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

2017

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QUALITATIVE DISCLOSURE

QUANTITATIVE DISCLOSURE

Qualitative disclosure

LIST OF TABLES

LIST OF ABBREVIATIONS

AS	Application Scoring
AFS	Available for Sale
ALCO	Asset Liability Committee
ALM	Asset Liability Management
AML	Anti-Money-Laundering
AS	Application Scoring
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
CCR	Counterparty Credit Risk
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
CMM	Capital Management Meeting
CRD	Capital Requirements Directive
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CRR	Capital Requirement Regulation
CRS	Credit Currency Swap
CSA	Credit Support Annex
CVA	Credit Value Adjustment
DH	Division Head
EAD	Exposure at Default
EBA	European Banking Authority
ECAI	EXternal Credit Assessment Institution
ECB	European Central Bank
EEA	European Economic Area
EL	Expected Loss
EONIA	Euro Over Night Index Average
ERM	Enterprise Risk Meeting
FACE	Free Available Cash Equivalent
FMA	Financial Market Authority
FO	Front Office
FRA	Forward Rate Agreement
FTE	Full Time Equivalent
FTP	Funds Transfer Pricing
FX	Foreign Exchange
GBP	British Pound
GDP	Gross Domestic Product
HQLA	High-Quality Liquid Assets
IAS	International Accounting Standards
IBNR	Incurred but Not Reported

ICS	Internal Control System
ICT	Information and Communications Technology
ICAAP	Internal Capital Adequacy Assessment Process
ID	Identity Document
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
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
KRI	Key Risk Indicator
LAS	Liquidity Adequacy Statement
LCR	Liquidity Coverage Requirement
LGD	Loss Given Default
LTIP	Long Term Incentive Program
MD	Managing Director
MDB	Multilateral Development Banks
MR	Market Risk
NII	Net Interest Income
NPI	New Product Implementation Process
OeNB	Österreichische Nationalbank (Austrian National Bank)
OIS	Overnight Index Swap
ONIA	Overnight Index Average
OTC	Over the Counter
PD	Probability of Default
P&L	Profit and Loss
POS	Point of Sale
PSC	Portfolio Steering Committee
PSE	Public Sector Entity
QCCP	Qualified Central Counterparty
RAP	Risk Adjusted Pricing
RBC	Risk bearing Capacity
RCC	Risk and Credit Committee
RCSA	Risk Control Self-Assessment
RMBS	Residential Mortgage Backed Securities
ROC	Receiver Operating Characteristic
RWA	Risk Weighted Assets
SA	Standardised Approach
SALCO	Strategic Asset and Liability Committee
SEQ	Sicherheitenerlösquotient (Collateral Return Rate)
SPOC	Single Point of Contact
S&P	Standard & Poor's
TM	Treasury & Markets
TMA	Asset Liability Management
TPU	Temporary Partial Use
UGB	Unternehmensgesetzbuch (Austrian Commercial Code)

UL	Unexpected Loss
USD	US-Dollar
VaR	Value-at-Risk
WAL	Weighted Average Life
WAM	Weighted Average Maturity
WEO	World Economic Outlook
WGG	Austrian Non-profit Housing Act

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Review of risk management systems according to Article 435 (1) point (e) CRR	Corporate Governance Report 2016
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GENERAL PRINCIPLES

According to Article 13 of Regulation (EU) No 575/2013 (hereinafter abbreviated to "CRR"), this Disclosure Report is published on BAWAG Group AG level. BAWAG Group AG is a financial holding company in form of a corporation. Its main business purpose is the management of the company´s assets (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. AG. 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 ("IFRS") and the 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 2017.

Consolidation for accounting purposes

In accordance with IFRS 10, the scope of consolidation includes BAWAG Group AG 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 2017 contained 44 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 54 million as of 31 December 2017. Controlled companies with a book value of EUR 27 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 30 million) and profit or loss (higher than EUR 3 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 February 2017, BAWAG P.S.K. Deutschland Holding GmbH, was acquired.

WBG Wohnen und Bauen Gesellschaft mbH was sold in May 2017.

In June 2017 BV Vermögensverwaltung GmbH was included in the scope of consolidation due to materiality.

In July 2017 BAWAG P.S.K. Leasing GmbH was merged into easyleasing GmbH. Furthermore media.at GmbH (including all participations) and Seewinkeltherme Besitz GmbH were sold.

In November 2017 BAWAG Leasing & Fleet s.r.o., SK was merged into BAWAG Leasing & fleet s.r.o., CZ and AI Alternative Investments Ltd. was stricken from the register of Jersey companies.

In December 2017 the newly established Einlagensicherung AUSTRIA Ges.m.b.H (BAWAG Group share 5%) was registered in the Austrian Commercial Register and the acquisition of Südwestbank AG (including all participations) in Stuttgart has been finalized.

Consolidation for regulatory purposes

The scope of consolidation in accordance with the CRR includes BAWAG Group AG 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 CRR, with the financial statements of the individual companies and the consolidated financial statements being prepared in accordance with the principles of the IFRS.

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 2017 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
BAWAG Leasing & fleet s.r.o. Prag	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
SWBI Darmstadt 1 GmbH	F	AFS
SWBI Mainz 1 GmbH	F	AFS
SWBI München 1 GmbH	F	AFS
SWBI Stuttgart 1 GmbH	F	AFS
SWBI Stuttgart 2 GmbH	F	AFS
SWBI Stuttgart 3 GmbH	F	AFS

F … Fully Consolidated
P … Proportionally Consolidated
E … Equity Consolidated
AFS … Equity Instruments Available for Sale

Significant subsidiaries in terms of Article 43 CRR were not deducted from CET1, as they did not exceed the defined threshold of Article 48 CRR. For significant positions in instruments of supplementary capital an obligation for deduction exists (Article 66 CRR).

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 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 BAWAG 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 Article 7 and 9 CRR in BAWAG 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 'Financial assets available for sale'. The valuation is based on the market value.

Notes item 1 in the consolidated annual report 2017 of BAWAG Group 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 Group ensure that the existing risk coverage capacity in terms of capital is adequate to cover the relevant risks that may arise.

The risk bearing capacity 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 Group 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 Group incurs replacement losses equal to the difference between the originally agreed and the current market value.
  - Settlement risk: Settlement and delivery risk is composed of the pre-settlement/fulfilment risk and the replacement risk. Pre-settlement/fulfilment risk results from the unilateral provision of an input by BAWAG Group under a mutual transaction. It exists until the complete fulfilment of the counter-performance. Replacement risk occurs if the full settlement of a transaction is not carried out immediately on its conclusion. If the counterparty defaults prior to full performance, the group has to find a replacement in the market based on the conditions prevalent at that time. Due to changes in market value in the meantime, BAWAG Group may incur losses from the necessary replacement. From an economic point of view, replacement risk is identical to the counterparty risk. In contrast to counterparty risk, however, it does not occur for forward transactions, for which a future settlement was explicitly agreed. It exists in the framework of step-by-step transactions where, due to standard market practices, a period of several days may separate conclusion of the contract and settlement.
  - 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 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[1)] not subject to capital requirements under legal

1) Consideration risk from not utilised, uncommitted (non-retail) limit

regulations. Furthermore, additional capital is held for the CVA risk which is part of the credit risk.

- **Market risks**: For BAWAG Group, 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**: The structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of spreads in connection with a notional spread widening on the market. Dispositive liquidity risks as well as market and liquidity risk are quantified in Market & Liquidity Risk Controlling and are controlled operationally in Liquidity & Funding Management.

- **Operational risk/Non-financial risk:** The operational risk (including compliance risk) is quantified using a value-at-risk model.

- **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 estimation is based on expert assessment, taking into account current global developments relevant for BAWAG Group's core markets).
  - Capital to cover strategic risk, reputational risk, capital risk and compliance risk (including, inter alia, risk of money laundering and terrorist financing) is quantified by using simplified valuation models.

The individual risks are subsequently added to arrive at the total risk of the group without considering correlation effects, are set into relation with the risk coverage capacity. The aim of BAWAG Group´s ICAAP steering is to ensure an adequate coverage of the total group 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. 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 Enterprise Risk Management 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 asked 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 Enterprise Risk Management 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.

Portfolio Steering Framework

Limits are determined for all limit categories (and steering portfolios) as part of the Risk Strategy. BAWAG Group follows a detailed Portfolio Steering framework concept based on dynamic and hierarchical capital allocation.

