41,699**
Lending Portfolio	9,384	1,843	3,387	12,533	6,420	622	60	–	34,248
Securities	4,449	1,053	1,100	780	48	–	21	–	7,451
Book values for impairments in Stage 2 (without POCI)	**1**	**2**	**22**	**249**	**1,701**	**502**	**360**	**–**	**2,836**
Lending Portfolio	1	2	22	249	1,701	501	360	–	2,835
Securities	–	–	–	–	–	1	–	–	1
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**662**	**662**
Lending Portfolio	–	–	–	–	–	–	–	662	662
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**3**
Lending Portfolio	–	–	–	–	–	–	–	3	3
Securities	–	–	–	–	–	–	–	–	–
Total	**13,833**	**2,898**	**4,509**	**13,562**	**8,169**	**1,123**	**441**	**665**	**45,200**

31.12.2019 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**9,425**	**2,348**	**4,442**	**12,318**	**8,103**	**910**	**183**	**–**	**37,728**
Lending Portfolio	6,433	1,817	3,886	11,692	8,076	910	148	–	32,962
Securities	2,992	531	556	626	27	–	35	–	4,766
Book values for impairments in Stage 2 (without POCI)	**1**	**36**	**15**	**167**	**427**	**303**	**221**	**–**	**1,170**
Lending Portfolio	1	36	15	167	370	303	221	–	1,113
Securities	–	–	–	–	57	–	–	–	57
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**644**	**644**
Lending Portfolio	–	–	–	–	–	–	–	644	644
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Lending Portfolio	–	–	–	–	–	–	–	4	4
Securities	–	–	–	–	–	–	–	–	–
Total	**9,425**	**2,383**	**4,457**	**12,484**	**8,530**	**1,213**	**404**	**648**	**39,546**

An update to the closing balance 2019 was made to be in line with IFRS9 relevant on-balance book values only.

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 identified and booked automatically in the core banking system based on defined standards in the case of 90 days past due or when legal action is initiated.

Manual loan loss provisions
For exposures that are not subject to automatic loan loss provisioning, an appropriate impairment test is performed. The extent of impairment is assessed after a detailed analysis on an individual basis and loan loss provisions are created manually.

Non-performing Exposures (NPEs)

The non-performing flag will be set for all customer credit risk exposures in default in accordance with Article 178 CRR (internal risk class 8) and for all forborne accounts with more than 30 days past due at the account level.

Non-performing loans (NPLs)

Non-performing loans (NPLs) are defined as all customer credit risk exposures in default in accordance with Article 178 CRR (internal risk class 8).

Forborne loans and forbearance measures

Measures of forbearance can be granted if borrowers face financial difficulties and are considered to be unable to meet contractual obligations. BAWAG Group has sound and transparent processes in place to define the conditions under which concessions, in the form of the modification of terms and conditions, may be granted. Depending on the customer segment, possible measures include the temporary postponement or reduction of interest or principal payments, the restructuring of credit facilities or other forbearance measures. In exceptional cases, a temporary or permanent reduction of interest rates may be granted.

Forbearance or refinancing measures are instruments intended to ultimately reduce the existing risk and avoid default with respect to debt claims, if it is expected that a default can thereby be forestalled. However, forbearance measures are by no means used to avoid or postpone the recognition of an unavoidable impairment or disguise the level of credit risk resulting from 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 and impaired according to regulatory and accounting standards.

For reporting as well as internal risk management purposes, BAWAG Group implemented processes and methods according to regulatory standards[1)] in order to identify exposures for which forbearance measures have been extended. These are classified as forborne.

For customers who have made use of a payment deferral in connection with the COVID-19 pandemic crisis falling under the EBA definition of a legislative or non-legislative moratorium, the bank has refrained from classifying these customers as forborne.

1) Commission Implementing Regulation (EU) 2015/227, Annex V, Art. 145–183.

26 | Market risk

Market risk is defined as the risk of losses caused by open risk positions 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.

Both categories are measured via sensitivity, value-at-risk (VaR) and scenario-based approaches. The accounting treatment of the positions is considered in the risk reporting.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (SALCO) has assigned interest rate risk limits to the Treasury & Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the BAWAG Group level. The Risk Controlling division reports to the SALCO on a daily basis for some areas as well as monthly at the BAWAG Group level on limit utilization and the distribution of risk.

