DISCLOSURE ACCORDING TO REGULATION (EU) NO. 575/2013 (“CRR”)

2016

CONTENTS

QUALITATIVE DISCLOSURE

QUANTITATIVE DISCLOSURE

Qualitative disclosure

LIST OF TABLES

LIST OF ABBREVIATIONS

AFS	Available for Sale
ALLL	Allowance for loan and lease losses
ALM	Asset Liability Management
AML	Anti-Money-Laundering
AS	Application Scoring
BGBl	Bundesgesetzblatt (Federal Law Gazette)
BMF	Bundesministerium für Finanzen (Austrian Federal Ministry of Finance)
BP	Basis Point
BPV	Basis Point Value
BS	Behavioral Scoring
BWG	Bankwesengesetz (Austrian Banking Act)
CAC	Credit Approval Committee
CCF	Credit Conversion Factor
CDX	Credit Default Swap Index
CEBS	Committee of European Banking Supervisors
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHAID	Chi-square Automatic Interaction Detectors
CHF	Swiss Franc
CLO	Collateralized Loan Obligation
CLS	Continuous Linked Settlement
CMM	Capital Management Meeting
COA	Asset Liability Management Department
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirement Regulation
CRS	Credit Currency Swap
CSA	Credit Support Annex
CVA	Credit Value Adjustment
DSCR	Debt Service Coverage Ratio
EAD	Exposure at Default
EBA	European Banking Authority
EEA	European Economic Area
ERM	Enterprise Risk Meeting
FACE	Free Available Cash Equivalent
FMA	Financial Market Authority
FO	Front Office
FRA	Forward Rate Agreement
FTP	Funds Transfer Pricing
FX	Foreign Exchange
GBP	British Pound
GDP	Gross Domestic Product
GTV	Regulation on Money Laundering and Terrorist Financing Risk (Geldwäscherei- und Terrorismusfinanzierungsrisiko-Verordnung)
IAS	International Accounting Standards
IBNR	Incurred but Not Reported
ICAAP	Internal Capital Adequacy Assessment Process
ID	Identity Document
IFRS	International Financial Reporting Standards
ICS	Internal Control System

IRB	Internal Ratings Based Approach
IRS	Interest Rate Swap
ISDA	International Swap and Derivatives Association
JPY	Japanese Yen
KRI	Key Risk Indicator
KSHK	Kreditsicherheitenkatalog (Credit Collateral Catalogue)
KSV	Kreditschutzverband
KYC	Know Your Customer
LGD	Loss Given Default
MD	Managing Director
NII	Net Interest Income
OeNB	Österreichische Nationalbank (Austrian National Bank)
OTC	Over the Counter
PD	Probability of Default
P&L	Profit and Loss
POS	Point of Sale
PSC	Portfolio Steering Committee
RAP	Risk Adjusted Pricing
RCC	Risk and Credit Committee
RCSA	Risk Control Self-Assessment
RMBS	Residential Mortgage Backed Securities
ROC	Receiver Operating Characteristic
RWA	Risk Weighted Assets
SALCO	Strategic Asset and Liability Committee
SEQ	Sicherheitenerlösquotient (Collateral Return Rate)
SolvaV	Solvabilitätsverordnung (Austrian Solvency Regulation)
SRM	Market Risk Management Department
SREP	Supervisory Review and Evaluation Process
sVAR	Stressed-Value-at Risk
S&P	Standard & Poor's
TPU	Temporary Partial Use
UGB	Unternehmensgesetzbuch (Austrian Commercial Code)
USD	US-Dollar
VaR	Value-at-Risk
WGG	Austrian Non-profit Housing Act

DISCLOSURE INDEX

Review of risk management systems according to Article 435 paragraph 1 point (e) CRR	Corporate Governance Report 2016
Figures and information according to Article 435 paragraph 1 point (f) CRR	Consolidated Annual Report IFRS 2016
Information according to Article 41 FMA circular letter on accounting issues in connection with derivatives for controlling interest rates	Annual Report AGAAP (purs. UGB) 2016
Details on accounting and valuation methods according to Article 447 point (a) CRR	Consolidated Annual Report IFRS 2016

GENERAL PRINCIPLES

According to Article 13 of the regulation (EU) No 575/2013 (hereinafter abbreviated to “CRR”), this Disclosure Report is published on Promontoria Sacher Holding N.V. level. Promontoria Sacher Holding N.V. is a financial holding company in form of a limited liability company with three managing directors. Its main business purpose is the management of the company´s assets (BAWAG Holding GmbH and indirectly BAWAG P.S.K. with its subsidiaries). From a risk perspective, the main bank-wide steering processes are performed by its subsidiary, BAWAG P.S.K. These processes are disclosed in this report.

SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

Article 436 points (a), (b) (i-iv) CRR

Owing to diverging regulations in the International Financial Reporting Standards and the regulation No 575/2013 (CRR), there are two different sets of consolidation guidelines, one for accounting and one for regulatory purposes which also lead to two different scopes of consolidation. The following paragraphs present the scopes of consolidation and explain changes that occurred in 2016.

Consolidation for accounting purposes

In accordance with IFRS 10, the scope of consolidation includes Promontoria Sacher Holding N.V. and all material subsidiaries owned directly and indirectly.

The group´s share in total assets and profit or loss of the subsidiary are the criteria for materiality.

The consolidated financial statements as of 31 December 2016 contained 37 fully consolidated companies and two companies that are accounted for using the equity method. The book value of associated equity interests including banks not consolidated at equity amounted to EUR 42 million as of 31 December 2016. Controlled companies with a book value of EUR 22 million were not consolidated because of their negligible effect on the assets, financial and earnings position of the group. Proportionate total assets (higher than EUR 10 million) and profit or loss (higher than EUR 1 million) of the subsidiary are the criteria for inclusion. Subsidiaries with a negligible effect on the assets, financial and earnings position of the group are not included in the consolidation.

In January 2016, BAWAG Malta Bank Ltd., was sold.

Bodensee Ltd. was dissolved and stricken from the register of the Maltese Companies Register in February 2016.

In September 2016 VB Technologie Finanzierungs GmbH was merged into VB Leasing Finanzierungsgesellschaft m. b. H. and renamed to easyleasing GmbH. Also in September BAWAG Real Estate Leasing s.r.o. and BPLCZ one s.r.o. were merged into BAWAG Leasing & Fleet s.r.o. Furthermore Salzburger Unternehmensbeteiligungsgesellschaft mbH was deleted from the register of companies.

In October 2016 Wohnbauinvestitionsbank GmbH was founded.

In December 2016 IMMO-BANK AG and start:bausparkasse AG were acquired.

Also in the 4th quarter of 2016 the companies FCT Pearl, Feldspar 2016-1 Mortgage Holding Limited and Feldspar 2016-1 PLC were founded and included in the scope of consolidation for accounting purposes.

Consolidation for regulatory purposes

The scope of consolidation in accordance with Regulation No 575/2013 (CRR) includes Promontoria Sacher Holding N.V. as the highest financial holding company, and all material subsidiaries owned directly and indirectly.

Consolidation for regulatory purposes is carried out in accordance with Article 18 and 19 of Regulation No 575/2013 (CRR), with the financial statements of the individual companies and the consolidated financial statements being prepared in accordance with the principles of the IFRS (International Financial Reporting Standards).

The criteria used to determine the scope of consolidation are total assets and off-balance sheet items. The scope of consolidation for regulatory purposes is different to the scope of consolidation for accounting purposes.

As of 31 December 2016 the scope of consolidation for regulatory purposes included 39 fully consolidated companies, three companies were proportionally consolidated and one company that was accounted for using the equity method.

The following table shows an overview of the companies, which are treated differently in the scope of consolidation for accounting and for regulatory purposes:

Table 1: Divergent consolidation basis

	IFRS	CRR
FCT Pearl	F	AFS
Feldspar 2016-1 Mortgage Holding Limited	F	N
Feldspar 2016-1 PLC	F	N
BAWAG Leasing & fleet s.r.o. Prague	AFS	F
BAWAG Leasing & fleet s.r.o. Bratislava	AFS	F
BAWAG Leasing s.r.o. Bratislava	AFS	F
BAWAG P.S.K. Versicherung AG	E	AFS
Fides Leasing GmbH	AFS	P
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H.	AFS	F
HFE alpha Handels-GmbH	AFS	P
Kommunalleasing GmbH	AFS	P
PT Immobilienleasing GmbH	AFS	F

F … Fully Consolidated
P … Proportionally Consolidated
E … Equity Consolidated
AFS … Equity Instruments Available for Sale
N ... No Equity Participation

Significant subsidiaries in terms of Article 43 of Regulation No 575/2013 (CRR) were not deducted from CET1, as they did not exceed the defined threshold of Article 48. For significant positions in instruments of supplementary capital an obligation for deduction exists (Article 66).

As all subsidiaries subject to banking regulation laws are included in the scope of consolidation or all relevant book values are deducted from own funds in case the threshold is exceeded, there is no shortfall in own funds in terms of Regulation No 575/2013 (CRR), Part 8, Title II, Article 436 point (d).

IMPEDIMENTS TO THE TRANSFER OF OWN FUNDS

Article 436 point (c) CRR

There are currently no restrictions or other significant impediments to the transfer of own funds or regulatory equity within Promontoria Sacher Holding N.V. Group.

TOTAL SHORTFALL IN OWN FUNDS OF ALL SUBSIDIARIES NOT INCLUDED IN THE SCOPE OF CONSOLIDATION

Article 436 point (d) CRR

No shortfalls in own funds are known of among subsidiaries that are not consolidated but deducted from own funds.

USAGE OF ARTICLES 7 AND 9 CRR

Article 436 point (e) CRR

There are no issues for the usage of Articles 7 and 9 CRR in BAWAG P.S.K. group

ACCOUNTING AND VALUATION METHODS

Article 447 point (a) CRR

UGB
The valuation of participations is based on acquisition costs unless persistent losses or a lack of expected earnings necessitate a write-down.

IFRS
Non-consolidated participations are assigned to the category 'Available for sale financial assets'. The valuation is based on the market value. If the market value cannot be reliably determined, the valuation is based on acquisition costs. Extraordinary write-downs are not subsequently written up again according to IAS 39.

Notes item 1 in the annual report 2016 of BAWAG P.S.K. contains details on accounting and valuation methods.

RISK MANAGEMENT

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Article 438 point (a) CRR
Article 439 point (a) CRR

The Internal Capital Adequacy Assessment Process (ICAAP) is part of the regulations known as Pillar II. The ICAAP-related processes and methods established at BAWAG P.S.K. ensure that the existing risk coverage capacity in terms of capital is adequate to cover the relevant risks that may arise.

The risk bearing capability is calculated on a monthly basis. The calculation and its components are discussed and reported monthly to the entire Management Board in the Enterprise Risk Meeting (ERM).

The following risk categories are quantified and compared with the available risk coverage capacity:

- **Credit risks**: Credit risk is subdivided into the following types of risks:
  - Default risk: Designates the risk of a complete or partial loss of exposures because of a counterparty's inability or unwillingness to pay. This category includes the default risk from credit transactions with customers of all segments as well as the issuer risk from investment in securities. The default risk also contains concentration risks and risks from foreign currency loans.
  - Participation risk: Pertains to the risk of possible losses from the injection of own capital to investment companies (consolidated participations).
  - Creditworthiness/migration risk or spread risk: Designates the risk of a loss in the value of exposures because the debtor's rating worsens without an event of default having occurred. The creditworthiness risk is attributable to the deterioration in credit quality or the debtor's rating. Basically, spread risks exist even without deterioration in credit quality if there is an increase in the yield premium for bonds with the same currency and term (e.g. due to a different risk appetite in the market or emerging liquidity effects). In terms of accounting, these risks affect the debt instruments of the company's own stock if market value losses lead to a valuation change with an effect in profit or loss or capital.
  - Counterparty risk: Occurs in transactions with a settlement date in the future which were entered into with a fixed price agreement and for which market-related value changes may occur within the term of fulfillment. All conditional and unconditional future contracts and credit derivatives fall under this category. If the counterparty defaults on a transaction of this kind prior to rendering full performance, BAWAG P.S.K. might under certain circumstances have to cover the position in the market with a new counterparty at the conditions valid at the time. If the market value has changed unfavorably compared to the original transaction, BAWAG P.S.K. incurs replacement losses equal to the difference between the originally agreed and the current market value.
  - Settlement risk: Comprises the advance payment risk/performance risk and the core settlement risk. The advance payment/performance risk results from rendering a unilateral advance payment by BAWAG P.S.K. in connection with a mutual transaction. It persists until the counterparty renders the full counter-payment. The core settlement risk occurs when a transaction is not fully settled immediately upon its conclusion. Unlike counterparty risk, settlement risk does not occur in future contracts for which a future point in time was explicitly agreed for performance. It occurs in connection with step-by-step transactions in which a period can extend over several days between the contract and the performance.
  - Country risk: Country risk exists in connection with credit extended to foreign borrowers or with the acquisition of bonds from foreign issuers or other assets having an origin outside Austria. It contains transfer risk, the risk that agreed capital payments (payment of interest and/or repayment of principal) are rendered either not at all or only incompletely or late due to international payment restrictions or due to illiquidity or refusal to pay by a governmental debtor or guarantor.
  - Credit risk also includes securitization risk[1)] and the risk from the use of techniques for credit risk mitigation.

Credit risk is quantified by using the IRB approach. Additional capital surcharges are applied for credit risk concentrations in connection with loans to major customers/to groups of affiliated customers and for the risk arising from credit lines[2)] not subject to capital requirements under legal regulations. Furthermore, additional capital is held for the CVA risk which is part of the credit risk.

1) BAWAG P.S.K. itself has not yet conducted any securitizations and has thus far acted solely as an investor in structured securitization.

- **Market risks**: For BAWAG P.S.K., the relevant market risks are the interest rate risk in the banking book and the credit spread risk. The interest rate risk is quantified by using value-at-risk models whereas a scenario-based approach is used for measuring credit spread risk. The interest rate risk in the banking book and the credit spread risk are aggregated by taking conservative correlation assumptions into account.

- **Liquidity risk**: Structural liquidity risks are quantified based on current liquidity gaps in consideration of historically derived stress scenarios on funding spreads. FX Funding risks are determined by own sensitivity- and concentrationlimits. Dispositive liquidity risks are controlled continuously by Treasury.

- For quantification of **operational risks**, including amongst other things legal risk, conduct risk, model risk and the risk of error in information and communication, a value-at-risk model which is based on historical loss data is in use.

- **Other risks**: This category includes:
  - Participation risk, which is quantified for all participations held directly or indirectly and which are not within the scope of consolidation by using the PD/LGD approach. The calculation is based on IFRS book values. If, in exceptional cases, no current internal rating was available, the risk is quantified by assigning the worst non-default risk class ‘7’. Consolidated participations are examined in a look-through approach by considering the individual transactions of these companies in the corresponding risk category, namely credit and market risk.
  - Macroeconomic risk: Capital is held in the amount quantified by the Austrian National Bank (OeNB) as part of the SREP.
  - Capital to cover strategic risk, reputational risk, capital risk, compliance risk (including, inter alia, risk of money laundering and terrorist financing) as well as market liquidity risk is quantified by using simplified valuation models.

The individual risks are subsequently added to arrive at the total risk of the Bank without considering correlation effects, are set into relation with the risk coverage capacity. The aim of BAWAG P.S.K´s ICAAP steering is to ensure an adequate coverage of the total bank risk at any time. This aim is supported via a specifically allocated capital buffer for non-identified risks, reflecting the risk appetite of the Management Board, as well as a further buffer subject to flexible allocation at the discretion of the Management Board.

The economic risk bearing capital is composed of the following components:

- Tangible IFRS equity (scope of consolidation is CRR)
- Subordinate capital
- IBNR portfolio provision
- Regulatory shortfall (Comparison of loan loss provisions and expected losses)
- Provisions for redemption carrier loans

A confidence level of 99.9 per cent is applied for the calculations (based on the defined target rating of A to which BAWAG P.S.K. is aspiring in the medium term). The confidence level indicates the probability that potential losses are not exceeding the quantified risk.

Limits are determined for all limit categories (and steering portfolios) as part of the Risk Strategy. The compliance of the limits is monitored in accordance with the defined monitoring processes on a monthly basis. In addition, escalation processes have been implemented which are initiated in case of reaching defined “warning levels” or exceeding the ICAAP limits. The division Strategic Risk is responsible for these processes which are defined in a specific handbook. This handbook is approved by the ERM on an annual basis. The process regarding the exceedance of the defined warning levels or limits comprises the immediate information of the responsible market and risk manager. In the course of this, the market side is ask to report within a defined time period whether the limit can be kept until the end of the year. If the defined limit cannot be kept, the market manager is asked to initiate immediately risk mitigation measures – the division Strategic Risk has to be informed. If a reduction of the risk position is not possible, the responsible market unit in coordination with the risk manager has to submit a Management Board application for increasing the limit.

CAPITAL ALLOCATION AND LIMITATION AT TOTAL BANK LEVEL

Article 438 point (a) CRR
Article 439 point (a) CRR

The process for limitation and capital allocation runs parallel to planning and budgeting at least once a year, and if required, more often. Within the defined process, the established premises such as confidence level and capital buffer (risk appetite) are reviewed and updated. Steering portfolios are defined for credit risk and are geared to the customer segments or organizational responsibilities as well as countries and industries. The bank subsidiaries are included in the control portfolios. For market risks, sub-limits are defined.

The capital allocation/limitation according to Article 39a of the Austrian Banking Act is defined under the following premises and information:

The Management Board sets forth the strategy for the next five years in the annual medium-term plan, encompassing the following topics:

- Confidence level, holding period, capital buffer, steering units
- Planning and budgeting process and any changes in risk value/balance sheet items under consideration of an adequate liquidity position
- Existing limit setting systems (e.g. in connection with market risks)
- Limitation for the steering units according to the quantification methods defined for the individual risk categories

The capital allocation, as a major component of group-wide risk management and limitation of the risk categories, is approved by the entire Management Board, presented to the Risk and Credit Committee of the Supervisory Board and in a final step, approved by the Supervisory Board.

GROUP-WIDE RISK MANAGEMENT

Article 435 paragraph 1 point (b) CRR
Article 435 paragraph 2 point (a) – (e) CRR
Article 435 paragraph 1 point (e) – (f) CRR

Risk management decisions are taken at various places within BAWAG P.S.K. on daily basis. The systematic orientation of risk decisions at the company's targets requires the development of a common fundamental understanding concerning the risk-related issues, the specification of strategic and operational objectives in the individual business units as well as a comprehensive process of continuous risk management covering all risk areas. The guidelines regarding the risk management are laid down in several documents. The Risk Governance contains the basic position in terms of risk policy, a classification of risk types as well as the organization of the risk management. The Risk Strategy (derived from the specifications defined in the business strategy) considers the capital allocation/limitation for every risk category which has been classified as material and the structure limits to manage concentration risk. The management of the individual risk types is part of specific risk manuals.

In addition, the Management Board is informed within the Enterprise Risk Meeting about all risks within the Group on a monthly basis. With regard to the Enterprise Risk Meeting the provided Group Risk Report builds the information basis in which various key risk indicators are reported, analyzed and commented as part of a pre-period comparison. Furthermore, any significant change in the risk situation has to be immediately reported to the entire Management Board. The external stakeholders are annually (in form of the annual report) as well as quarterly (in form of interim reports) informed about the risk situation. The reports are published on BAWAG P.S.K.'s website.

The Risk Strategy and the Risk Governance are updated on an annual basis, approved by the Management Board, submitted to the Risk and Credit Committee of the Supervisory Board for discussion and, in a final step, approved by the Supervisory Board. The Group Risk Report is represented to and discussed within the Risk and Credit Committee on a quarterly basis.

Moreover, all rating and scoring systems are subject to an annual validation process in which the adequacy and the performance of the systems is monitored. If further measures are required, appropriate analyses will be initiated and, if necessary, adjustments will be implemented and communicated to the Management Board.

Due to the variety of monitoring processes, ongoing reporting activities and the immediate introduction of countermeasures in the case of significant deviations from the target risk profile defined in the Risk Strategy, it is ensured that the risk management processes and systems are appropriate. Furthermore, a report regarding the review of the risk management systems within BAWAG P.S.K. can be found in the Corporate Governance Report.

Important figures and information according to Article 435 paragraph 1 point (f) CRR which provide a comprehensive overview about the risk management can be found in the annual report.

The Management Board determines the business strategy for the Group and the individual business segments as part of its risk management responsibilities and defines target values for the key risk ratios. The Management Board then derives from this business strategy the Risk Strategy and sets the risk tolerance for the current planning period.

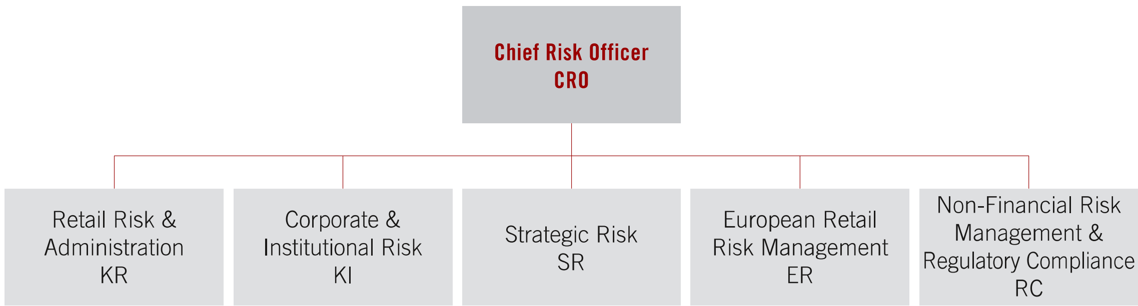
Finally, the Management Board takes fundamental decisions with respect to the processes to be applied to identify, measure, control and monitor risks.

The Chief Risk Officer (CRO) is a member of the Management Board and assumes responsibility as the risk manager for the entire Group. All risk management divisions report to the CRO. He regularly informs the Management Board about the risk situation. As required by the supervisory authority, this organizational structure separates the front-office and back-office units, particularly risk management, at all levels of BAWAG P.S.K. including the Management Board level.

Pro-active risk management is a major goal of BAWAG P.S.K and is among the core tasks of the risk organization. Efforts must be made to ensure that BAWAG P.S.K. takes on risks that are not excessively high (but rather reasonable and measurable). Yet the business model must also definitely be supported along with the planned business growth defined in it. Basically, BAWAG P.S.K. follows a low risk strategy, which means that risks are managed conservatively.

To perform its tasks, the risk management organization comprises the following independent units (main level or divisions) as of 31 December 2016:

- Commercial and Institutional Risk
- Retail Risk & Administration
- Strategic Risk
- European Retail Risk management
- Non-Financial Risk management & Regulatory Compliance



The above risk management divisions are directly subordinated to the Chief Risk Officer (CRO) and periodically referred to the following committees at Management Board level:

The **Enterprise Risk Meeting (ERM)** is a monthly risk meeting of all members of the Management Board and is chaired by the CEO. It takes fundamental risk decisions, such as:

- approves the Risk Strategy and determines the risk appetite, and, if needed, gives recommendations to the Supervisory Board on changes and modifications
- approves the capital allocation in the framework of the ICAAP
- delegates competence for credit risk limit setting to the Portfolio Steering Committee (PSC) at profit sub-segment level (level 3) and for specific countries and industries within each sub-segment (level4)
- approves capital re-allocation in level 3 and level 4 above EUR 40 mn upon explicit recommendation by the PSC
- delegates competence for market risk limits for the Group to the S-ALCO
- reviews and approves underwriting guidelines for all business units
- reviews significant findings resulting from regulatory examination and initiates action for remedy
- discusses the monthly Group Risk Report
- discusses the monthly Capital Report
- reviews and approves use of rating models, scorecards, cutoffs as well as development or changes of risk parameters
- reviews and approves results or rating- and scoringmodels validation and the resulting actions
- reviews and approves or recommends (according to regulatory requirements) credit policies
- topics regarding stress testing: check of requirements concerning stress testing – legal, from external and internal auditors, risk units, Management Board, Supervisory Board; identification of risk factors; definition and review of stress test scenarios; interpretation of results of stress tests and definition of risk measures.

Credit Approval Committee (CAC): Approves loan applications within the power defined in the Competence and Power Regulation of the CAC.

Strategic Asset and Liability Management Committee (SALCO): The main tasks of that committee are the decision-making on the investment of equity and other non-interest bearing assets and the allocation of foreign exchange risk limits to the banking book as well as their regular monitoring. Furthermore, all relevant Market- and Liquidity Risk reports as well as ALM and Treasury reports are presented to the board via this committee. In addition, the committee serves as escalation body for breaches of single regulatory or internal limits.

On level of Supervisory Board various committees are established. The most essential one from a risk perspective is the **Risk and Credit Committee (RCC)**, which also deals with the Group Risk Report. Five meetings were held in 2016. Under the current valid version of the Rules of Procedure of the Supervisory Board dated 13 December 2016, the RCC has the following responsibilities:

- approves the granting of loans and credit (as well as other forms of financing) to individual borrowers or groups of associated customers within the meaning of Article 392 CRR (exposures that equal 10% or more of the Bank's eligible own funds)

- reports annually to the Supervisory Board on large exposures approved by the Risk and Credit Committee
- approves the granting of loans and credit to corporates above EUR 250 million
- decides on transactions with the Bank's affiliated parties within the meaning of section 28 BWG
- approves material credit policies and advises the Management Board regarding fundamental issues of credit and risk policy
- advises the Supervisory Board on the current and future risk appetite and Risk Strategy and monitors the implementation
- regularly monitors the effectiveness and efficiency of the risk management system and compliance with legal and regulatory provisions

BAWAG P.S.K. enacted a Group-wide Fit and Proper Policy on 21 May 2013. This policy is geared to the specifications of the Austrian Banking Act, the EBA guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06) of 22 November 2012 and the EBA guidelines on internal governance (GL 44) of 27 September 2011. It sets forth the procedure for selecting members of the management body and for reviewing actual knowledge, skills and experience. In addition, aspects of personal reliability, internationality and age structure of the members are to be taken into account. Moreover, the Nomination Committee has defined a target quota for the underrepresented gender among the Supervisory Board and on the Management Board (30% until 2020).