For the main risk categories, namely Credit Risk, Market Risk, Liquidity Risk and Non-Financial Risk, as well as the capital buffers, the defined limits are dynamic by nature depending on the current level of the risk bearing capacity (RBC). The calculation of the limits is updated on a monthly basis jointly with the calculation of the current RBC. For the residual risk categories, grouped under the "other risks" category, the risk quantification is expert opinion based, leading to a fixed capital allocation. This quantification revalidated at least annually in conjunction with the strategic capital allocation process and further updated on a need basis.

The following four levels of capital allocation are considered:

- Level 1: Capital allocation to risk categories and the capital buffers
- Level 2: Capital allocation to business segments (credit risk) and sub-categories (market and liquidity risk)
- Level 3: Capital allocation to business sub-segments (only for credit risk)
- Level 4: Exposure limits for geographical and sectoral concentrations (only for credit risk and the relevant business sub-segments).

Portfolio Steering Committee

Portfolio Steering Committee (PSC) is composed by the heads from all risk and market divisions as well as from controlling and accounting. This committee is delegated by ERM to monitor and manage the economic capital allocated on the bottom levels of the Portfolio Steering Framework (level 3 business sub-segments and level 4 countries, industries, up to EUR 40 million).

In particular the duties of the PSC are as follows:

- Monitoring of capital allocation and capital utilization at all levels
- Approval of the standard Portfolio Steering Framework Report
- Assessment of the portfolio dynamics and the current utilization of the assigned limits
- Assessment of the needs and opportunities for re-allocation of capital within the capital allocation hierarchy
- Tactical capital allocation, within the restrictions defined by the Portfolio Steering Framework Policy
- Assessment of the impact of relevant prospective credit decisions requiring capital re-allocation
- Assessment of the status of risk concentrations in the group's portfolio, across all relevant risk categories
- Monitoring of the single-name concentrations for credit risk, including the Large Capital Consumers and the Outlier List
- Prioritization and assessment of the enhancements to the Portfolio Steering Framework to be sought over time
- Definition and evaluation of in-depth analyses regarding specific discussion topics related to the core responsibilities of the Committee.
- Definition of the recommended action / mitigation plan for ERM approval, where necessary.

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 and liquidity 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
- 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 STRESSTESTS

Article 435 (1) point (a) CRR

Stress Test Framework

BAWAG Group performs stress tests on a regular basis in order to assess potential effects on the group's financial situation stemming from unusual yet plausible specific events and variables change like the impact of a severe economic downturn on the group's risk profile and financial position. Stress testing is considered in BAWAG Group as an important management tool and an essential part of internal risk management.

Governance procedure has been defined and established for the conduct of stress tests and the key decisional body is the Stress Test Committee, constituted by the division heads of Enterprise Risk Management, of Market & Liquidity Risk Controlling, of Financial Planning & Analysis, of Accounting & Participations and of Treasury & Markets. The group Portfolio Analysis and Stress Test in the division Enterprise Risk Management is in charge for the coordination and guidance of each stress test exercise.

Stress Test program

A comprehensive program for the management of stress testing within BAWAG Group has been defined as integral part of the stress test framework. The program includes stress test several exercises applying a series of techniques, performed on regular basis as well as on demand. Regular stress tests exercises are for example:

- scenario stress test (ICAAP), performed on a half-year basis (mid and end of the year);
- reverse stress testing, performed in the first and third quarter of each year;
- sensitivity analyses, performed on demand and with the reverse stress testing;
- ad-hoc analyses, performed on demand (like BREXIT scenario impacts)

ICAAP Stress Test

The ICAAP stress test is a macroeconomic stress test with general assumptions of a static balance sheet and without possible mitigation measures during the projection period. BAWAG Group stress test exercise is based on three macroeconomic scenarios covering a three-year horizon starting from the reference date of the stress test exercise:

- baseline scenario, derived mainly from the IMF WEO forecast;
- adverse scenario, with economic downturn in the first year for the major European economies as well as in the United States, Japan, China and Russia;
- Idiosyncratic scenario, an adverse scenario with specific stress on certain BAWAG Group exposures in terms of geographies and/or specific business segments (e.g.: severe economic downturn in UK).

Impact on gross domestic product (GDP) growth rates is quantified by using a vector autoregressive model, based on historical interdependencies between single countries; each macroeconomic scenario is also enriched with projections of the unemployment rates and inflation rates. Macroeconomic scenario effects are transmitted to the portfolio via mechanisms like regression models (e.g.: PD stress factors model regressing macroeconomic variables and historical defaults) as well as stress factors based on expert judgment (for not available historical data or for models with low explanatory power). Outcomes of the ICAAP stress test are expressed in terms of effects on capital ratios, P&L and Risk Bearing Capacity.

Reverse Stress Test

The Reverse Stress Test is performed assuming the full utilization of the limits allocated within the Portfolio Steering Framework for each risk and sub-risk type, segment and sub-segment. In particular, for Credit Risk a sensitivity analysis approach is used on both Expected Loss (EL) and Unexpected Loss (UL). The stressed EL will affect the Risk Bearing Capacity (RBC) and therefore the limit level in each segment/sub-segment of the portfolio (since each limit is dynamically linked to RBC by definition), while the stressed UL will affect the utilization of the limit. EL and UL are stressed via incremental PD and LGD factors and visualization of results is based on the ICAAP warning/limit thresholds (i.e. green up to 95%, yellow between 95% and 100%, red over 100%).

GROUP-WIDE RISK MANAGEMENT

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

Risk management decisions are taken at various places within BAWAG Group 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.

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 Group including the Management Board level.

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 Group's website.

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

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.

Pro-active risk management is a major goal of BAWAG Group and is among the core tasks of the risk organization. Efforts must be made to ensure that BAWAG Group 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 Group follows a low risk strategy, which means that risks are managed conservatively.

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.

Organizational changes in risk management

In 2017 the separation of the old Strategic Risk division in three new divisions became effective:

- Strategic Risk is responsible for all credit risk models used in BAWAG Group. Among others, this includes the very strictly standardized and automated retail scorecards used by branches or online, as well as the complex processes for a valid risk assessment in the corporates business. In addition to the development and validation of these processes, the division coordinates all strategic risk projects and thus ensures a sustainable regulatory compliance. Within the division there is a specific department that is in charge of M&A coordination for the risk stream.
- Market & Liquidity Risk Controlling quantifies the risk for different risk types and sets appropriate limits for risk reduction. The monitoring is completed by regular stress test activities and a standardized reporting system.
- Enterprise Risk Management is responsible for the economic risk capital management as well as ICAAP and Credit risk reporting. Furthermore, the division is responsible for calculating risk-weighted assets and stress test activities. In order to support the strategy of BAWAG Group and meet the increasing comprehensive regulatory requirements, a special team was set up as a Regulatory Office being in charge for all regulatory issues of BAWAG Group and acting as Single Point of Contact (SPOC) for all supervisory authorities.

Hence, to perform its tasks, the risk management organization comprises the following independent units (main level or divisions) as of 31 December 2017:

- Strategic Risk
- Market & Liquidity Risk Controlling
- Enterprise Risk Management
- Credit Risk Management
- 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
- approves the results and potential countermeasures of the stress test exercises, as recommended by the Stress Test Committee.

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 exceeding individual limits or regulatory requirements.

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. Four meetings were held in 2017.

Under the current valid version of the Rules of Procedure of the Supervisory Board dated 13 December 2017, 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 Article 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 Group enacted a Group-wide Fit and Proper Policy on 21 May 2013. This policy is geared to the specifications of the BWG, 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 (EBA/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. In the first quarter 2018, the Fit und Proper Policy will be revised to implement new regulatory specifications (EBA/GL/2017/12 Fit and Proper and EBA/GL/2017/11 Guideline Interne Governance).

In December 2013, 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 was developed and defined further together with BAWAG Group Women's Initiative and Human Resources in 2017. The focus is on the promotion of female employees within the Women's Promotion Program, internal and external mentoring programs for female leaders and experts, as well as gender-specific workshops on the development of women. In 2017, more and more women were appointed to Management and Supervisory Board of subsidiaries. With the Women's Promotion Program introduced in 2012 and signing of the UN Global Compact Women's Empowerment Principles BAWAG Group set important steps towards equality between women and men. The first priority is fostering awareness and raising sensitivity of equality of opportunity and the following defined goals:

- Financial equality between women and men for equal performance
- Increasing the number of women in leadership and

expert positions
- Promoting a better balance between career and family for women and men.

The Women's Promotion Plan was revised and re-agreed in 2017. The BAWAG Group Women Mentoring Program focuses on female employees, experts and leaders interested in advancing their professional development through a mentoring relationship. BAWAG Group received the certificate as a family-friendly company in 2013 as the group 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 positions.