The target interest rate risk structure defined by the SALCO is implemented by the Treasury & Markets division. BAWAG Group uses interest rate derivatives 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: BAWAG Group has identified sight deposits in euros as a portfolio that is to be protected against interest rate risks. These deposits are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG Group determines an amount of liabilities from the identified portfolio that corresponds to the amount to be hedged as the underlying for the portfolio fair value hedge using a bottom layer approach. As of June 2020, almost 21% of the total volume of sight deposits was allocated to a portfolio fair value hedge.

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 2020 on the basis of the PVBP concept:

Interest Rate Sensitivity

30.06.2020 in € thousand	<1Y	1Y–3Y	3Y–Y	5Y–Y	7Y–Y	>10Y	Total
EUR	(16)	462	(196)	(84)	663	344	1,173
USD	27	(91)	(71)	(15)	50	0	(101)
CHF	3	(1)	9	(7)	(8)	(11)	(16)
GBP	12	(3)	(9)	(1)	1	1	0
Other currencies	(1)	(14)	(10)	0	0	0	(25)
Total	**25**	**352**	**(277)**	**(107)**	**705**	**333**	**1,031**

31.12.2019 in € thousand	<1Y	1Y–3Y	3Y–Y	5Y–Y	7Y–Y	>10Y	Total
EUR	87	444	(150)	(96)	317	50	651
USD	0	(4)	(5)	0	(5)	(5)	(20)
CHF	3	(8)	13	(13)	(8)	(11)	(24)
GBP	14	5	(6)	15	1	2	31
Other currencies	2	(10)	(8)	(1)	0	0	(16)
Total	**106**	**427**	**(157)**	**(94)**	**304**	**36**	**622**

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	30.06.2020	31.12.2019
Total portfolio	(3,477)	(2,136)
Financial assets at fair value through profit or loss	(201)	(162)
Financial assets at fair value through other comprehensive income	(2,224)	(1,341)
Financial assets at amortized cost	(1,052)	(633)

Market risk in the trading book

BAWAG Group has discontinued its proprietary trading activities since 2012. No trading activities are currently planned for the entire group.

27 | 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 2020 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. Increased liquidity outflows, which were observed at the beginning of the lock-down in connection with the COVID-19 crisis, have fully recovered and customer deposits are above pre-crisis levels. The Bank's risk-conscious strategy in recent years of only granting committed credit facilities to a limited extent has meant that no increased drawing on credit lines has been observed.

With the outbreak of the COVID-19 pandemic crisis, the Bank took a number of measures to assess its liquidity position at all times and, if necessary, to implement timely measures to improve the liquidity position. The measures taken include a more frequent monitoring of intraday liquidity, monitoring of cash transactions (ATMs and branch network), extended liquidty risk reporting to the Management Board and regulatory authorities and the mobilisation of unused collateral to strengthen the bank's economic liquidity buffer.

In order to further optimize its liquidity position and provide liquidity to the real economy, BAWAG Group has participated in ECB's TLTRO III with the amount of € 5.8 billion. In January 2020 the Bank also successfully placed a € 500 million Mortgage covered bond, which again proved BAWAG Group's strong capital markets access and the positive perception among investors.

The liquidity risk metric LCR (Liquidity coverage ratio) has improved to 209% at the end of June 2020 compared to 146% at year-end 2019, which is mainly a result of the overall improved liquidity position and the TLTRO III drawdown. Currently the bank holds a liquidty buffer of cash and unencumbered central bank eligible collateral of €8.6b.

28 | Operational risk

BAWAG Group applies the Standardized Approach for the calculation of the regulatory own fund requirements according to Article 317 CRR to assess operational risk. However, the realized operational risk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The operational risk RWAs are assigned to the segments based on revenues.

For the purpose of ICAAP, a standardized approach is used to calculate the normative and ecomomic perspective for OpRisk. The quantification in the economic perspective is based on the standardised approach for OpRisk (SMA) as defined in Basel III Finalising post-crisis reforms. The SMA is calculated based on the business indicator, business indicator component and internal loss multiplier. The method of calculation used is based exactly on the guidelines and covers the expected und unexpected loss. The normative persepective is based on the P&L impact and qualitative scenarios based on the historic OpRisk losses and the consideration of the business strategy.

