



CORPORATE GOVERNANCE REPORT

2016

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PREFACE BY THE CHAIRPERSON OF THE MANAGING BOARD



BAWAG P.S.K. has made a voluntary commitment to apply the applicable provisions of the Austrian Code of Corporate Governance ("Code", <http://www.corporate-governance.at>). The Code is mainly geared towards listed companies. It contains rules based on compulsory legal requirements (L rules); rules that should be complied with, where deviations must be explained and justified in order for the company's conduct to conform with the Code (C rules, comply or explain); and rules that are recommendations, where non-compliance must not be disclosed or justified (R rules). Certain legal provisions only apply to companies that are listed on the Austrian stock exchange. For non-listed companies, these are to be interpreted as C rules.

Compliance with the Code is verified annually in an external evaluation performed by Deloitte Audit Wirtschaftsprüfung GmbH and by Dorda Brugger Jordis Rechtsanwälte (regarding questions relating to the auditor). The evaluation is performed using the questionnaire prepared by the Austrian Working Group for Corporate Governance.

Through this voluntary self-regulatory measure, BAWAG P.S.K. aims to further strengthen the confidence of its customers, stakeholders and employees.

MANDATORY INFORMATION IN THE CORPORATE GOVERNANCE REPORT

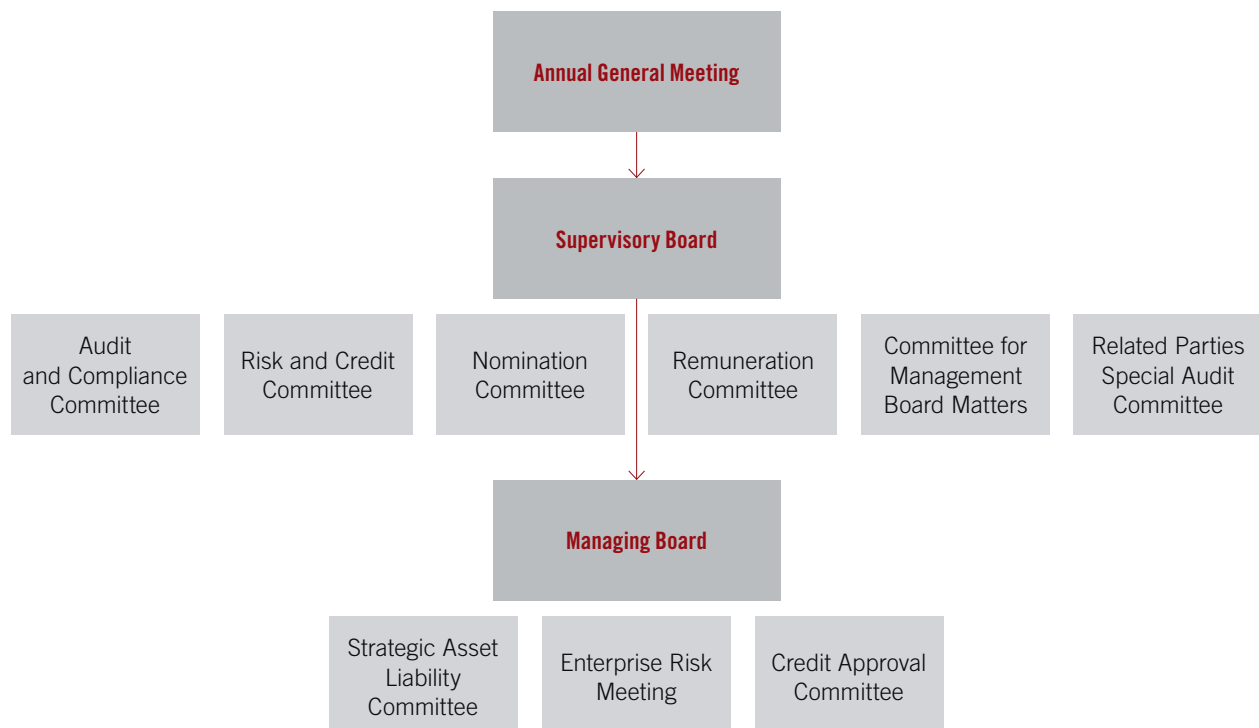
BAWAG P.S.K.'S DECLARATION OF COMMITMENT

Although BAWAG P.S.K. shares are not listed on a stock exchange, the Bank's Managing Board and Supervisory Board have decided to adopt and adhere generally to the rules contained in the Austrian Code of Corporate Governance (as amended).

The majority of the rules were observed in the financial year 2016 to the extent that they were included in BAWAG P.S.K.'s voluntary commitment. Individual exceptions are due to the Bank's closed shareholder structure and are summarized in the external evaluation of Deloitte Audit Wirtschaftsprüfungs GmbH.

CORPORATE GOVERNANCE STRUCTURE

As of March 2017, the corporate governance structure of BAWAG P.S.K. is as follows:



MANAGING BOARD

MANAGING BOARD MEMBERS

[C16]

As of 8 March 2017, the Managing Board was composed of the following five members:



Sat Shah
Chief Operating Officer

Byron Haynes
CEO and Chairman of the Managing Board

Anas Abuzaakouk
Chief Financial Officer

Corey Pinkston
Member of the Managing Board

Stefan Barth
Chief Risk Officer

Byron Haynes is Chief Executive Officer and Chairman of the Managing Board. He is also responsible for BAWAG P.S.K. Retail. Corey Pinkston is responsible for DACH Corporates & Public Sector, International Business as well

as Treasury Services & Markets. Anas Abuzaakouk is Chief Financial Officer and Stefan Barth Chief Risk Officer. Sat Shah is Chief Operating Officer and also responsible for the easygroup segment.