Disclosure of the number of management and supervisory functions held by BAWAG P.S.K. Management and Supervisory Board members pursuant to EBA/GL/2016/11 and Article 435 (2a) CRR as of 31 December 2017:

Table 2: Functions held by Management and Supervisory Board members:

Name	Function in BAWAG P.S.K.	Number of Management Board functions	Number of Supervisory Board functions
Pieter Korteweg	Chairperson Supervisory Board	1	4
Frederick Haddad	Member Supervisory Board	8	2
Egbert Fleischer	Member Supervisory Board	0	5
Kim Fennebresque	Member Supervisory Board	0	6
Adam Rosmarin	Member Supervisory Board	1	2
Christopher Brody	Member Supervisory Board	1	4
Anas Abuzaakouk	Management Board, CEO	2	1
David O´Leary	Member Management Board	2	3
Andrew Wise	Member Management Board	2	1
Stefan Barth	Member Management Board	2	2
Enver Sirucic	Member Management Board	2	2
Sat Shah	Member Management Board	3	0

CREDIT RISK

OBJECTIVES AND PRINCIPLES OF CREDIT RISK MANAGEMENT

Article 435 (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 capacity 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 Group 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 (0.4% 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 overdue / late payments (e.g. vintage and flow rate analyses)
- Portfolio trends in terms of risk class distribution and risk concentration
- Portfolio trends in terms of credit affordability and collateralization
- Portfolio trends with regard to defaulted loan facilities
- Portfolio trends in terms of incurred risk costs and losses
- Scorecard performance (approval rates and manual decision)
- Performance monitoring of fraud detection

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 and Small Business Clients', 'European Retail Risk Management' and 'Commercial and Institutional Clients'. In daily business, credit risk is controlled by each business area in coordination with the particular 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 Group 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 Article 107 (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 Article 148 and Article 150 CRR (permanent or temporary partial use) with approval from the ECB as per part 3 titel II chapter 2 CRR. BAWAG Group uniformly applies the IRB approach in the Bank Group and jointly satisfies Article 144 and Article 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' (Article 147 (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 Article 147 (2) point c CRR apply for exposures from Specialized Lending.

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

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

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

Portfolios in the temporary standardized approach

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

Regarding the IMMO-Bank AG portfolio migrated to BAWAG P.S.K. AG for the exposure categories 'exposures to institutions', 'exposures to corporates' and 'retail exposures' 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 Article 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 group's pursuant to Article 150 (1) point a CRR
- exposures belonging to the classes of exposures to the Austrian federal government, provincial governments

and public-sector entities pursuant to Article 150 (1) point d. CRR
- guarantees and counter-guarantees of central governments pursuant to Article 150 (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 Article 150 (1) point a CRR
- exposures within the Bank Group pursuant to Article 150 (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 Article 150 (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 Article 150 (1) point g CRR
- in accordance with Article 150 (1) point c CRR, for the exposures of the following subordinate institutions pursuant to Article 30 (1) BWG:
  - BAWAG P.S.K. Wohnbaubank AG
  - BAWAG P.S.K. Leasing GmbH and BAWAG Leasing Holding GmbH and its leasing subsidiaries
  - IMMO-BANK AG
  - start:bausparkasse, if not provided for in the temporary standardized approach
  - real estate companies of BAWAG Group 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 an International Retail Mortgage Portfolio which has been purchased during the year 2015 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 (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 Enterprise Risk Management 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 (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 (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 Group 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). Market & Liquidity Risk Controlling (MR) 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 division Market & Liquidity Risk Controlling 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 Market & Liquidity Risk Controlling.

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

BAWAG Group 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 Group, 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 Group 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 and delivery risk is composed of the pre-settlement/fulfilment risk and the replacement risk. Pre-settlement/fulfilment risk results from the unilateral provision of an input by BAWAG Group under a mutual transaction. It exists until the complete fulfilment of the counter-performance. Replacement risk occurs if the full settlement of a transaction is not carried out immediately on its conclusion. If the counterparty defaults prior to full performance, the group has to find a replacement in the market based on the conditions prevalent at that time. Due to changes in market value in the meantime, BAWAG Group may incur losses from the necessary replacement. From an economic point of view, replacement risk is identical to the counterparty risk. In contrast to counterparty risk, however, it does not occur for forward transactions, for which a future settlement was explicitly agreed. It exists in the framework of step-by-step transactions where, due to standard market practices, a period of several days may separate conclusion of the contract and settlement.

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 2017.

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 Group 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 Group 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 Group 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 Group 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 Group to undertake netting. In the case of additional agreements covering open receivables by collateral (Credit Support Annex) BAWAG Group intends to include as much derivatives as possible by the CSA-Agreement. Furthermore, attention is paid to the low correlation between the probabilities of default of the debtor and the security.

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. All netting cases are regulated by an adequate standardized process. Data are maintained and calculated via an EDP-supported system.

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 Group has the right to accept or reject collateral or to assign to collateral the value deemed necessary and reasonable in order to protect the group´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 Group 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 Enterprise Risk Management.
- All collateral must have a market value that is easy to determine or an internally calculated value, and BAWAG Group 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 3: 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 (2017 no use for regulatory purposes)	At least once a year
Pledging or assignment of life insurance policies	Repurchase value (only classical and funds-oriented life insurances where the surrender value cannot be reduced are used for regulatory purposes)	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. A special emphasis lies on real estate collateral. Residential real estate properties are assessed with support of a valuation tool. The result of the valuation is checked and verified by an internal independent valuer. 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 order to cope with the potential concentration of the Credit Risk Mitigation techniques, large collateral providers list is provided within the Portfolio Steering Framework report on monthly basis. List is containing guarantors with collateral market value over EUR 50m and shows internal rating, net exposure towards BAWAG Group and comments specific for each guarantor explaining the usage of the guarantee. List is presented on monthly basis to the Portfolio Steering Committee and during the quarterly meeting is discussed in term of guarantee effectiveness and potential countermeasures.

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 2017.

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 commission implementing regulation (EU) 2016/1799 is consulted with regard to the mapping of external ratings to the individual Credit Quality Steps. The following table shows the relationship of the application of the ratings of ECAI for specific exposure classes.

Table 4: Mapping of external ratings to the individual Credit Quality Steps:

Exposure Classes acc. to Article 112 CRR	Moody's	S&P	Fitch
Central Governments or Central Banks	X		
Regional Governments or local authorities	X		
Public Sector entities	X		
Multilateral Development Banks	X		
International Organisations	X		
Institutions	X		
Corporates	X		
Retail Exposures			
Secured by mortgages on immovable property			
In Default	X		
Associated with particularly high risk			
Covered Bonds	X		
Securitisation positions	X	X	X
Exposures to Institutions and corporates with a short-term credit assessmentng			
Units or shares in Collective Investment undertakings	X		
Equity			
Other items			

The assignment of Ratings to positions in the banking book is based on a daily data feed of the ECAI Moody's. This data is joined with the client master data in order to safeguard an up-to-date and – in terms of the calculation of own funds requirements – complete set of input data.

Internal rating systems

Article 452 point (b) (i) CRR

Customer segmentation and overview of the internal rating systems

BAWAG Group 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 subcategory 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 5: Overview of rating and scoring systems

	Rating system	Model type	BAWAG P.S.K.	easybank	Others[1)]
	Corporate Standard Austria	log. regression	x	x	x
	Corporate Standard Non-Austria	log. regression	x	x	x
	Holdings	log. regression	x	x	x
	Corporate Real Estate	log. regression	x	x	x
	Social Housing	Expert model	x		x
Corporates	Specialized Lending	Cash Flow Model	x		x
Banks	Banks	log. regression	x	x	x
	AS[2)] – Current Accounts	log. regression	x	x	x
	AS – Standard Loans	log. regression	x	x	x
	AS – Mortgage Loans	log. regression	x	x	x
	AS – Credit Cards	log. regression	x	x	x
	AS – Small Business Retail	log. regression	x	x	x
	BS[3)] – Credit Private and Small Business	log. regression	x	x	x
	BS – Current Accounts	log. regression	x	x	x
	BS – Accounts	log. regression	x	x	x
	BS – Credit Cards	log. regression	x	x	x
Retail	BS – Accounts Small Business	log. regression	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 following table shows the relationship between the internal rating notches and the external ratings.

Table 6: 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 Group. 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 Group 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 Group 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 Group 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 subsegments 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 Group 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.

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 Group 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 Group. 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 Group'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. In 2017, the Modell was, together with the model Corporate Standard Non-Austria, completely new developed. The regulatory approval process is expected to start in the following year, 2018.