The strategy for reaching this goal is a bundle of individual initiatives which have been pursued in 2016.

In addition, BAWAG P.S.K. has adopted a recruitment policy. This policy stipulates inter alia, the internal and external recruiting processes as well as recruiting standards.

The women's promotion program focuses on fostering awareness of the importance of equality of opportunities combined with concrete goals, such as financial equality between women and men for equal performance as well as increasing the number of women in leadership and expert positions. The Women Mentoring Program focuses on female employees, experts and leaders interested in advancing their professional development through a mentoring relationship. BAWAG P.S.K. received the certificate as a family-friendly company in 2013 as the Bank committed under a framework of a structured audit process to facilitate the balance of family and career through corresponding measures. Supported by these internal measures a general framework and an environment should be created for more women to take on leadership and management positions.

According to section 5 para 1 item 9a BWG for Management Board members and section 28a para 5 item 5 BWG for Supervisory Board members the number of mandates has not been exceeded in the financial year 2016. Management Board members of BAWAG P.S.K. held five other management and supervisory functions outside the Group. Supervisory Board members of BAWAG P.S.K. held 12 other management and supervisory functions outside the Group.

CREDIT RISK

OBJECTIVES AND PRINCIPLES OF CREDIT RISK MANAGEMENT

Article 435 paragraph 1 points (a) – (e) CRR
Article 439 point (a) CRR

Strategies and processes

Commercial credit

Strategies and processes presented in this section on commercial credit are also largely applied to sovereigns, the financing of government authorities, and institutions. Loans are processed and decided upon according to extensive work instructions. The decision-making powers are set forth in tables of authority.

Credit is granted on the basis of the following considerations:

- All individual customers and customers in a customer group or a corporate group are rated at least annually.
- The analysis of creditworthiness is based on current business documents (the national accounts for sovereigns) including planning calculations of the company and other information to ensure a meaningful analysis for the rating and the decision.
- The assessment of a customer's creditworthiness and credit bearing capability is based on ratings that must systematically cover all information made available from the relationship manager. The final rating confirmation is handled by the responsible organizational risk division. The loan decision is taken solely according to the Competence and Power Regulation.
- BAWAG P.S.K. strives to collect suitable collaterals to minimize the credit risk which are assessed by using a standardized valuation based on the Group collateral catalogue. In the event of any net exposure, correspondingly higher collateral must be provided if the rating shows any signs of worsening.
- Finance for complex business models (e.g. leveraged finance) or in new countries or regions is based on a thorough analysis and description of the associated (credit) risks. The (credit) risk units must be involved with appropriate expert opinions, as set forth in the product implementation process. New business segments must also be compatible with the general treatment of credit risk in terms of classification and basic rules in order to ensure consistency.
- Any decision that could change the risk position in a customer relationship requires approval from the competent authorized person. Each application requires a positive front-office recommendation (from the customer advisor) before being submitted to the back-office.
- If key ratios are defined in a credit relationship as auxiliary conditions (known as covenants), they must be spelled out in the credit application and approved. Compliance with the key ratios relevant at the contractually fixed dates must be checked by the competent risk unit within the organizational structure.
- The exposure per customer or group of affiliated customers is not allowed to exceed certain magnitudes (0.5% of the capital allocated to commercial credit risk) as determined by the specifications in the Risk Strategy.

Retail and Small Business Customers

Risk from new business is managed by using clear and strict underwriting guidelines. Decisions at the point of sale are mostly made on the basis of automated scoring systems that issue recommendations, or the decision is made downstream in the risk division. Special attention is paid in this portfolio on processing compliance and assuring data quality. A central monitoring process ensures on-going quality assurance.

Credit risk in retail business is measured monthly focusing on the following elements:

- Portfolio trends in terms of risk class distribution
- Portfolio trends in terms of products
- Portfolio trends in terms of overdue/late payments
- Portfolio trends of forbearance volume
- Trends of risk costs
- Portfolio trends for defaulted credit facilities
- Scorecard performance (Traffic lights, approval rates)
- Vintages and recoveries

The findings of the analysis are reported periodically to the Enterprise Risk Meeting.

Independently of this process, risk-relevant data from standardized assessments between market managers and risk management are discussed and documented in monthly committee meetings.

This process ensures a regular and standard flow of information whilst also enabling to respond directly to changes in risk parameters and market conditions.

In the collection process additional measures support the dunning process to be more efficient on working with overdrafts and loans in delay.

Structure and organization of relevant risk management functions

Credit risk is an integral part of many business activities. Operational credit risk is controlled in the units 'Retail Risk and Administration', 'European Retail Risk Management' and 'Commercial and Institutional Risk'. In daily business, credit risk is controlled by each business area in coordination with the credit risk unit based on the powers granted and applying the four-eye principle. The rules regarding the powers granted can be found in the Competence and Power Regulation. Every employee is aware of the rules laid out in this document.

Risk measurement systems (approved approaches)

Article 452 point (a) CRR

With the decision of the FMA of 23 April 2013, BAWAG P.S.K. received approval in accordance with part 3 titel II chapter 3 section 1 CRR to calculate the basis of assessment for credit risk as per art. 107 paragraph 1 CRR applying the internal ratings based (IRB) approach pursuant to part 3 titel II chapter 3 CRR starting on 1 April 2013. The approval extends to the institutions of the Bank Group described below and the indicated exposure classes. For individual exposure classes, credit institutions and business units indicated below, the basis of assessment for credit risk will be determined using the Standardized Approach to credit risk pursuant to art. 148 und art. 150 CRR (permanent or temporary partial use) with approval from the ECB as per part 3 titel II chapter 2 CRR. BAWAG P.S.K. uniformly applies the IRB approach in the Bank Group and jointly satisfies art. 144 und art. 145 CRR for the institutions in the Bank Group.

Portfolios in the IRB approach

Approval to use the IRB approach applies to the following credit institutions in the Bank Group:

- BAWAG P.S.K. AG
- easybank AG

For the exposure class 'exposures to corporates' (art. 147 paragraph 2 point c CRR), the approaches specified by the supervisory authority are used in the scope of the IRB Approach for the risk parameter LGD and conversion factors. The risk weights pursuant to art. 147 paragraph 2 point c CRR apply for exposures from Specialized Lending.

In the exposure class 'retail exposures' (art. 147 paragraph 2 point d CRR), the parameter PD as well as LGD and conversion factors are based on the Bank's own estimates.

Exposures in the exposure class 'participations' (art. 147 paragraph 2 point e CRR), are calculated based on the simple risk weight approach pursuant to art. 155 paragraph 2 CRR and using grandfathering in accordance with art. 495 paragraph 1 CRR.

'Securitizations' (art. 147 paragraph 2 point f CRR) are calculated using the Ratings Based Approach pursuant to art. 261 CRR provided external ratings are available.

Portfolios in the temporary standardized approach

The IRB approach is being successively implemented pursuant to art. 148 CRR for exposures to institutions (art. 147 paragraph 2 point b CRR) and for exposures to holding companies.

For the exposure categories 'exposures to institutions', 'exposures to corporates' and 'retail exposures' in credit institution IMMO-Bank AG a change step by step to the IRB approach is planned. For the exposure category 'retail exposures' in the credit institution start:bausparkasse AG the IRB approach should be implemented.

Portfolios in the standardized approach

Permission was/will be obtained from the FMA/ECB pursuant to art. 150 CRR to apply permanently the standardized approach to credit risk to calculate the basis of assessment for credit risk for the following exposure categories and immaterial lines of business:

- exposures to central governments and central banks pursuant to art. 150 paragraph 1 point a CRR
- exposures belonging to the classes of exposures to the Austrian federal government, provincial governments and public-sector entities pursuant to art. 150 paragraph 1 point d. CRR

- guarantees and counter-guarantees of central governments pursuant to art. 150 paragraph 1 point j CRR
- exposures to local and regional governments and public-sector entities as well as legally recognized churches and religious communities falling into the exposure class 'Institutions' pursuant to art. 150 paragraph 1 point a CRR
- exposures within the Bank Group pursuant to art. 150 paragraph 1 point e CRR
- within the exposures to corporates, the immaterial business units insurance companies, political parties, leasing companies and other financial companies pursuant to art. 150 paragraph 1 point c CRR
- participations whose credit obligations qualify for 0% risk weight under the Standardized Approach to Risk Weight in application of the provisions of art. 150 paragraph 1 point g CRR
- in accordance with Article art. 150 paragraph 1 point c CRR, for the exposures of the following subordinate institutions pursuant to Article 30 paragraph 1 Austrian Banking Act:
  - BAWAG P.S.K. Wohnbaubank AG
  - BAWAG P.S.K. Leasing GmbH and BAWAG Leasing Holding GmbH and its leasing subsidiaries
  - IMMO-BANK AG, if not provided for in the temporary standardized approach
  - start:bausparkasse, if not provided for in the temporary standardized approach
  - real estate companies of BAWAG P.S.K. if they provide ancillary services as subordinate institutions of the Bank Group
  - other smaller financial institutions and providers of ancillary services

Furthermore, the regulatory capital requirements for the International Retail Mortgage Portfolios which have been purchased during the years 2015 and 2016 are calculated by using the standardized approach.

Reporting systems

The entire Management Board is informed monthly about all risks in the ERM based on the comprehensive, monthly Group Risk Report.

In addition, the entire Management Board is informed immediately in case of any material change in the risk situation.

Risk hedging and mitigation[1)]

Article 435 paragraph 1 point (d) CRR

Collateral is recognized and assessed in accordance with the credit collateral catalogue that is valid throughout the Group (KSHK). The KSHK together with the collateral checklist serves as the basis for cataloguing collateral according to internal risk criteria. The KSHK also determines the amount to be set for the market value and lending value (internal value) and whether the collateral may or may not be applied to reduce risk under the current regulatory requirements. If new collateral not yet defined in the KSHK is taken in, the organizational unit Strategic Risk must check whether this new collateral is eligible for recognition and select the method for the valuation of the market value and the limits for the lending value in coordination with the affected areas and submit these items to the ERM for approval.

Monitoring is conducted regularly and the currently valid lending value estimates are reconciled with the historical realization proceeds and checked.

The lending value is the value at which the collateral is internally estimated in terms of reducing exposure. The lending value incorporates values empirically obtained from salability, duration of realization or discounts based on risks specific to the rating or country. In the case of real estate with prior liens, these liens are also considered in figuring the lending value. The lending value is set for daily credit business and is generally far below the current market value. The lending values in general and the discount rates per risk category in particular are subject to periodic review.

The market value is the value of the collateral usually attainable from selling the asset in a fair business transaction. The market value is determined using a valuation process that takes into account future marketability and is geared to standardized valuation processes (e.g. for real estate: income approach, cost approach, sales comparison approach, etc.). Speculative aspects are not considered in the calculation of the market value.

1) Refer also to 'credit risk mitigation techniques in the internal ratings based approach'.

COUNTERPARTY DEFAULT RISK ARISING FROM DERIVATIVES, REPURCHASE TRANSACTIONS, SECURITIES AND COMMODITIES LENDING TRANSACTIONS, MARGIN LENDING TRANSACTIONS AND LONG SETTLEMENT TRANSACTIONS

Strategies, processes and management

Article 435 paragraph 1 point (a) CRR

The counterparty default risk is treated as part of the credit risk. Details on strategies and procedures of the management of credit risks are presented in section 'Objectives and principles of credit risk management.'

Structure and organization of relevant risk management functions and risk reporting systems

Article 435 paragraph 1 point (c) CRR

Counterparty default risk is a version of credit risk designating the potential risk of default in treasury transactions, especially derivative transactions. It quantifies the risk of loss that would materialize if the credit rating of a counterparty of BAWAG P.S.K. worsened during the term of a transaction – all the way to the worst case scenario of a default.

The credit risk divisions assess actual counterparties based on front-office requests. A limit system is employed to monitor this risk category and sets separate limits for the three asset classes' derivatives, money market and securities (product limit system). Strategic Risk (department Market Risk Management) is responsible for monitoring compliance with the set limits. The extent to which the limit is being used is calculated methodically following the regulatory approach 'Positive market value plus add-on' as defined in in Article 274 CRR utilizing credit risk mitigation techniques (refer to section 'credit risk mitigation').

This monitoring of limit use is done in real time and in the form of daily reports. The Market Risk Management department reports daily to the front office and the back office on any instances of limits being exceeded. The front office and back office then order countermeasures to be taken subject to an escalation process coordinated by the Market Risk Management department.

All relevant provisions for counterparty risk and the associated processes are described in detail in the risk management manual for Treasury Markets, which is annually updated and approved by the entire Management Board. The rules are supplemented by various process instructions for Treasury Markets and credit risk manuals for the credit segments.

Risk hedging and mitigation

Article 435 paragraph 1 point (d) CRR
Article 439 point (b) CRR

BAWAG P.S.K. can demand the furnishing of collateral or take other steps to mitigate risk based on bilateral agreements (repurchase agreements, lending transactions, ISDA netting agreements, credit support annexes, etc.). From the standpoint of BAWAG P.S.K., credit risk only exists in cases in which the net market value is positive (replacement risk). As this risk depends largely on fluctuations in market risk parameters (exchange rates, interest rate movements, stock prices, etc.), regular recalculation of this risk is indispensable as is an appropriate adjustment in the collateral.

The types of collateral generally allowed include cash in several (major) currencies found in a set list (usually EUR, USD, GBP, CHF) and securities from issuers with very good ratings (government bonds of select European countries and the United States).

If securities are provided as collateral, a haircut based on the remaining term is additionally applied. The collateral amounts are adjusted to the current risk situation (market valuation of the counterparty's transactions), or the intrinsic value of the collateral is checked at contractually agreed times (exchange rate fluctuations are taken into account for collateral denominated in foreign currencies and the market value of securities). The customary intervals for valuation in the market are daily, weekly or monthly. For the majority of contracts, a daily valuation is provided.

The possibility of realizing the deposited collateral in the event of the partner's bankruptcy and its further use (e.g. re-hypothecation or passing along of the collateral as security for another contracting party) is ensured by the legal opinions drawn up on behalf of ISDA for the given jurisdiction of the individual contracting parties.

For derivative business, currently only cash collateral denominated in EUR and USD, in case of a Clearer additionally in CHF and GBP, is allowed. This type of security therefore does not result in any reserves being formed nor is hedging required for the financial collateral taken in, as (with exception of USD, CHF, GBP) its value does not change due to price changes.

Correlation risks

Article 439 point (c) CRR

According to the Basel Committee, there are two types of correlation risk, general and specific. A general correlation risk exists if there is a high correlation between the counterparty's probability of default and risk factors in the general market risk. A specific correlation risk exists if there is a high correlation between the counterparty's probability of default and the replacement value of current transactions being conducted with that counterparty due to the nature of these transactions.

Possible correlation risk is taken into account in connection with deliberations on the collateral portfolio. Any specific correlation risk is countered by combining the granting of limits to a counterparty or obligor group of counterparties and the setting of internal limits (exposure determination). For derivative business, only financial collateral in the form of cash deposits is generally allowed. This practice is also intended to help avoid specific correlation risks. In determining the limit and limit structure during the rating check, BAWAG P.S.K. considers the counterparty's rating and a possible worsening of this rating. These factors are not part of the determination of exposure.

In the case of counterparties with whom a comparatively large volume of derivative business is conducted, collateral agreements are also signed. They stipulate that positive market values are regularly compensated solely in the form of cash deposits.

With respect to repos and securities finance, additional risks are largely eliminated in the corresponding agreements (repo annex, tri-party agreement) by setting restrictive criteria on acceptable types of securities, issuers, rating classes and haircuts. In repos trade, margin calls are periodically executed to compensate for the market value.

Settlement risk is a special case of counterparty risk. It arises when a payment is to be rendered upon the maturity date of transactions but there is not yet a corresponding counter-performance for that payment. The amount owed determines the size of the risk. This risk is added to the settlement limits, which are also defined at counterparty level. Payment netting agreements are concluded to minimize this risk. Moreover, these transactions are increasingly handled through clearing houses (continuous linked settlement [CLS]) and corresponding CLS agreements are concluded for them.

Rating downgrade and its impact on collateral

Article 439 point (d) CRR

Contractual clauses on dependencies between the collateral provided and the rating assigned exist only in a few isolated cases in connection with risk mitigation agreements from derivative transactions. In some of these agreements, this provision affects what are known as the 'independent amount", the 'threshold amount" and the 'minimum transfer amount".

Based on existing agreements and as matters stand today, a rating downgrade of the Bank would not have any material effect on the additional amount to be provided.

Measures for exposure value

Article 439 point (f) CRR

Treasury business is focused on asset and liability management. Derivative financial transactions are conducted in the form of interest rate and currency swaps, forward exchange dealing, interest rate and foreign exchange options, forward rate agreements, interest rate futures and credit derivatives. Credit derivatives are used to a small extent for hedging parts of the securities portfolio. Repo business is dominated by repos and reverse repos. There was no engagement in any securities lending and commodity lending outside the Group or in any margin lending transactions and long settlement transactions as of 31 December 2016.

The fair value is applied in the valuation of derivatives and repos. It is determined from publicly quoted prices. If there is no quoted price available, the fair value is determined using accepted valuation methods. The fair value represents the potential replacement cost.

BAWAG P.S.K. has opted to use the market valuation method as defined in supervisory law. The counterparty risk thus consists of the potential replacement cost (positive market value) plus the add-on as a risk surcharge. This approach takes account of the possibility that the market value of an instrument can change from the start of a transaction due to market price fluctuations over time. A positive market value from the standpoint of BAWAG P.S.K. is an economic exposure in relation to the counterparty, which would be lost in part or altogether in the event of default. The market value thus also represents the additional cost that would be necessary to place a comparable transaction in the market at the time of default, which is why it is referred to as the replacement value. To take account of potential future market price fluctuations as well, an add-on is also determined. Its amount varies depending on the instrument and the remaining term involved and is calculated from a fixed percentage factor added to the nominal value of the transaction. In calculating the internal exposure (limit add-on), BAWAG P.S.K. is guided by the procedure stipulated for determining capital adequacy.

Estimation of the scaling factor

Article 439 point (i) CRR

Own estimates for determining the scaling factor are not in use.

CREDIT RISK MITIGATION

Policies and processes for netting

Article 453 point (a) CRR

BAWAG P.S.K. has made use of off-balance-sheet netting since 31 December 2008. Netting pertains exclusively to derivative instruments with counterparties for whom corresponding netting agreements exist. Derivative agreements are entered into only with counterparties that have also signed a corresponding master agreement entitling BAWAG P.S.K. to undertake netting. Netting is applied to the entire derivative business. The pertinent netting agreements are legally valid and legally enforceable in all relevant jurisdictions in the event that the counterparty becomes insolvent or goes bankrupt.

Credit risk mitigation techniques in the internal ratings based approach

Article 452 point (b) (iii) CRR

The Credit Collateral Catalogue valid for the entire Group is the main tool in determining the eligibility of collateral for recognition. The list shows the possible combinations of types of collateral and types of goods. A determination is made for each of these combinations as to which collateral type should be assigned to it. The principles underlying the credit risk mitigation techniques are presented from the perspective of internal risk management. The list also records for each available combination whether it is eligible for recognition in the calculation of required capital and, if so, under what approach. In addition, the Group-wide Credit Collateral Catalogue describes the material minimum regulatory requirements for each type of collateral. Compliance with the quality requirements is checked when the collateral is entered and, if required, by selecting the collateral key for it.

During the calculation of risk-weighted assets, the reliability of delivered collateral is checked and, where there is leeway to act, it is assigned to the individual exposure items after taking into account the stipulated discounts.

Types of collateral and collateral valuation and management

Article 453 points (b) – (c) CRR

The following guidelines must be followed for collateral valuation and management:

- BAWAG P.S.K. has the right to accept or reject collateral or to assign to collateral the value deemed necessary and reasonable in order to protect the Bank´s interests.
- The Group-wide Credit Collateral Catalogue defines for the entire Group what combinations of goods (characteristics of the economic good/asset) and collateral (to which BAWAG P.S.K. has title) are deemed basically acceptable and what value (market value, nominal value, etc.) to apply. It also indicates what discounts from the calculated value apply and under what circumstances this collateral can be applied to reduce capital requirements. This document is revised if necessary but at least once a year.
- The accompanying documents stipulate the process steps required to evaluate, take in and put into effect the collateral and to manage and realize it. Transaction-related exceptions to discounts set down in the Credit Collateral Catalogue must be approved by the organizational division Strategic Risk.
- All collateral must have a market value that is easy to determine or an internally calculated value, and BAWAG P.S.K. must be in a position to represent its interests in the collateral.
- Collateral must meet the general legal requirements, in particular the minimum recognition requirements and the policies defined by the ERM.

The compliance of the collateral with the legal criteria and the policies is determined during the credit application process in the front office and reviewed by the risk departments.

Generally, the value of collateral is checked during annual prolongation or the annual risk check or as warranted (e.g., increase, default).

The table below provides a summary of the key types of collateral, their estimated values, and the frequency of valuation:

Table 2: Types of collateral and collateral valuation and management

Type of collateral	Estimated values	Frequency of valuation
Financial collateral	Market value according to current GEOS price data (with volatility adjustments taken into account)	Automatic daily valuation except for deposits at other banks
Residential real estate	Market value	One-year interval for new valuation; For condominiums, single-family houses and building plots, market values are updated in an automated procedure based on annually published reference values from the Austrian Economic Chamber (level of real estate prices); For rental apartment houses, revaluation is done at least every 3 years; Once a year, the risk units additionally check whether any material changes have occurred. A new valuation is ordered where warranted.
Commercial real estate	Market value	A new valuation is conducted by the Appraisal Real Estate Department at least every three years for loans > EUR 3 million and at least every five years for loans < EUR 3 million. Once a year, the risk units additionally check whether any material changes have occurred. A new valuation is ordered where warranted.
Other physical collateral	Market value	At least once a year
Pledging or assignment of life insurance policies	Repurchase value	Automatic updating of repurchase value (through the insurance platform). For all other insurance companies when data is not transmitted via the platform: The customer must be obligated to submit the insurance confirmation annually.
Guarantees	Guaranteed amount (nominal value) less possible currency risks (volatility adjustment)	Monthly reconciliation of liability amount with the balance – depending on scope of liability
Co-obligations	Outstanding balance unless a restriction applies (no estimate for regulatory purposes)	On-going

Real estate valuation is centralized to ensure a standard valuation approach throughout the Group. Residential real estate is assessed automatically using a valuation tool. The value of commercial real estate is assessed by an independent expert at the current market value, at the maximum.

Guarantors/counterparties for credit derivatives

Article 453 point (d) CRR

The main types of guarantor eligible for regulatory credit risk mitigation are domestic and foreign banks, the federal government, state governments, local governments and sovereigns. With respect to the eligibility of the guarantees, there are internal minimum requirements defined in the Underwriting Guidelines Commercial. These guidelines explain under which conditions the customers are allowed to get limits granted for derivative transactions and guarantees. For instance, the rules say that derivative limits may only be granted to banks with a very good credit rating (the equivalent of a minimum rating of A-[1)]). Any exceptions must be well-founded, separately requested and explicitly approved.

The small volume of hedging transactions that existed on the reporting date in the form of credit derivatives was concluded exclusively with major international banks rated AA or A.

Collateral risk concentrations

Article 453 point (e) CRR

A concentration risk exists if a significant percentage of collateral items Group-wide (at portfolio level) are concentrated in a small number of collateral categories, instruments, sectors or special protection providers (e.g. collateral providers). Certain reporting and monitoring activities are conducted at consolidated level for all types of physical collateral and guarantees for credit risk as well as market risk.

In the context of the consideration of the total collateral portfolio, concentration risks in connection with real estate collateral and guarantees have been identified and the following measures have been initiated: Warning thresholds have been defined at portfolio level for all collateral with intrinsic value and at individual level for the largest providers or issuers of collateral (with the rating taken into account in cases involving guarantees). This procedure is performed monthly and the findings are submitted to the heads of the risk units. The largest providers of collateral are presented quarterly in the Group Risk Report.

VALUE ADJUSTMENTS AND RESERVES

Definition of 'past due', 'impaired', 'general credit risk adjustments' and 'specific credit risk adjustments'

Article 442 point (a) and (b) CRR
Article 442 point (i) (i) CRR

Definition of 'past due'

According to the CRR, days past due begin once an obligor has breached an advised limit, has been advised a limit smaller than current outstandings, or has drawn credit without authorization and the underlying amount is material. Days past due for credit cards commence on the earliest maturity date. Also, a receivable is deemed past due if the counterparty failed to make their contractually agreed.

Definition of 'impaired'

Impaired positions are all on-balance sheet exposures in the default risk class '8' when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.

In case of a substantial delay of 90 days, a provisioning or other customer related default criteria occurring, the customer with all his products is declared as defaulted, assigned to risk class '8' and the unsecured portion is provisioned. This provisioning reflects the impairment.

Definition of 'general credit risk adjustments'

According to regulatory requirements, general credit risk adjustments include provisions which are at any time fully available to cover credit risk losses not occurred yet. Furthermore, they are used to cover credit risk-related losses in a group of risk positions for which the credit institution has no indication that a loss event has occurred. No general credit risk adjustments in terms of the regulatory definition have been built as of 31 December 2016.

1) Rating given by the rating agency Standard & Poor's.