MANAGING BOARD of BAWAG P.S.K. as of 8 March 2017

Name	Function	Year of birth	Date of first appointment	End of current tenure
Byron HAYNES	Chairperson	1966	01.08.2008	31.03.2019
Corey PINKSTON	Member	1966	01.01.2013	31.03.2019
Anas ABUZAAKOUK	Member	1977	01.01.2014	31.03.2019
Stefan BARTH	Member	1977	01.02.2015	31.03.2019
Sat SHAH	Member	1978	04.03.2015	31.03.2019

Member who left the Managing Board in 2016

Name	Function	End of current tenure
none		

ALLOCATION OF RESPONSIBILITIES ON THE MANAGING BOARD

[C16]

As of 8 March 2017, duties were allocated as follows on the Managing Board:

Byron HAYNES

**Chairperson of the Managing Board
and Chief Executive Officer**

Corporate Office & Internal Communication
Human Resources
Legal
Retail Sales
Marketing & Products
Digital Banking

Anas ABUZAAKOUK

Chief Financial Officer

Controlling & ALM
Accounting & Participations
Procurement, Real Estate & Facility Management
Integration Management

Corey PINKSTON

Member of the Managing Board

Austrian Corporate Business
International Business
Treasury Services & Markets
Operations Capital Markets

Stefan BARTH

Chief Risk Officer

Strategic Risk
Credit Risk Management
European Risk Management
Non-Financial Risk Management & Regulatory Compliance

Sat SHAH

Chief Operating Officer

Operations
Information Technology
Transformation & Strategic Processes

Managing Board

Internal Audit
Compliance Officer
AML Officer

SUPERVISORY BOARD MANDATES AND COMPARABLE FUNCTIONS

[C16, C26]

The following describes the Supervisory Board mandates and comparable functions of Managing Board members as

of 8 March 2017 at other Austrian or foreign stock corporations which are not fully consolidated in the consolidated financial statements. Members not listed in the following do not have any comparable functions:

Byron HAYNES

Name of the company	Function
Wiener Börse AG	Supervisory Board member
CEESEG Aktiengesellschaft	Supervisory Board member
BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft	Supervisory Board member
Bausparkasse Wüstenrot AG	Supervisory Board member
BAWAG P.S.K. Versicherung AG	Supervisory Board member

Members of the Managing Board shall not hold more than four Supervisory Board mandates (chairperson counts double) in stock corporations that do not belong to the Group. Companies that are included in the consolidated financial statements or in which the Company has an investment with a business interest shall be considered as Group-related companies. Regarding the assessment of

compliance with C 26, BAWAG P.S.K. Versicherung AG is assessed as a Group-related company.

Pursuant to the Austrian Banking Act as of 1 July 2014, members of the Managing Board shall not hold more than two Supervisory Board mandates (however, exemptions may apply).

MANAGING BOARD COMMITTEES

The Rules of Procedure of the Managing Board define the responsibilities and tasks of this Board. According to these Rules of Procedure, the Managing Board has the right to form committees and to issue statutes for these committees. The following executive committees have been formed:

- ▶ the Enterprise Risk Meeting for steering the total bank risk, which focuses on the risk strategy, risk appetite and credit guidelines;

- ▶ the Credit Approval Committee, which decides on financing transactions above a certain threshold; and
- ▶ the Strategic Asset Liability Committee, which deals with strategic capital and liquidity planning issues as well as operational aspects of asset and liability management.

SUPERVISORY BOARD

SUPERVISORY BOARD MEMBERS

[C58]

SUPERVISORY BOARD of BAWAG P.S.K. as of 31.12.2016

Name	Function	Year of Birth	Date of first appointment	End of current tenure
Franklin W. HOBBS	Chairperson	1947	12.03.2013	1)
Keith TIETJEN	Deputy Chairperson	1971	05.10.2010	2)
Pieter KORTEWEG	Deputy Chairperson	1941	27.08.2007	2)
Cees MAAS	Deputy Chairperson	1947	27.07.2009	2)
Frederick S. HADDAD	Member	1948	12.03.2013	1)
André WEISS	Member	1952	12.03.2013	2)
Chad A. LEAT	Member	1956	05.12.2013	2)
Walter OBLIN	Member	1969	15.03.2012	2)
Ingrid STREIBEL-ZARFL	Delegated by the Works Council	1959	01.10.2005	
Beatrix PRÖLL	Delegated by the Works Council	1958	01.10.2005	
Konstantin LATSUNAS	Delegated by the Works Council	1963	12.03.2013	
Verena SPITZ	Delegated by the Works Council	1970	03.03.2016	
Beate SCHAFFER	State Commissioner	1959	Since 01.08.2009, Deputy State Commissioner from 01.03.2007 to 31.07.2009	
Markus CHMELIK	Deputy State Commissioner	1973	01.03.2010	

1) Until revoked.

2) Until the end of the Annual General Meeting deciding on the discharge of the members of the Supervisory Board for the financial year 2016.