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 Group 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.

As mentioned above, the model was, together with Corporate Standard Austria, completely new developed in 2017.

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

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.

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).

Corporate Real Estate

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. The model was re-developed and reviewed by regulator in 2017. An approval from ECB is expected in 2018.

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.

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 (8) point (a) to (c). For Specialized Lending BAWAG Group applies the regulatory Slotting Approach. The first model, which used qualitative criteria to assign a slot, was replaced by a cash flow tool in 2017. Based on cash flow predictions for the whole maturity a probability of default is calculated for different risk drivers (e.g. interest rate risk, rental risk, sales risk). Additionally, the expected loss rate is determined for the project. The expected Loss is calculated based on Probability of Default and Loss Rate, which is mapped to a slot according to Article 158 (6) CRR.

Banks (institutions)

This area of application applies to banks (except special lending institutions) in the portfolio of BAWAG Group. 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 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 7: 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

In the course of the internal model development, the quality is assured by applying four-eye principle in a consistent way. Furthermore, validation reports on rating and scoring systems are prepared in course of an initial model validation or once a year. They are produced by a central risk management office for all rating models used throughout BAWAG Group and comprise the following activities:

Table 8: 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 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 Group. 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.

Besides the internal quality assurance in the course of the model development and the validation, internal audit conducts yearly assessments as well as in case of material model changes.

Estimation and validation of the risk parameters

Article 452 point (c) and (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 CRR[1].

1) As no deviations from the definition of default occurred, no further information is required in the meaning of Article 452 CRR.

Table 9: 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 Group mainly uses statistical PD estimation models. The models are calibrated based on long-term average rates of default, going back till 2008, 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 actually observed. The stability of the estimation models is also observed over extended periods of time.

In the previous period, no significant deviation of predicted and observed default rates were identified for the key PD estimation models.

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 since 2008 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.

In the previous period, no above-average values were identified with respect to loss given default (LGD).

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 since 2008 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, underestimations were identified for the credit conversion factor (CCF). This issue is currently being addressed in course of the model calibration in Q1/2018.

MARKET RISK

OBJECTIVES AND PRINCIPLES OF THE MANAGEMENT OF MARKET RISK

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

Structure and organization of relevant risk management functions

The division Market & Liquidity Risk Controlling (MR) 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 MR'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, MR is responsible for the counterparty credit risk monitoring of treasury positions. The decentral 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 Group 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. MR measures application of market risk limits and also orders countermeasures 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 Group 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, MR 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 MR immediately in writing (by e-mail) and appropriate counter-measures taken by the affected group and monitored by MR.

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, MR 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, MR 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%, MR 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 Group employed an internal model in market risk for calculating its minimum capital requirements in the trading book. On 7 March 2015, BAWAG Group 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.

The VaR Model continues to be applied for the internal limit monitoring of the trading book. A variance-covariance approach is 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 are applicable:

- Variance-covariance approach
- Historical time series of 250 days, equally weighted
- 99% confidence level
- Holding period of one day for internal risk control
- 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 is carried out to measure the validity of the forecast loss figures (VaR).

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 Group 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 Article 455 CRR are not applicable by the quantitative part of the 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 capacity.

Article 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 Group 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 Group

INTEREST RATE RISK FROM POSITIONS NOT HELD IN THE TRADING BOOK

Article 435 (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 Group 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 Group 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 behaviour
- 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.

Assessment of call rights and prepayment behavior

The measurement of interest rate risk also considers embedded call rights and customer prepayment behavior. To determine the value of such embedded options two different approaches are applied:

- Rational right holders: For professional market participants (e.g. large corporate customers), who are able and willing to take action if prevailing market conditions are in their favour, rational behaviour is assumed. For such clients call and termination rights are valued using the method of replication with swaptions.
- Behaviour-based assessment: For clients who don not fulfil the assumption of a rational acting right holder (e.g. retail and SME customers), prepayments are modelled on the basis of historically observed behavior of homogeneous customer groups.

Steering of interest rate risk

For AGAAP accounting, BAWAG Group uses a macro-hedge as specified in the FMA circular letter on accounting issues in connection with derivatives for managing interest rate risk. The management of interest rate risk covers all interest-bearing positions derivatives business in the banking book. Non-interest-bearing positions (equity capital, participations, etc.) are excluded from the macro-hedge.

To manage interest rate risk and valuation results, the department Asset Liability Management (TMA) in the division Treasury Markets (TM) develop hedging and positioning strategies and are in charge of implementing and constantly monitoring them.

To achieve its defined management goals in the income statement, BAWAG Group uses hedge accounting pursuant to IAS 39. The following 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
- Cash flow hedge accounting: hedging of FX risks of future spread in-come and cross currency basis risks

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. 77 (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 Group (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
- Worst case scenario (derived from historical time series)
- Other scenarios as required

In the dynamic simulation of interest income, different scenarios are investigated along with their impact on net interest income (parallel and non-parallel shifts of the yield curve).

OPERATIONAL RISK/NON-FINANCIAL 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. Operational Risk with all its subtypes (e.g. compliance risk, conduct risk, ICT risk) and reputation risk are included in non-financial risk.

STRATEGIES, PROCESSES AND MANAGEMENT

Article 435 (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 Group 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
- focus on a strategic orientation that complies with regulatory requirements and measures the hazards 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, as well as reporting within the non-financial risk committee
- minimizing losses from operational risk

STRUCTURE AND ORGANIZATION OF OPERATIONAL RISK MANAGEMENT

Article 435 (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 (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 significant 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

New business segments or products have to be introduced by using a 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

Uncertainties in estimations also apply to the claim of BAWAG Group against the City of Linz. On 12 February 2007, the City of Linz and BAWAG Group concluded a forward financial transaction. This transaction was intended by the City of Linz to optimize a CHF loan.

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

The City of Linz filed a lawsuit against BAWAG Group at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling EUR 24.2 million at the exchange rate at that time). BAWAG Group filed a (counter) suit against the City of Linz for the fulfillment of its contractual entitlements from the same transaction in the amount of EUR 417.7 million. The court combined the two suits. The first hearings were held in the spring of 2013. In March 2015, the court mandated two experts to prepare an expert opinion assessing several issues relating to the derivative transaction. The expert opinion was submitted to the court in the summer of 2016 and discussed with the experts within the framework of a hearing on 9 December 2016. The results of the expert opinion and the hearing on 9 December 2016 gave rise to follow-up questions for the experts from the court and the parties. These questions were submitted to the experts in the course of a supplementary mandate in June 2017. The supplementary expert opinion was submitted by the experts on 29 December 2017. The court has not yet set a date for the next hearing. BAWAG Group bases its assessment of the carrying amount of the claim on corresponding legal and other opinions, which support the amount of the claim. The expert opinion does not provide all the answers required by the court for its legal assessment of the facts. Currently, a mandate for a supplementary expert opinion is being prepared by the court. BAWAG Group's strong legal position remains unchanged and the group is well prepared for the forthcoming court hearings. It is difficult to assess how much longer the lawsuit is going to continue. However, based on experience it is assumed that the further legal proceedings until a final judgement is enforceable will take several years.

The Group has valued the derivative transaction until termination according to the general principles (see Note 1 Accounting policies), and has adequately accounted for the risks associated with the claim arising from 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 termination of the transaction, the derivative was derecognized and a receivable was recognized under Receivables from customers (classified under Loans and advances). We base our assessment of the carrying amount of the claim on corresponding legal and other opinions, which support the amount of the claim.

No amounts are being disclosed in application of IAS 37.92 (protective provisions for information in the notes).

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 (1) point (d) CRR

BAWAG Group 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 CRR. The advanced measurement approach pursuant to the Article 321 CRR is currently not applied. Therefore it is not subject to disclosure obligations in accordance with the Article 454 CRR.

LIQUIDITY RISK

Article 435 (1) points (a) – (d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

The ALM team in division Treasury & Markets (TM) and the SALCO (Strategic Asset Liability Committee) handle liquidity management throughout the Group. Market & Liquidity Risk Controlling (MR) independently measures and monitors liquidity 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 Group in individual cases) that the subsidiaries obtain financing from or deposit any excess liquidity with BAWAG Group in the scope of their governance.
- Market & Liquidity Risk Controlling monitors liquidity risk.
- 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 Group'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

Liquidity Risk Statement

BAWAG Group has established a group-wide Internal Liquidity Adequacy Assessment Process (ILAAP) framework which defines the group's liquidity risk management processes, steering mechanisms, funding strategies and liquidity risk limits to adhere the overall risk appetite. The overall risk appetite defined by the Management Board serves as the boundary condition for the risk strategy. The limits set for liquidity risk within the ILAAP are strategic specifications for steering and limitation of the group ´s overall risk position and express the group's risk appetite. Compliance with these limits ensures an adequate liquidity position.