The losses resulting from operational risk are collected in a centrally administrated web-based database within clearly defined regulations and processes.

Key Risk Indicators (KRI) are implemented as additional steering instruments to identify and forecast negative trends or a changed risk profile in company workflows and divisions/ subsidiaries in a timely manner. Each KRI is monitored via a traffic light system (green/yellow/red). For KRIs with a red status, the definition and implementation of appropriate countermeasures is mandatory.

According to Austrian Banking Act section 39 paragraph 6, credit institutions must define appropriate criteria and procedures in writing taking into consideration the nature, scale and complexity of their business activities. In addition, a regular update is necessary to avoid the risk of disregarding of guidelines as well as to reveal the associated risks and to keep such risks to a minimum ("BWG Compliance").

Using the RCSAs framework, all organizational units and subsidiaries identify and assess their material processes, operational risks, the risk of disregarding regulatory requirements and the effectiveness of their control measures on a yearly basis via a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of appropriate measures is mandatory.

The identification and assessment of potential risks and measures in case of ad hoc issues is realized through clearly defined processes, especially for outsourcing and the implementation of new products.

The Managing Board receives regular reports about current developments in the dedicated Non-Financial Risk and ESG Committee (NFR & ESGC).

A clear organizational structure and authorization levels form the basis of operational risk governance. Additionally, a consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are in place to manage BAWAG Group's operational risk.

BAWAG Group has responded to the current situation regarding the COVID-19 virus with an integrated action plan.

Measures taken since the beginning of the COVID-19 crisis:

- Business trips and events remain limited until further notice
- Implementation of instructions for repeated and correct hand washing and positioning of dispensers with disinfectant
- Permission to work more from Home Office, test operation of Home Office for entire areas and thus approval for Home office first, where technically possible
- Definition of risk groups such as e.g. the elderly or people with previous illnesses to work strictly from home office
- Switch to conference calls instead of face-to-face meetings
- Call for customer vigilance against phishing attacks in the wake of COVID-19
- Awareness raising in customer communication for numerous cashless payment options (VPAY, ...), digital banking, both on the website and in the call center
- Distribution of respiratory masks, disinfectant to the headquarters and branches, as well as spacers for all branches
- Implementation of rules of conduct concerning COVID-19

The measures are continuously evaluated by a task force in close coordination with the Managing Board of the BAWAG Group and brought in line with the current government measures and regulations.

29 | Other risks

Reputation risk

Reputation risk is defined as the potential damage or harm of the bank's image in the eyes of the interested public (capital investors/lenders, employees, customers, the press, etc.) with regard to competence, integrity and reliability. Expert based quantification is mainly driven by assumptions about the loss of interest spread income and possible alternative refinancing costs of decreasing deposits affecting customers within liquidity risk. Reputation risk is additionally considered and addressed with the governance and framework of Non-Financial Risk Management (e.g. within the NFR & ESG Committee).

BAWAG Group actively avoids occurrence of reputation risks by sound risk management culture, ongoing improvement of risk management and compliance with internal and external regulations. Furthermore, the Group has established a sound complaint management and is closely following potential fraud and other operational risk events which might affect the public appreciation. Reputation risk is considered as not material.

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential write-offs on the carrying amount of investments and low profitability of non-consolidated equity investments. Participation risk does not include consolidated operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such. Participation risk is considered as not material.

Impairment tests are conducted every year to validate the values of the equity investments in BAWAG Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. P&L, balance sheet and cash flow) prepared for future periods by the management of each entity. The results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the entity based on BAWAG Group's shareholding is then compared with the carrying amount of the investment.

In addition to the procedure described above, there are simplified procedures for very small investments or if the book value is covered by the proportionate equity or other value indicators, such as the substance value in the case of real estate companies. The overall results of the impairment tests are reviewed and confirmed by the Credit Risk Management team.