Members who left the Supervisory Board in 2016

Name	Function	End of tenure
None		

SUPERVISORY BOARD of BAWAG P.S.K. as appointed at the Annual General Meeting of 08.03.2017

Name	Function	Year of Birth	Date of first appointment	End of current tenure
Manuel GONZÁLEZ CID	Chairperson	1963	08.03.2017	1)
Pieter KORTEWEG	Deputy Chairperson	1941	27.08.2007	2)
Cees MAAS	Deputy Chairperson	1947	27.07.2009	2)
Richard ALEXANDER	Deputy Chairperson	1969	08.03.2017	2)
Frederick S. HADDAD	Member	1948	12.03.2013	1)
Lee WILSON	Member	1966	08.03.2017	2)
Egbert FLEISCHER	Member	1957	08.03.2017	2)
Walter OBLIN	Member	1969	15.03.2012	2)
Ingrid STREIBEL-ZARFL	Delegated by the Works Council	1959	01.10.2005	
Beatrix PRÖLL	Delegated by the Works Council	1958	01.10.2005	
Konstantin LATSUNAS	Delegated by the Works Council	1963	12.03.2013	
Verena SPITZ	Delegated by the Works Council	1970	03.03.2016	
Beate SCHAFFER	State Commissioner	1959	Since 01.08.2009, Deputy State Commissioner from 01.03.2007 to 31.07.2009	
Markus CHMELIK	Deputy State Commissioner	1973	01.03.2010	

1) Until revoked.

2) Until the end of the Annual General Meeting deciding on the discharge of the members of the Supervisory Board for the financial year 2017.

LIMITATIONS ON CHANGING FROM THE MANAGING BOARD TO THE SUPERVISORY BOARD

[L55]

This provision was integrated from the Austrian Stock Corporation Act into the Austrian Code of Corporate Governance: “An individual who has been a Managing Board member at a listed company in the last two years may not be a member of that company’s Supervisory Board unless the appointment is the result of a proposal by shareholders who hold more than 25% of voting rights in the company. However, the Supervisory Board may not

contain more than one former Managing Board member whose two-year time limit has not yet expired. A member of the Supervisory Board who has been a Managing Board member at the company in the last two years may not be appointed as Chairperson of the Supervisory Board.”

By resolution of the Annual General Meeting, this clause was incorporated into BAWAG P.S.K.’s Articles of Association.

INDEPENDENCE OF SUPERVISORY BOARD MEMBERS

[C53]

According to Annex 1 of the Austrian Code of Corporate Governance, “Guidelines for Independence”, a member of the Supervisory Board shall be deemed independent if said member does not have any business or personal relations with the Company or its Managing Board that constitute a material conflict of interests and are therefore suited to influence the behavior of the member. The Supervisory Board shall also follow the guidelines below when defining the criteria for the assessment of the independence of a member of the Supervisory Board:

- ▶ The Supervisory Board member shall not have served as a member of the Managing Board or as a management level employee of the Company or one of its subsidiaries in the past five years.
- ▶ The Supervisory Board member shall not maintain or have maintained in the past year any business relations with the Company or one of its subsidiaries to an extent of significance for the member of the Supervisory Board. This shall also apply to relationships with companies in which a member of the Supervisory Board has a considerable economic interest, but it shall not apply to serving on boards in the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 does not automatically mean the person is qualified as not independent.
- ▶ The Supervisory Board member shall not have acted as auditor of the Company or have owned a share in the auditing company or have worked there as an employee in the past three years.

- ▶ The Supervisory Board member shall not be a member of the Managing Board of another company in which a member of the Managing Board of the Company is a Supervisory Board member.
- ▶ The Supervisory Board member may not remain on the Supervisory Board for more than 15 years. This shall not apply to Supervisory Board members who are shareholders with a direct investment in the Company or who represent the interests of such a shareholder.
- ▶ The Supervisory Board member shall not be a close relative (direct offspring, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the Managing Board or of persons who hold one of the aforementioned positions.

According to their own accounts, the following members are regarded as independent:

[C53]

Independence of Supervisory Board members

Name	Independent
Franklin W. HOBBS	YES
Keith TIETJEN	YES
Cees MAAS	YES
Pieter KORTEWEG	YES
Walter OBLIN	YES
Frederick S. HADDAD	YES
André WEISS	YES
Chad A. LEAT	YES

INDEPENDENT MEMBERS AT COMPANIES WITH SHARES IN FREE FLOAT

[C54]

Since none of BAWAG P.S.K.'s shares are in free float, this rule does not apply.

SUPERVISORY BOARD MANDATES AND COMPARABLE FUNCTIONS AT LISTED COMPANIES

[C58]

The following describes the Supervisory Board mandates and comparable functions of Supervisory Board members

at listed companies in Austria and abroad as of 31 December 2016 and 8 March 2017. Members not listed in the following do not have any functions at listed companies.

As of 31.12.2016

Franklin W. HOBBS

Name of listed company	Function
Ally Financial	Supervisory Board member and Chairperson
Molson Coors Brewing Company	Supervisory Board member

Pieter KORTEWEG

Name of listed company	Function
AirCap Holdings NV	Chairperson

Chad A. LEAT

Name of listed company	Function
Paceline Holdings	Supervisory Board member
Norwegian Cruise Line Holdings Ltd	Supervisory Board member

As of 08.03.2017

Pieter KORTEWEG

Name of listed company	Function
AirCap Holdings NV	Chairperson

SUPERVISORY BOARD ACTIVITY REPORT

[C36]

The Supervisory Board convened for five meetings in 2016 and decided three proposals via circular resolution. All members attended nearly all of the meetings in person.