Within the overall business and risk strategy the management of BAWAG Group has outlined the focus on maintaining a conservative low-risk balance sheet with an explicit commitment to a strong capital position, low levels of leverage, a strong liquidity position with a conservative funding profile and a deposit based funding strategy.

Retail and corporate savings products have been the core part of the Group's funding strategy over the years and will continue to be the dominant source of funding for the balance sheet. This strategy is confirmed by a growing share of stable customer deposits contributing more than 65% of total balance sheet funding, whereby the most important pillar relates to retail deposits.

The stable deposit base is supplemented with a diversified strategy of wholesale funding. The funding instruments comprise of both unsecured bonds as well as bonds secured by mortgages (covered bonds & RMBS) and public sector collateral. During 2017 BAWAG Group tapped long term capital markets by issuing a € 500m covered bond backed by public sector collateral. The long-term goal is to maintain strong deposit funding and a diversified wholesale funding profile.

The maintenance of a robust liquidity and funding position is considered to be a core element of the successful implementation of the overall business strategy.

BAWAG Group has implemented a liquidity risk limit framework covering the relevant time horizons from short to long term as well as comprehensive stress testing procedures to measure potential liquidity risks and to ensure liquidity adequacy also in adverse scenarios. These stress analyses are based either on empirically available data, hypothetical but plausible stress scenarios, or forward looking information derived from business forecasts. The liquidity stress testing is designed to identify and address the key vulnerabilities of the group towards contingent liquidity risks and to determine the size of its liquidity buffer and counterbalancing capacity needs beyond the regulatory minimum standards.

BAWAG Group maintains a significant liquidity buffer to cover unexpected liquidity outflows in a stress scenario. The holding of the liquidity buffer therefore represents a preventive measure to reduce liquidity risk. Furthermore the Group has Contingency Funding Plans in place which define what constitutes a liquidity contingency, the monitoring procedures in place to identify the occurrence of a liquidity contingency event, changes in the governance resulting from the declaration of a liquidity contingency, as well as the measures available to rectify a liquidity crisis. BAWAG Group has a set of pre-defined measures that can be undertaken in case of a liquidity contingency to improve the liquidity situation of the group.

On the basis of its ILAAP the group conducts an ongoing self-assessment of its liquidity risk profile, risk measurement and management framework and its liquidity adequacy. The outcome of this process is documented annually in the Group's Liquidity Adequacy Statement (LAS) signed by the Management Board of BAWAG Group. On the basis of the ILAAP, the Management Board is convinced that the current risk management framework allows a comprehensive identification, quantification, measurement and steering of all relevant liquidity risks and considers the liquidity and funding position of BAWAG Group as solid and fully adequate as of 31 December 2017.

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. The Treasury & Markets division (TM) 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. TM bears the central specialized responsibilities for liquidity management. A central Collateral Management for BAWAG Group is integrated in Asset Liability Management (ALM).

Controlling is responsible for operational accounting of the liquidity costs and premiums in the profit center calculations 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.

Market & Liquidity Risk Controlling (MR), a division 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 (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 Treasury & Markets division. One of the most important key ratios is FACE (free available cash equivalent), which is internally defined at BAWAG Group 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 MR.

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 OneSumX 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 Group´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 counter-balancing capacity; otherwise, TM 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. TM 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, TM 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 Group 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).

LIQUIDITY COVERAGE RATIO

The Commission Delegated Regulation 2015/61 with regard to liquidity coverage requirement for Credit Institutions ("Delegated Act") has become effective as of 01 October 2015. The Delegated Act supplements and amends the rules for the calculation and reporting of the liquidity coverage requirement ("LCR") of the CRR. At the consolidated level, BAWAG Group is subjected to LCR requirement (80% in 2017 and 100% starting from 01 January 2018) and to the LCR Disclosure requirement. LCR requires banks to hold high-quality liquid assets (HQLA) to cover net cash outflows over the period of 30 calendar-days and is calculated under the assumption of the severe liquidity stress.

Hiqh Quality Liquid Assets (HQLA)

Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The LCR defines HQLA in three asset categories: Level 1, Level 2A and Level 2B, and applies haircuts and limits to certain asset categories.

To the big extend group's HQLA consist of central bank and government assets assuring highest reliability in times of stress. All BAWAG Group securities that are included into HQLA needs to meet internal requirements that secures low concentration level in regards to issuers and their origin.

Net Cash Outflows

Net cash outflows is defined as the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows and inflows are based on the contractual maturity of assets, liabilities and off-balance-sheet commitments. Where contractual maturity is not applicable, the LCR sets forth maturity assumptions by multiplying the outstanding balances of these categories by the rates at which they are expected to flow under the scenario. Inflows are subject to an aggregate cap of 75% of total expected cash outflows.

The structure of the LCR outflows reflects the group's conservative funding structure with retail deposits being the most important source of the liquidity and with very low counterparty concentrations among all funding items.

Outflows related to derivative exposures and other collateral requirements reflect contractual derivative settlements as well as contingent derivative outflows (largest net cumulative collateral outflow or inflow in a 30 calendar-day period over the last two years).

The BAWAG Group has no significant individual currency concentrations above the regulatory thresholds. For this reason, the LCR metrics are only reported in euros.

For the last quarter of 2017, the average LCR value for the last 12 months is 148% with a HQLA portfolio of 4.907 million EUR and 3.331 EUR net outflows.

CONCENTRATION RISK

Article 435 (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 entire Risk Management Organization (Enterprise Risk Management, Market & Liquidity Risk Controlling, Non-Financial Risk Management & Regulatory Compliance) manages, limits and controls concentration risks and reports them on a monthly basis to the Portfolio Steering Committee, composed by accounting, controlling, markets and risk divisions heads, as well as to the Enterprise Risk Meeting, composed by relevant Management Board members.

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 BAWAG Group's 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. As mentioned above the entire Risk Management Organization bears responsibility for concentration risk management in coordination with the divisions Credit Risk Management 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". 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 at risk or result in a material change in BAWAG Group'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.

In order to handle operational management of industries and country risk concentrations and to discuss the Portfolio Steering Framework report (that has separate sections focusing on concentration risks in the segments of countries, industries, currencies and customer groups), the so-called 'Portfolio Steering Committee', consisting of the heads from all risk- and market divisions as well as from controlling and accounting. This committee is delegated by ERM to monitor and manage the economic capital allocated on the bottom levels of Portfolio Steering Framework (level 3 business sub-segments and level 4 countries, industries, up to EUR 40m).

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 (1) points (a) – (d) CRR

STRATEGIES, PROCESSES AND MANAGEMENT

Due to the background of the business model of BAWAG Group (focus on retail and small business customers in Austria, via acquisition in Germany and international credit business on western markets) the risk to be abused for terrorism financing and money laundering is low. The strategy and procedures for prevention of money laundering and terrorist financing is defined in an own paper which was approved by the Management Board. 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 according to specific risk factors like product, seat/residence, branch, nationality etc. into risk categories). Further, specific customer, transaction and country screening (Smaragd, NORKOM, and sITS) 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 Financial Market Money Laundering Act and under Money Transfer Regulation EC 5932/2015.

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 Head of division Non Financial Risk & Regulatory Compliance is directly in his function as an anti-money laundering Officer under the responsibility of the Management Board. The Organizational Manual outlines the duties and responsibilities of the division Non Financial Risk & Regulatory Compliance.

The competence of the anti-money laundering Officer (AML Officer) is:

- comprehensive inspections- and control rights (regular IKS checks) and access to all systems
- possibility for ad hoc audits at any time
- Decision to report suspicious cases to FIU and to block the account
- Decision if a critical customer relationship will be established or an existing will be terminated

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. The exchange of money laundering suspicious cases has been conducted since 2017 group wide.

BAWAG Group 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). The software differentiates 4 categories: low, medium, high and very high. The implemented scenario manager can be calibrated by the AML Officer and his team. 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. In 2017 an own Non-Financial Risk Committee on management board level was established, which meets on a regular base. The goal is, among other targets, to decide upon necessary measures in the prevention of money laundering together with the management.

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). Further the AML-Officer has established a monthly internal control system, which additionally controls in a sample check the compliance with the internal account opening and transaction policies. Any errors are redirected for correction, for re-training or to take other effective measures to the person in charge. In addition to the total bank risk analysis that undergoes an evaluation once a year, BAWAG Group 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. Furthermore, the strategy paper is subject to at least an annual evaluation and, if necessary, changes will be made.