Strategic risk

Strategic risk refers to the risk that business strategy is focused on the wrong markets or that the development of the markets falls short of expectations. BAWAG Group has a clearly defined, well positioned business strategy with retail business in DACH region as core element supported by Corporate and public business. Further opportunistic lending is performed in Western Europe and Northern America. In connection with the international mortgage portfolios which the Bank has acquired, the Bank sees no strategic risk as detailed due diligence processes have been performed regarding the alignment with BAWAG Group´s business and risk strategy and as no new business is planned with respect to this specific portfolio. Due to close monitoring, reporting and immediate compensating measures in case of negative business development the risk level is assessed as not material.

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."

27 July 2020

Anas Abuzaakouk
Chief Executive Officer

David O'Leary
Member of the Managing Board

Enver Sirucic
Member of the Managing Board

Andrew Wise
Member of the Managing Board

Stefan Barth
Member of the Managing Board

Sat Shah
Member of the Managing Board

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
After-tax earnings per share	Net profit / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit per every individual share (diluted) of the stock.
Average interest-bearing assets	Month-end interest-bearing assets / number of months	Average of month-end interest-bearing assets within the quarter or the year is used for calculating net interest margin and risk cost ratio (see KPIs below)
Basic earnings per share	(Net profit - AT1 coupon) / weighted average number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon) per every individual share of the stock.
Book value per share	Common equity (excluding AT1 capital and dividends) / number of shares outstanding	Book value per share represents the total amount of common equity divided by the number of shares outstanding at the end of the period.
Common equity	Equity attributable to the owners of the parent	Common equity as presented in the consolidated financial statements
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	CET1 capital is defined by the CRR and represents the highest quality of capital. It therefore only comprises capital instruments that are available to the bank for unrestricted and immediate use to cover risks or losses as soon as they occur. The higher the bank's CET1 capital, the higher its resilience against such risks or losses.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets	The CET1 ratio is one of the most important regulatory metrics and demonstrates the bank's financial strength by providing a measure for how well a bank can withstand financial stress. The ratio is consistently monitored to ensure compliance with regulatory minimum requirements. Before any business opportunities are entered into, they are thoroughly assessed with regard to their impact on the CET1 ratio.
Core revenues	The total of net interest income and net fee and commission income	Core revenues total the line items net interest income and net fee and commission income and demonstrate the success of the bank in its core activities.
Cost-income ratio (CIR)	Operating expenses / operating income	The cost-income ratio shows the company's operating expenses in relation to its operating income. The ratio gives a clear view of operational efficiency. BAWAG Group uses the cost-income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions.
Customer loans	Customer loans measured at amortized cost	The book value of customer loans measured at amortized cost.
Diluted earnings per share	(Net profit - AT1 coupon) / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon) per every individual share (diluted) of the stock.
Interest-bearing assets	Financial assets + Assets at amortized cost – Assets at central banks	Interest-bearing assets comprise the line items Financial assets and Assets at amortized cost excluding Assets at central banks
Leverage ratio	Tier 1 capital / total exposure (calculation according to CRR)	The leverage ratio is a regulatory metric and expresses the relationship between the bank's Tier 1 capital and its total exposure, where total exposure includes on-balance and certain off-balance exposures but not on a risk-weighted basis. The ratio provides a metric to judge how leveraged a bank is. The higher the leverage ratio, the lower a bank is leveraged and the higher the likelihood of a bank withstanding negative shocks to its balance sheet.