The Supervisory Board focused on the annual financial statements and the consolidated financial statements for 2015. The Supervisory Board discussed the appointment of the external auditors for 2017.

Among other things, the Supervisory Board approved the risk strategy for 2016 and discussed the Corporate

Governance Report as well as the Market Abuse Regulation (in particular directors' dealings). Furthermore, the Supervisory Board approved the prolongation of all Managing Board mandates. During the year, the Supervisory Board also reviewed the HR agenda including talent development, succession and career planning. The Supervisory Board also approved the budget for 2017 and the acquisition of start:bausparkasse and IMMO-BANK.

The agenda of each meeting included the discussion of the business development as well as the capital situation. Regular reports were given on the proceedings regarding City of Linz as well as the integration of Volksbank Leasing, start:bausparkasse and IMMO-BANK.

SUPERVISORY BOARD COMMITTEES

[C39]

The Supervisory Board has the following committees:

- ▶ Audit and Compliance Committee
- ▶ Risk and Credit Committee
- ▶ Nomination Committee
- ▶ Remuneration Committee
- ▶ Committee for Management Board Matters
- ▶ Related Parties Special Audit Committee

In urgent cases, the Supervisory Board convenes at short notice (meeting or conference call). In general, all Supervisory Board members make themselves available. The following section describes the composition and the activities of the individual committees.

Audit and Compliance Committee

Composition [C39]

This Committee has the following members:

Audit and Compliance-Committee

Name	Function
Keith TIETJEN	Chairperson
Cees MAAS	Member
Walter OBLIN	Member
Frederick S. HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Konstantin LATSUNAS	Delegated by the Works Council

Decision Making Powers [C34]

The most important functions of the Audit and Compliance Committee are the review of and preparations for the formal approval of the annual financial statements (consolidated financial statements) of BAWAG P.S.K., the proposal for the

appropriation of profits, the Management Report and the Corporate Governance Report as well as the evaluation of the effectiveness of the Bank's internal control system as well as the independence and work of the external auditor. In addition, the Audit and Compliance Committee recommends the appointment of the external auditor. The annual audit program and reports on the activities of Internal Audit and the Compliance Office are submitted to the Audit and Compliance Committee. The Head of Internal Audit and the Compliance Officer have direct access to the Chairperson and members of the Audit and Compliance Committee.

Activity Report 2016 [C39]

The Audit and Compliance Committee held five meetings. The Committee focused on reviewing the Bank's financial statements for 2015 and the external auditor reports as well as on the annual reports by Internal Audit and the Compliance Office. Throughout the year, the committee discussed the recommendation for the appointment of the external auditor. The committee further monitored the independence and work of the external auditor on an ongoing basis. The annual audit process for 2016 was a topic in various meetings.

Besides quarterly reports by Internal Audit and Compliance, the Audit and Compliance Committee approved the audit plans for 2017. The agenda of each meeting included an update on legal issues relevant for the Bank and regulatory topics.

The external auditor as well as the Head of Internal Audit attended all meetings. Furthermore, the committee met in private sessions with the external auditor as well as the Compliance Officer and the Head of Internal Audit without the members of the Managing Board being present.

Risk and Credit Committee

Composition [C39]

This Committee has the following members:

Risk and Credit Committee

Name	Function
Chad A. LEAT	Chairperson
Cees MAAS	Member
Keith TIETJEN	Member
Frederick S. HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

Decision Making Powers [C34]

The Risk and Credit Committee is responsible for the approval of limits and the approval of loans (as well as other forms of financing) to individual borrowers or to a group of associated customers pursuant to section 28b BWG in the case of exposures that equal 10% or more of the Bank's eligible own funds. A report on approved large exposures is submitted to the Supervisory Board, at least once a year.

The Risk and Credit Committee approves affiliated parties transactions. The approval for certain transactions or types of transactions can be granted in advance for a period of one year. Transactions with members of the Managing Board or the Supervisory Board (and their relatives according to section 28 para 1 item 5 BWG) have to be approved individually and by explicitly stating the terms and conditions. Approvals in advance are not permitted for this group of persons. A report about each of these affiliated parties transactions must be made to the Risk and Credit Committee, at least once a year.

The Risk and Credit Committee is also responsible for approving material credit policies (e.g. new business segments), for advising the Managing Board on basic credit risk policy issues according to an arrangement made with the board and for advising the Supervisory Board on the current and future risk-bearing ability as well as the risk strategy of the Bank and monitoring the implementation of this risk strategy in connection with the control, monitoring and limitation of risks, own funds and liquidity. The Committee also regularly monitors the effectiveness and efficiency of the risk management system (including risk control, risk principles, risk reports, risk strategies and risk orientation) and compliance with the legal provisions and regulatory requirements. Furthermore, the Committee also

reviews whether prices of offered services and products take fully into account the business model and the risk strategy as well as whether initiatives provided by the Bank's remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

Activity Report 2016 [C39]

The Risk and Credit Committee held five meetings and three credit applications were decided upon by way of circular resolution. In addition to the approval of loans to individual borrowers or groups of associated customers pursuant to section 28b BWG, the Risk and Credit Committee dealt with the risk strategy for 2016 as well as general credit risk topics, such as the limit prolongations of transactions with affiliated parties and the annual review and renewal of limits for participations.

The results of the OeNB On-Site Review on liquidity risk management, information on the Supervisory Review and Evaluation Process (SREP) 2016, the risk planning guidelines 2017 and the planned implementation of IFRS 9 were presented to the Risk and Credit Committee. The Risk and Credit Committee also approved the purchase of a high-quality residential mortgage portfolio in Western Europe and reported to the Supervisory Board.