Definition of 'specific credit risk adjustments'

All other credit risk adjustments that do not meet the conditions of general credit risk adjustments are specific credit risk adjustments. Specific credit risk adjustments are defined as provisions for those receivables where a reduction in value has been identified. They are based on the estimates of the credit risk division on the expected repayments and proceeds of the collateral as well as subsequently built manually by the credit risk division. Furthermore, specific credit risk adjustments are provisions which are built automatically by the core banking system in the case of unpaid instalments or current account overdrafts over 90 days. The portfolio provision according to IAS 39 AG89 for losses in the Group credit portfolio that were incurred but not yet reported (IBNR) on the reporting date is also part of specific credit risk adjustments. For this portfolio-based provision, it is assumed that losses have been incurred but not yet reported for a certain percentage of accounts not recognised as defaulted on the reporting date. To calculate this provision, the exposures are grouped into homogeneous portfolios with comparable risk characteristics. The quantification is based on the expected loss taking into account the period between the occurrence of the loss and the reporting of the loss (loss identification period). This period, in turn, is determined individually for each customer segment on the basis of the average time until the next expected payment and the processes for risk monitoring.

In principle, credit risk is addressed by building credit risk provisions. They consist of provisions for credit transactions on the balance sheet and reserves for credit transactions off the balance sheet. The main components are specific provisions and the reserves for the potential coverage gap for loans with repayment vehicles.

Information regarding the level of provisions and the respective changes can be found in the quantitative section of the Disclosure Report and in the annual report.

RATING SYSTEMS AND RATING PROCESSES

External ratings systems

Article 444 points (a) – (d) CRR

The weighted exposure amounts are calculated for regulatory purposes for a part of the loan portfolio (banks, subsidiaries except easybank in TPU) using the standardized credit risk approach according to Part 3 Title II Chapter 2 of the CRR. It is generally geared solely to ratings from Moody's.

The distinction between issuer rating and issue rating as described in Article 139 CRR is taken into account when external ratings are used. Issuer ratings are used in particular only if no issue rating is available and the conditions in Article 139 CRR are satisfied.

The mapping regulation of FMA in the version Austrian Federal Law Gazette 2007/254 is consulted with regard to the mapping of external ratings to the individual rating notches.

Internal rating systems

Article 452 point (b) (i) CRR

Customer segmentation and overview of the internal rating systems

BAWAG P.S.K. employs internal rating and scoring systems for its own risk management. Customers are assigned to an exposure category and the stipulated rating procedure based on a process called segmentation. The first step in segmentation occurs automatically in advance of actual calculations based on the defined parameters.

The relevant rating and scoring process is determined based on these criteria and, in retail business, also on the selected product. Individual regulations of the CRR are taken into account when required capital is calculated in the risk engine, at which time the exposure class or its sub-category is finally set.

The following table summarizes the significant rating and scoring models for the customer segments Banks as well as Commercial and Retail Customers. Beyond that, rating systems applied in accordance with the standardized approach are used for customer groups.

Table 3: Overview of rating and scoring systems

	Rating system	Stat. model / expert model	BAWAG P.S.K.	easybank	Others[1]
Corporates	Corporate Standard Austria	Stat. model	x	x	x
	Corporate Standard Non-Austria	Stat. model	x	x	x
	Holdings	Stat. model	x	x	x
	Real Estate Private	Stat. model	x	x	x
	Social Housing	Expert model	x		x
	Specialized Lending	Expert model	x		x
Banks	Banks	Stat. model	x	x	x
Retail	AS[2] – Current Accounts	Stat. model	x	x	x
	AS – Standard Loans	Stat. model	x	x	x
	AS – Mortgage Loans	Stat. model	x	x	x
	AS – Credit Cards	Stat. model	x	x	x
	AS – Small Business Retail	Stat. model	x	x	x
	BS[3] – Credit Private and Small Business	Stat. model	x	x	x
	BS – Current Accounts	Stat. model	x	x	x
	BS – Accounts	Stat. model	x	x	x
	BS – Credit Cards	Stat. model	x	x	x
	BS – Accounts Small Business	Stat. model	x	x	x

1) Other institutions.
2) AS stands for application scoring.
3) BS stands for behavioral scoring.

The rating and scoring systems are subject to annual validation processes. If major deviations exist, subsequent analyses are initiated during the year and may result in corresponding adjustments.

Relationship between internal and external ratings

Ratings from Moody's are employed to calculate the minimum capital requirements for regulatory purposes which are applied in accordance with permanent or temporary partial use. For securitizations, the ratings from Moody's, Standard & Poor's and Fitch are incorporated in the calculation of risk-weighted exposures.

The results of the internal rating procedures are depicted using a master scale. The table on the next page shows the relationship between the internal rating notches and the external ratings.

Table 4: Rating notches and classes for all segments

	External rating agencies		
Rating notch	Moody's	S&P	Fitch
1,1	Aaa[1)]	AAA[1)]	AAA[1)]
1,2	Aaa[1)] , Aa1	AAA[1)] , AA+	AAA[1)] , AA+
1,3	Aa2	AA	AA
2,1	Aa3	AA-	AA-
2,2	A1	A+	A+
2,3			
3,1	A2	A	A
3,2			
3,3	A3	A-	A-
4,1	Baa1	BBB+	BBB+
4,2	Baa2	BBB	BBB
4,3	Baa3	BBB-	BBB-
5,1	Ba1	BB+	BB+
5,2	Ba2	BB	BB
5,3	Ba3	BB-	BB-
5,4	B1	B+	B+
6,1	B2	B	B
6,2	B3		
6,3	Caa1	B-	B-
6,4	Caa2		
7	Caa3	CCC+, CCC, CCC-, CC, C	CCC,CC,C
8,1 – 8,8	Ca, C	R, SD, D	RD, D

1) Aaa and AAA correspond to Class 1,1 for sovereigns and to Class 1,2 for all other segments.

The internal rating processes for the exposure classes also take into account external ratings under certain conditions (e.g. information that is more current or more comprehensive).

Rating systems and processes in the retail segment

Article 452 point (b) (i) CRR
Article 452 point (c) (iv) CRR

Retail customers

Retail customers are defined as natural persons whose income does not derive primarily from self-employment. The main exposure categories in the retail customer segment are private loans, overdrafts on salary accounts and credit card products.

Whenever a new product which can be recorded as a debit is opened or the customer or product information change, retail customers are subject to an application scoring for determining their rating. After a product relationship lasts six months (at the earliest), they are subject to an automatic monthly behavioral scoring.

Application scoring
Application scoring is based on the product and on the different scorecards for the product categories:

- loans for which real estate was provided as collateral
- current accounts
- non-collateralized standard loan facilities
- qualified revolving retail exposures (credit cards)

The scorecards take into account customer characteristics (e.g. age, occupation), application and product characteristics (e.g. amount of credit extended) and external data on any incidences of payment problems.

Loans can be approved only for customers in risk classes up to 6,2. Beyond the determination of risk class, scoring gives a recommendation on what decision to make (accept/green; reject for now/yellow; reject/red) based on the regulations specifying the essential criteria in the credit extension guidelines (total credit exposure, affordability, security, etc.).

These recommendations are binding for the authorized employees in sales. Only authorized staff in the risk centers is allowed to overrule the categories ‘reject for now’ and ‘reject’.

Another application scoring procedure can be carried out during the term of any product where warranted, particularly if essential new information has come up that indicates a (positive or negative) change in the customer’s current risk class.

Application scoring for mortgage loans
The automatic rating procedure incorporates no collateral characteristics beyond the customer’s personal data (e.g. economic environment, employment status, and household account) and credit application information (e.g. loan amount). These characteristics are checked for compliance with credit extension guidelines in keeping with the rules for decision making.

Application scoring for credit cards
For credit cards for current account holders, a rating check which consists of the personal data of the customer and the product data is necessary. An appropriate risk class is assigned to the customer on this basis.

Co-branded credit cards are credit cards that are issued jointly with organizations or companies outside the financial sector and that are managed within BAWAG P.S.K. These co-branded credit cards are assigned to a product-based risk class and to a ‘decision recommendation’.

Application scoring for consumer loans
For standard loans, BAWAG P.S.K. determines a risk class based on the customer’s personal data (e.g. economic environment, employment status) and the credit application data (e.g. amount, term, purpose). Decision-making rules are used to check the specifications in the credit extension guidelines as regards total exposure and affordability taking into account security reserves, etc.

Application scoring for current accounts
For current accounts, the customer’s personal data (e.g. age, education and external information) are used to form a risk class.

Behavioral scoring
A distinction by product group is made in behavioral scoring. Payment accounts (e.g. salary accounts) are divided into three different scorecards. Credit products as well as credit cards are in each case grouped in a single scorecard. Payment behavior and product specifics are incorporated in all scorecards to calculate a behavioral scoring risk class.

After six months, each product with a potential debit balance is checked at the end of the month and a behavioral score is determined. This score is based mostly on internal account movements: e.g. account behavior (accounts and loans/overdrafts), duration of the customer relationship, payment behavior, number of loans taken out, but also external information such as entries in warning lists.

Forming the customer risk class
Every month, BAWAG P.S.K. conducts an aggregation to create a customer risk class from the different procedures for application scoring and behavioral scoring for the individual products. This is done at least once at the end of the month – if behavioral scoring is taken into account – or is calculated when a transaction is first commenced. The aggregation to the customer risk class is based on an internal weighting of the risk classes for the customer’s products.

Small and medium-sized enterprises

The Retail category takes in all enterprises with operating revenues of less than EUR 50 million and an exposure (for the entire customer group) of less than EUR 1 million in BAWAG P.S.K. If these enterprises cannot be assigned to a special rating based on business purposes (see Rating systems and processes at companies and institutions), the scoring procedure for small and medium-sized enterprises is applied.

In the Retail/Small Business segment, further sub-segments geared to the type of accounting (cash-based, lump-sum and accrual accounting) and the operating revenues are formed to take into account the different information bases and the procedural requirements. The exposures consist mainly of overdrafts in payment accounts as well as operating loans and medium- and longer-term investment loans.

As with retail customers, both application and behavioral scoring processes are used here.

Application scoring
An application scoring risk class is determined based on quantitative information (customer's financial data) and qualitative characteristics (soft facts, account behavior) as well as additional items of external and internal information (e.g. warning list, credit bureau [Kreditschutzverband von 1870 (KSV)]).

BAWAG P.S.K. has internally developed models based on key figures for enterprises with cash-based accounting, lump-sum accounting and small companies using accrual accounting. The statistically validated RiskCalc AustriaTM model from Moody's KMV is used for the financial rating for businesses that use accrual accounting and that have more than EUR 0.5 million in operating revenue. Information from the commercial customer portfolio was instrumental in the development of that model.

Like the other rating models, this system is also subject to a validation process on an annual basis and ongoing enhancements. In addition a project has been set up for developing an internal model to replace the external model.

Application scoring must be done for each new application, in connection with the annual prolongation process or as warranted (when a change occurs in essential information relevant to the rating) and regularly repeated in connection with accounting, operating revenues, exposure and the behavioral score of the customer. The application scoring results in a customer rating based on risk class and descriptive reasons associated with that risk class.

In addition, a recommendation is given on what decision to make (accept/green; reject for now/yellow; reject/red) for special customer groups to enable differentiated treatment of the customers.

Behavioral scoring
Behavioral scoring essentially involves an evaluation of the customer's account behavior. Other variables such as the duration of the customer relationship and external information are also considered in the score.

Behavioral scoring is independent of the retail segment Private or Small Business. It is geared to product behavior.

Forming the customer risk class
Every month, BAWAG P.S.K. conducts an aggregation to create a customer risk class from application scoring and behavioral scoring for the individual products. The aggregation to the customer risk class is based on an internal weighting of the risk classes for the customer's products.

Rating systems and processes at companies and institutions as well as participation positions and sovereigns

Article 452 point (c) (i – iii and v) CRR
Article 452 CRR

The rating systems must be applied to corporates and institutions that avail themselves of an exposure at BAWAG P.S.K. This exposure is mainly attributable to overdrafts on payment accounts, operating facilities and medium- and longer-term investment loans or to corporate securities in BAWAG P.S.K.'s own portfolio and Treasury products.

The rating process for corporates basically calls for the customer advisor to solicit information relevant to the rating and conduct a qualitative assessment of the customer (rating based on soft facts) in the central corporate data system. The customers' financial data is also centrally recorded and assessed (hard-fact rating) in this database (separated from the lending process). Based on these qualitative and quantitative input factors, a risk class is calculated automatically for the customer and checked by risk analysts (back office; four-eye principle). It is altered if needed and confirmed in the system. The risk class must likewise be approved by the employee authorized for it. The customer's rating must be updated at least once a year or as needed (new application, deterioration of creditworthiness, etc.), also during the year. This rating is subsequently used for calculating the regulatory minimum capital requirements, for reporting, for setting terms and conditions, and for controlling risks.

Corporate Standard Austria

This area of application pertains to companies with their registered office in Austria which use accrual accounting and which cannot be assigned a special rating procedure because of their business purpose (e.g. holding companies, real estate companies, etc.). These companies must also have a group exposure under Basel II equal to or greater than EUR 1 million or consolidated operating revenue equal to or greater than EUR 50 million.

The customer's risk class is calculated from a combination of a financial rating from a statistically based balance sheet rating and an assessment of qualitative characteristics (e.g. management, organization, market/sector, general factors, and account management). The risk analyst can overrule[1)] or override[2)] a confirmed customer rating if needed. The major reasons for this step are downgrades based on an outdated balance sheet, or warning signals (e.g. outstanding taxes, warning list entries) and consideration of a group influence, ratings of a rating sponsor (e.g. support from dominant shareholders, personal partner with unlimited liability) or, under certain restricting circumstances, consideration of external ratings.

The system is subject of a yearly validation and ongoing enhancements, analogous to all rating systems.

Corporate Standard Non-Austria

Foreign commercial customers, i.e. non-Austrian companies, were removed as a sub-segment from the process for Corporate Standard Austria customers in February 2011. Since February 2011, BAWAG P.S.K. has been assessing these customers using a separate method developed in house. For this purpose an own statistics-based hard-fact rating model has been developed. In combination with softfacts the rating of the customer is derived. The process structure corresponds to the process for Corporate Standard Austria.

Holdings

This area of application extends to companies that hold permanent stakes in legally autonomous companies. It was expanded in the summer of 2011 with the addition of group financial vehicle belonging to the group holding risk-relevant Group-related assets.

The rating system for holding companies combines a hard-fact rating and a soft-fact rating as well as a segment-specific 'rating in the group'. Risk analysts can alter the calculated rating with an overruling or override.

The process was revised and implemented in the summer of 2011. The revision includes an adaptation of the statistical rating component, namely the hard-fact rating for the holding company (key ratios and weights), and a change in the soft-fact rating based on an expert system. In addition, the 'rating in the group' has gained substantial significance in the process structure as a third component. This results from a confirmed rating assessment of the group or of associated companies relevant to the holding company (rating process in accordance with the group's segmentation). It is the most heavily weighted component in the rating algorithm and also serves as a rating ceiling. Conceptually, the basic underlying idea is that the holding company cannot have a better rating than the group that generates the income.

For exposures to holding companies, the basis of assessment for credit risk is calculated using the Standardized Approach to credit risk (TPU).

Real estate Private

This area of application covers companies with accrual accounting that can be designated as real estate agents/investors based on their business activities.

The rating system is generally structured like the Corporate Standard Austria process. It combines hard-fact and soft-fact ratings which can be altered by overruling/override. In May 2011, the rating components financial rating and soft-fact rating were revised on the basis of statistics.

Social Housing

This area of application extends to non-profit building associations as defined in Article 1 Austrian Non-profit Housing Act (WGG).

The risk class for this customer segment is based on a financial rating with key ratios developed specifically by experts. The rating can be adjusted using upgrades and downgrades (defined qualitative parameters such as vacancies, property condition, owners, account management, etc.) which can be altered by overruling/override.

1) Overruling refers to a deviation of the confirmed rating from the automatically calculated rating in predefined cases with defined effects, i.e. according to defined rules (e.g. outdated annual financial statements of the customer, various warning signals, and group influence).
2) An override refers to a variable deviation from the automatic rating outcome based on a subjective assessment with a review made by a risk analyst and with a corresponding decision by an authorized employee.

Specialized Lending

According to the CRR, Specialized Lending refers to exposures created in relation to companies specially set up to finance or operate real properties that comply with the criteria set down in Article 147 paragraph 8 point (a) to (c). As a first step, internal ratings are set for these companies based on the criteria laid down in Article 153, paragraph 5. These ratings are based on a list of quality features modeled on the concept of the supervisory slotting approach in the draft EU Directive 07/2004, Annex VII, Part 1, No. 5. The list also contains a deal breaker in the form of the characteristic 'Key financial ratios'. Afterwards the ratings are mapped to the five categories named in the CRR:

Category 1: Internal risk class of 4.3 or better
Category 2: Internal risk class of 5.1 or 5.2
Category 3: Internal risk class of 5.3 or 5.4
Category 4: Internal risk class of 6 or 7
Category 5: Default

Any collateral for specialized lending is already incorporated in the rating and therefore not taken into the capital requirement calculation.

A project for developing a rating system based on relevant cash flows (DSCR debt service coverage) and collateral aspects (LTV loan to value), resulting in a mapping to the categories mentioned above, is in the final stage of the regulatory review.

In connection with specialized lending BAWAG P.S.K. is constantly working on methodological enhancements.

Banks (institutions)

This area of application applies to banks (except special lending institutions) in the portfolio of BAWAG P.S.K. Exposure to banks arises mainly from payment transactions and other handling transactions, from money market liquidity placements, from the appropriation of securities and in Treasury business.

A bank has to be assigned to a risk class before accounts can be opened and limits granted.

The financial rating is based on key figures derived from the balance sheet and the profit and loss account. Before the final rating can be recorded, the analyst still has the option of upgrading or downgrading the rating based on qualitative factors (e.g. risk management, competitiveness) and support factors (e.g. support from the parent company). The rating calculated in this way has an upward ceiling in that it may be no better than the rating of the country in which the bank has its registered office. Finally, the confirmed rating is assigned to a certain probability of default based on the master scale. An improved version of the rating system has been implemented in June 2016.

For exposures to banks, the basis of assessment for credit risk is calculated using the standardized approach (TPU).

Participations

For participations, the same rating procedures are used as for external borrowers, namely the processes for corporates and banks. Capital requirements are determined by the simple risk weight method in accordance with Article 155 of the CRR.

Central governments and central banks

The standardized approach is employed for central governments and central banks with no geographic assessment, i.e. the procedure is geared to the existence or non-existence of an external rating for the given government. If a rating is available from Moody's[1)], the risk weight is assigned to the six rating notches as follows:

1) Only ratings from Moody's are allowed.

Table 5: Description of ratings

Rating notch	1	2	3	4	5	6
	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	Under B-
Risk weight	0%	20%	50%	100%	100%	150%

If no external rating is available, exposures to central governments and central banks are assigned to a risk weight of 100%.

A risk weight of 0% is assigned to risk positions to central governments and central banks of EEA member states denominated in the national currency of this central government and this central bank and refinanced in this currency.

Use of internal estimates

Article 452 point (b) (ii) CRR

The risk parameters in the rating systems are integral parts of the control system within the scope of credit portfolio modelling and of price calculation that adequately captures risk (with standard risk costs taken into account during pre-calculation in the RAP tool).

Control mechanism for rating systems

Article 452 point (b) (iv) CRR

Validation reports on rating and scoring systems are done once a year. They are produced by a central risk management office for all rating models used throughout BAWAG P.S.K. and comprise the following activities:

Table 6: Description of the validation methods

Validation method	Description
Method 1	Verification of the documentation for the rating and scoring systems
Method 2	Verification of the quality of the database being used for validation
Method 3	Verification of the correct use of the rating and scoring systems as part of a use test
Method 4.1	Distribution analysis to identify clusters of customers in individual risk classes
Method 4.2	Comparison of internal ratings with external ratings (benchmarking)
Method 4.3	Identification of clustering of high exposures in individual risk classes
Method 4.4	Verification by the risk manager of the frequency of overrulings / overrides in the automatically generated rating classes
Method 4.5	Verification of clusters of defaults in individual rating or scoring systems
Method 5.1	Testing of rating and scoring systems as regards calibration by comparing the mean forecast PD and the mean observed default rate
Method 5.2	Testing of individual risk classes to determine correlation between the forecast PD and the observed default rate using binomial distribution tests;
Method 6	Testing of the discriminatory power of the rating and scoring systems using ROC curve and Gini coefficient
Method 7.1	Stability analyses of discriminatory power over time
Method 7.2	Migration matrices for the observation of changes in the risk structure

The results achieved using the described methods are presented in a traffic signal system. If results of statistical significance and major deviations from established values exist, subsequent analyses are initiated during the year and may result in corresponding adjustments.

Strategic Risk is the organizational unit responsible for validating the rating systems used in BAWAG P.S.K. It reports directly to the CRO.

Above and beyond that, the following categories are prepared regularly as part of standardized monitoring reports:

- distribution of the customers and exposures across the Basel segments according to CRR, an internal subdivision of the exposure classes
- distribution of the risk classes across the Basel segments according to CRR and their degree of updatedness
- risk classes based on overruling
- distribution of the risk classes and the individual risk factors per rating and scoring system

If defined limits are exceeded or fallen short of, the causes are analyzed in depth and counter-measures are initiated as needed.

Estimation and validation of the risk parameters

Article 452 point (h) CRR
Article 452 CRR

Probability of default

The probability of default (PD) is the estimated probability that a borrower will default within the next twelve months. The occurrence of one of the events listed below is deemed as a default event throughout the Group. The definition of default corresponds to the regulatory reference definition ('90 days past due' and 'imminent default of payment') as set forth in Article 178 of the CRR[1]:

Table 7: Description of the reference definitions for default

Reference definition for default	Description
90 days past due	A material liability of the borrower is more than 90 days past due.
Imminent default of payment	In response to the rating, the parties agreed to a reorganization interest rate / exemption from interest, restructuring of the obligation (e.g. change in term, change in schedule for repayment of principal) or the like.
	In response to the rating, the Bank removed claims against the borrower from the Bank balance sheet.
	Legal case without allocation of a specific provision (e.g. due to full collateralization).
	The borrower filed a bankruptcy petition.
	A specific provision is formed due to the rating (automatically or manually) and the building of impairments.
	A liability of the borrower is sold at a significant loss due to rating.

At present, BAWAG P.S.K. mainly uses statistical PD estimation models. The models are calibrated based on long-term average rates of default and a sufficiently conservative surcharge. The calibration is based on a statistical model.

The PD estimation is validated annually using qualitative and quantitative methods. The qualitative methods focus on data quality, utilization and on the quality of the documentation for the estimation process. Discriminatory power is measured in the quantitative area. Furthermore, a binomial test is used for calibration and to check the discrepancy between the forecast PD and the rate of default actu-actually observed. The stability of the estimation models is also observed over extended periods of time.

In the previous period, no above-average default rates were identified for the key PD estimation models.

1) As no deviations from the definition of default occurred, no further information is required in the meaning of Article 16, paragraph 2, line 3 Article 452.

Loss given default

Loss given default (LGD) is defined as economic loss as a percentage of the outstanding exposure at default (EAD). The economic loss comprises the outstanding EAD less recoveries from the realization of collateral and other non-collateral proceeds.

Internal Bank estimates are only carried out for the retail portfolio (Private and Small Business). The LGD estimate is based on a two-step process. First, the collateral return rate (SEQ) is determined per collateral pool. Then the outstanding exposure less collateral return (EAD*) is determined. For the non-collateralized portion of the exposure, a non-collateralized LGD is estimated using a CHAID-class decision-tree process applying criteria with a high degree of discriminatory power. In a final step, the two components SEQ and non-collateralized LGD are then merged to arrive at the final estimated LGD. The generated values of the individual pools are calibrated at a conservative level using an upward surcharge based on the standard deviation and the number of data sets and taking into account any downturn effects that may be observed. All data available were used for model development as long as the data were of sufficient quality and were sufficiently representative.

The annual validation of the estimated LGD comprises analyses of the deviation between observed values and estimated values, plausibility checks, as well as descriptive statistics and tests for the individual LGD pools.

Slightly elevated values were observed in the previous period with respect to loss given default (LGD) but could not be ascribed clearly by individual factors. This issue has been addressed in course of the model adaptions 2016.

Credit conversion factor

The credit conversion factor (CCF) is the expected utilization in per cent of a line of credit existing but not yet drawn at the time of estimation until such time as a default event occurs. In other words, the CCF is used for estimating exposure at default (EAD).

Internal Bank estimates are only carried out for the retail portfolio (Private and Small Business). The CCF estimate is based on a CHAID-class decision-tree process using criteria with a high degree of discriminatory power. The generated values of the individual pools are calibrated at a conservative level using an upward surcharge based on the standard deviation and the number of data sets and taking into account any downturn effects that may be observed. All data available were used for model development as long as the data were of sufficient quality and were sufficiently representative. An improved version of the model has been implemented in December 2016.

The annual validation of the estimated CCF comprises analyses of the deviation between observed values and estimated values, plausibility checks, as well as descriptive statistics and tests for the individual CCF pools.

In the previous period, no above-average values were identified for the credit conversion factor (CCF).

MARKET RISK

OBJECTIVES AND PRINCIPLES OF THE MANAGEMENT OF MARKET RISK

Article 435 paragraph 1 points (a - d) CRR
Article 449 point (m) CRR

Structure and organization of relevant risk management functions

The Market Risk (SRM) department is embedded in the Strategic Risk Division which reports directly to the CRO. The division head is by virtue of his position a member in various bank management committees. The most important committee with regard to market risk is the SALCO. The most important responsibilities concern the monitoring of market risk, in particular foreign currency exchange risk, interest rate risk, stock price risk, volatility risk and credit spread risk. This is achieved through the limitation of the individual types of risk, whereby in this regard it is SRM's responsibility to set such limits as approved by the Management Board within the ICAAP. Furthermore, the measurement and monitoring of risk positions as well as the analysis of the associated loss potential occurs during periodic stress tests. A central aspect of these tests is the reporting of results to the relevant decision-makers.