Liquidity coverage ratio (LCR)	Liquid assets / net liquid outflows (calculation according to CRR)	The liquidity coverage ratio is a regulatory metric that ensures that banks maintain adequate levels of liquidity, i.e. sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, the bank shall sustain any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements and short-term liquidity needs.
Loan-to-Value (LTV)	Mortgage loans / appraised value (market value) of the property	The LTV ratio is a financial term to express the ratio of a mortgage loan in relation to the value in use or market value of the underlying property.
Net interest margin	Net interest income / average interest-bearing assets	The net interest margin is a performance measure and is expressed as a percentage of what a bank earns on loans and other assets in a time period less the interest it pays on deposits and other liabilities divided by average interest-bearing assets. It is used for external comparison with other banks as well as internal profitability measurement of products and segments.
Net profit	Profit after tax attributable to owners of the parent	This profitability measure represents the profit after tax that is available for distribution to the shareholders in absolute amounts for the respective period as presented in the consolidated financial statements.
NPL ratio	Non-performing loans (NPLs) / exposure	The NPL ratio is an economic ratio to demonstrate the proportion of loans that have been classified as non-performing in relation to the entire credit risk exposure (on-balance and off-balance sheet receivables). The ratio reflects the quality of the portfolio and of the Group's credit risk management.
NPE ratio	Non-performing loan exposures (NPEs) / exposure	The NPE ratio is an economic ratio to demonstrate the proportion of credit risk exposures that have been classified as non-performing (NPEs) in relation to the entire credit risk exposure. Exposures comprises both on-balance sheet and off-balance sheet receivables.
NPL coverage ratio	Loan loss provisions, reserves and collateral / NPL	The total of LLPs, reserves and collateral relative to the NPL exposure
NPL LLP coverage ratio	Loan loss provision and reserves / NPL	The total of LLPs and reserves relative to the NPL exposure
Off-balance business	CCF weighted off-balance business	The off-balance business in the risk report is CCF weighted.
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses	As presented in the respective line item in the income statement
Operating profit	Operating income less operating expenses and regulatory charges	As presented in the respective line item in the income statement
Pre-tax earnings per share	Profit before tax / weighted average diluted number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax per every individual share (diluted) of the stock.
Return on common equity (RoCE)	Net profit / average common equity excluding AT1 capital and dividends and dividend accruals	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the income statement as a percentage of the respective underlying (either equity related or asset related).

Return on tangible common equity (RoTCE)	Net profit / average tangible common equity excluding AT1 capital and dividends and dividend accruals	Return on common equity and return on tangible common equity demonstrate profitability of the bank on the capital invested by its shareholders and thus the success of their investment. The "Return on …" measures are useful for easily comparing the profitability of the bank with other financial institutions. Allocated equity to segments is based on an internal model taking into account risk-weighted assets and balance sheet size of the respective segment.
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Group, fully loaded)	The calculation of risk-weighted assets is defined in the CRR. The figure describes the total amount of exposure at risk for a bank and includes both on-balance and off-balance positions. When calculating the amount, the bank can consider risk-mitigating elements (e.g. collateral) and has to derive regulatory risk weights for each position depending on the (external) credit rating of the counterparty or customer. Risk-weighted assets are used as the denominator for calculating the CET1 ratio (see above). "Fully loaded" refers to the full application of the CRR without any transitional rules.
Risk costs / interest-bearing assets; (risk cost ratio)	Provisions and loan loss provisions, impairment losses and operational risk (total risk costs) / average interest-bearing assets	This ratio is a measure for the quality of credit risk management and the loan portfolio itself. It provides a relative view of the risk costs for the period based on the average interest-bearing assets and allows benchmarking with other banks. Low risk costs may result from a high collateralization and/or a close monitoring of the credit rating of the customers. As a result, this implies that there are only few actual credit losses and little need for provisioning.
RWA density	Risk-weighted assets / total assets	The RWA density is a metric to obtain an "average risk weight" for a bank's balance sheet, i.e. the bank's total risk-weighted assets (see above) compared to the total assets. The ratio indicates the average risk weightings of the assets based on their regulatory assessment, which can be impacted by asset quality, the collateralization level or the applied models for assessing the risk weights.
Tangible book value per share	Tangible common equity (excluding AT1 capital and dividends) / number of shares outstanding	Tangible book value per share represents the total amount of common equity less intangible assets divided by the number of shares outstanding at the end of the period.
Tangible common equity	Common equity reduced by the carrying amount of intangible assets	Tangible common equity is another viability indicator for banks and facilitates the comparison of equity figures excluding intangible assets. It is used as the denominator of the return on tangible equity calculation (see below).
Total capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	Total capital and total capital ratio are regulatory metrics and compare to CET1 capital and the CET1 ratio in a way that the eligible capital for this purpose is extended by other instruments (e.g. Additional Tier 1 and Tier 2 instruments) not falling within the strict Common Equity Tier 1 definition. The total capital ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements. However, CET1 capital is of higher significance as it is also the base for prudential thresholds such as the SREP requirement. Therefore, BAWAG Group focuses more on CET1 capital and the CET1 ratio.
Total capital ratio	Total capital / risk-weighted assets	
Value-at-risk (VaR)	Measure of risk of investments	A method for quantifying risks that measures the potential maximum future losses that can occur within a specific period and with a certain probability.

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