RESIDUAL RISK FROM TECHNIQUES OF CREDIT RISK MITIGATION

Article 435 (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 from techniques of credit risk mitigation:

- 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 Group covers legal risk and other risks by applying correspondingly conservative valuation approaches and collateral lending values.

In addition, potential collateral fluctuations are analyzed within Stress Testing and possible effects on the risk bearing capacity of BAWAG Group are considered.

STRUCTURE AND ORGANIZATION OF THE RELEVANT RISK MANAGEMENT FUNCTIONS

These risks are constantly monitored within the risk organization and regularly reported to the Portfolio Steering Committee. 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 (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 Group 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 and in case actions needed are discussed in the dedicated Stress Test Committee and then presented for approval to Enterprise Risk Meeting / Management Board.

PARTICIPATIONS NOT HELD IN THE TRADING BOOK

OBJECTIVES AND PRINCIPLES FOR THE MANAGEMENT OF PARTICIPATIONS

Article 435 (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 Group 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 Group 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 a risk assessment 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), risk assessments on risk associated with equity capital actions and value determinations during impairment tests are submitted to the respective decision making authority.

Risk measurement systems

Proposals from the department Accounting (SOLO) regarding a change in participation are forwarded to the respective decision making authority after a separate risk assessment 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 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 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.

In addition the department Reporting & Planning 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 and shares in affiliated companies is based on acquisition costs. In case of persistent losses, an impairment was made. Impairments will be reversed up to the historical acquisition cost at the maximum in case the reason for the impairment no longer applies. Details to the accounting and valuation methods can be found in the notes of the AGAAP solo annual report.

IFRS
Non-consolidated participations are assigned to the category 'Financial assets available for sale'. The valuation is based on the market value.

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

SECURITIZATION

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 Group securitized a portion of its UK residential mortgage portfolio. The RMBS transaction Feldspar 2016-1 was the first RMBS issuance for BAWAG Group. 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.

Since the beginning of 2017, the group has acted as an investor in securitization transactions. All securitization positions of the group are assigned to the banking book.

RISKS FROM SECURITIZATIONS AND RESECURITIZATIONS

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

The securitization portfolio consists of Collateralized Loan Obligations (CLOs) rated AAA and AA with risks from West- and North European and US companies.

The securitization positions held by BAWAG Group consist exclusively of senior tranches with adequate subordination. The portfolio includes no re-securitization positions.

BAWAG Group established an Investment and Monitoring Policy, which represents the foundation for the risk management process of the CLO portfolio. The policy specifies criteria, which should be assessed prior to an investment in individual CLO positions. It consists of both “must meet” and “should meet” criteria. “Must meet” criteria are necessary to be fulfilled for a CLO investment to be approved. Any breach of “should meet” criteria should be appropriately assessed and documented. In addition, the policy determines the risk monitoring process, which is carried out on a regular basis after an investment has been approved.

BAWAG Group uses valuation models to determine the market value of the portfolio. Models are also used to determine the economic value of the transactions. Models for calculating sensitivities, stress tests, etc. are developed based on the valuation models. All models are applied to the individual exposures underlying the transactions, i.e. for securitizations they are applied to the pool of exposures..

Risk reporting consists of quarterly risk reports prepared by MR and submitted to the Credit Approval Committee (CAC) for approval.

Quarterly reports consist of an overview of the total CLO portfolio where key risk parameters for individual positions are summarized. This includes the seniority, weighted average life (WAL), weighted average maturity (WAM), attachment and detachment points, subordination level, expected recovery value, etc. Moreover, MR provides an overview of key parameters in comparison to the previous quarter, as well as the analysis of the underlying collateral. In addition, as part of the quarterly reports stress testing of individual CLO positions is performed by applying the stressed parameters for PD and LGD. Starting point for the stressed parameters are long term averages of PDs and LGDs as reported by Moody’s in their Annual Corporate Default Study.

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

Risk-weighted exposure amounts for securitization are calculated under the IRB approach according to the provisions of Article 261 CRR. Positions with no external rating from Moody's, Standard & Poor's or Fitch are assigned a risk weight of 1250 per cent. If the underlying assets are known at all times, the supervisory method according to Article 262 CRR is applied.

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 Group

Article 449 point (j) (iii) CRR

The valuation models (refer also to section 'Risks from securitizations and resecuritizations') 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 Group 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 Article 429 CRR is being calculated according to Article 499 Abs. 1 lit. a CRR (in consideration of transitional regulations of Tier 1 capital) and according to Article 499 Abs. 1 lit. b CRR (fully fledged definition of Tier 1 capital) for regulatory purposes and reported quarterly to the regulators. Since the new requirements of Delegated Regulation (EU) 2015/62 have been implemented in the regulatory reporting (30.9.2016) the figure is calculated on the basis of 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 6.22% at the end of 2017. The slight decrease results from the acquisition of Südwestbank AG in December 2017, which caused an increase in total leverage ratio exposure. Apart from that no significant factors have been occurred during the reporting period which caused a significant impact on the Leverage Ratio.

REMUNERATION POLICY DISCLOSURE

Article 450 (1) points (a) – (f) CRR

BAWAG Group AG and BAWAG P.S.K. AG have a Nomination and 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 Nomination and 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 2017 there have been three meetings of the Nomination and Remuneration Committee and five meetings of the Committee for Management Board matters.

The Nomination and Remuneration Committee passed a remuneration guideline that applies to the Members of the Managing Board and the employees of the Group and that takes into account the principles of the EU's CRD 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 initially. The remuneration guideline was revised successively based on the circular letter issued by the FMA in December 2012 resp. January 2018 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 (identified staff), 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 Group 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. For this assessment the qualitative and quantitative criteria of the Commission Delegated Regulation (EU) No 604/2014 was used.

In accordance with the above-mentioned legal framework identified staff receive the bonus distributed over a period of 5 years and at least 80% in shares of BAWAG Group AG provided a certain amount of the variable remuneration is reached. For selected persons out of the group of identified staff a Long Term Incentive Program (LTIP) was implemented under consideration of the regulatory principles, which is awarded to 100% in shares of BAWAG Group AG under the precondition of a long-term corporate success measured by Earnings per Share. The high proportion of shares of the variable compensation for identified staff leads to a high level of alignment between the interests of the management and the shareholders focused on a growth of the corporate value as externally communicated to the shareholders.

In reviewing and deciding on any awards of a variable compensation (bonus or LTIP) to Members of the Management Board and employees, the Nomination and Remuneration Committee resp. the Committee for Management Board matters 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 Nomination and Remuneration Committee resp. the Committee for Management Board matters.

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. For this reason, at least 40% of the bonus are distributed over a period of five years. A maximum of 60% of the total bonus is paid in the first year. The payment of retained 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. The granting of a variable component above this number (up to max. 200%) is possible in case there has been a significant out performance above the stated goals. The process according to the Austrian Banking Act has to be observed and the approval by the shareholders is absolutely necessary. BAWAG P.S.K.'s general meeting dated 15th September 2017 resolved an increase of the bonus cap to 200% of the fixed compensation.

- 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. Upon the compensation of staff in control functions is decided regardless of the success of the business units they control.

Quantitative disclosure

LIST OF TABLES

SCOPE OF CONSOLIDATION AND ACCOUNTING STANDARDS

The section "Scope of consolidation and consolidation methods" of the quantitative part of the disclosure report describes the respective accounting standards and the scope of consolidation which the annual financial statements of BAWAG Group AG as the highest financial holding company are based on. Further, the regulatory standards are in accordance with 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 Article 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 15 May 2018.