Additionally, SRM is responsible for the counterparty credit risk monitoring of treasury positions. The decentrally organized Operational Risk is estimated at least annually at the departmental level through the Risk-Self-Assessment process and reported to the responsible department.

Strategies and processes

Until autumn 2012, activities in the trading book focused primarily on own trading, i.e. buying and selling in defined markets and in defined product classes. The objective was mainly to carry out proprietary trading activities in highly liquid monetary and capital market instruments in the money market, fixed income and FX segment. All spot products and associated derivatives were traded within their risk class (interest rate, FX). In the autumn of 2012, BAWAG P.S.K. decided to extensively reduce active proprietary trading and reduced trading book limits significantly.

Basically, all transactions for which an active market exists and a market price is available are valued at the market price.

The risks are monitored using a limit system. SRM measures application of market risk limits and also orders counter-measures if the market risk limit is exceeded (VaR, vega, gamma, worst case, BPV, volume limits).

The objectives of the limit system were defined as follows:

- To create a risk-oriented limit system that consistently and methodically covers all positions in the trading and banking book that are sensitive to market risk and all risk factors using standard risk ratios
- To ensure the controllability of market risk using clear-cut, non-ambiguous risk ratios and to set limits for these ratios in a proactive limit system
- To integrate risk measurement, limit setting and the monitoring of limit utilization systematically for all positions in the trading and banking book sensitive to market risk at individual and aggregate level in order to improve the basis for making decisions on risk policy and risk diversification
- To integrate the market risk limits into budget planning and to take account of calculated risk bearing capacity and, thereafter, of risk appetite in the scope of the overall ICAAP framework

Additional risk restrictions can be put in place for a period ranging from temporary to indefinite in response to the market situation for the actual controlling of risks in current business in the trading and banking books.

Trading book limits[1)]

Following Trading book limits apply:

- Sensitivity and volume ratios
- Worst case limit (maximum loss with executed crisis tests)
- VaR limits (limit check in relation to Management Board overnight)
- Gamma limit (for options in the interest rate segment and FX)
- Vega limit (for options in the FX segment)
- Annual loss limit (dynamic limit)

1) After the substantial reduction in active trading book activities, there are naturally still certain positions remaining, which will be reduced successively. In addition, customer orders and, to a small extent, flows of the total Bank continue to be handled within the trading book. For this purpose, limits and processes are needed and are put in place accordingly.

Total Bank limits

There are basis-point value limits at enterprise level in the interest rate segment that are divided by time band and in total. There is a limit for each of the time bands 0–1Y, 1–2Y, 2–3Y, 3–4Y, 4–5Y, 5–6Y, 6–7Y, 7–8Y, 8–9Y, 9–10Y and >10Y. The total of all basis-point values is also limited for the individual maturity ranges. Additional limits are also set within the described maturity ranges and overall for the sub-portfolios calculated at fair value. There is a limit for securities relevant for the AFS portfolio as well.

Reporting systems

Trading book reports

The VaR, its limit utilization, the basis-point values and gamma in the interest range are reported daily to the Management Board and the competent trading units, as are the sensitivities of delta, gamma and vega and the open currency position in the foreign exchange unit.

Moreover, monthly shifts (interest rate, FX, volatility) are performed for the respective asset classes.

Furthermore, all material trading book key figures are reported monthly to SALCO in the Market Risk Report.

Banking book reports

Limit compliance is checked daily in Treasury Markets for FX risk and Interest Rate Risk-BPV and reported to the Management Board. Compliance with the basis-point value limits (enterprise and maturity range limits as well as limit relevant to AFS and P&L for interest rate risk and also credit spread risk) is monitored monthly at institution and Group level. Furthermore, stress tests and scenario analyses are also conducted. Intended future actions are included in all reports as needed. A net-interest-income simulation (NII simulation) with associated stress tests is also performed quarterly.

All relevant key figures along with the stress tests are reported to the SALCO or as part of the Group Risk Report to the ERM. A VaR is calculated monthly at the Group level.

Equity exposure (which is entirely in BAWAG P.S.K. and immaterial) is calculated quarterly and reported to the Austrian National Bank. Furthermore, the Interest Rate Risk Statistics at both individual institution and the Group level are reported to the Austrian National Bank each quarter.

Exceedance of the limit in the trading book

If the VaR limits defined in the Risk Management Manual are exceeded, SRM will inform division management and the person responsible for the portfolio in writing. In the event of escalation, the notice is sent to the Management Board members responsible for trading and risk. In collaboration with division management, the corresponding risk position is closed immediately. If no Management Board member is present, Market Risk is authorized to have division management close out the position that caused the limit to be exceeded.

In the event of exceedance of any other market risk limit (delta/gamma/vega/volume/intraday/worst-case limit), division management and the competent group head must be informed by SRM immediately in writing (by e-mail) and appropriate counter-measures taken by the affected group and monitored by SRM.

If the worst-case limit is exceeded, a risk-mitigating limit order must also be placed in the market in order to reduce the potential loss and the risk position in the event the worst case actually materializes.

If the loss sustained by the trading book exceeds 30% of the defined annual loss limit (= warning level), a written message is immediately sent to the Management Board members responsible for market risk and for the trading book.

The VaR limit is then duly adjusted at the end of the month. If the annual loss limit is exceeded by 60% or 90% within one month, SRM immediately adjusts the VaR limit. If the annual loss limit for the entire trading book exceeds 95%, the limit is adjusted daily.

Exceedance of the limit for the total bank/banking book

If the market risk limit set by the SALCO or the entire Management Board is exceeded, SRM sends a written message immediately to the Management Board members responsible for the given division and to the Management Board member responsible for market risk as well as to the division management and the competent group heads. Counter-measures are initiated.

If the market risk limit is exceeded by more than 25%, SRM must also notify the CEO in writing about this.

Risk hedging and mitigation

If a market risk limit is exceeded, the position causing this must be closed immediately. Alternatively, adequate counter-position providing risk mitigation can be entered into under certain circumstances (hedge).

INTERNAL MODELS FOR LIMITATION OF MARKET RISK

Article 455 point (a) (i - iv) CRR

Characteristics and mode of operation

From 1998 until 31 August 2015, BAWAG P.S.K. employed an internal model in market risk for calculating its minimum capital requirements in the trading book. On 7 March 2015, BAWAG P.S.K. applied for elimination of the internal model and its replacement with the standard approach beginning on 30 September 2015. This application was approved by the ECB effective 1 September 2015.

A variance-covariance approach was applied for making daily forecasts of the maximum expected loss for the next day (value-at-risk) for all interest rate and FX positions in the trading book within the defined confidence level. The following parameters were applicable:

- Variance-covariance approach
- Historical time series of 250 days, equally weighted
- 99% confidence level
- Holding period of one day for internal risk control and ten days for the calculation of the minimum capital requirement
- Use of correlations within and between the risk categories (equities, interest rate, FX)

Non-linear market risk was evaluated in two steps. Gamma risk was incorporated in the VaR calculation as a Taylor series (derivation of the market risk factors incorporated to the second order). Vega risk was calculated using an analytical approach in the internal vega model (99% confidence level, one-day or ten-day holding period).

Daily back-testing was carried out to measure the validity of the forecast loss figures (VaR).

In addition to the VaR, a Stressed VaR was taken into account for the minimum capital requirements. The calculation method was performed similarly to the VaR using the variance-covariance approach for a one- or a ten-day holding period. Volatilities and correlations are calculated for a continuous 12-month stress period. It was assured that this period will represent a substantial level of stress for the portfolio.

Stress and crisis tests

The value-at-risk approach provides a quantitative measure for market risks in the trading book under normal market conditions. An estimate is made of the possible future loss which will not be exceeded over a defined period and with a defined confidence level under normal market conditions. Losses in connection with unexpected extreme market developments are assessed by additionally carrying out crisis and stress tests. In the course of these types of stress tests, the trading book is subjected to stresses from scenarios simulating extreme market conditions not covered by the confidence interval.

A distinction is made between time-based and event-based stress tests. In the process, one assumes statistical methods (different correlations, higher confidence level, etc.) and extreme movements by market risk factors (equity prices and indices, interest rates, exchange rates, volatilities, credit spreads) and illiquidity in the markets and applies them to the valuation. Stress test results are perforce limited by number and by the fact that not all scenarios can be foreseen and simulated. Stress tests are therefore constantly checked and improved to ensure the material risks are captured and possible extreme market changes are depicted.

The final stress test report to the Austrian National Bank and the FMA was performed for the second quarter on 13 July 2015.

Back-testing

The quality of the forecast loss figures (VaR) was measured in daily back-testing (hypothetical back-testing). To this end, the exposures in the trading book from day x were subject to valuation at market prices from day x and day (x+1) and the actual trading result was calculated from the difference. In addition, back-testing was done on the basis of the actual daily P&L changes. In the process, the VaR was compared to the loss or profit that actually occurred on the next day. If a negative back-test result exceeds the VaR, it is referred to as an 'outlier'. The increasing number of outliers leads to an increase of the multiplier determined by the supervisory authority for calculating minimum capital requirements.

Basically, back-testing considered not only the change in market value in the narrower sense but also the change in volatility.

No outliers occurred in the period under review. This fact confirmed the quality of the model and meant that the best possible multiplier of 3 set by the supervisory authority could be retained for determining capital adequacy.

Scope of application of the models used

Article 455 point (b) CRR

By virtue of the decision made by the Austrian Ministry of Finance on 27 December 1999, BAWAG P.S.K. received the permission to use a model in accordance with Chapter 5 CRR for the calculation of the minimum capital requirements for

- the general position risk in debt instruments
- the general position risk in equity instruments
- foreign exchange positions in the trading book

The internal model was eliminated per the decision of the ECB per 1 September 2015 (see above). Therefore the specifications to CRR Article 455 are not applicable by the quantitative part of Disclosure Report.

The value-at-risk approach is still employed for daily internal limit monitoring as well as for monthly Pillar II calculation of the risk bearing capability.

Art. 455 point (c) CRR

Marking to market

The positions in the trading book are marked to market based on market prices provided by Reuters. For instruments with an official close-out price, this price is used; otherwise, the arithmetic mean is calculated from the ask price and bid price.

Trading book positions undergo valuation as part of the calculation of daily results by the trading groups using the front-end systems within Financial Markets. These results are adjusted for consistency in a reconciliation procedure using the valuation and position data in PMS. The trading results reported by the front office are reconciled with the back-office figures at least monthly.

Marking to model

Positions in the trading book for which no market prices are listed, undergo mark-to-model valuation. Only recognized models customary in the banking industry are used. No self-developed models are applied. The market parameters utilized for valuation are provided by Reuters.

For linear derivatives such as IRS, CRS, FX forwards and FRA, the present value is determined by discounting the replicating cash flows. Plain vanilla OTC options in the trading book undergo valuation using recognized option price models (Black-Scholes method or Garman-Kohlhagen). Interest rate derivatives that are more complex are calculated using Hull-White models. During 2016 the Bachelier Model has been implemented for valuation of interest rate options (caps, floors, swaptions) in currencies with negative interest rates. A key prerequisite for mark-to-model valuation is to ensure a fluid and automated feed of market parameters by a recognized data provider subject to constant monitoring by Strategic Risk.

Independent price verification

Prices are independently verified using a four-eye principle (front office and back office), independent setting of risk parameters for the trading systems by the risk unit and subsequent reconciliation of valuation with accounting. Every year, this area is audited by internal and external auditor.

All trading book positions also undergo valuation daily by a system (PMS) independent of the front office with a separate market data feed as part of the daily VaR calculation. The results (market values and sensitivities) are compared with those from the front-office systems. This constitutes independent price verification.

Taking valuation adjustments into account

In the trading book only trades in liquid positions, which qualify for marking-to-market valuation, are conducted.

In addition, OTC positions undergo valuation with models customary in the market, whereby model risks for models developed in house are avoided and prices in line with the market are applied in the valuation. In addition, BAWAG P.S.K. does not have a market maker function with its total trading book position.

The valuation adjustments for the trading book are calculated monthly. They take account of the closing costs for the open position (bid/ask spreads). The volatility smile is taken into account automatically in FO and risk systems and its valuation is therefore no longer manually adjusted (a volatility smile signifies the dependence of the volatility of option transactions on their strike price).

Creditworthiness risks are taken into account for OTC derivatives when calculating valuation adjustments. Creditworthiness risks are seen as immaterial for business partners with whom a collateral agreement has been made (cash collateral). The net derivative exposure per counterparty is calculated for all business partners that have no collateral agreement if a netting agreement has been entered into with them. For all material net exposures from derivative transactions, a valuation adjustment is calculated for the credit risk taking into account the customer's rating and available credit spreads.

In 2014 the valuation method for all OTC derivatives with a credit support annex (CSA) was changed from Euribor discounting to ONIA/OIS discounting. This change on the valuation of the derivatives portfolio had an immaterial effect.

The structure of trading book positions is evaluated on an on-going basis to determine whether existing valuation processes and methods are suitable for correctly presenting the trading book in the internal model.

For all material net exposures from OTC derivative transactions, valuation adjustments are calculated for the credit risk of BAWAG P.S.K.

INTEREST RATE RISK FROM POSITIONS NOT HELD IN THE TRADING BOOK

Article 435 paragraph 1 point (a -d) CRR
Article 448 point (a), (b) CRR

Measurement of interest rate risk

The method currently used for the banking book controls all interest-bearing instruments through sensitivity analysis using the basis-point value and value-at-risk and all currency instruments using volume limits for open positions.

To limit the interest rate risk, a maximum available basis point value (BPV) is defined for individual credit institutions which are relevant to the interest rate risk and in the scope of consolidation in accordance with IFRS. The basis point value is also sub-divided into maturity ranges and limited once again at this level. Positions affecting the profit and loss account and equity are also subjected to separate limits. Volume limits per currency are applied to reduce the foreign currency risk of the customer bank; the foreign currency risk in the Treasury banking book is limited by a low overall limit. In general, BAWAG P.S.K. follows the strategy of minimizing or avoiding foreign currency risk in the banking book.

The interest rate risk in the banking book is measured at least monthly. A static analysis of interest rate risk is currently conducted for subsidiary banks and other financial institutions relevant to interest rate risk.

Types of interest rate risk examined:

- Present value perspective: Account is taken of risks resulting from changes in the market value of transactions accompanied by a parallel shift in interest rate curves (currencies: EUR, USD, JPY, CHF and GBP). Changed interest rate curves are also simulated for the main currencies in the monthly stress tests.
- Income perspective: Risks that may cause an unexpected decline in the interest margin (interest margin risk, impact of possible interest rate scenarios).

In addition to and as part of the ICAAP, the VaR is also reported for the economic and P&L steering circle.

Interest risk reporting systems

Extensive market risk reports are submitted monthly as part of the SALCO and the ERM (Group Risk Report).

Assumptions regarding fixed interest rates

For positions without a defined fixed interest rate, BAWAG P.S.K. makes replication assumptions based on mathematical models. These models, in turn, are based on a holistic view of interest rate and liquidity risk and consist of the following four components:

- Future-oriented interest rate scenarios derived from an interest rate model
- Forecasts of customer conditions as a function of market data
- Volume scenarios based on analyses of historical customer behavior
- Quadratic optimization model for ideal roll-over investments

Back-testing and the adjustment of replication assumptions are carried out at least annually prior to the planning process.

Control of interest rate risk

In accounting, BAWAG P.S.K. uses the macro-hedge as specified in the FMA circular letter on accounting issues in connection with derivatives for controlling interest rates. Efforts to control interest rates extend to all interest-bearing positions in the accounts and customer-induced derivative business in the banking book. Non-interest-bearing transactions (equity capital, participations, etc.) are excluded from the macro-hedge.

To control interest rate and valuation results, the department Asset Liability Management (COA) and the division Treasury Services & Markets (TM) devise hedging and positioning strategies and are in charge of implementing them and constantly monitoring them.

To achieve its defined management goals in the income statement, BAWAG P.S.K. uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to value interest rate risk hedges of the balance sheet:

- Micro fair value hedge: hedging against the risk of interest rate changes for fixed-interest instruments held as assets and liabilities

- Portfolio fair value hedge ('EU carve-out'): application to sub portfolios of sight deposits that are available for the long term after derivation of a bottom layer

Interest rate derivatives that are not assigned to a hedge accounting relationship are recognized at their fair values. Information regarding Article 41 of the above FMA circular letter can be found in the annual report in accordance with UGB p. 73 (in the section 'Information on Financial Derivatives and Hedging Transactions').

Scenario analysis

A static and a dynamic analysis is currently being carried out for BAWAG P.S.K. (internal risk report).

Interest rate gaps, key rate durations, average interest rates and changes in market values for various scenarios are calculated for each defined portfolio as part of the static analysis. The various scenarios and risk parameters below are analyzed to determine their impact on the economic value of the position:

- Parallel shifts in the interest rate curves (+/-25 bp, +/-50 bp, +/-110 bp, +/-145 bp, +/-200 bp, +/-300 bp) sowie diverse Drehungen
- Interest rate forecasts or crisis scenarios by Treasury Services and Markets
- Worst case scenario (derived from historical time series)
- Other scenarios as required

In the dynamic simulation of interest income, the different scenarios below are investigated along with their impact on net interest income:

- Forward Rates
- interest rate forecasts or crisis scenarios by Treasury Markets
- Parallel shifts in main currencies (at forward rates): +/-110 bp
- Non-parallel shifts in EUR (gradual over six months; at Stable Rates): 1 month +/-140 bp to 5 years +/-40 bp
- Inflation scenario (gradual over 12 months, at stable rates) 1 month +400 bp to 5 years +240 bp

OPERATIONAL RISK

The definition of operational risk refers to 'the risk of losses due to inadequate or failed internal processes, people and systems or due to external events'. This definition includes legal risks. Strategic risk and reputation risk is not included.

STRATEGIES, PROCESSES AND MANAGEMENT

Article 435 paragraph 1, point (a) CRR

The strategic policies regarding the management of operational risks seek to minimize these risks by taking suitable action. This action includes:

- determining comprehensive principles by which BAWAG P.S.K. can control its operational risks
- assigning responsibility and authority for the development of standards and processes to identify, assess, measure, monitor, check and to produce reports on operational risk
- abiding by a strategic orientation that complies with regulatory requirements and measures the danger from operational risk
- support from management in efficiently controlling the operational risk and promoting a corporate culture that encourages understanding and recognition of operational risk and that gives priority to risk management
- periodically determining material operational risks and initiating process improvements
- minimizing losses from operational risk

STRUCTURE AND ORGANIZATION OF OPERATIONAL RISK MANAGEMENT

Article 435 paragraph 1 point (b) CRR

The rules for dealing with operational risks are set down in the 'OpRisk Management Policy' and in the pertinent handbooks and technical documentations. Within the 'OpRisk Management Policy', the Management Board determines principles for the management of operational risks that are valid throughout the Group. These activities are coordinated by the central unit Operational Risk & IKS in order to ensure a common approach. The management of operational risks is handled locally in the individual business segments in the respective Group units by the division heads (DH) or managing directors (MD) and their operational risk agents. All employees are responsible to identify operational risks and to proceed according to the appropriate regulation.

RISK MEASUREMENT SYSTEMS

Article 435 paragraph 1 point (c) CRR

The following risk measurement systems are in use:

Loss data collection

Events, losses, profits, payments and near-losses resulting from operational risks in the business segments and areas are collected continuously as part of an institutionalized loss reporting system to provide a database for the management of operational risks (decentralized capturing in an intranet application).

Subsequent central analysis allows concentrations of losses to be identified at an early stage in order to avoid further losses.

Definitions:

- Operational risk events: An operational risk event is an incident occurring during a business process that affects other than expected owing to inadequacy and failure of internal processes, people, systems or owing to external events or circumstances. An operational risk event can, but does not have to lead to an economic or financial effect.
- Losses from operational risks: Losses from operational risks result from operational risk events with a negative financial impact. The analysis of these losses provides important evidence that can be used to identify the operational risks and to take steps to avoid future losses. Depending on the nature and timing of the events, they might reflect the existing or historical environment of the checks.
- Profit from operational risks: Profit resulting from operational risk events has a positive financial impact. Even if profit results from an operational risk event, the event itself is an indication of a process weakness that could result in a loss the next time it occurs. Therefore these events provide valuable clues to risk management.
- Recoveries: Recoveries refer to the reduction of a loss (e.g. by means of insurance). Operational risk recoveries are divided into insurance recoveries and other recoveries.

Insurance
Insurance policies are an important way of reducing loss. Even if the act of taking out an insurance policy cannot prevent a possible operational risk event, it can at least reduce the financial effect caused by this event.

Other recoveries
Other recoveries are payments by third parties that reduce the loss for the company. Examples are damage claim payments, penalty payments, recourse payments and refunds.

- Losses, which had a high probability (‘near-losses’): Near losses are risk events that ultimately did not result in a financial impact. Near losses refer to mistakes, system failures or process accidents that could have a negative financial effect but have no impact thanks to favorable circumstances. The identification of near losses can open up possibilities for improving system structures and processes and reducing the extent of loss that occurs. A near loss is an event signaling that a system or process weakness can result in losses if not remedied.

Risk Control Self Assessment (RCSA)

Annual RCSA per business unit (division/subsidiary)

Additional information is collected through the RCSA. Within a standard framework, all business divisions and relevant subsidiaries identify and assess their material operational risks annually (possible frequency and effect). Further, they evaluate the effectiveness of existing control activities in the interest of the ICS and, if needed, also define any necessary control activities or measure. A link to the Business Continuity Plan is also established during the RCSA. In addition, the responsible divisions and subsidiaries define worst-case estimations.

Each year individual focal points are examined and assessed based on internal and external needs.

Actions are agreed for material operational risks which were detected in the RCSA. Their implementation is subject to continuous subsequent monitoring. An intranet application enables all divisions to make decentralized enquiries about the agreed actions and to process and report the completion of these actions in a decentralized way.

Ad-hoc RCSA

If processes change or other pertinent events occur, the responsible unit can convene an ad hoc working group comprising risk specialists and experts in the field to determine possible risk potential. This step is particularly important in cases involving inter-divisional operational risks extending beyond the RCSA process.

Outsourcing/nearshoring RCSA

An outsourcing RCSA must be conducted mandatorily for outsourcing-/nearshoring-projects. The object of this RCSA is to identify and assess any operational risks associated with outsourcing-/nearshoring-projects. The outsourcing/nearshoring RCSA must be performed before an agreement is drawn up/signed and before it is approved so the risk assessment findings can be incorporated.

Outsourcing/nearshoring specifications have been summarized in an outsourcing policy. Along with the operational risk, the policy covers the assessment of other risks such as strategic risks, regulatory risks and risks from collaborating with business partners.

Key Risk Indicators

Key Risk Indicators (KRIs) indicators of the risks in the banking processes, which signal change in the risk profile in a timely manner in order to avoid potential damage.

Based on the results from the annual RCSAs, the main operational risks are identified and used as the basis for the elaboration or annual review of the definition and threshold values of the KRIs. Each KRI is valued using a traffic light system (red / yellow / green) and reported monthly to the divisions and subsidiaries. If the thresholds are exceeded, an intensified observation (yellow) or a mandatory measure for the reduction (red) must be specified. The measures and their implementation are constantly monitored and reported periodically.

Operational Risk assessment of new business segments or products

Since June 2012, new business segments or products have been introduced by using a newly designed product implementation process in which all defined divisions submit their vote and any possible conditions in an end-to-end analysis of the process. The responsible department conducts the ICS.

Latitude of Judgment and Uncertainty of Estimates – City of Linz

Estimation uncertainties also apply to the claims of BAWAG P.S.K. against the City of Linz. On 12 February 2007, the City of Linz and BAWAG P.S.K. concluded a derivative financial transaction. This transaction was used by the City of Linz to optimize a loan denominated in Swiss Franks.

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

The City of Linz filed a lawsuit against BAWAG P.S.K. at the Commercial Court of Vienna in November 2011 seeking payment of CHF 30.6 million (then equal to EUR 24.2 million at the exchange rate at that time). BAWAG P.S.K. filed a (counter)suit against the City of Linz for the fulfilment of its contractual entitlements from the same transaction in the amount of EUR 417.7 million. The court combined both lawsuits. The first proceedings were held in spring 2013. In March 2015 the court commissioned two experts to assess individual questions concerning the derivative transaction. The report was sent to the court in summer of 2016 and discussed with the experts on 29 December 2016. The report does not answer all questions which the court needs to make a legal assessment. A supplementary order is currently being prepared by the court. BAWAG P.S.K. is still in a strong position and is well prepared for the upcoming court rulings. It is difficult to estimate how long the procedure will take. On the basis of experience the duration of the proceedings until a conclusive judgement is reached is assumed to be several years.

The Bank has valued the derivative transaction until termination according to the general principles, and has adequately accounted for the risks associated with the claim arising from this derivative. In particular, management had to estimate the risks that are associated with the transaction, such as non-payment, legal, process and other operational risks and had to make judgments as part of the continuous valuation process; this resulted in the respective valuation adjustments.

After the closing of the transaction the derivative was derecognized and a receivable in the category loans and receivables was entered. The assessment of the amount of receivables is based on appropriate legal and other expert opinions which support the amount of the receivables.

The provisions of the IAS 37.92 (protective clause regarding the notes to the appendices of financial statements) are applied with regard to the amount in question.

Stress tests

Operational Risk is part of stress testing activities. For the semi-annual stress test the operational risk stress-parameter are defined as expert estimation on the basis of the macroeconomic stress-scenarios. The impacts are calculated on the basis of the historical loss data. An operational stress test scenario was developed for the reverse stress test activities but has a very limited probability of occurrence.