The Group Risk Report of the Bank, which includes the calculation of the Bank's risk-bearing capacity and reports on corporate, retail and market risk, was a regular item on the Risk and Credit Committee's agenda.

Nomination Committee

Composition [C39]

This Committee has the following members:

Nomination Committee

Name	Function
Franklin W. HOBBS	Chairperson
Cees MAAS	Member
Pieter KORTEWEG	Member
Frederick S. HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

Decision Making Powers [C34]

The Nomination Committee deals with Managing Board succession planning and the regular Fit & Proper evaluation of Managing Board members and Supervisory

Board members regarding their knowledge, skills and experience. The Nomination Committee assesses the structure, size, composition and performance of the Managing Board and the Supervisory Board periodically but in any case if occasions imply the necessity for a new evaluation. Further tasks of this Committee are the monitoring of the recruiting process with regard to senior management and the approval of the assumption of executive functions by members of the Managing Board as a Supervisory Board member, member of the Managing Board, managing director or partner with personal liability in companies not belonging to the Group.

Activity Report 2016 [C39]

The Nomination Committee held two meetings in 2016, recommended the prolongation of all Managing Board mandates to the Supervisory Board. The annual Fit & Proper evaluations of the Managing Board members and the Supervisory Board members were conducted including the approval of mandates by Managing Board members outside BAWAG P.S.K. Group.

Remuneration Committee

Composition [C39]

The following individuals are members of this Committee:

Remuneration Committee

Name	Function
Franklin W. HOBBS	Chairperson
Keith TIETJEN	Member
Cees MAAS	Member
Frederick S. HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

Decision Making Powers [C34]

The Remuneration Committee deals with the general principles of the Bank's remuneration policy. It also monitors the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to section 39c BWG, except for those pertaining to Managing Board members.

Activity Report 2016 [C39]

The Remuneration Committee (pursuant to section 39c BWG) held two meetings. It dealt with the remuneration policy. Furthermore, the statistical review for 2015 according to the regulations and the remuneration guidelines as well as the check of the regulatory framework with regard to the remuneration policy and the report of Internal Audit were presented.

Committee for Management Board Matters

Composition [C39, C43]

The following individuals are members of this Committee:

Committee for Management Board Matters

Name	Function
Franklin W. HOBBS	Chairperson
Keith TIETJEN	Member
Cees MAAS	Member
Pieter KORTEWEG	Member
Frederick S. HADDAD	Member

Decision Making Powers [C34, C43]

The Committee for Management Board Matters deals with relationships between the Bank and the members of the Managing Board. For example, it decides about the provisions of employment and severance agreements with Managing Board members and about the remuneration paid to members of the Managing Board as well as performance targets. It also monitors the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to section 39c BWG pertaining to Managing Board members.

Activity Report 2016 [C39, C43]

The Committee for Management Board Matters held three meetings in which it discussed and approved the Managing Board compensation. The committee also discussed the Bank's bonus pool for 2016, the regulatory update regarding remuneration, the amendment of the Remuneration Policy and the check of the regulatory framework with regard to the Remuneration Policy and the report of Internal Audit.

Related Parties Special Audit Committee

Composition [C39]

The following individuals are members of this Committee:

Related Parties Special Audit Committee

Name	Function
Franklin W. HOBBS	Chairperson
Chad A. LEAT	Member
Keith TIETJEN	Member
Frederick S. HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

Decision Making Powers [C34]

The Related Parties Special Audit Committee audits whether transactions of BAWAG P.S.K. and BAWAG P.S.K.'s

subsidiaries with related parties pursuant to IAS 24 ("Related Parties") are granted at arm's length on terms that are no more favorable than would be given to non-related parties. Any related parties transaction requires the approval by this Committee, which shall only be granted if it is determined that the related parties transaction is concluded on arm's length terms that are no more favorable than would be given to non-related parties.

Activity Report 2016 [C39]

The Related Parties Special Audit Committee held one meeting and decided two proposals via circular resolution. Two related party transactions were approved and the whole portfolio was reviewed in December 2016.

PRESENCE OF SUPERVISORY BOARD MEMBERS AT MEETING

[C58]

The Chairperson of the Supervisory Board was present in person at all Supervisory Board meetings and at all meetings of Committees of which he is a member.

Eight other Supervisory Board members were present in person at all Supervisory Board meetings and at all

meetings of Committees of which they are members or participated via telephone. All other Supervisory Board members were at least present at half of the meetings.

The state commissioner or her deputy was present in person at all Supervisory Board meetings and Committee meetings or participated via telephone.

CONTRACTS REQUIRING APPROVAL

[C49]

According to the declaration of commitment, this information is not included in the Corporate Governance

Report as it is known to shareholders as a result of the Bank's closed shareholder structure.

INFORMATION ABOUT THE REMUNERATION OF THE MANAGING BOARD AND SUPERVISORY BOARD

[L26a, C27, C27a, C28, L29, C30, C31, C43, C49, C51, L60]

At the meeting in December 2012, the Supervisory Board decided to follow the recommendation of the Managing Board to publish only the aggregate figures for the remuneration paid to the Supervisory Board and Managing Board.

Expenses for remuneration paid to active members of the Managing Board during the financial year amounted to EUR 25.6 million including accrued and deferred bonuses and payments to pension funds. Contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members in 2016.