Table 1: Total assets

in € million	2017	2016
Cash reserves	1,180	1,020
Financial assets	7,588	6,416
Available-for-sale	4,408	3,209
Held-to-maturity	2,274	2,353
Held for trading	458	652
Fair value through profit or loss	448	202
Loans and receivables	35,753	30,825
Customers	30,804	28,498
Debt instruments	1,289	692
Credit institutions	3,660	1,635
Hedging derivatives	517	677
Tangible non–current assets	223	56
Intangible non–current assets	506	378
Tax assets for current taxes	12	10
Tax assets for deferred taxes	102	199
Other assets	190	180
Total assets	**46,071**	**39,761**

Table 2: Total liabilities and equity

in € million	2017	2016
Total liabilities	**42,461**	**36,636**
Financial liabilities	40,965	34,726
Fair value through profit or loss	726	1,115
Issued securities	726	1,115
Held for trading	345	617
At amortized cost	39,894	32,994
Customers	30,947	26,030
Issued securities	4,938	4,900
Credit institutions	4,009	2,064
Financial liabilities associated with transferred assets	–	300
Valuation adjustment on interest rate risk hedged portfolios	116	223
Hedging derivatives	94	260
Provisions	450	404
Tax liabilities for current taxes	17	19
Tax liabilities for deferred taxes	5	21
Other obligations	814	683
Total equity	**3,610**	**3,125**
Shareholders' equity	3,609	3,123
Non–controlling interests	1	2
Total liabilities and equity	**46,071**	**39,761**

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

APPLICATION OF THE REGULATORY FRAMEWORK

EU LI1

Table 3: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (1/2)

		Carrying values under scope of regulatory consolidation	Carrying values of items				
31.12.2017 in € million	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash reserves	1,180	1,180	1,147	–	–	–	–
Financial assets designated at fair value	448	448	404	–	–	–	–
Available-for-sale financial investments	4,408	5,572	5,542	–	–	–	–
Held-to-maturity financial investments	2,274	2,274	2,273	–	–	–	–
Financial assets held for trading	458	455		496	–	64	–
Loans and advances	35,753	34,752	33,888	–	789	–	–
Customers	30,804	29,814	29,768	–	41	–	–
Securities	1,289	1,289	542	–	748	–	–
Credit institutions	3,660	3,649	3,578	–	–	–	–
Hedging derivatives	517	517		535	–	–	–
Property, plant and equipment	103	103	139	–	–	–	–
Investment properties	120	5	4	–	–	–	–
Goodwill	58	58	–	–	–	–	58
Brand name and customer relationships	291	291	–	–	–	–	291
Software and other intangible assets	157	157	–	–	–	–	156
Tax assets for current taxes	12	12	14	–	–	–	–
Tax assets for deferred taxes	102	98	79	–	–	–	–
Associates recognized at equity	44	15	16	–	–	–	–
Other assets	146	142	126	–	–	–	–
Total assets	**46,071**	**46,079**	**43,632**	**1,031**	**789**	**64**	**505**

Table 3: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (2/2)

31.12.2017 in € million	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
		Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Liabilities							
Financial liabilities designated at fair value	726	726	–	–	–	–	–
Financial liabilities held for trading	345	345	–	–	–	–	–
Financial liabilities at amortized cost	39,894	39,909	–	–	–	–	–
Customers	30,947	30,950	–	–	–	–	–
Issued bonds, subordinated and supplementary capital	4,938	4,938	–	–	–	–	–
Credit institutions	4,009	4,021	–	–	–	–	–
Financial liabilities associated with transferred assets	–	–	–	–	–	–	–
Valuation adjustment on interest rate risk hedged portfolios	116	116	–	–	–	–	–
Hedging derivatives	94	94	–		–	–	–
Provisions	450	452	–	–	–	–	–
Tax liabilities for current taxes	17	17		–	–	–	–
Tax liabilities for deferred taxes	5	1	–	–	–	–	–
Other obligations	814	814	–	–	–	–	–
Equity attributable to the owners of the parent	3,609	3,604	–	–	–	–	–
Non–controlling interest	1	1	–	–	–	–	–
Total liabilities	**46,071**	**46,079**					

As at the reporting date 31.12.2017, the scope of consolidation of BAWAG Group under IFRS comprises 46 subsidiaries, under CRR 43 subsidiaries, respectively. The IFRS scope of consolidation is based on the provisions of IFRS 10, which is based on the control of the investee. Control is generally given when an investor has power over the investee, is exposed to risk exposure from varying returns, and has the ability to influence the level of returns through its power.

BAWAG Group has defined a materiality threshold in relation to the balance sheet and net profit for the year, subsidiaries below that threshold are not consolidated due to immateriality.

Subsidiaries are included in the regulatory scope of consolidation in accordance with Article 11 CRR. For the regulatory scope of consolidation only subsidiaries that have been classified as institutions, financial institutions or providers of ancillary services are relevant. In accordance with the provisions of Article 19 (1) CRR, subsidiaries that do not exceed the threshold specified are not included in the regulatory scope of consolidation.

Breakdown of the carrying amounts depend on the risk framework under which capital requirements are calculated in accordance with Part III of the CRR.

EU LI3

Table 4: Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation			Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	
BAWAG Leasing & fleet s.r.o., Prague	No consolidation	x			Leasing company
BAWAG Leasing & fleet s.r.o., Bratislava	No consolidation	x			Leasing company
BAWAG P.S.K. Versicherung Aktiengesellschaft	At–equity consolidation			x	Insurance entity
FCT Pearl	Full consolidation			x	Other financial entity
FELDSPAR 2016–1 PLC	Full consolidation			x	Other financial entity
FELDSPAR 2016–1 MORTGAGE HOLDING LIMITED	Full consolidation			x	Other financial entity
Fides Leasing GmbH	No consolidation		x		Leasing company
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H.	No consolidation	x			Real Estate company
HFE alpha Handels GmbH	No consolidation		x		Other financial entity
Kommunalleasing GmbH	No consolidation		x		Leasing company
PT Immobilienleasing GmbH	Full consolidation	x			Leasing company
SWBI Stuttgart 1 GmbH	Full consolidation			x	Real Estate company
SWBI Stuttgart 2 GmbH	Full consolidation			x	Real Estate company
SWBI Stuttgart 3 GmbH	Full consolidation			x	Real Estate company
SWBI München 1 GmbH	Full consolidation			x	Real Estate company
SWBI Mainz 1 GmbH	Full consolidation			x	Real Estate company
SWBI Darmstadt 1 GmbH	Full consolidation			x	Real Estate company

OWN FUNDS

OWN FUNDS – SCOPE OF CONSOLIDATION

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

Table 5: Scope of consolidation (IFRS, CRR) (1/3)

31.12.2017 in € million	IFRS consolidation scope BAWAG Group AG 1)	CRR consolidation scope BAWAG Group AG 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	1,246	1,246	1,246
Of which: capital reserve	1,146	1,146	1,146
Retained earnings	1,948	1,946	1,946
Accumulated other comprehensive income	(10)	9	9
Funds for general banking risk	9	9	9
Planned dividend for 2017	–	–	–
Common Equity Tier 1 (CET1) before regulatory adjustments	**3,506**	**3,502**	**3,502**
Common Equity Tier 1 capital: regulatory adjustments			
Additional value adjustments (negative amount)	(7)	(8)	(8)
Intangible assets (net of related tax liability) (negative amount)	(435)	(429)	(343)
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)	(101)	(110)	(91)
Fair value reserves related to gains or losses on cash flow hedges	(3)	(3)	(3)
Negative amounts resulting from the calculation of expected loss amounts	(47)	(47)	(38)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(6)	(6)	(6)
Regulatory adjustments relating to unrealized gains and losses pursuant to Articles 467 and 468 CRR	–	–	(17)
Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	–	–	(90)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(600)**	**(603)**	**(595)**
Common Equity Tier 1 (CET1) capital	**2,907**	**2,899**	**2,906**

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

Table 5: Scope of consolidation (IFRS, CRR) (2/3)

31.12.2017 in € million	IFRS consolidation scope BAWAG Group AG [1]	CRR consolidation scope BAWAG Group AG [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)	**2,907**	**2,899**	**2,906**
Tier 2 (T2) capital: instruments and provisions			
Capital instruments and the related share premium accounts	354	354	361
Tier 2 (T2) capital before regulatory adjustments	**354**	**354**	**361**
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)	(22)	(22)	(22)
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 CRR	–	–	(5)
Of which: items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	–	–	–
Qualifying T2 capital in relation to excess of provision to expected losses	35	35	35
Total regulatory adjustments to Tier 2 (T2) capital	**13**	**13**	**9**
Tier 2 (T2) capital	**367**	**367**	**369**
Total capital (TC = T1 + T2)	**3,274**	**3,266**	**3,276**
Total risk weighted assets	**N/A**	**21,491**	**21,473**

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

Table 5: Scope of consolidation (IFRS, CRR) (3/3)

31.12.2017 in € million	IFRS consolidation scope BAWAG Group AG [1]	CRR consolidation scope BAWAG Group AG [2]	Own funds acc. to CRR including transitional rules
Capital ratios			
Common Equity Tier 1 (as a percentage of risk exposure amount)	N/A	13.5%	13.5%
Tier 1 (as a percentage of risk exposure amount)	N/A	13.5%	13.5%
Total capital (as a percentage of risk exposure amount)	N/A	15.2%	15.3%
Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) CRR 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	8,018%	6,268%
of which: capital conservation buffer requirement	N/A	2,500%	1,250%
of which: countercyclical buffer requirement	N/A	0,018%	0,018%
of which: systemic risk buffer requirement	N/A	1,000%	0,500%
of which: Global Systemically Important Institution (G–SII) or Other Systemically Important Institution (O–SII) buffer	N/A	1,000%	0,250%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	N/A	9.0%	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)	219	219	219
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)	56	56	56
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) CRR are met) (negative amount)	75	75	77
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)	35	35	35
Cap for inclusion of credit risk adjustments in T2 under internal–ratings–based approach	42	42	42

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 (T1) and Tier 2 (T2) capital. For the transitional period until the full application of the CRR–regulation, the guidelines of the FMA–Regulation No 425 (Austrian CRR Supplementary Regulation) have to be applied. Beside from the mentioned adjustments no further deductions were made. All regulatory adjustments are in accordance with the respective regulations in Articles 47, 48, 37, 56, 66 and 79 CRR.