Risk reporting systems

Reports are produced periodically on material operational risks and on the actions needed to prevent similar future risks. These documents enable the Management Board and the DH/MD to manage operational risks and minimize possible losses arising from those risks.

- Every month, the ERM receives a summary of losses, the P&L impact, the KRIs and the results of the RCSA as part of the Group Risk Report.
- The CEO and CRO receive a detailed OpRisk Report on a monthly basis. This report includes the regulatory own funds requirements, the ICAAP limit including the utilization, the OpVaR, the P&L impact, the losses, the events, the KRIs and the results of the RCSAs.
- The divisions and the subsidiaries receive periodic summaries of the losses, RCSA-results, KRIs and the open measures.
- The results from the annual and ad hoc RCSAs are conveyed in separate RCSA reports to the pertinent DH/MD, to the responsible board member, the CRO, and the Internal Audit.
- The results from the outsourcing/nearshoring RCSAs are reported to the CEO, CRO and responsible board member, to the pertinent DH/MD, and to the heads of Legal & Compliance and Internal Audit.
- An overview of all pending measures for reducing the operational risk (as set forth in the RCSA and the NPI) is reported to the responsible board member quarterly.
- Any carrying out of product implementations is reported periodically in the ERM.

RISK HEDGING AND MITIGATION

Article 435 paragraph 1 point (d) CRR

BAWAG P.S.K: has laid the basis for operational risk mitigation with its segmented organizational structure, clear rules on competencies and responsibilities and work instructions. In addition, consistent guidelines on corporate authorization levels help to achieve the goal of a controlled risk situation, as well as the implemented ICS, which (adequately) captures the risk. The ICS does so, for example, by means of the four-eye principle, separation of functions, access checks, limited authorizations, computer-assisted plausibility checks and system tests. Also a central regulated insurance management helps to hedge the risks.

OWN FUND REQUIREMENTS

Article 446 CRR

The regulatory own fund requirements for operational risks are calculated by using the standardized approach pursuant to the Article 317 of the CRR. The advanced measurement approach pursuant to the Article 321 of the CRR is currently not applied. Therefore it is not subject to disclosure obligations in accordance with the Article 454 of the CRR.

LIQUIDITY RISK

Article 435 paragraph 1 points (a) – (d) CRR

STRATEGIES, PROCESSES AND MANAGEMNT

The ALM team in CO and the SALCO (Strategic Asset Liability Committee) handle liquidity management throughout the Group. Market Risk Management (SRM) independently monitors risks. The principles and goals below serve as the point of departure for liquidity management:

Principles of liquidity control

- Liquidity management is a central core competence.
- Liquidity is a material resource and must therefore be controlled.
- Liquidity has a price that fluctuates with supply and demand.
- ALM, a team that reports to the CFO, bears the main responsibility for liquidity management.
- ALM does not pursue its own profitability goals in the process.
- Liquidity is basically subject to central control. It is compulsory (except if it is determined differently by the liquidity management of BAWAG P.S.K. in individual cases) that the subsidiaries obtain financing from or deposit any excess liquidity with BAWAG P.S.K. in the scope of their governance.
- SRM monitors liquidity risk in cooperation with ALM.
- Control activities are geared primarily to liquidity cover, secondly to liquidity structure and thirdly to liquidity costs.
- Organizationally, ALM manages liquidity independently of the business areas, but the effects of liquidity actions are analyzed and taken into account at the level of the business areas.
- Income, accounting and RWA effects are considered in the process, as are the ramifications for collateral, regulatory key ratios, maturity structure and the franchise value.
- Liquidity control is done indirectly with internal clearing prices for customer business and indirectly with needs-based transaction pricing for large-volume wholesale funding.
- The price of liquidity is determined centrally using defined methods. ALM serves as counterparty for all business areas with respect to obtaining and extending liquidity.
- Liquidity control takes account of possible negative effects from risks to BAWAG P.S.K.'s reputation.

Goals

The central goals of liquidity control are as follows:

- Ensure sufficient liquidity even in a stress case
- Meet short- and medium-term liquidity needs and ensure long-term funding based on planning and forecast calculations for each currency
- Develop and maintain the strategic refinancing structure
- Maintain sources of financing on the capital market and in customer business even in periods with a minimal need for obtaining refunding
- Reduce the concentration risk as regards the maturities profile and through diversification of funding sources and counterparties
- Optimize the maturity structure and funding costs
- Maintain a sufficiently large liquidity buffer at the lowest possible costs
- Comply with all internal and external key ratios and regulatory limits for liquidity
- Invest excess liquidity based on planning and forecast calculations
- Adjust liquidity prices in the short term to optimally control liquidity
- Take into account strategic elements for the procurement of funds such as the franchise value for customer deposits and customer relationships

STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

Organizational structure

The entire Management Board determines the business strategy of the Group and the individual business areas and defines target values for the central key ratios. The board is therefore responsible for the liquidity strategy and defines the level of risk tolerance for the planning period.

The CFO, as a member of the Management Board, performs the function of liquidity manager for the Group as a whole. Asset Liability Management (ALM) reports to the CFO and incorporates the liquidity management. The CFO monitors the activity of the organizational units and regularly informs the entire Management Board about the liquidity situation. ALM bears the central specialized responsibilities for liquidity management. A central Collateral Management for BAWAG P.S.K. is also integrated in ALM.

Controlling, which ALM is a part of, is responsible for operational accounting of the liquidity costs and premiums in the profit center accounting and for the methods used in the FTP system. The liquidity cost system derives prices from current market rates. The fine tuning is done by the ALM to balance short-term gaps.

SRM, a unit reporting to the CRO, measures the current liquidity risk, prepares limit proposals for the S-ALCO and monitors compliance with the defined limits and liquidity buffers.

Treasury Markets & Services (TM) is responsible for the operational execution of money market and capital market transactions.

Liquidity management is subdivided into four task areas: operational, tactical and strategic liquidity management and liquidity buffer management. As regards liquidity risk categories, a distinction is made between dispositive, structural and market liquidity risks.

The reporting of the current and projected liquidity position as well as the funding potential is performed by the ALM team. The reporting contains also the most important key ratios. One of the most important key ratios is FACE (free available cash equivalent), which is internally defined at BAWAG P.S.K. The liquidity buffer is divided into a short-term and medium-term portion that can be liquidated. The reporting of the liquidity risk is done by SRM.

RISK MEASUREMENT SYSTEMS

The liquidity risk is calculated by rolling out the cash flows from existing transactions. These cash flows are calculated from business data drawn from the central data warehouse. Based on the transaction data for customer business (loans, deposits, securities, etc.), the cash flows from repayment of principal are rolled out at individual transaction level within the market risk management system rikpro and are reported in aggregated form according to defined criteria (e.g. product type, customer category, and behavior with respect to the repayment of principal). Positions with undefined maturities (current accounts and customer deposits) are assigned to the time bands based on the modelled liquidity replication assumptions reflecting the historical retention period and volume fluctuations.

The total of asset and liability cash flows determines the gap in the static balance of cash flows, i.e. new business is not assumed. The stressed funding cost resulting from closing the funding gaps is quantified as well. Special attention is payed to the structural risk in FX funding, which is articulated in FX basis spread risk. To measure this risk a concept of PVBP (similar to the interest rate risk) has been implemented. Furthermore stress tests are then conducted in BAWAG P.S.K.´s balance sheet by making certain assumptions regarding volume changes in certain stress situations. These stress tests are based on the existing balance sheet structure and assume that transactions drawing to an end will be replaced under the same conditions (terms, volumes but with different circumstances). With this constant balance sheet, the volume assumptions for individual products are then weighted with the relevant stress factors (outflow assumptions).

The stress scenarios are distinguished as follows:

- Idiosyncratic stress
- Systemic stress
- Mixed stress scenario
- Reverse stress test

The stress tests also take account of the liquidity buffer and the counterbalancing capacity, i.e. unencumbered liquidity reserve. It is assumed that these buffers can be converted into genuine liquidity in a short time either in a sale, in repurchase agreements or through refinancing from the central bank.

The time-to-wall is measured in these stress tests. The stipulated risk limits must be adhered to in the stress tests with account taken of the liquidity buffer and the counterbalancing capacity; otherwise, ALM must suggest or initiate countermeasures. The stress test results determine the size of the liquidity buffer and the counterbalancing capacity.

RISK REPORTING SYSTEMS

The liquidity status is presented and reported in standardized, regular reports. These reports are divided into the following categories:

- Operational liquidity status
- Tactical liquidity status
- Structural liquidity status

The reports on the operational liquidity status basically provide a concrete forecast of liquidity for the next several days so that the operational liquidity management can immediately indicate a need for liquidity or a surplus of liquidity. This status is then adjusted by conducting short-term interbank transactions or by compensating account balances.

The reports on the tactical liquidity status are used to estimate business developments on the assets or liabilities side of the balance sheet and to present them to the SALCO on a monthly base. These reports depict developments in economic and regulatory liquidity statically and dynamically, pointing out potential gaps. The corresponding limits and compliance with them are measured in these reports for economic and regulatory liquidity. ALM is responsible for closing unplanned tactical gaps (in a time horizon of 15 months) by taking preemptive actions.

On the one hand the reports on the structural liquidity status are produced under a dynamic perspective as part of total Bank planning. In the process, ALM coordinates the planning of overall funding, which comprises theoretical scenarios, business shifts and planned assumptions for new business. The funding plan has a time horizon of three years. On the other hand, the structural liquidity risk is also measured monthly under a static perspective (in total and in separate currencies) and quantified with stress assumptions.

RISK HEDGING AND MITIGATION

Risks are hedged and mitigated by means of on-going checks of the current and forecast liquidity status from an economic, regulatory and also strictly cash standpoint. Plans are constantly adjusted based on current developments in the business areas and the market and on a re-evaluation of the liquidity buffer and the counterbalancing capacity.

A liquidity emergency plan for the actual stress case was drawn up and is periodically updated.

The purpose of the liquidity risk strategy is not only to hedge and mitigate risks. It is also used for rendering risks measurable, for raising awareness of risks and for actively controlling risks (in terms of a conscious decision to take a liquidity risk). In this same context, BAWAG P.S.K. continuously tests market liquidity for individual balance sheet items and constantly sustains the ability of the market to absorb products on the liability side (and the potential refinancing costs associated with them). It also prepares forecasts of the volume of collateral material for securitized refinancing (and reconciles it with the business plan).

CONCENTRATION RISK

Article 435 paragraph 1 points (a) – (d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

The general framework for the management of concentration risk is based on estimates made by senior management coupled with specifications and recommendations made by national and international institutions engaged in bank regulation.

The Risk Management Organization manages, limits, and controls concentration risks and reports them to the entire Management Board on a monthly basis.

Credit risks are treated as a material risk category in connection with risk concentrations. Risk concentrations arise from large exposures in individual customer segments or from large total exposures in certain industries, countries or foreign currencies whose loss potential could endanger the core business or has an impact on the risk profile.

A separate handbook covers the principles and methodical framework of measuring and monitoring the credit risk concentrations. Concentration risk at the level of individual transactions or products is dealt within a special sub-risk strategy. The management of country and industry limits is carried out as a standard process in accordance with binding internal guidelines.

STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

The main body is the monthly risk meeting (ERM), in which all Management Board members participate and where the CEO chairs. The CRO bears responsibility for the management of concentration risks in the Management Board. The ERM is set up as a committee at Management Board level and is responsible inter alia for approving the methods and the processes employed for measuring concentration risks. The Strategic Risk division bears responsibility for concentration risk management in coordination with the Commercial and Institutional Risk, Retail Risk and Administration and European Retail Risk management.

RISK MEASURING SYSTEMS AND LIMITATION

Allocated economic capital is the basis for quantifying the concentration risk at the level of individual borrowers and groups of affiliated customers as well as with concentrations in industries, countries and currencies. The quantification is part of the so-called "Portfolio Steering Framework", which was established newly in 2015. The methodical basis is constituted on the risk-weighted assets according to the IRB approach.

Appropriate limits and warning thresholds are determined for countries, industries, currencies and customer groups and constitute an integral part of efforts to control total bank risk.

As far as risk concentration on product level is concerned, special attention is paid on maturing foreign currency loans that have been extended to customers. Risk-adequate provisions and a capital buffer are maintained for the risk profile created using a scenario-based model.

All limits are monitored on an on-going basis and in accordance with the estimated risk potential.

If limits are exceeded or warning thresholds are reached, the risk management units and the Management Board agree on suitable actions to limit or reduce the risk.

To prevent losses in connection with collateral concentrations that could put the financial stability of BAWAG P.S.K. at risk or result in a material change in BAWAG P.S.K.'s risk profile, appropriate warning thresholds are defined and subjected to periodic monitoring and appropriate reporting processes.

All material risk factors are depicted in scenario analyses and stress tests using VaR models in order to analyze and monitor market concentration risks. For reasons of a prudent view, conservative assumptions regarding correlations between risk factors are made. Special attention is paid in this process of potential liquidity risk resulting from financial instruments with incongruous maturities.

Regarding concentrations of operational risks, the focus lies on the one hand on activities with a long business history, on the other hand special attention is laid on adequate assessments of new lines of business.

Active monitoring of funding requirements and broad diversification of funding sources are precautions against potential liquidity problems from risk concentrations in the investment and funding structure.

REPORTING SYSTEMS

The actual limit utilization and the qualified risk estimate are reported to the ERM on a regular basis. The communication medium in this context is the monthly Group Risk Report which has a separate section focusing on concentration risks in the segments of countries, industries, currencies and customer groups.

In order to handle operational management of industries and country risk concentrations and to discuss the Portfolio Steering reports, the so-called “Portfolio Steering Committee”, consisting of the heads from all risk- and market divisions as well as from controlling and accounting, was established in 2015. This committee is provided with a separate authorization for the (re-) allocation of economic capital on the bottom level from Portfolio Steering Framework (countries, industries).

After the competent risk committees take notice of and approve the concentration risk reports, the reports are communicated to the relevant front-office units.

RISK OF MONEY LAUNDERING AND TERRORIST FINANCING

Article 435 paragraph 1 points (a) – (d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

As required under the law, there is an analysis of total bank risk on the basis of which specific money laundering risks can be derived. Customer relationships and domestic and foreign transactions are monitored with specific screening and transaction software in accordance with this risk analysis (where customers are divided into risk categories). Further, specific customer, transaction and country screening is used to take account of the High Risk Country Regulation issued by delegated Regulation of the European Commission and the relevant sanction guidelines. Employees receive training (self-study programs and classroom training) to sensitize them to specific constellations suspected of involving money laundering. Pertinent directives (summarized in a separate manual) and mandatory technical fields ensure compliance with pertinent regulations to prevent money laundering under the Austrian Banking Act and under Regulation (EC) 1781/2006 (full transmission of customer data for a money transfer).

STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

The required Anti-Money laundering Compliance Officer is one of the division leaders of the division Non Financial Risk & Regulatory Compliance and has a department leader and the staff to support him. The division Non Financial Risk & Regulatory Compliance is directly under the responsibility of the Management Board. The Organizational Manual outlines the duties and responsibilities of the division Non Financial Risk & Regulatory Compliance.

RISK MEASUREMENT SYSTEMS

Besides the risk analysis – which is being updated every year – there is also an evaluation through a permanent analysis of reported AML-(Anti-Money-Laundering)-suspicious cases if new patterns of behavior require an update of the situation.

BAWAG P.S.K. operates a particular software system that classifies all customer relationships into four AML-risk classes. At the moment of application for a product, the customer is being classified already and respective measures are being taken according to the respective risk class (e.g. intensified monitoring). In case of new patterns of behavior, an adaptation of the software or other measures can therefore be carried out.

RISK REPORTING SYSTEMS

The division leaders of Non Financial Risk & Regulatory Compliance report to the entire Management Board and the Audit and Compliance Committee on a quarterly basis. Furthermore, the annual report has to be acknowledged by the Supervisory Board.

RISK HEDGING AND MITIGATION

Comprehensive guidelines are summarized in the Money Laundering and Sanctions Manual, and a control system is in place for the setup of accounts and the major transactions where mandatory identification apply. Further, additional mandatory IT fields have been created to ensure that the required data is obtained and recorded in the system for account setup and for specific transactions (e.g. verification of origin for transactions of EUR 15,000 and more, transactions requiring an ID to be shown). In addition to the total bank risk analysis that undergoes an evaluation once a year, BAWAG P.S.K. also conducts constant analysis to evaluate reported cases suspected of involving money laundering and to determine whether new behavior patterns require a software update or other actions to be taken.

RESIDUAL RISK FROM TECHNIQUES OF CREDIT RISK MITIGATION

Article 435 paragraph 1 points (a) – (d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

All risks which are not already covered in other risk sections are referred to as residual risks:

- Concentration risks for collateral
- Legal risk of realization (change in the legal situation, etc.)
- Other risks – changes affecting security and exceeding usual fluctuations and changes

Transparent risk assessment for concentrations of collateral is ensured by means of appropriately defined processes and continuous monitoring of collateral at portfolio level and guarantor level. These activities give the management a sufficient basis of information in order to control collateral concentration risks adequately.

BAWAG P.S.K. covers legal risk and other risks by applying correspondingly conservative valuation approaches and collateral lending values.

STRUCTURE AND ORGANIZATION OF THE RELEVANT RISK MANAGEMENT FUNCTIONS

These risks are constantly monitored within the risk organization and regularly reported to the Management Board. The concept of monitoring concentration risks regulates the possible actions and the powers with regard to imposition, execution and monitoring of concentration risks arising from collateral.

RISK HEDGING, -MITIGATION AND RISK MEASUREMENT SYSTEMS

Various steps are taken to address and ensure compliance with the requirements pertaining to residual risk from credit risk mitigation.

- The market value and lending value are assessed and estimated in the course of collateral valuation. Details on the valuation procedure are given in the Credit Collateral Catalogue.
- Stress tests are conducted to analyze the fluctuations in collateral market values and lending values and their ramifications for the risk bearing capacity. Details about these stress tests can be found in the stress test.
- The residual security concentration risk is covered in the monitoring plan entitled ‘Concentrations of Collateral’.

MACROECONOMIC RISKS

Article 435 paragraph 1 points (a) – (d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

Macroeconomic risks designate potential losses that may arise by variations to macroeconomic risk factors, such as the GDP trend, the unemployment rate, the oil price, but also for political reasons, like Brexit.

Macroeconomic risks have myriad possible consequences. Unfavorable overall economic developments could result in negative repercussions for BAWAG P.S.K. such as a negative change in market prices, increased default rates, less demand for products, negative trends in the value of participations, falling savings rates (tight liquidity), etc. Risk is identified during stress testing conducted to determine the type and scope of the required stress tests and to define the macroeconomic scenarios and the associated risk parameters. Stress tests are conducted periodically and are in the responsibility of the individual specialized units of the risk organization.

STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

The items are addressed here in an interdepartmental manner due to the interdisciplinary topics associated with macroeconomic risks.

RISK MEASUREMENT, RISK REPORTING SYSTEM AND RISK HEDGING OR MITIGATION

Preliminary control of macroeconomic risks is done during total bank risk control and planning activities. Planning is completed with a defined economic environment indicated.

Subsequent risk control is completed in connection with total bank risk control and the reporting of stress test findings as well as during the determination of any necessary actions. Possible actions for subsequent control range from diversification and the reduction of risk positions to an increase in risk coverage capacity. Actions can also be of an organizational nature, for instance an in-depth analysis of risk drivers or also the inclusion of additional aspects in the stress tests. The actions are approved by the decision-makers and carried out by the responsible organizational units.

Stress test results are discussed in the Management Board.

PARTICIPATIONS NOT HELD IN THE TRADING BOOK

OBJECTIVES AND PRINCIPLES FOR THE MANAGEMENT OF PARTICIPATIONS

Article 435 paragraph 1 point (a) – (d) CRR

Strategies and processes

Participation risk includes potential losses from own equity provided, from risks caused by the assumption of liability (e.g. comfort letters) or from profit and loss transfer agreements (assumption of losses).

Under the participation strategy approved by the Management Board, participations are divided into the following categories:

- Majority participations in the financial services sector that are considered part of the core business and that therefore address additional groups of customers or enlarge the product range and that must satisfy minimum return requirements at least in the medium term. These minimum return requirements can be met by contributions to the Bank's commission result from dividends or service contributions.
- Minority participations in the financial services sector of strategic significance for enlarging the product range within the financial services sector. These equity exposures are measured based on direct return.
- Auxiliary undertakings that perform services for BAWAG P.S.K. in outsourced legal entities. Auxiliary undertakings are generally active in the IT sector or in payments. The participation portfolio carries auxiliary undertakings both as majority participations and as minority participations (usually collaborations with other credit institutions).
- Other participation items

BAWAG P.S.K. generally pursues the goal of achieving appropriate and lasting profitability, taking any risk mitigation into account. Any major change in the participation portfolio therefore requires the approval of the Management Board following a request from the department Accounting (SOLO) (a unit in Accounting/Participations) and an expert opinion from the risk unit Credit Risk Management.

Structure and organization of relevant risk management functions

The risk management function for participations is integrated in Institutional Clients, a group within the division Credit Risk Management. This unit reports to the Chief Risk Officer (CRO). Monthly reports on participation risk (as a part of the Group Risk Report), the participation risk strategy (as a part of Risk Strategy), expert opinions on risk associated with equity capital actions and value determinations during impairment tests are submitted to the respective decision making authority.

Risk measurement systems

Requests from the department Accounting (SOLO) department regarding a change in participation are forwarded to the respective decision making authority after a separate expert opinion on the associated risk is drawn up by Credit Risk Management.

For material operational participations, Controlling conducts a standardized analysis of target versus actual company figures during the year, with monthly reports to the Participations and to the relevant stakeholders.

All participations are rated at least once a year. The confirmed rating is issued by Credit Risk Management.

An impairment test for participations must be carried out annually and reviewed by Credit Risk Management. The purpose of the impairment test is to determine the recoverability of the participations and to identify hidden reserves in the participation portfolio. Impairments are taken into account immediately in accounting after being approved by the full Management Board.

Risk reporting systems

Participation risks are reported in the context of risk controlling on a monthly basis to the Management Board. This report is part of the Group Risk Report and contains material changes within the participation portfolio most notably with regard to acquisitions, disposals, ratings, exposure and book values.

Risk hedging and mitigation

The treatment of risks arising from participations is governed in the Participation Risk Strategy (as a part of Risk Strategy) and other related documents.

The operating manual 'Risk Controlling for Participations' presents the processes, responsibilities and methods applicable to produce the monthly report on participation risks.

In addition the department Controlling monitors the financial results of all material operational participations on an on-going basis and monitors the performance of all other participations in the overall portfolio annually.

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ACCOUNTING AND VALUATION METHODS

Article 447 point (a) CRR

UGB
The valuation of participations is based on acquisition costs unless persistent losses or a lack of earning power necessitate a write-down.

IFRS
Non-consolidated participations are assigned to the category 'Financial assets available for sale'. The valuation is based on the market value. If the market value cannot be reliably determined, the valuation is based on acquisition costs. Extraordinary write-downs are not subsequently written up again according to IAS 39.

Notes item 1 in the annual report contains details on accounting and valuation methods.

SECURITIZATIONS

SECURITIZATION ACTIVITIES AND FUNCTIONS IN THE SECURITIZATION PROCESS

Article 449 points (a), (d), (e), (g), (i), (m), (n) (vi), and (r) CRR

In November 2016 BAWAG P.S.K. securitized a portion of its UK residential mortgage portfolio. The RMBS transaction Feldspar 2016-1 was the first RMBS issuance for BAWAG P.S.K.. The Feldspar 2016-1 transaction represents a pure funding transaction to which the regime of Part Three, Title II, Chapter 5 CRR is not applicable. Therefore this transaction is considered outside the scope of Article 449 CRR. As there was no securitization portfolio in BAWAG P.S.K. as of 31 December 2016 the specifications are not applicable in the quantitative part of Disclosure Report and in the annual report.

Beyond that, BAWAG P.S.K. plays no role in any securitization transactions.

RISKS FROM SECURITIZATIONS AND RESECURITIZATIONS

Article 449 points (b), (c), (f) and (m) CRR

Per 31 December 2016, there was no securitization portfolio. Basically, the securitization portfolio had as yet essentially contained CLOs (rated AAA and AA) with risks from West- and North European and US companies.

The securitization positions held by the Bank consisted exclusively of senior tranches with adequate subordination. They also included re-securitization positions, which held individual securitizations in the portfolio along with a pool of (credit) exposures.

BAWAG P.S.K. used valuation models to determine the market value for a large part of the portfolio. Models are also used to determine the economic value of the transactions. Models for calculating sensitivities, stress tests, etc. were developed based on the valuation models. All models were applied to the exposures underlying the transactions, i.e. for securitizations they are applied to the pool of exposures, and for re-securitizations they are applied to exposures within the individual underlying securitizations.

APPROACHES TO THE CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS

Article 449 point (h) CRR

Risk-weighted exposure amounts for securitization and re-securitization positions were calculated according to the IRB as per Article 261 Article 449, points (b), (c) and (f) CRR.

Positions with no external rating from Moody's, Standard & Poor's or Fitch were assigned a risk weight of 1,250%. If the underlying assets were known at all times, an average risk weight was applied and multiplied by a concentration coefficient according to the rating based approach.

ACCOUNTING POLICIES FOR SECURITIZATIONS

Article 449 point (j), (i),(ii) and (iv) - (vi) CRR

This requirement only concerns originators of securitizations and is thus irrelevant for BAWAG P.S.K.

Article 449 point (j) (iii) CRR

The valuation models (refer also to section ‘Risks from securitizations and resecuritizations’, last paragraph) were calibrated at the market prices of comparable transactions (liquid indices such as ABX, iTraxx, CDX, CLO trading runs).