The remuneration scheme for Supervisory Board members approved at the Annual General Meeting stipulates that the Chairperson of the Supervisory Board shall receive EUR 60,000 per calendar year, the Deputy Chairperson shall receive EUR 40,000 per calendar year and the members of the Supervisory Board shall each receive EUR 30,000 per calendar year. The Chairpersons of the Risk and Credit as well as Audit and Compliance Committees each receive EUR 20,000 and all other members of the Risk and Credit as well as Audit and Compliance Committees each receive EUR 10,000 (these additional remuneration rules do not apply to the Chairperson of the Supervisory Board). Remuneration of members of the Supervisory Board came to EUR 0.4 million. Works Council delegates to the Supervisory Board do not receive remuneration. No contracts with Supervisory Board members exist.

The remuneration for the members of the Supervisory Board was changed in the Extraordinary General Meeting on 13 December 2016 with effectiveness of 1 January 2017. The Chairperson of the Supervisory Board shall receive EUR 35,000 per calendar year, the Deputy Chairperson shall receive EUR 30,000 per calendar year and the members of the Supervisory Board shall each receive EUR 15,000 per calendar year. The Chairpersons of the Risk and Credit as well as Audit and Compliance Committees each receive EUR 15,000 and all other members of the Risk and Credit as well as Audit and Compliance Committees each receive EUR 7,500.

Information on long-term remuneration models for Supervisory Board and Managing Board members is given in the Annual Report as of 31 December 2016. BAWAG P.S.K. does not have a stock option plan.

BAWAG P.S.K. has a Remuneration Committee, which is a Supervisory Board committee. The Remuneration Committee is responsible for reviewing and overseeing the remuneration policies, practices and processes and the compliance with the remuneration policy based on section 39c Austrian Banking Act. i It submits regular reports on its activities to the full Supervisory Board. This Committee is chaired by the Chairperson of the Supervisory Board and consists of five further Supervisory Board members, including two members of the Works Council.

BAWAG P.S.K.'s Remuneration Committee has adopted a remuneration guideline that applies to the members of the Managing Board and the employees of the Group and that takes into account the principles of the EU's CRD IV Directive, the EBA guideline and the associated provision of the Austrian Banking Act.

For Managing Board members this guideline stipulates a remuneration policy that does not impede effective risk management. It is designed to align the objectives of the Managing Board members with the long-term interests of the Bank and to ensure an appropriate balance between fixed and variable remuneration components. The annual budget for variable remuneration components is based on the degree to which the Bank achieves its earnings targets.

The rules were implemented in the remuneration guideline as follows:

- ▶ To ensure risk adequacy, the variable remuneration must not provide an incentive to enter into inappropriate risks.
- ▶ To ensure sustainability, success is determined based on a longer-term observation period. For this reason, parts of the bonus are distributed over a period of up to five years. The payment of the retained portions is subject to strict Bank success criteria.
- ▶ The appropriateness and market adequacy of remuneration is ensured, applying a balanced relationship between fixed and variable components.

The Committee for Management Board Matters is responsible for individual matters concerning the remuneration and for monitoring the proportionality of the total remuneration of the Managing Board members. It also determines and approves the bonus budget for the Bank, including whether bonus awards should be made, taking into account the market conditions and developments, the

appropriateness of bonus payments, the development of risk and the strengthening of the Bank's equity base.

The variable remuneration is determined on the basis of the individual's success (in quantitative and qualitative terms) as well as on the success of the respective organizational unit and the Bank. Specific maximum limits for variable remuneration are not determined in advance.

Due to the closed shareholder structure of BAWAG P.S.K., the following information is available to the shareholders and is therefore not disclosed in the Corporate Governance Report. Further, parts of this information are considered as personal data of the individual members:

- ▶ The ratio of fixed to the variable components of the total remuneration of the Managing Board as well as fixed and variable components of the total remuneration on an individual basis.
- ▶ The principles of the Bank's pension scheme applied for the Managing Board at BAWAG P.S.K. and its requirements.
- ▶ The principles for entitlements and claims by the Managing Board in the case of termination.

BAWAG P.S.K. has D&O insurance.

PRINCIPLE OF ONE SHARE – ONE VOTE

[C2]

Rule C 2 of the Austrian Code of Corporate Governance stipulates that shares are to be construed in accordance with the principle of one share – one vote.

In December 2012, GoldenTree Asset Management LP (GoldenTree) acquired an indirect stake of approximately 40% in BAWAG P.S.K. as part of the restructuring of the shareholder group. A company related to GoldenTree and a company related to Cerberus each acquired one registered share in BAWAG P.S.K. with restricted transfer rights so that they can exercise various shareholder rights.

The applicable Articles of Association of BAWAG P.S.K. (passed in the Annual General Meeting on 12 May 2015) state in section 7 para 3 that shareholders are entitled to one vote for every ordinary share held. Furthermore, section 7 para 4 stipulates that the share certificates no. 1 and no. 2 are excluded from the right to receive dividends and liquidation proceeds, but afford to their respective holders the right to delegate members of the Supervisory Board in accordance with these Articles of Association (section 88 Stock Corporation Act). The share certificates no. 1 and no. 2 may only be transferred with the Annual General Meeting's prior approval, to be granted with the simple majority of votes cast by the shareholders present or represented.

REFINEMENT OF THE DIVERSITY RULES

[C42, L52]

Due to BAWAG P.S.K.'s closed shareholder structure, its Supervisory Board members are proposed directly by the owner and appointed at the Annual General Meeting.