ELIGIBLE EXTERNAL RATING AGENCIES USED FOR SECURITIZATIONS

Article 449 point k CRR

Basically, for investment deliberations the estimated ratings of Moody’s, Standard & Poor’s and Fitch regardless of the category of securitized exposure are utilized. If several ratings are available, the relevant risk weight for the capital requirements is determined as indicated in Article 138 CRR.

INTERNAL ASSESSMENT APPROACH

Article 449 point (l) CRR

BAWAG P.S.K. has no disclosure obligations in accordance with Article 449 point (l) CRR, because it does not apply the internal assessment approach.

LEVERAGE RATIO

Article 451 CRR

The Leverage Ratio according to Art. 429 CRR is being calculated according to Art.499 Abs. 1 lit. a CRR (in consideration of transitional regulations of Tier 1 capital) and according to Art.499 Abs. 1 lit. b CRR (fully fledged definition of Tier 1 capital) for regulatory purposes and reported quarterly to the regulators.

Per reporting date 30.9.2016 the leverage ratio was calculated and reported for the first time on the basis of the new reporting templates, which implemented the requirements of Delegated Regulation (EU) 2015/62. Since then the leverage ratio is no longer calculated as the simple arithmetic mean of the monthly leverage ratios over a quarter. The new figure is based upon end-of-quarter data.

Internally the Leverage Ratio is calculated and reported monthly in the Capital Management Meeting (CMM) and Enterprise Risk Meeting (ERM), where the management board is represented. This reporting also includes the comparison of the current indicator value with the defined alert and recovery threshold levels. In order to manage the risk of excessive leverage, the recovery plan defines procedures and processes for reacting to leverage ratio changes which can be implemented if necessary.

Due to business model and capital structure the share of encumbered assets measured by balance sheet volume is rather low. Therefore asset encumbrance is not taken into account in managing the risk of excessive leverage.

In consideration of transitional regulations of Tier 1 capital the Leverage Ratio was at 6.48% at the end of 2016.

No significant factors have been occurred during the reporting period which could have caused a significant impact on the Leverage Ratio. Despite of the amendments in the method of calculation due to the Delegated Regulation the Leverage Ratio was rather stable during the reporting period. Due to the results of 2016 and the therefore higher core capital the Leverage Ratio increased at yearend to 6.48%, which shows an increase of 73 bps to last yearend.

REMUNERATION POLICY DISCLOSURE

Article 450 paragraph 1 points (a) –(f) CRR

BAWAG P.S.K. has a Remuneration Committee, which is set up as a Supervisory Board committee. A Committee for Management Board matters is in place to deal with individual matters of remuneration for Management Board members taking into account the framework conditions of the Labor Constitution Act. The Remuneration Committee approves the remuneration policy, monitors its implementation and submits regular reports on its activities to the full Supervisory Board. The committee consists of the chairman of the Supervisory Board, who also chairs the Committee, and two further Supervisory Board members. One of these two members is an expert on remuneration. In the year 2016 there have been two meetings of the Remuneration Committee and three meetings of the Committee for Management Board matters.

The Remuneration Committee passed a remuneration guideline that takes into account the principles of the EU's CRD III Directive, the CEBS guideline and the act amending the Austrian Banking Act in this regard.

Deloitte and Wolf Theiss Rechtsanwälte were involved as external consultants in determining the remuneration guideline. The remuneration guideline was revised successively based on the circular letter issued by the FMA in December 2012 on the principles of remuneration policy and practices, the EU's CRD IV Directive and the EBA guidelines on sound remuneration policies.

For employees whose activities have a material influence on the risk profile, the remuneration guideline stipulates a remuneration policy compatible with effective risk management. It is designed to align the personal objectives of the employees with the long-term interests of BAWAG P.S.K. and to ensure an appropriate balance between fixed and variable remuneration components. It also takes into account the legal regulations stipulating that the policy must be applied to the management and to risk purchasers, to employees with controlling duties, as well as to employees who are in the same wage category as the management and the risk purchasers and whose activities have a material influence on the risk profile.

In deciding on any bonus distribution, the Remuneration Committee takes into account the market situation and market trends, the appropriateness of bonus payments, the risk trends and the strengthening of the equity base.

The annual budget for variable remuneration components is based on the degree to which BAWAG P.S.K. achieves the budgeted results and is determined by the Remuneration Committee.

The remuneration guideline took the mandatory basic conditions into account 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 assessment. Therefore, at least 40% of the bonus is reserved up to five years. A maximum of 60% of the total bonus is paid in the first year. The payment of reserved portions of the bonus in the following years is subject to the profitability of BAWAG P.S.K.
- The appropriateness and market adequacy of remuneration are ensured, whereby a balanced relationship between fixed and variable components is achieved. Variable components are limited to 100% of fixed components. If a variable component above this number (up to max. 200%) is granted the process according to the Austrian Banking Act has to be observed and the approval by the shareholders is absolutely necessary.
  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 BAWAG P.S.K.

Quantitative disclosure

LIST OF TABLES

SCOPE OF CONSOLIDATION AND ACCOUNTING STANDARDS

The section "Scope of consolidation and consolidation methods" of the qualitative part of the disclosure report describes the respective accounting standards and the scope of consolidation which the annual financial statements of Promontoria Sacher Holding N.V. as the highest financial holding company are based on. Further, the regulatory standards are in accordance with Regulation (EU) No 575/2013 ("CRR").

The scope of consolidation for regulatory purposes differs from the scope of consolidation for accounting purposes. These divergences arise from the distinct objectives of the regulations purpose and lead to different values for some items.

The following quantitative part of this disclosure report is in accordance with Art. 431 to 455 CRR

STATEMENT OF FINANCIAL POSITION

The consolidated balance sheet is in accordance with the principles of IFRS and is based on the scope of consolidation for accounting purposes and corresponds to the publication in the "Wiener Zeitung" of 4 July 2017.

Table 1: Total assets

in EUR million	31.12.2016	31.12.2015
Cash reserves	1,020	809
Financial assets designated at fair value through profit or loss	202	303
Available-for-sale financial assets	3,209	2,745
Held-to-maturity investments	2,353	2,290
Financial assets held for trading	652	950
Loans and receivables	30,845	27,405
Customers	28,494	24,713
Securities	692	973
Credit institutions	1,659	1,719
Hedging derivatives	677	469
Property, plant and equipment	53	59
Investment properties	3	4
Goodwill	58	58
Brand name and customer relationships	174	168
Software and other intangible assets	128	103
Tax assets for current taxes	10	20
Tax assets for deferred taxes	203	190
Associates recognized at equity	45	43
Other assets	95	71
Assets in disposal groups	–	9
Total assets	**39,727**	**35,696**

Table 2: Total liabilities and equity

in EUR million	31.12.2016	31.12.2015
Total liabilities		
Financial liabilities designated at fair value through profit or loss	1,115	1,269
Financial liabilities held for trading	617	1,071
Financial liabilities at amortized cost	32,962	28,514
Customers	25,998	21,692
Issued bonds, subordinated and supplementary capital	4,900	3,236
Credit institutions	2,064	3,586
Financial liabilities associated with transferred assets	300	621
Valuation adjustment on interest rate risk hedged portfolios	223	169
Hedging derivatives	260	106
Provisions	404	419
Tax liabilities for current taxes	19	6
Tax liabilities for deferred taxes	27	–
Other obligations	702	715
Total equity	**3,098**	**2,806**
Equity attributable to the owners of the parent	3,096	2,805
Non-controlling interests	2	1
Total liabilities and equity	**39,727**	**35,696**

The following quantitative disclosure is in accordance with the principles of IFRS and is based on the scope of consolidation for regulatory purposes.

OWN FUNDS

OWN FUNDS – SCOPE OF CONSOLIDATION

Art. 437 points (a), (d), and (e) CRR

Table 3: Scope of consolidation (IFRS, CRR)

31.12.2016 in EUR million	IFRS consolidation scope Promontoria Sacher Holding N.V. 1)	CRR consolidation scope Promontoria Sacher Holding N.V. 2)	Own funds acc. to CRR including transitional rules
Common Equity Tier 1 capital: instruments and reserves			
Capital instruments and the related share premium accounts	3,741	3,741	3,741
Of which: capital reserve	3,741	3,741	3,741
Retained earnings	(626)	(628)	(628)
Accumulated other comprehensive income	(28)	(30)	(30)
Funds for general banking risk	9	9	9
Planned dividend for 2017	(25)	(25)	(25)
Common Equity Tier 1 (CET1) before regulatory adjustments	**3,071**	**3,067**	**3,067**
Common Equity Tier 1 capital: regulatory adjustments			
Additional value adjustments (negative amount)	(6)	(8)	(8)
Intangible assets (net of related tax liability) (negative amount)	(329)	(317)	(190)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(155)	(156)	(100)
Fair value reserves related to gains or losses on cash flow hedges	(6)	(6)	(6)
Negative amounts resulting from the calculation of expected loss amounts	(32)	(32)	(19)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(19)	(19)	(19)
Regulatory adjustments relating to unrealized gains and losses pursuant to Articles 467 and 468	–	–	(15)
Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	–	–	(133)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(547)**	**(538)**	**(490)**
Common Equity Tier 1 (CET1) capital	**2,524**	**2,529**	**2,577**

1) The IFRS consolidation scope is disclosed for information purpose.
2) Fully loaded according to CRR.

31.12.2016 in EUR million	IFRS consolidation scope Promontoria Sacher Holding N.V. [1]	CRR consolidation scope Promontoria Sacher Holding N.V. [2]	Own funds acc. to CRR including transitional rules
Additional Tier 1 (AT1) capital: regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 (AT1) capital	–	–	–
Additional Tier 1 (AT1) capital	–	–	–
Tier 1 capital (T1 = CET1 + AT1)	**2,524**	**2,529**	**2,577**
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts	484	484	484
Tier 2 (T2) capital before regulatory adjustments	**484**	**484**	**484**
Tier 2 (T2) capital: regulatory adjustments			
Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (net of eligible short positions) (negative amount)	(20)	(20)	(20)
Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	–	–	(7)
Of which: items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	–	–	(7)
Qualifying T2 capital in relation to excess of provision to expected losses	25	25	25
Total regulatory adjustments to Tier 2 (T2) capital	**5**	**5**	**(2)**
Tier 2 (T2) capital	**489**	**489**	**482**
Total capital (TC = T1 + T2)	**3,013**	**3,018**	**3,059**
Total risk weighted assets	**n/a**	**19,041**	**19,019**

1) The IFRS consolidation scope is disclosed for information purpose.
2) Fully loaded according to CRR.

31.12.2016 in EUR million	IFRS consolidation scope Promontoria Sacher Holding N.V. [1)]	CRR consolidation scope Promontoria Sacher Holding N.V. [2)]	Own funds acc. to CRR including transitional rules
Capital ratios			
Common Equity Tier 1 (as a percentage of risk exposure amount)	n/a	13.3%	13.5%
Tier 1 (as a percentage of risk exposure amount)	n/a	13.3%	13.5%
Total capital (as a percentage of risk exposure amount)	n/a	15.9%	16.1%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	n/a	8.013%	5.388%
of which: capital conservation buffer requirement	n/a	2.500%	0.625%
of which: countercyclical buffer requirement	n/a	0.013%	0.013%
of which: systemic risk buffer requirement	n/a	1.000%	0.250%
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	n/a	1.000%	0.125%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	n/a	8.8%	9.0%
Amounts below the thresholds for deduction (before risk weighting)			
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	198	198	198
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	50	50	50
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	115	115	118
Applicable caps on the inclusion of provisions in Tier 2			
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	25	25	25
Cap for inclusion of credit risk adjustments in T2 under internal-ratings-based approach	44	44	44

1) The IFRS consolidation scope is disclosed for information purpose.
2) Fully loaded according to CRR.

The following information applies to the column "Own funds acc. to CRR including transitional rules" of the above table.

Regulatory own funds consist of Tier 1 and Tier 2 capital. For the transitional period until the full application of CRR the guidelines of the FMA Regulation No 425 (Austrian CRR Supplementary Regulation) have to be applied. Apart from the mentioned adjustments no further deductions were made. All regulatory adjustments are in accordance with Art. 47, 48, 56, 66 and 79 CRR.

Common Equity Tier 1 according to Art. 26 et seq. and 51 et seq. of CRR mainly consists of subscribed capital, reserves and comprehensive income. Regulatory adjustments of Tier 1 capital are considered according to Art. 36 and 56 of CRR.

The deductible item "intangible assets" consists of goodwills of fully and at equity consolidated subsidiaries as well as other intangible assets. Tax liabilities related to intangible assets offset and reduce the deduction. The simplified approach is applied for additional value adjustments (prudent valuation). The calculation of the deductible item "deferred tax assets" is done according to Art. 38 paragraph 5 of CRR. According to CRR Supplementary Regulation, during the transitional period negative amounts resulting from the calculation of expected loss amounts are deducted from Common Equity Tier 1 at a rate of 60%, and from Additional Tier 1 and Tier 2 capital at a rate of 20%, respectively. Until CRR is fully applicable unrealized gains pursuant to Art. 468 of CRR are only partially recognized in Common Equity Tier 1. In 2016 the deduction amounts to 40% according to CRR Supplementary Regulation.

Gains on liabilities valued at fair value resulting from changes in own credit standing are to be fully deducted from Common Equity Tier 1 under full application of CRR as well as during the transitional period.

Gains or losses on reserves for hedging transactions for cash flows are excluded from own funds pursuant to Art. 33 (1) (a) CRR.

Promontoria Sacher Holding N.V. does not have any qualifying Additional Tier 1 capital instruments. Thus, Additional Tier 1 deductions are deducted from Common Equity Tier1.

Tier 2 capital is calculated according to Art. 62 et seq. of CRR. During the last five years of their term Tier 2 capital instruments are not fully eligible anymore. Their eligibility is reduced in relation to their remaining term in days. For regulatory adjustments of Tier 2 capital Art. 66 of CRR is applied.

MAIN FEATURES, FULL TERMS AND CONDITIONS OF CAPITAL INSTRUMENTS

Art. 437 paragraph 1 point (b), (c) CRR

Table 4: Main features, full terms and conditions of capital instruments

31.12.2016 in EUR	Tier 2 1	Tier 2 2
1 Issuer	BAWAG P.S.K. AG	BAWAG P.S.K. AG
2 Unique identifier	AT0000350665	AT0000350657
3 Governing law(s) of the instrument	Austrian law	Austrian law
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and (sub-) consolidated	Solo and (sub-) consolidated
7 Instrument type	Subordinated capital bonds	Subordinated capital bonds
8 Amount recognized in regulatory capital	33,271,620	20,490,800
9 Nominal amount of instrument	30,000,000.00	20,000,000.00
9a Issue price	100	100
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	12.02.2003	12.02.2003
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	13.02.2023	12.02.2023
14 Issuer call subject date, contingent call dates and redemption amount	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	12.02.2013 zu 100%	12.02.2008 at 100%
16 Subsequent call dates, if applicable	N/A	12.02.2008 12.02.2013 12.02.2018 at 100%
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	5.310%	5.400%
19 Existence of a dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	No	No
24 If convertible, conversions trigger(s)	N/A	N/A
25 If convertible, fully or partially	N/A	N/A
26 If convertible, conversion rate	N/A	N/A
27 If convertible, mandatory or optional conversion	N/A	N/A
28 If convertible, specify instrument type convertible into	N/A	N/A
29 If convertible, specify issuer of instrument it converts into	N/A	N/A
30 Write-down features	N/A	N/A
31 If write-down, write-down trigger(s)	N/A	N/A
32 If write-down, full or partial	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A
35 Position in subordination hierarchy in liquidation	Additional Tier 1 (AT1) capital	Additional Tier 1 (AT1) capital
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	None	None

31.12.2016 in EUR	Tier 2 3	Tier 2 4
1 Issuer	BAWAG P.S.K. AG	BAWAG P.S.K. AG
2 Unique identifier	AT0000351119	AT0000A066X5
3 Governing law(s) of the instrument	Austrian law	Austrian law
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and (sub-) consolidated	Solo and (sub-) consolidated
7 Instrument type	Subordinated capital bonds	Subordinated capital bonds
8 Amount recognized in regulatory capital	16,494,945	2,048,736
9 Nominal amount of instrument	15,000,000.00	4,758,300.00
9a Issue price	100	101.75
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	26.02.2004	30.08.2007
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	26.02.2024	10.03.2019
14 Issuer call subject date, contingent call dates and redemption amount	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	26.02.2014 at 100%	10.03.2016 at 100%
16 Subsequent call dates, if applicable	N/A	N/A
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	5.430%	5.750%
19 Existence of a dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Noncumulative	Cumulative
23 Convertible or non-convertible	No	No
24 If convertible, conversions trigger(s)	N/A	N/A
25 If convertible, fully or partially	N/A	N/A
26 If convertible, conversion rate	N/A	N/A
27 If convertible, mandatory or optional conversion	N/A	N/A
28 If convertible, specify instrument type convertible into	N/A	N/A
29 If convertible, specify issuer of instrument it converts into	N/A	N/A
30 Write-down features	N/A	N/A
31 If write-down, write-down trigger(s)	N/A	N/A
32 If write-down, full or partial	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A
35 Position in subordination hierarchy in liquidation	Additional Tier 1 (AT1) capital	Additional Tier 1 (AT1) capital
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	None	None

31.12.2016 in EUR	Tier 2 5	Tier 2 6
1 Issuer	BAWAG P.S.K. AG	BAWAG P.S.K. AG
2 Unique identifier	AT0000A133Z8	AT0000A13406
3 Governing law(s) of the instrument	Austrian law	Austrian law
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and (sub-) consolidated	Solo and (sub-) consolidated
7 Instrument type	Subordinated capital bonds	Subordinated capital bonds
8 Amount recognized in regulatory capital	3,263,969	42,759,434
9 Nominal amount of instrument	3,400,000.00	43,000,000.00
9a Issue price	100	99.5
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	16.10.2013	16.10.2013
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	04.11.2021	04.11.2023
14 Issuer call subject date, contingent call dates and redemption amount	No	No
15 Optional call date, contingent call dates and redemption amount	N/A	N/A
16 Subsequent call dates, if applicable	N/A	N/A
17 Fixed or floating dividend stopper	Fixed to floating	Fixed
18 Coupon rate and any related index	J1 - J4: 5.25% p.a. J5 - J 8: 3 mE + 350 bp p.a.	6.500%
19 Existence of a dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	No	No
24 If convertible, conversions trigger(s)	N/A	N/A
25 If convertible, fully or partially	N/A	N/A
26 If convertible, conversion rate	N/A	N/A
27 If convertible, mandatory or optional conversion	N/A	N/A
28 If convertible, specify instrument type convertible into	N/A	N/A
29 If convertible, specify issuer of instrument it converts into	N/A	N/A
30 Write-down features	N/A	N/A
31 If write-down, write-down trigger(s)	N/A	N/A
32 If write-down, full or partial	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A
35 Position in subordination hierarchy in liquidation	Additional Tier 1 (AT1) capital	Additional Tier 1 (AT1) capital
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	None	None

31.12.2016 in EUR	Tier 2 7	Tier 2 8
1 Issuer	BAWAG P.S.K. AG	Österr. Postsparkasse AG
2 Unique identifier	QOXDB9965456	XS0118010569
3 Governing law(s) of the instrument	German law	English law
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and (sub-) consolidated	Solo and (sub-) consolidated
7 Instrument type	Subordinated loan	Subordinated capital bonds
8 Amount recognized in regulatory capital	13,906,404	14,857,896
9 Nominal amount of instrument	20,000,000.00	12,046,000.00
9a Issue price	100	98.864
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	04.05.2000	22.09.2000
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	04.05.2020	07.12.2028
14 Issuer call subject date, contingent call dates and redemption amount	No	No
15 Optional call date, contingent call dates and redemption amount	N/A	N/A
16 Subsequent call dates, if applicable	N/A	N/A
17 Fixed or floating dividend stopper	Floating	Fixed
18 Coupon rate and any related index	100% x Gilt Rendite	6.125%
19 Existence of a dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	No	No
24 If convertible, conversions trigger(s)	N/A	N/A
25 If convertible, fully or partially	N/A	N/A
26 If convertible, conversion rate	N/A	N/A
27 If convertible, mandatory or optional conversion	N/A	N/A
28 If convertible, specify instrument type convertible into	N/A	N/A
29 If convertible, specify issuer of instrument it converts into	N/A	N/A
30 Write-down features	N/A	N/A
31 If write-down, write-down trigger(s)	N/A	N/A
32 If write-down, full or partial	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A
35 Position in subordination hierarchy in liquidation	Additional Tier 1 (AT1) capital	Additional Tier 1 (AT1) capital
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	None	None

31.12.2016 in EUR	Tier 2 9	Tier 2 10
1 Issuer	Österr. Postsparkasse AG	BAWAG P.S.K. AG
2 Unique identifier	XS0118369098	XS0987169637
3 Governing law(s) of the instrument	English law	German / Austrian law
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and (sub-) consolidated	Solo and (sub-) consolidated
7 Instrument type	Subordinated capital bonds	Subordinated capital bonds
8 Amount recognized in regulatory capital	18,797,919	297,986,706
9 Nominal amount of instrument	25,000,000.00	300,000,000.00
9a Issue price	100	99.171
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	03.10.2000	30.10.2013
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	03.10.2020	30.10.2023
14 Issuer call subject date, contingent call dates and redemption amount	No	No
15 Optional call date, contingent call dates and redemption amount	N/A	N/A
16 Subsequent call dates, if applicable	N/A	N/A
17 Fixed or floating dividend stopper	Floating	Fixed
18 Coupon rate and any related index	3mE+20bp	8.125%
19 Existence of a dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	No	No
24 If convertible, conversions trigger(s)	N/A	N/A
25 If convertible, fully or partially	N/A	N/A
26 If convertible, conversion rate	N/A	N/A
27 If convertible, mandatory or optional conversion	N/A	N/A
28 If convertible, specify instrument type convertible into	N/A	N/A
29 If convertible, specify issuer of instrument it converts into	N/A	N/A
30 Write-down features	N/A	N/A
31 If write-down, write-down trigger(s)	N/A	N/A
32 If write-down, full or partial	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A
35 Position in subordination hierarchy in liquidation	Additional Tier 1 (AT1) capital	Additional Tier 1 (AT1) capital
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	None	None

31.12.2016 in EUR	Tier 2 11	Tier 2 12
1 Issuer	IMMO-BANK Aktiengesellschaft	IMMO-BANK Aktiengesellschaft
2 Unique identifier	AT0000152707	AT000B086749
3 Governing law(s) of the instrument	Austrian law	Austrian law
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and (sub-) consolidated	Solo and (sub-) consolidated
7 Instrument type	Convertible bond	Convertible bond
8 Amount recognized in regulatory capital	2,750	10,231,925
9 Nominal amount of instrument	5,000,000.00	10,000,000.00
9a Issue price	100	101.5
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	19.07.2004	15.11.2007
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	01.01.2017	15.11.2022
14 Issuer call subject date, contingent call dates and redemption amount	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	01.01.2015 at 100%	15.11.2017 at 100%
16 Subsequent call dates, if applicable	01.01.2016 at 100%	15.11.2018 15.11.2019 15.11.2020 15.11.2021 at 100%
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	4.375%	4.750%
19 Existence of a dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Yes	Yes
24 If convertible, conversions trigger(s)	Owner	Owner
25 If convertible, fully or partially	fully	fully
26 If convertible, conversion rate	1:2	1:2
27 If convertible, mandatory or optional conversion	optional	optional
28 If convertible, specify instrument type convertible into	Participation certificate	Participation certificate
29 If convertible, specify issuer of instrument it converts into	IMMO-BANK Aktiengesellschaft	IMMO-BANK Aktiengesellschaft
30 Write-down features	N/A	N/A
31 If write-down, write-down trigger(s)	N/A	N/A
32 If write-down, full or partial	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A
35 Position in subordination hierarchy in liquidation	Additional Tier 1 (AT1) capital	Additional Tier 1 (AT1) capital
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	None	None

31.12.2016 in EUR	Tier 2 13	Tier 2 14
1 Issuer	IMMO-BANK Aktiengesellschaft	start:bausparkasse AG
2 Unique identifier	AT0000186440	AT0000A08RR6
3 Governing law(s) of the instrument	Austrian law	Austrian law
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post-transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and (sub-) consolidated	Solo and (sub-) consolidated
7 Instrument type	Convertible bond	Subordinated bond
8 Amount recognized in regulatory capital	1,002,661	2,509,649
9 Nominal amount of instrument	5,000,000.00	10,000,000.00
9a Issue price	101	100
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	10.01.2005	20.02.2008
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	01.01.2018	20.03.2018
14 Issuer call subject date, contingent call dates and redemption amount	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	01.01.2016 at 100%	20.03.2013 at 100%
16 Subsequent call dates, if applicable	01.01.2017 at 100%	N/A
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	3.800%	5.900%
19 Existence of a dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Yes	No
24 If convertible, conversions trigger(s)	Owner	N/A
25 If convertible, fully or partially	fully	N/A
26 If convertible, conversion rate	1:2	N/A
27 If convertible, mandatory or optional conversion	optional	N/A
28 If convertible, specify instrument type convertible into	Participation certificate	N/A
29 If convertible, specify issuer of instrument it converts into	IMMO-BANK Aktiengesellschaft	N/A
30 Write-down features	N/A	N/A
31 If write-down, write-down trigger(s)	N/A	N/A
32 If write-down, full or partial	N/A	N/A
33 If write-down, permanent or temporary	N/A	N/A
34 If temporary write-down, description of write-up mechanism	N/A	N/A
35 Position in subordination hierarchy in liquidation	Additional Tier 1 (AT1) capital	Additional Tier 1 (AT1) capital
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	None	None

31.12.2016 in EUR	Tier 2 15
1 Issuer	IMMO-BANK Aktiengesellschaft
2 Unique identifier	AT000B086608
3 Governing law(s) of the instrument	Austrian law
4 Transitional CRR rules	Tier 2 (T2) capital
5 Post-transitional CRR rules	Tier 2 (T2) capital
6 Eligi at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo and (sub-) consolidated
7 Instrument type	Convertible bond
8 Amount recognized in regulatory capital	5,982,730
9 Nominal amount of instrument	10,000,000.00
9a Issue price	100
9b Redemption price	100
10 Accounting classification	Liability – amortized cost
11 Original date of issuance	20.11.2006
12 Perpetual or dated	Maturity date
13 Original maturity date	20.12.2019
14 Issuer call subject date, contingent call dates and redemption amount	Yes
15 Optional call date, contingent call dates and redemption amount	20.12.2016 at 100%
16 Subsequent call dates, if applicable	N/A
17 Fixed or floating dividend stopper	Fixed
18 Coupon rate and any related index	4.000%
19 Existence of a dividend stopper	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Mandatory
21 Existence of step up or other incentive to redeem	No
22 Noncumulative or cumulative	Noncumulative
23 Convertible or non-convertible	Yes
24 If convertible, conversions trigger(s)	Owner
25 If convertible, fully or partially	fully
26 If convertible, conversion rate	1:2
27 If convertible, mandatory or optional conversion	optional
28 If convertible, specify instrument type convertible into	Participation certificate
29 If convertible, specify issuer of instrument it converts into	IMMO-BANK Aktiengesellschaft
30 Write-down features	N/A
31 If write-down, write-down trigger(s)	N/A
32 If write-down, full or partial	N/A
33 If write-down, permanent or temporary	N/A
34 If temporary write-down, description of write-up mechanism	N/A
35 Position in subordination hierarchy in liquidation	Additional Tier 1 (AT1) capital
36 Non-compliant transitioned features	No
37 If yes, specify non-compliant features	None

Art. 437 paragraph 1 point (f) CRR

There are no capital ratios disclosed calculated by using elements of own funds determined on a basis other than that laid down in the CRR.

CAPITAL REQUIREMENTS

MINIMUM CAPITAL REQUIREMENTS FOR EACH RISK-WEIGHTED EXPOSURE CLASS

Art. 438 points (c) and (d) CRR

Table 5: Capital requirements by exposure class

in EUR million	31.12.2016
Minimum Capital Requirements – Total	**1.369**
Standardized Approach Exposure classes – Total	**739**
Exposures to central governments or central banks	25
Exposures to regional governments or local authorities	–
Exposures to public sector entities	11
Exposures to multilateral development banks	–
Exposures to international organizations	–
Exposures to institutions	110
Exposures to corporates	139
Retail exposures	152
Exposures secured by mortgages on immovable property	86
Exposures in default	34
Exposures associated with particularly high risk	2
Exposures in the form of covered bonds	11
Items representing securitization positions	–
Exposures to institutions and corporates with a short-term credit assessment	–
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	152
Equity exposures	14
Other items	3
IRB Approach Exposure classes – Total	**629**
Exposures to corporates	419
Exposure secured by real estate	56
Qualified revolving retail exposures	6
Other retail exposures	104
Equity exposures	36
Items representing securitization positions	–
Other non-credit obligation assets	8
Risk exposure amount for contributions to the default fund of a CCP	**1**

The finding-related RWA Add-on on the capital requirements in table 5 fixed by the ECB in June 2016 at EUR 103,9 million amounts to EUR 44,8 million as of 31 December 2016 (EUR 3,6 million capital requirement).

Minimum Capital Requirements for Credit valuation adjustments (CVA)	**14**
Standardized Formula	**14**

Table 6: Equity exposures

in EUR million	31.12.2016
Equity exposures in the Standardized Approach	**14**
Of which: Equity exposures under method continuance/Grandfathering	2
Equity exposures according to market-approach (IRB Approach)	**36**
Basic risk-weight approach	36
Exchange traded equity exposures	34
Private equity exposures in sufficiently diversified portfolios	–
Other equity exposures	2
Internal model approach	–
Equity positions according to PD/LGD Approaches	**–**
Exposures subject to supervisory transition regarding own funds requirements	–
Exposures subject to grandfathering provisions regarding own funds requirements	–

OWN FUNDS REQUIREMENTS FOR COMMODITIES RISK, FOREIGN EXCHANGE RISK AND RISK TYPES IN THE TRADING BOOK

Art. 438 point (e), (f), Art. 445 CRR

Table 7: Capital requirements for risk types in the trading book, commodities risk and foreign exchange risk

in EUR million	31.12.2016
Market risk	**5**
Position risk in debt instruments and equity instruments, foreign exchange risk and commodities risk (Standardized Approach)	5
Specific interest rate risk of securitization positions	**–**
Operational risk according to basic indicator approach	**131**

IRB PORTFOLIO SPECIALIZED LENDING EXPOSURES AND EQUITY EXPOSURES

Art. 438 last sentence

Table 8: Specialized lending exposures

31.12.2016 in EUR million	Category 1	Category 2	Category 3	Category 4	Category 5 (default)	Total
Less than 2,5 years	50%	70%	115%	250%	0%	
Gross exposure (before CCF)	2,785	138	19	–	4	**2,946**
Equal or more than 2,5 years	70%	90%	115%	250%	0%	
Gross exposure (before CCF)	715	139	20	–	5	**879**
Total						**3,825**

Table 9: Equity exposures

31.12.2016 in EUR million	RW	Gross exposure (before CCF)
Private equity exposures in sufficiently diversified portfolios	190%	–
Exchange traded equity exposures	290%	147
Other equity exposures	370%	6
Grandfathering	–	32
Total	**–**	**185**

COUNTERPARTY DEFAULT RISK

Art. 439 point (e), (g) and (h) CRR

Table 10: Counterparty default risk from derivatives, repo transactions, securities and commodities-borrowing transactions, Lombard business and transactions involving long-term settlement

31.12.2016 in EUR million	Gross positive fair value	Netting benefits	Netted current credit exposure	Collateral held	Net derivatives credit exposure
Interest rate derivative	1,155	606	549	418	131
FX derivative	157	108	49	42	7
Repos	11	5	6	1	5
Total	**1,323**	**719**	**604**	**461**	**143**

Promontoria Sacher Holding N.V. Group has no commodity-borrowing transactions, margin lending transactions or transactions involving long-term settlement. Netting is utilized at Promontoria Sacher Holding N.V. Group in the banking book and trading book. The positive fair values are offset against the negative fair values for each counterparty. Further, any cash collateral held at Promontoria Sacher Holding N.V. Group is credited to reduce the applicable current values.

As contracts with a central counterparty are not subject to any counterparty risk, the information in the following table is confined to OTC derivatives and repos. The positive reacquisition values for derivative counterparty default risk positions and repos totaled EUR 1,323 million as of 31 December 2016.

CDS serve as hedges for part of the Bank's securities, synthetic securities (CDS sell positions) and loan portfolio. As of 31 December 2016 the Bank had no CDS in the portfolio.

Table 11: Nominal values of derivatives, divided by product group and by collateral acquired and collateral sold

31.12.2016 in EUR million	Own credit portfolio		Intermediation activities	
	Buy	Sell	Buy	Sell
Interest rate derivatives	26,137	26,395	5,308	5,304
FX derivatives	4,843	6,726	606	509
Contracts concerning indices and substance	22	22	–	–
Credit derivatives	–	33	–	–
Embedded Derivatives (CLN)	*–*	*33*	–	–
Other derivatives	65	65	–	–

Unilateral derivatives are recorded either under buy or under sell.

Bilateral derivatives (IRS, CRS, currency swaps or forwards) are recorded both under buy and under sell.

Credit derivatives used by the Bank to hedge its own credit portfolio would be presented in the banking book as buy positions.

CAPITAL BUFFER

COUNTERCYCLICAL CAPITAL BUFFER

Art. 440 CRR

Table 12: Geographical distribution of credit exposures relevant for the calculation oft he countercyclical capital buffer

31.12.2016 in EUR million	General credit exposures		Own funds requirements		Own funds requirements weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB	of which: General credit exposures	Total		
Austria	4,980	11,682	520	520	42.93%	0.00%
United Kingdom	2,191	1,275	196	196	16.17%	0.00%
France	1,500	268	165	165	13.62%	0.00%
USA	442	1,960	140	140	11.53%	0.00%
Germany	224	705	49	49	4.07%	0.00%
Ireland	21	922	41	41	3.42%	0.00%
Spain	184	232	22	22	1.85%	0.00%
Netherlands	167	215	19	19	1.53%	0.00%
Denmark	95	17	9	9	0.75%	0.00%
Switzerland	63	34	8	8	0.66%	0.00%
Norway	147	140	7	7	0.56%	1.50%
Italy	117	26	5	5	0.40%	0.00%
Luxembourg	–	62	4	4	0.35%	0.00%
Sweden	86	42	3	3	0.28%	1.50%
Slovakia	27	10	3	3	0.22%	0.00%
Canada	–	97	3	3	0.21%	0.00%
Finland	54	30	2	2	0.21%	0.00%
Croatia	–	23	2	2	0.16%	0.00%
Czech Republic	12	20	2	2	0.16%	0.00%
Belgium	116	–	2	2	0.15%	0.00%
Slovenia	1	47	2	2	0.14%	0.00%
Bermuda	–	17	2	2	0.13%	0.00%
Liechtenstein	8	4	2	2	0.13%	0.00%
Hungary	1	15	1	1	0.08%	0.00%
Poland	20	2	1	1	0.07%	0.00%
Jersey	10	–	1	1	0.07%	0.00%
United Arab Emirates	7	–	1	1	0.04%	0.00%
Malta	3	3	–	–	0.04%	0.00%
Russia	–	5	–	–	0.03%	0.00%
Portugal	19	–	–	–	0.03%	0.00%
Virgin Islands (British)	1	–	–	–	0.01%	0.00%
Bosnia and Herzegovina	–	2	–	–	0.00%	0.00%
Serbia	–	2	–	–	0.00%	0.00%
Turkey	–	2	–	–	0.00%	0.00%
Romania	–	1	–	–	0.00%	0.00%
Hong Kong	–	–	–	–	0.00%	0.63%
Total	**10,496**	**17,860**	**1,212**	**1,212**	**100.00%**	**0.013%**

Table 13: Institution specific countercyclical capital buffer

in EUR million	31.12.2016
Total risk weighted assets	19,019
Institution specific countercyclical capital buffer rate	0.013%
Institution specific countercyclical capital buffer requirement	2

CREDIT RISK AND DILUTION RISK

TOTAL AMOUNT OF EXPOSURES AFTER ACCOUNTING OFFSETS AND AVERAGE AMOUNT OF EXPOSURES OVER THE REPORTING PERIOD

Art. 442 point (c) CRR

Table 14: Exposure values by exposure class

31.12.2016 in EUR million	Exposure value	Average 2016
Exposures to central governments or central banks	3,266	2,706
Exposures to regional governments or local authorities	2,987	2,968
Exposures to public sector entities	2,052	2,415
Exposures to multilateral development banks	32	35
Exposures to international organizations	87	88
Exposures to institutions	4,215	4,133
Exposures to corporates	2,283	2,815
Retail exposures	2,776	2,746
Exposures secured by mortgages on immovable property	2,883	917
Exposures in default	553	533
Exposures associated with particularly high risk	20	20
Exposures in the form of covered bonds	1,226	1,270
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	1,426	358
Equity exposures	103	103
Other items	92	65
Standardized Approach – Exposure classes	**24,001**	**21,172**
Exposures to corporates	9,820	9,761
Retail exposures	11,038	10,704
Equity exposures	154	143
Items representing securitization positions	–	–
Other non-credit obligation assets	635	641
IRB Approach – Exposure classes	**21,647**	**21,249**
Total	**45,648**	**42,421**

GEOGRAPHICAL BREAKDOWN OF EXPOSURES

Art. 442 point (d) CRR

Table 15: Exposure values by country group

31.12.2016 in EUR million	Austria	Western Europe	Central and Eastern Europe (CEE)	North America	Asia/ Pacific	Others	Total
Exposures to central governments or central banks	2,491	660	88		25	2	**3,266**
Exposures to regional governments or local authorities	2,987						**2,987**
Exposures to public sector entities	1,842	210					**2,052**
Exposures to multilateral development banks						32	**32**
Exposures to international organizations		65				22	**87**
Exposures to institutions	161	3,060	1	727	263	3	**4,215**
Exposures to corporates	1,023	895	58	51		256	**2,283**
Retail exposures	1,037	1,737	2				**2,776**
Exposures secured by mortgages on immovable property	2,742	140	1				**2,883**
Exposures in default	488	65					**553**
Exposures associated with particularly high risk	20						**20**
Exposures in the form of covered bonds	92	1,114	20				**1,226**
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	2	1,424					**1,426**
Equity exposures	96	7					**103**
Other items	92						**92**
Standardized Approach – Exposure classes	**13,073**	**9,377**	**170**	**778**	**288**	**315**	**24,001**
Exposures to corporates	3,673	3,737	144	2,075		191	**9,820**
Retail exposures	10,967	54	13	2	1	1	**11,038**
Equity exposures	5	148		1			**154**
Other non-credit obligation assets						635	**635**
IRB Approach – Exposure classes	**14,645**	**3,939**	**157**	**2,078**	**1**	**827**	**21,647**
Total	**27,718**	**13,316**	**327**	**2,856**	**289**	**1,142**	**45,648**

BREAKDOWN OF EXPOSURES BY INDUSTRY

Art. 442 point (e) CRR

Table 16: Exposure values by industry (1/2)

31.12.2016 in EUR million	Banks	Agriculture and forestry	Insurance and other financial institutions	Trade	Subsidized housing
Exposures to central governments or central banks	1,839				
Exposures to regional governments					27
Exposures to local authorities					
Exposures to multilateral development banks	32				
Exposures to international organizations					
Exposures to institutions	4,215				
Exposures to corporates	77	1	793	175	15
Of which: to SMEs		*1*	*266*	*32*	*12*
Retail exposures		10	7	62	
Of which: to SMEs		*10*	*7*	*61*	
Exposures secured by mortgages on immovable property			75	17	245
Of which: to SMEs			*14*	*7*	*176*
Exposures in default			5	4	
Exposures associated with particularly high risk			20		
Exposures in the form of covered bonds	1,146		80		
Exposures in the form of units or shares in collective investment undertakings ("CIUs")			2		
Equity exposures	36		53		6
Other items					
Standardized Approach – Exposure classes	**7,345**	**11**	**1,035**	**258**	**293**
Exposures to corporates		39	326	782	1,127
Of which: to SMEs		*3*	*2*	*46*	*232*
Retail exposures		22	13	141	
Of which: to SMEs		*1*	*1*	*10*	
Equity exposures	153		1		
Other non-credit obligation assets					
IRB Approach – Exposure classes	**153**	**61**	**340**	**923**	**1,127**
Total	**7,498**	**72**	**1,375**	**1,181**	**1,420**

Table 17: Exposure values by industry (2/2)

31.12.2016 in EUR million	Services	Real estate	Other corporates	Private house-holds	Other	Total
Exposures to central governments or central banks			1,427			**3,266**
Exposures to regional governments	19		2,941			**2,987**
Exposures to local authorities	53		1,999			**2,052**
Exposures to multilateral development banks						**32**
Exposures to international organizations			87			**87**
Exposures to institutions						**4,215**
Exposures to corporates	270	194	758			**2,283**
Of which: to SMEs	*27*	*173*	*44*			***555***
Retail exposures	186	75	161	2,275		**2,776**
Of which: to SMEs	*177*	*73*	*159*			***487***
Exposures secured by mortgages on immovable property	99	667	81	1,699		**2,883**
Of which: to SMEs	*29*	*551*	*39*			***816***
Exposures in default	10	8	422	104		**553**
Exposures associated with particularly high risk						**20**
Exposures in the form of covered bonds						**1,226**
Exposures in the form of units or shares in collective investment undertakings ("CIUs")				1,424		**1,426**
Equity exposures	8					**103**
Other items					92	**92**
Standardized Approach – Exposure classes	**645**	**944**	**7,876**	**5,502**	**92**	**24,001**
Exposures to corporates	885	4,300	2,361			**9,820**
Of which: to SMEs	*82*	*261*	*160*			***786***
Retail exposures	214	59	248	10,341		**11,038**
Of which: to SMEs	*14*	*3*	*23*			***52***
Equity exposures						**154**
Other non-credit obligation assets					635	**635**
IRB Approach – Exposure classes	**1,099**	**4,359**	**2,609**	**10,341**	**635**	**21,647**
Total	**1,744**	**5,303**	**10,485**	**15,843**	**727**	**45,648**

BREAKDOWN OF EXPOSURES ACCORDING TO RESIDUAL MATURITY AND EXPOSURE CLASSES

Art. 442 point (f) CRR

Table 18: Exposure values by residual maturity

31.12.2016 in EUR million	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Other	Total
Exposures to central governments or central banks	2,063	145	269	789		**3,266**
Exposures to regional governments or local authorities	607	3	260	2,117		**2,987**
Exposures to public sector entities	630	74	118	1,230		**2,052**
Exposures to multilateral development banks			32			**32**
Exposures to international organizations			87			**87**
Exposures to institutions	916	231	1,750	1,318		**4,215**
Exposures to corporates	829	246	946	262		**2,283**
Retail exposures	33	94	802	1,847		**2,776**
Exposures secured by mortgages on immovable property	99	242	636	1,906		**2,883**
Exposures in default	406	8	40	99		**553**
Exposures associated with particularly high risk				20		**20**
Exposures in the form of covered bonds	14	37	636	539		**1,226**
Exposures in the form of units or shares in collective investment undertakings ("CIUs")	38	5	98	1,285		**1,426**
Equity exposures			8	95		**103**
Other items					92	**92**
Standardized Approach – Exposure classes	**5,635**	**1,085**	**5,682**	**11,507**	**92**	**24,001**
Exposures to corporates	4,236	1,381	1,695	2,508		**9,820**
Retail exposures	3,335	53	520	7,130		**11,038**
Equity exposures	1		89	64		**154**
Other non-credit obligation assets					635	**635**
IRB Approach – Exposure classes	**7,572**	**1,434**	**2,304**	**9,702**	**635**	**21,647**
Total	**13,207**	**2,519**	**7,986**	**21,209**	**727**	**45,648**

BREAKDOWN OF EXPOSURE VALUES BY BUSINESS SEGMENTS AND CHARGES FOR GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

Art. 442 point (g) (i-iii) CRR

Table 19: Exposures to business segments, separated by impaired and past due exposures

31.12.2016 in EUR million	Risk category	Exposure value	Share in %
Banks	impaired	–	0.0%
	past due	–	0.0%
Agriculture and forestry	impaired	1	0.1%
	past due	–	0.1%
Insurance and other financial institutions	impaired	5	0.6%
	past due	1	0.2%
Trade	impaired	9	1.0%
	past due	7	0.8%
Subsidized housing	impaired	–	0.0%
	past due	–	0.0%
Services	impaired	14	1.6%
	past due	18	2.1%
Real estate	impaired	18	2.0%
	past due	9	1.0%
Other corporates	impaired	262	29.6%
	past due	165	18.7%
Private households	impaired	305	34.5%
	past due	68	7.7%
Total		**882**	**100.0%**

Table 20: Specific and general credit risk adjustments by business segment[1)]

31.12.2016 in EUR million	Risk category	Credit risk adjustment	Share in %
Banks	general	–	0.0%
	specific	–	0.0%
Agriculture and forestry	general	–	0.0%
	specific	1	0.5%
Insurance and other financial institutions	general	–	0.0%
	specific	3	1.5%
Trade	general	–	0.0%
	specific	11	5.4%
Subsidized housing	general	–	0.0%
	specific	–	0.0%
Services	general	–	0.0%
	specific	15	7.4%
Real estate	general	–	0.0%
	specific	21	10.3%
Other corporates	general	–	0.0%
	specific	31	15.2%
Private households	general	–	0.0%
	specific	122	59.8%
Total		**204**	**100.0%**

1) Including expenses for losses incurred but not reported in accordance with IAS 39 AG 89.

Table 21: Charges for general and specific credit risk adjustments during the reporting period[1)]

in EUR million	31.12.2016
Exposures to corporates	(2)
Exposures to retail customers	15
Total	**13**

1) Including expenses for losses incurred but not reported in accordance with IAS 39 AG 89.

BREAKDOWN OF EXPOSURE VALUES AND LOAN LOSS PROVISIONS BY COUNTRY GROUP FOR EXPOSURES WITH INCREASED DEFAULT RISK

Art. 442 point (h) CRR

Table 22: Exposures and credit risk adjustments by country group for exposures with increased risk of default

31.12.2016 in EUR million	Risk category	Exposure value	Share in %	Credit risk adjustment	Share in %
Austria	impaired	531	60.2%	189	92.6%
	past due	216	24.5%	–	0.0%
Western Europe	impaired	73	8.3%	12	5.9%
	past due	49	5.6%	–	0.0%
Central and Eastern Europe (CEE)	impaired	9	1.0%	3	1.5%
	past due	4	0.5%	–	0.0%
North America	impaired	–	0.0%	–	0.0%
	past due	–	0.0%	–	0.0%
Asia/Pacific	impaired	–	0.0%	–	0.0%
	past due	–	0.0%	–	0.0%
Others	impaired	–	0.0%	–	0.0%
	past due	–	0.0%	–	0.0%
Total		**882**	**100.0%**	**204**	**100.0%**

1) Including expenses for losses incurred but not reported in accordance with IAS 39 AG 89.

LOAN LOSS PROVISIONS FOR IMPAIRED EXPOSURES

Art. 442 point (i) (i-v) CRR

Table 23: Specific and general credit risk adjustments for impaired exposures

in EUR million	General credit risk adjustments	Specific credit risk adjustments
As of 01.01.2016	**–**	**237**
Additions	–	*64*
Change in consolidation scope	–	15
Change in foreign exchange rates	–	–
Change in the aggregation of business activities	–	–
Change in the acquisition and disposal of subsidiaries	–	–
Provisions recognized in P&L	–	48
Other	–	–
Unwinding effects in accordance with IAS 39	–	1
Disposals	–	*(97)*
Change in consolidation scope	–	(1)
Change in foreign exchange rates	–	–
Change in the aggregation of business activities	–	–
Change in the acquisition and disposal of subsidiaries	–	–
Intended use	–	(60)
Provisions released in P&L	–	(36)
Reclassifications	–	–
As of 31.12.2016	**–**	**204**

WRITE-DOWNS AND RECOVERIES ON LOANS PREVIOUSLY WRITTEN OFF

Art. 442 last sentence CRR

Table 24: Specific credit risk adjustments and recoveries recorded directly to the income statement

in EUR million	31.12.2016
Direct write-downs	(28)
Recoveries on loans previously written off	6
Total	**(22)**

ASSET ENCUMBRANCE

Art. 443 CRR

Table 25: Assets

31.12.2016 in EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**5,191**		**30,310**	
Of which: equity instruments	–	–	2	3
Of which: debt securities	669	690	5,564	5,250
Of which: other assets	–		2,999	

Table 26: Collateral received

31.12.2016 in EUR million	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**–**	**762**
Of which: equity instruments	–	–
Of which: debt securities	–	52
Of which: other collateral received	–	676
Own debt securities issued other than own covered bonds or ABSs	**–**	**102**

Table 27: Encumbered assets/collateral received and associated liabilities

31.12.2016 in EUR million	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**3,099**	**4,670**

The funding strategy of Promontoria Sacher Holding N.V. Group is focussed on its stable unsecured customer deposit base, consisting primarily of retail deposits. Due to our business model and funding structure the percentage of asset encumbrance and matching secured liabilities as a proportion to total liabilities is relatively low.

Encumbered assets were mainly used to collateralize covered bond issuance as well as other forms of secured institutional funding (e.g. repurchase agreements). Assets used for encumbrance consist mainly of customer loans as well as debt securities.

Asset encumbrance is managed by the group's ALM function and reported to the Strategic ALCO on a monthly basis. The Strategic ALCO is the relevant decision making body for significant secured funding transactions or other collateral management measures.

Main sources and types of encumbrance:

- Receivables and securities assigned to Oesterreichische Kontrollbank AG
- Collateral pledged to the European Investment Bank
- Cover pool for trust savings deposits
- Cover pool for covered bonds
- Collateral for tender facilities
- Cash collateral for derivatives
- Collateral for repurchase agreements
- Other collateral

Evolution of encumbrance over time

03/2016	6.040.347.995 EUR
06/2016	4.243.835.429 EUR
09/2016	4.341.310.258 EUR
12/2016	6.078.254.243 EUR

Structure of encumbrance between entities within a group

There is no material collateral usage between the entities of the group.

General description of terms and conditions of the collateralisation agreements entered into for securing liabilities

The basis of the collateralisation agreements is the quality of the collateral. The criteria for assessing the quality are maturity, fixed and floating rate, rating and type of collateral.

Over-collateralization of covered bonds

Covered bonds issued are secured by a cover pool according to the Austrian Law on Covered Bonds of Bank (Gesetz über fundierte Bankschuldverschreibungen "FBSchVG"). Promontoria Sacher Holding N.V. Group has committed to ensure an over-collateralization of 7% for the public pool and 5.5% for the mortgage pool.In order to meet the requirements for an "Aaa" rating by Moody's, an over-collateralization of 7% for the public pool and 9% for the mortgage pool is considered appropriate by Moody's.

Proportion of items in "other unencumbered assets" which are not available for encumbrance

Approximately EUR 1.2 billion of the "other unencumbered assets" are not available for encumbrance. It consists mainly of intangible assets, derivative assets, property and deferred tax assets.