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

According to the interpretation of the Austrian Working Group for Corporate Governance, the individual bodies to whom each rule is addressed are responsible for compliance with Corporate Governance principles pursuant to Rule 61. Although Rule 52 is not directly binding for

shareholders, compliance with Corporate Governance principles should be strived for by the Company in general. To this end, the individual bodies (Managing Board, Supervisory Board) should encourage the shareholders to implement the rule, for example, by referring to it at the Annual General Meeting or in the published documents for the Annual General Meeting. Compliance with the rule is therefore achieved by making reference at the Annual General Meeting or in the documents for the Annual General Meeting to the principles for appointing members to the Supervisory Board including the importance of taking appropriate consideration of the aspects of diversity.

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

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

[Preamble, L60]

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

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

Women's promotion program

BAWAG P.S.K.'s Women's Initiative was launched in 2009. In coordination with the Works Council, BAWAG P.S.K. prepared a program for promoting the advancement of women and agreed to its implementation in writing in 2011. With the women's promotion program introduced in 2012, BAWAG P.S.K. has taken another important step towards ensuring equality between women and men.

The program focuses on fostering awareness for the importance of equality of opportunity – combined with concrete goals:

- ▶ Financial equality between women and men for equal performance
- ▶ Increasing the number of women in leadership and expert positions
- ▶ Promoting a better balance between career and family for women and men, especially the provision of targeted information for employees before, during and after parental leave

BAWAG P.S.K. Women Mentoring Program

BAWAG P.S.K. Women's Initiative together with Human Resources organized in the past years a one-year women mentoring program for female employees, experts, and leaders of BAWAG P.S.K. Group interested in advancing their professional development and their internal networks through a mentoring relationship. In 2016 this program was extended and BAWAG P.S.K. Women Mentoring^{Business} was created. Female leaders and experts of BAWAG P.S.K. are

being mentored by top executives from selected industries in Austria.

Audit family and career

In 2013, BAWAG P.S.K. was audited and distinguished by the Ministry of Science, Research and Economy as a "family-friendly company." BAWAG P.S.K. is committed to enabling a good work-life balance. Following the expiration of the three-year basic certificate, BAWAG P.S.K. started the re-auditing process in summer 2016. This process was successfully completed at year-end 2016. The seven new measures that were defined will be implemented by the end of 2019. In conjunction with the "berufundfamilie" career and family audit, BAWAG P.S.K. also joined the "Network of Family-Friendly Companies" in 2016.

BAWAG P.S.K. Women's Prize

The BAWAG P.S.K. Women's Prize was awarded for the first time in 2013 in order to set a visible example. The EUR 3,000 BAWAG P.S.K. Women's Prize is given in recognition of outstanding achievements by women or special commitment to furthering women in society. BAWAG P.S.K. aims to motivate women and organizations to tackle challenging and innovative projects with this award.

The BAWAG P.S.K. Women's Prize is awarded annually in cooperation with a public or charitable organization that is committed to promoting women. A new organization is chosen every year by the BAWAG P.S.K. Women's Initiative.

The prize is awarded to women who set an outstanding example for women on the basis of their achievements and commitment, especially in the areas of

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

In 2016, the prize went to Katharina Norden, founder and Managing Director of Three Coins, a team of youth and education experts, pedagogical specialists and social entrepreneurs, whose goal is to develop new forms of teaching responsible money management.

FIGHTING CORRUPTION

[C18a]

The Bank's annual report regarding arrangements for fighting corruption for 2016 was provided by the Managing Board to the Audit and Compliance Committee for the meeting in March 2017.

The Compliance Officer as well as the AML Officer report directly to the Managing Board. Regular reports are also submitted to the Bank's Audit and Compliance Committee.

The key responsibilities of the Compliance Officer are securities compliance as well as the prevention of insider trading, market abuse and conflicts of interest. The key responsibilities of the AML Officer are preventing money laundering and combating terrorism financing as well as monitoring compliance with sanctions. A series of detailed guidelines have been put into place to ensure compliance with all legal requirements.

In addition to relevant laws such as the Securities Supervision Act, all employees are bound by a Code of Conduct containing, among other things, guidelines for business conduct and customer service as well as for preventing conflicts of interest, market abuse and money laundering. A detailed anti-corruption guideline governs the acceptance and awarding of gifts and keeps employees and management abreast of the valid anti-corruption regulations.

BAWAG P.S.K. has also been a member of the Austrian chapter of Transparency International since the end of 2012. This non-profit organization seeks to increase general awareness of the need to combat corruption and increase transparency in Austria, and it works to facilitate the implementation of relevant measures and reforms.

ACCOUNTING AND COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE EXTERNAL AUDITOR

[C81a, C82a, C66]

Close cooperation takes place among the Managing Board, the Supervisory Board, the Audit and Compliance Committee of BAWAG P.S.K. and the external auditor.

The external auditor was present at all meetings of the Audit and Compliance Committee. Communication between the Audit and Compliance Committee and the external auditor is ensured by the auditor's participation in meetings. In addition, the external auditor is in direct communication with the Chairperson of the Audit and Compliance Committee.

The sharing of information between the Audit and Compliance Committee and the external auditor without the Managing Board present takes place in a private session that is held annually.

In August 2016, the Managing Board also provided the Supervisory Board with a list showing the total expenses (for the financial year 2015) for the financial auditor regarding the audits at all of the Group subsidiaries.