STANDARDIZED APPROACH TO CREDIT RISK

Art. 444 point (e) CRR

Table 28: Exposure values[1] before and after credit risk mitigation per rating notch and exposure values deducted from equity

31.12.2016 in EUR million	0%	4%	10%	20%	35%	50%	75%	100%	150%	250%	Other RW	Total
Exposures to central governments or central banks												
Gross exposure	3,052			62		23		12		117		**3,266**
Exposure after CRM	3,307			62				9		117		**3,495**
Exposures to regional governments or local authorities												
Gross exposure	2,969			18								**2,987**
Exposure after CRM	4,232			18								**4,250**
Exposures to public sector entities												
Gross exposure				2,052								**2,052**
Exposure after CRM				1,332								**1,332**
Exposures to multilateral development banks												
Gross exposure	27			5								**32**
Exposure after CRM	27			5								**32**
Exposures to international organizations												
Gross exposure	87											**87**
Exposure after CRM	87											**87**
Exposures to institutions												
Gross exposure		300		1,446		2,403		44	22			**4,215**
Exposure after CRM		25		1,231		2,105		44	22			**3,427**
Exposures to corporates												
Gross exposure	20	77				74		2,102	10			**2,283**
Exposure after CRM	20	77				83		1,993	10			**2,183**
Retail exposures												
Gross exposure							2,776					**2,776**
Exposure after CRM							2,665					**2,665**
Exposures secured by mortgages on immovable property												
Gross exposure					2,559	193	3	128				**2,883**
Exposure after CRM					2,559	193	3	127				**2,882**

1) Exposure values contain balance-sheet and off-balance-sheet elements, as credit risk mitigation techniques are also applied to gross exposures.

31.12.2016 in EUR million	0%	4%	10%	20%	35%	50%	75%	100%	150%	250%	Other RW	Total
Exposures in default												
Gross exposure								462	91			**553**
Exposure after CRM								355	31			**386**
Exposures associated with particularly high risk												
Gross exposure									20			**20**
Exposure after CRM									20			**20**
Exposures in the form of covered bonds												
Gross exposure			1,132	74		20						**1,226**
Exposure after CRM			1,132	74		20						**1,226**
Exposures in the form of units or shares in collective investment undertakings ("CIUs")												
Gross exposure											1,426	**1,426**
Exposure after CRM											1,426	**1,426**
Equity exposures												
Gross exposure								53		50		**103**
Exposure after CRM								53		50		**103**
Other items												
Gross exposure	56							36				**92**
Exposure after CRM	56							36				**92**
Of which: other items that are deducted from own funds [1)]												
Gross exposure	20											**20**
Exposure after CRM	20											**20**

1) Alternative application under Art. 36 paragraph 1 (k) CRR is not used.

PARTICIPATIONS NOT HELD IN THE TRADING BOOK

EXPOSURES IN EQUITIES NOT INCLUDED IN THE TRADING BOOK

Art. 447 point (a), (b) and (c) CRR

A differentiation is made according to the following criteria:

Participations belonging to the **core business** of Promontoria Sacher Holding N.V.: These are majority and minority interests intended to be held over the long term within the financial services sector.

Participations performing **auxiliary tasks** for Promontoria Sacher Holding N.V.: e.g. in payment transactions or IT.

Other participations: These primarily cover participations in private equity financing, credit guarantees and real estate as well as legally mandatory participation in deposit insurance.

Table 29: Equity exposures by objective

31.12.2016 in EUR million	Book value
Core business	81
Auxiliaries	1
Other participations	38
Total of not fully consolidated companies	**120**

Table 30: Shares in non-consolidated companies

31.12.2016 in EUR million	Book value [1)]
Shares categorized as "Available for sale"	**102**
Shares in credit institutions	*28*
Subsidiaries	–
Associates	4
Other shares	24
Shares in other companies	*74*
Subsidiaries	21
Associates	38
Other shares	15
Shares accounted for using the equity method	**18**
Associates	18
Total shares in not fully consolidated companies	**120**

1) The book value equals the fair value because a market value cannot be determined reliably for the most part.

Table 31: Breakdown of securities

31.12.2016 in EUR million	Not listed	Listed			Total
		Total	Loans and receivables	Other valuation	
Bonds and other fixed-income securities	684	3,191	246	2,945	3,875
Shares and variable-income securities	2	2	–	2	4
Shares in associates and other shares	81	–	–	–	81
Shares in non-consolidated subsidiaries	21	–	–	–	21
Total securities	**788**	**3,193**	**246**	**2,947**	**3,981**

ACCUMULATED PROFIT AND LOSS FROM SALE OF EQUITY INTERESTS AND REVALUATION RESERVE

Art. 447 point (d) CRR

Accumulated profit or loss from the sale of participations in Promontoria Sacher Holding N.V. Group amounts to EUR 11,0 million. (2015: EUR 51.7 million)

Art. 447 point (e) CRR

Unrealized gains and losses resulting from the fair value accounting that are excluded from the own funds amount to EUR 14.6 million.

INTEREST RATE RISK FROM NON TRADING BOOK POSITIONS

Art. 448 point (b) CRR

Table 32: Exposure to interest rate risk on positions not included in the trading book (PvBP per currency)

31.12.2016 in EUR thousend	<1Y	1Y(3)Y	3Y(5)Y	5Y(7)Y	7Y(10)Y	>10Y	Total
EUR	(14)	(122)	(97)	(397)	(379)	(287)	**(1,296)**
USD	7	17	19	6	(8)	(1)	**40**
CHF	(12)	(13)	(10)	54	11	(38)	**(8)**
GBP	24	9	(1)	(7)	(5)	(9)	**13**
Other currencies	4	(21)	(3)	-	1	2	**(18)**
Total	**10**	**(129)**	**(93)**	**(344)**	**(380)**	**(333)**	**(1,268)**

Promontoria Sacher Holding N.V. Group holds no trading book therefore the table above corresponds to the exposure to interest rate risk on positions not included in the trading book of BAWAG P.S.K. AG.

REMUNERATION POLICY AND PRACTICES

REMUNERATION BROKEN DOWN BY BUSINESS AREA

Art. 450 paragraph 1 point (g)

The following summary of quantitative information regarding remuneration in financial year 2016 shows a breakdown by business segments and refers to employees whose activities have a material influence on the Bank's risk profile.

Table 33: Remuneration by business area

31.12.2016 in EUR million	Supervisory Board	Management Board	Investment banking	Retail banking	Corporate functions	Independent controlling functions	Others
Number of beneficiaries	8	5					
Full-time equivalents (FTE)		5	24.7	1,441.6	456.0	162.6	532.8
Number of identified full-time equivalents (FTE)			8	16	16	22	35
Number of full-time equivalents in Senior Management Position			1	10	9	8	8
Net profit for the financial year 2016 (in EUR)	550,747,162						
Total pay in the financial year 2016 (in EUR)	396,613	25,595,061	1,893,379	7,453,659	8,505,244	4,035,335	19,298,208
Of which variable component in the financial year 2016	–	10,425,000	794,000	2,543,250	3,362,200	1,194,700	8,041,250

REMUNERATION BROKEN DOWN BY SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE

Art. 450 paragraph 1 point (h) (i-vi) CRR

The following summary of quantitative information regarding remuneration in financial year 2016 shows a breakdown by top management and employees whose activities have a material influence on the Bank's risk profile.

Table 34: Remuneration

31.12.2016 in EUR million	Fixed remuneration	Variable remuneration	Total	Number of beneficiaries
Higher level management	15,840,314	10,669,000	**26,509,314**	36
Employees whose activities have a material influence on the bank's risk profile	9,410,111	5,266,400	**14,676,511**	61
Total	**25,250,425**	**15,935,400**	**41,185,825**	**97**

Table 35: Variable remuneration

31.12.2016 in EUR million	Cash	Deferred cash[1)]	Total
Higher level management	4,445,200	6,223,800	10,669,000
Employees whose activities have a material influence on the bank's risk profile	2,804,200	2,462,200	5,266,400
Total	**7,249,400**	**8,686,000**	**15,935,400**

1) Dependent on the Bank's profitability in the next 5 years

Table 36: Deferred remuneration

31.12.2016 in EUR million	Earned portions	Portions not yet earned including prior years
Higher level management	1,190,160	9,578,360
Employees whose activities have a material influence on the bank's risk profile	746,131	4,698,715
Total	**1,936,291**	**14,277,075**

Table 37: Deferred remuneration awarded during financial year 2016

31.12.2016 in EUR million	Granted	Paid out	Reduced due to performance adjustments
Higher level management	6,223,800	804,282	–
Employees whose activities have a material influence on the bank's risk profile	2,462,200	456,071	–
Total	**8,686,000**	**1,260,353**	**–**

In financial year 2016 no payments were made for hiring bonuses and severance payments. For data privacy reasons and pursuant to Art. 241, paragraph 4 UGB, information is not being disclosed if fewer than three people are concerned.

PAY BANDS

Art. 450 paragraph 1 point (i)

Table 38: Pay bands

31.12.2016 in EUR million	Number of beneficiaries
1,000,000 to 1,500,000	5
1,500,000 to 2,000,000	1
2,000,000 to 2,500,000	
2,500,000 to 3,000,000	1
3,000,000 to 3,500,000	
3,500,000 to 4,000,000	
4,000,000 to 4,500,000	1
4,500,000 to 5,000,000	
5,000,000 to 6,000,000	1
6,000,000 to 7,000,000	2
7,000,000 to 8,000,000	1
8,000,000 to 9,000,000	
9,000,000 to 10,000,000	

REMUNERATION FOR MANAGING DIRECTORS

Art. 450 paragraph 2 CRR

Table 39: Remuneration

31.12.2016 in EUR million	Fixed remuneration	Variable remuneration	Total remuneration	Number of beneficiaries
Managing director	15,566,674	10,425,000	25,991,674	13

Table 40: Variable remuneration

31.12.2016 in EUR million	Cash	Deferred cash[1)]	Total[2)]
Managing director	4,170,000	6,255,000	10,425,000

1) Dependent on the Bank's profitability in the next 5 years.
2) Deferred variable remuneration for 2016 amounts to 60%.

Table 41: Deferred remuneration

31.12.2016 in EUR million	Earned portions	Portions not yet earned including prior years
Managing director	1,385,600	10,388,400

Table 42: Deferred remuneration awarded during financial year 2016

31.12.2016 in EUR million	Granted	Paid out
Managing director	6,255,000	1,334,600

In financial year 2016 no payments were made N.V. for hiring bonuses and severance payments. For data privacy reasons and pursuant to Art. 241, paragraph 4 UGB, information is not being disclosed if fewer than three people are concerned.

Share appreciation rights

Promontoria Sacher Holding N.V. has set up a share option scheme granting Share-Appreciation Rights (SARs) to members of the Managing Board, selected senior management and certain members of the supervisory board of BAWAG P.S.K. AG, which is indicated on the stock price of Promontoria Sacher Holding N.V.

Effective September 30, 2016, Promontoria Sacher Holding N.V. has transferred the SARS program and its obligations from it to a company of its main beneficiaries. All beneficiaries have consented to this transfer and have signed a waiver of their share purchase rights from the SARS program to Promontoria Sacher Holding N.V.

LEVERAGE RATIO

Art. 451 paragraph 1

Table 43: Summary reconciliation of accounting assets and leverage ratio exposures

31.12.2016 in EUR million	Applicable Amounts incl. transitional rules acc. to CRR
Total assets as per published financial statements	39,727
Adjustment for entities which are consolidated for accounting purposes but are otuside the scope of regulatory consolidation	42
Adjustments for derivative financial instruments	(827)
Adjustments for securities financing transactions	–
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,125
Other adjustments	(311)
Leverage ratio exposure	**39,756**

Table 44: Leverage ratio

31.12.2016 in EUR million	Applicable Amounts incl. transitional rules acc. to CRR
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	38,746
Asset amounts deducted in determining Tier 1 capital	(464)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**38,282**
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	175
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	321
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(147)
Total derivative exposures	**349**
Total securities financing transaction exposures	**–**
Off-balance sheet exposures at gross notional amount	6,157
Adjustments for conversion to credit equivalent amounts	5,032
Total off-balance sheet exposures	**1,125**
Tier 1 capital	**2,577**
Total leverage ratio exposures	**39,756**
Leverage Ratio	**6.48%**

Table 45: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

31.12.2016 in EUR million	Applicable Amounts incl. transitional rules acc. to CRR
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	38,746
Trading book exposures	–
Banking book exposures, of which:	38,746
Covered bonds	1,226
Exposures treated as sovereigns	5,676
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,373
Institutions	3,552
Secured by mortgages of immovable properties	9,116
Retail exposures	5,372
Corporate	9,120
Exposures in default	523
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	2,788

QUANTITATIVE DISCLOSURE USING THE INTERNAL RATINGS BASED APPROACH

Art. 452 points (d)-(g) CRR

EXPOSURES TO CORPORATES

Table 46: Exposures to small and medium-sized enterprises

31.12.2016 in EUR million	Rating level	Gross exposure (before CCF)	Of which: total of outstanding loans	Exposure to credit lines not yet drawn	Exposure (after CCF)	Individual loan loss provision	Expected loss	Avg. LGD in %	Avg. RW in %
Small and medium-sized enterprises	1								
	2								
	3								
	4	19	19		18				14.19%
	5	121	119	2	26				15.51%
	6	41	34	1	11				22.98%
	7	77	76	2	49				21.65%
	8	45	42	2	43				22.06%
	9	62	60	1	46				26.93%
	10	51	47	1	43				35.59%
	11	70	65	1	64				47.66%
	12	29	21	7	24				63.17%
	13	51	34	9	38				69.99%
	14	93	64	16	73				73.51%
	15	65	56	7	55		1		93.67%
	16	36	32	2	32		1		100.20%
	17	48	43	4	43		1		109.83%
	18	38	36	2	36		1		119.28%
	19	29	28	1	28		1		139.51%
	20	9	9		9		1		158.60%
	21	24	21	2	23		3		189.88%
	22	1	1		1				
	23								
	24								
	25								
	26								
	27	13	12		13	8	5		
	28								
	29								

Table 47: Exposures to other corporates and special financing

31.12.2016 in EUR million	Rating level	Gross exposure (before CCF)	Of which: total of outstanding loans	Exposure to credit lines not yet drawn	Exposure (after CCF)	Individual loan loss provision	Expected loss	Avg. LGD in %	Avg. RW in %
Other corporates	1								
	2								
	3								
	4	74	60	9	54				16.00%
	5	340	289	49	78				20.40%
	6	381	298	80	237				20.80%
	7	347	338	8	324				23.99%
	8	379	370	6	356				31.50%
	9	143	128	4	101				36.78%
	10	649	625	15	628		1		50.33%
	11	1,019	849	125	907		2		64.31%
	12	831	762	55	782		2		82.98%
	13	324	185	113	241		1		96.86%
	14	293	233	39	239		2		111.51%
	15	127	106	20	112		1		128.11%
	16	32	25	5	29		1		139.78%
	17	41	39	1	39		1		167.38%
	18	51	51		51		2		191.43%
	19	1		1	1				215.29%
	20								
	21	6	2	3	2				229.13%
	22								
	23								
	24								
	25								
	26								
	27	13	13		13	7	5		
	28	22	21		21	2	9		
	29								
Special financing		3,825	3,547	267	3,738	5	10		

RETAIL EXPOSURES

Table 48: Exposures secured by real estate

31.12.2016 in EUR million	Rating level	Gross exposure (before CCF)	Of which: total of outstanding loans	Exposure to credit lines not yet drawn	Exposure (after CCF)	Individual loan loss provision	Expected loss	Avg. LGD in %	Avg. RW in %
Exposures secured by real estate	1								
	2								
	3								
	4								
	5								
	6								
	7								
	8	38	36	1	37			8.3%	1.9%
	9	655	649	6	652			9.6%	3.0%
	10	495	489	6	492			10.4%	4.9%
	11	1,516	1,501	15	1,508		1	11.7%	8.4%
	12	594	578	16	586			11.3%	11.1%
	13	552	537	15	545		1	11.8%	15.7%
	14	485	466	18	476		1	10.3%	18.9%
	15	261	248	13	255		1	10.9%	27.0%
	16	155	150	5	152		1	10.7%	33.8%
	17	91	89	3	90			10.3%	39.1%
	18	76	74	2	75		1	9.8%	44.3%
	19	59	58	1	58		1	9.2%	47.8%
	20	27	27		27			9.2%	53.3%
	21	120	119	1	119	14	4	10.2%	62.7%
	22	6	6		6		1	11.4%	
	23								
	24	9	9		9		1	11.3%	
	25	2	2		2			22.5%	
	26	14	14		14	1	2	13.9%	
	27	38	38	1	38	9	8	21.7%	
	28								
	29								

Table 49: Qualified revolving retail exposures

31.12.2016 in EUR million	Rating level	Gross exposure (before CCF)	Of which: total of outstanding loans	Exposure to credit lines not yet drawn	Exposure (after CCF)	Individual loan loss provision	Expected loss	Avg. LGD in %	Avg. RW in %
Qualified revolving retail exposures	1								
	2								
	3								
	4								
	5								
	6								
	7								
	8	301	22	280	235			37.8%	2.2%
	9	245	26	219	95			58.7%	4.8%
	10	163	14	149	72			60.7%	7.7%
	11	102	9	93	44			60.7%	12.2%
	12	59	5	54	26			62.6%	17.9%
	13	36	4	32	14			64.2%	25.9%
	14	21	3	18	8			62.9%	36.9%
	15	12	2	10	5			63.2%	53.2%
	16	5	1	5	2			63.3%	71.0%
	17	4	1	3	1			63.1%	89.6%
	18	3		2	1			61.5%	110.1%
	19	2		1	1			59.4%	130.9%
	20	11	5	6	10		1	52.3%	134.4%
	21	26	2	24	13		3	42.1%	136.1%
	22								
	23								
	24								
	25								
	26								
	27								
	28								
	29								

Table 50: Other retail exposures

31.12.2016 in EUR million	Rating level	Gross exposure (before CCF)	Of which: total of outstanding loans	Exposure to credit lines not yet drawn	Exposure (after CCF)	Individual loan loss provision	Expected loss	Avg. LGD in %	Avg. RW in %
Other retail exposures	1								
	2								
	3								
	4								
	5								
	6								
	7								
	8	203	26	177	80			59.6%	14.3%
	9	999	206	793	372			51.2%	16.2%
	10	688	241	445	431			51.3%	23.7%
	11	605	309	295	447		1	45.7%	30.1%
	12	386	257	123	298		1	38.7%	33.0%
	13	450	340	104	382		1	41.1%	43.3%
	14	456	377	70	408		2	38.0%	48.3%
	15	343	288	50	311		3	39.2%	55.9%
	16	177	152	22	161		2	38.7%	58.5%
	17	124	108	14	113		2	35.8%	55.8%
	18	96	84	10	88		3	35.5%	59.2%
	19	65	56	7	60		3	38.4%	72.5%
	20	42	35	6	38		3	39.7%	85.9%
	21	96	89	5	96	2	12	37.1%	100.3%
	22	19	19		19	8	7	37.0%	
	23								
	24	4	4		4	2	2	54.2%	
	25								
	26	9	9		9	4	4	44.4%	
	27	93	93		93	71	44	47.1%	
	28								
	29								

OTHER EXPOSURES

Table 51: Other exposures

31.12.2016 in EUR million	Rating level	Gross exposure (before CCF)	Of which: total of outstanding loans	Exposure to credit lines not yet drawn	Exposure (after CCF)	Individual loan loss provision	Expected loss	Avg. LGD in %	Avg. RW in %
Participation items		154			154		1		
Other assets		635			635				

Quantitative information on the exposure value for participations items or for securitization positions can be found in chapter "Total amount of exposures after accounting offsets [...]", "Participations not held in the trading book" and "Securitizations".

ESTIMATES (EXPECTED LOSS) AGAINST ACTUAL LOSSES

Art. 452 point (i) CRR

Table 52: Estimates against actual losses

	Losses in 2016		Losses in 2015	
in EUR million	Expected loss	Actual	Expected loss	Actual
Corporate, including SMEs, specialized lending and purchased corporate receivables	52	36	72	49
Retail	117	126	168	157
Of which: secured by immovable property collateral	23	26	34	25
Of which: qualifying revolving retail exposures	4	–	5	–
Of which: other retail exposures	90	100	129	132
Total	**169**	**162**	**240**	**206**

The table shows the expected losses of the IRB and IRBA Approach in the reporting period compared to the actual losses in the years 2015 to 2016, including those exposures which defaulted at the beginning of each reporting period.

RISK CATEGORIES ACCORDING TO GEOGRAPHICAL LOCATION OF THE EXPOSURE VALUE

Art. 452 point (i) CRR

Table 53: Risk categories according to geographical location of the exposure value

31.12.2016 in EUR million	Austria Position-weighted average LGD	Austria Position-weighted average PD
Exposures to corporates		**2%**
Exposures to SMEs		4%
Exposures to other corporates		1%
Retail exposures	**25%**	**3%**
Mortgage-secured retail exposure SME	7%	16%
Mortgage-secured retail exposure non-SME	11%	2%
Qualified revolving retail exposures	50%	2%
Retail exposures - other SMEs	28%	16%
Retail exposures - other non-SMEs	44%	4%

Since the IRB Approach is applied only for BAWAG P.S.K. AG and easybank AG, the geographical analysis is limited to Austria.

CREDIT RISK MITIGATION BY EXPOSURE CLASS

Art. 453 points (f) and (g) CRR

Table 54: Exposure values after netting and volatility adjustments (Standard Approach)

31.12.2016 in EUR million	Financial collateral	Other collateral	Guarantees	Credit derivatives
Exposures to central governments or central banks			35	
Exposures to regional governments or local authorities			1	
Exposures to public-sector entities, administrative bodies and non-commercial undertakings			735	
Exposures to institutions	752		124	
Exposures to corporates	20		90	
Retail exposures	90		20	
Exposures secured by mortgages on immovable property	1	2,571		
Exposures in default	3	1		
Exposures in the form of units or shares in collective investment undertakings ("CIUs") - Look Through			542	
Total	**866**	**2,572**	**1,547**	–

The above mentioned collaterals for equity exposure are EUR 0.00.

Table 55: Exposure values after netting and volatility adjustments (IRB Approach)

31.12.2016 in EUR million	Financial collateral	Other collateral	Guarantees	Credit derivatives
Exposures to corporates	24	1,271	615	
Total	**24**	**1,271**	**615**	–

QUANTITATIVE DISCLOSURES USING MACRO HEDGING ACCORDING TO FMA CIRCULAR

FMA Circular in December 2012, Chapter 2.8 (Rn 44)

Table 56: Scenario analysis for assessing the ramifications of changes in the risk parameters

31.12.2016	(200)bp	(145)bp	(110)bp	(50)bp	(25)bp	25bp	50bp	110bp	145bp	200bp	Flatte-ning	Steepen-ing
EUR incl. other currencies	112%	111%	111%	111%	111%	111%	112%	112%	112%	112%	106%	114%
USD	95%	87%	88%	89%	90%	91%	92%	93%	94%	95%	103%	91%

The dollar offset method is used to measure the prospective effectiveness. Various scenario analyses (parallel shifts, steepening or flattening of the relevant interest rate curves) are employed to prove that the simulated value changes from the underlying transactions and hedging instruments offset each other. A differentiation by currency is also undertaken in the process.

The hedging relationships for all defined currency portfolios are effective as of 31 December 2016 because since at least one of the two conditions has been observed:

- The cumulative effectiveness applying the dollar offset method is between 80% and 125%.
- Neither the absolute change in value of the hedge nor the absolute change in the value of the underlying transaction is greater than 0.1% of the cumulative nominal value of the hedged item.

APPENDIX (QUALITATIVE DISCLOSURE): OVERVIEW RISK-REPORT

Topic	Details	Qualitative disclosure Pages	Consolidated annual report Pages	Annual Report AGAAP (pursuant to UGB) Pages	Other publications
General principles	Scope of consolidation and consolidation methods	10-12	60- 61	46	
Risk management	Internal capital adequacy assessment process	13-14	115-116, 145-146	20	
	Capital allocation and limitation at total bank level	15	13, 145-146	20	
	Group-wide risk management	15-18	42-43, 145	20, 32-33	
Credit risk	Objectives and principles	19-21	145	20-21	
	Couterparty default risk Treasury	22-24	66-67, 164	49	
	Credit risk mitigation	21-22, 25-27	154-155	23-24	
	Value adjustments and reserves	27-28	65-66, 154-155	23-24	
	Rating systems and rating processes	28-37	146-147	20	
Market risk	Objectives and principles	38-40	166	27	
	Internal models for limitation of market risk	40-42	166	27	
	Interest rate risk from positions not held in the trading book	43-44	145, 166-167	27-28	
Operational risk	Strategy and processes	45	43, 172	31	
	Structure and organization	45	172	31	
	Risk measurement systems	46-48	146, 172	31	
	Risk hedging and mitigation	49	172	31	
	Own fund requirements	49	172	31	
Other risks	Liquidity risk	50-53	169-172	28-30	
	Concentration risk	54-55	149-150, 162-164	20, 25-26	
	Risk of money laundering and terrorist financing	56-57	146	18	
	Residual risk from techniques of credit risk mitigation	58	146		
	Macroeconomic risks	59	146		
Additionals	Participation not held in the trading book	60-61	165-166	47	
	Securitizations	62-63	67		
	Leverage Ratio	64	2-4, 8, 10, 13	4-5, 10, 38	
	Remuneration policy disclosure	65	176-177	17, 72	Corporate Governance Kodex BAWAG P.S.K.
	Company information		2-6, 8-13, 17-18	11-16	Pages Internet BAWAG P.S.K.
	Ratings BAWAG P.S.K.		9		Pages Internet BAWAG P.S.K.
	Funding		26	10	Pages Internet BAWAG P.S.K.
	Corporate Governance BAWAG P.S.K.		15-16	17-18	Pages Internet BAWAG P.S.K.

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