Reports pursuant to IFRS are quarterly compiled and have been published on the website in the business year 2016.

REPORT ABOUT THE EXTERNAL EVALUATION

Report on the evaluation of the public statement of BAWAG P.S.K. on compliance with the Austrian Code for Corporate Governance for the financial year 2016 (Convenience translation)

Although shares of Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (hereinafter “BAWAG P.S.K.”) are not listed on a stock exchange, the Bank’s Managing Board and Supervisory Board have decided to adopt and adhere voluntarily to the rules of the Austrian Code of Corporate Governance including the 2015 amendments (“ÖCGK”). In the preamble of the ÖCGK a voluntary external evaluation of the compliance with the rules of the ÖCGK is recommended.

BAWAG P.S.K. follows this recommendation and engaged us to evaluate BAWAG P.S.K.’s compliance with the ÖCGK rules for the financial year 2016, except for questions concerning the audit (no. 77-83). The purpose of this evaluation is to provide an overview of BAWAG P.S.K.’s compliance with the Corporate Governance principles to the stakeholders.

Our evaluation of compliance with the ÖCGK rules is based on verbal information provided to us by representatives and employees of BAWAG P.S.K. as well as randomly checking the provided documents and certificates. Our evaluation is further based on the questionnaire prepared by the Austrian Working Group for Corporate Governance (“ÖCGK-questionnaire”) for the voluntary external evaluation of compliance with the ÖCGK. As per the guidance in the ÖCGK, banking law supersedes the ÖCGK rules. Therefore, when evaluating the compliance with ÖCGK rules at a bank, banking laws prevail.

From our point of view, BAWAG P.S.K. complied with the rules of the ÖCGK in the financial year 2016 – as far as included in the declaration of commitment by BAWAG P.S.K.

– under consideration of the exceptions due to the Bank’s closed direct and indirect shareholder structure as follows:

Question 2/1

The principle of „one share one vote“ is not implemented as “golden shares” have been granted to the two indirect major shareholders.

Questions 27/4

No limitation regarding variable remuneration components have been made publicly available. This information is only provided to the major shareholders and shareholder representatives in the Supervisory Board of BAWAG P.S.K. Regarding the adherence with section 39b ABA we refer to the explanation of the management in Note 64 of the consolidated financial statements of BAWAG Holding GmbH as of December 31 2016.

During the evaluation period, some of the rules (e.g. related to listed companies) were not applicable to BAWAG P.S.K.

This confirmation about the evaluation of the compliance with the rules of the ÖCGK is addressed solely to BAWAG P.S.K. and third parties shall not derive any rights from it. In particular, the result of our evaluation shall not be read as an investment advice and should not be considered when contracting with BAWAG P.S.K.

Vienna, 1 March 2017

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Peter Bitzyk m.p. ppa. Mag. Wolfgang Wurm m.p.
Certified Public Accountant Certified Public Accountant

Corporate Governance Evaluation 2016 (convenience translation)

BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (“BAWAG P.S.K.”) retained us to carry out the voluntary evaluation of the compliance with the C-rules in the rules no. 77-83 of the Austrian Corporate Governance Code (“Code”) concerning the duties of the external auditor for the financial year 2016. BAWAG P.S.K., as company not listed on a stock exchange, voluntarily adheres to the rules of the Code according to the corresponding recommendation in its preamble. The evaluation aims at informing the public on the compliance with the officially declared corporate governance principles by the company.

Our evaluation is based on the “Questionnaire for the Voluntary External Evaluation of Compliance with the Austrian Corporate Governance Code” (version January 2015) of the Austrian Working Group for Corporate Governance concerning the following topics:

- ▶ performance of the annual audit according to International Standards on Auditing (ISAs);
- ▶ the mutual communication between external auditor and the audit and compliance committee;
- ▶ the expenses for the group audit;
- ▶ the evaluation of the effectiveness of the risk management system by the external auditor.

The C-rules were evaluated following the principle “comply or explain”, which means that any deviation has to be explained and justified in order to be in compliance with the code. BAWAG P.S.K. provided the necessary documents for this evaluation.

After the accomplished evaluation, we can confirm that BAWAG P.S.K. complied with the C-rules evaluated by us concerning the external auditor (C-rules in the rules no. 77-83) of the Code in the financial year 2016.

As the evaluation of the compliance with the rules of the Code is voluntary, this confirmation is solely addressed to BAWAG P.S.K. In particular, it shall not be considered as investment advice. Third parties shall not derive any rights from this confirmation.

Vienna, 23 February 2017

Andreas Zahradnik
DORDA BRUGGER JORDIS
Rechtsanwälte GmbH

CONTACT INFORMATION

BAWAG P.S.K.
Viktoria Wancata
Corporate Office

Georg Coch-Platz 2
A-1018 Vienna

E-mail: corporate.governance@bawagpsk.com
Telephone: +43 (0) 5 99 05-23039

OWNER AND PUBLISHER

BAWAG P.S.K.
Bank für Arbeit und Wirtschaft und
Österreichische Postsparkasse Aktiengesellschaft
Georg-Coch-Platz 2, A-1018 Vienna, Austria
Companies Registry number: 205340x
Data Protection Authority number: 1075217
VAT number: ATU 51286308
Telephone: +43 (0)5 99 05-0
Internet: www.bawagpsk.com

Investor Relations:
investor.relations@bawagpsk.com

Media:
presse@bawagpsk.com

As of March 2017