Common Equity Tier 1 (CET1) according to Article 26 et seq. mainly consists of subscribed capital, reserves and retained earnings. Regulatory adjustments of Tier 1 capital are considered according to Article 36 and 56 CRR in connection with FMA–Regulation No 425.

The deductible item "intangible assets" consists of goodwills of fully and at–equity consolidated subsidiaries as well as customer relationships/brands and other intangible assets. Tax liabilities related to intangible assets are offset and reduce the deduction item. The simplified approach is applied for additional value adjustments (prudent valuation). The calculation of the deductible item "deferred tax assets" is done according to Article 38 (5) CRR. According to CRR Supplementary Regulation, during the transitional period negative amounts resulting from the calculation of expected losses are deducted from CET1 at a rate of 80%, and from AT1 and Tier 2 capital at a rate of 10%, respectively. Until the CRR is fully applicable unrealized gains are only partially recognized in CET1 pursuant to Article 468 CRR. In 2017 the deduction amounts to 20% according to CRR Supplementary Regulation.

Gains on liabilities valued at fair value resulting from changes on own credit standing have to be fully deducted from CET1 under full application of CRR and well as during the transitional period.

BAWAG Group AG das not have any qualifying Additional Tier 1 capital instruments. Thus, Additional Tier 1 deductions are deducted from CET1.

Tier 2 capital is calculated according to Article 62 et seq. of CRR under consideration of the minority–calculation (EBA Q&A from 3 November 2017). During the last five years of their residual term Tier 2 capital instruments are only partially eligible. Their eligibility is reduced in relation to their remaining term in days. For regulatory adjustments of Tier 2 capital Article 66 of CRR is applied.

The eligible year–end result was reduced by dividends in the amount of EUR 109.9 million (consisting of an interim dividend in the amount EUR 51.6 million and a year–end dividend in the amount of EUR 58.3 million) and a voluntary prudential filter of EUR 44 million.

MAIN FEATURES, FULL TERMS AND CONDITIONS OF CAPITAL INSTRUMENTS

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

Table 6: Main features, full terms and conditions of capital instruments

31.12.2017 in €	CET1 1	Tier 2 1
1 Issuer	BAWAG Group AG	BAWAG P.S.K. AG
2 Unique identifier	AT0000BAWAG2	AT0000350657
3 Governing law(s) of the instrument	Austrian law	Austrian law
4 Transitional CRR rules	CET1 capital	Tier 2 (T2) capital
5 Post–transitional CRR rules	CET1 capital	Tier 2 (T2) capital
6 Eligible at solo/(sub–) consolidated/ solo & (sub–)consolidated	Consolidated	Solo and (sub–) consolidated
7 Instrument type	Stock	Subordinated capital bonds
8 Amount recognized in regulatory capital	3,545,478,708	20,047,838
9 Nominal amount of instrument	1.00	20,000,000.00
9a Issue price	48	100
9b Redemption price	N/A	100
10 Accounting classification	Equity	Liability – amortized cost
11 Original date of issuance	19.08.2017	12.02.2003
12 Perpetual or dated	No maturity	Maturity date
13 Original maturity date	N/A	12.02.2023
14 Issuer call subject date, contingent call dates and redemption amount	No	Yes
15 Optional call date, contingent call dates and redemption amount	N/A	12.02.2008 at 100%
16 Subsequent call dates, if applicable	N/A	12.02.2008 12.02.2013 12.02.2018 at 100%
Coupons / dividends		
17 Fixed or floating dividend stopper	N/A	Fixed
18 Coupon rate and any related index	N/A	5,400%
19 Existence of a dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (timing)	Fully discretionary	Mandatory
20b Fully discretionary, partially discretionary or mandatory (amount)	Fully discretionary	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative
23 Convertible or non–convertible	Non–covertible	Non–covertible
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	N/A	Additional Tier 1 (AT1) capital
36 Non–compliant transitioned features	N/A	No
37 If yes, specify non–compliant features	N/A	None

31.12.2017 in €	Tier 2 2	Tier 2 3
1 Issuer	BAWAG P.S.K. AG	BAWAG P.S.K. AG
2 Unique identifier	AT0000350665	AT0000351119
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	32,317,738	16,244,341
9 Nominal amount of instrument	30,000,000.00	15,000,000.00
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	26.02.2004
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	13.02.2023	26.02.2024
14 Issuer call subject date, contingent call dates and redemption amount	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	12.2.2013 at 100%	26.02.2014 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	5,310%	5,430%
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	Non–covertible	Non–covertible
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	None	None

31.12.2017 in €	Tier 2 4	Tier 2 5
1 Issuer	BAWAG P.S.K. AG	BAWAG P.S.K. AG
2 Unique identifier	AT0000A066X5	AT0000A133Z8
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	1,118,392	2,581,831
9 Nominal amount of instrument	4,758,300.00	3,400,000.00
9a Issue price	101.75	100
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	30.08.2007	16.10.2013
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	10.03.2019	04.11.2021
14 Issuer call subject date, contingent call dates and redemption amount	Yes	No
15 Optional call date, contingent call dates and redemption amount	10.03.2016 at 100%	N/A
16 Subsequent call dates, if applicable	N/A	N/A
17 Fixed or floating dividend stopper	Fixed	Fixed to floating
18 Coupon rate and any related index	5,750%	J1 – J4: 5.25% p.a. J5 – J 8: 3 mE + 350 bp p.a.
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	Cumulative	Noncumulative
23 Convertible or non–convertible	Non–covertible	Non–covertible
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	None	None

31.12.2017 in €	Tier 2 6	Tier 2 7
1 Issuer	BAWAG P.S.K. AG	BAWAG P.S.K. AG
2 Unique identifier	AT0000A13406	QOXDB9965456
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	46,813,836	9,620,674
9 Nominal amount of instrument	43,000,000.00	20,000,000.00
9a Issue price	99.5	100
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	16.10.2013	04.05.2000
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	04.11.2023	04.05.2020
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	Floating
18 Coupon rate and any related index	6,500%	100% x Gilt Rendite
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	Non–covertible	Non–covertible
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	None	None

31.12.2017 in €	Tier 2 8	Tier 2 9
1 Issuer	P.S.K.	P.S.K.
2 Unique identifier	XS0118010569	XS0118369098
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	19,931,542	13,814,348
9 Nominal amount of instrument	12,046,000.00	25,000,000.00
9a Issue price	98.864	100
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	22.09.2000	03.10.2000
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	07.12.2028	03.10.2020
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	Floating
18 Coupon rate and any related index	6,125%	3mE+20bp
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	Non–covertible	Non–covertible
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	None	None

31.12.2017 in €	Tier 2 10	Tier 2 11
1 Issuer	BAWAG P.S.K. AG	IMMO–BANK Aktiengesellschaft
2 Unique identifier	XS0987169637	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	Subordinated capital bonds	Housing convertible bonds
8 Amount recognized in regulatory capital	327,113,989	9,597,336
9 Nominal amount of instrument	300,000,000.00	10,000,000.00
9a Issue price	99.171	101.5
9b Redemption price	100	100
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	30.10.2013	15.11.2007
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	30.10.2023	15.11.2022
14 Issuer call subject date, contingent call dates and redemption amount	No	Yes
15 Optional call date, contingent call dates and redemption amount	N/A	15.11.2017 at 100%
16 Subsequent call dates, if applicable	N/A	15.11.2018 15.11.2019 15.11.2020 15.11.2021 each at 100%
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	8,125%	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	Non–covertible	Convertible
24 If convertible, conversions trigger(s)	N/A	Owner
25 If convertible, fully or partially	N/A	fully
26 If convertible, conversion rate	N/A	1:2
27 If convertible, mandatory or optional conversion	N/A	optional
28 If convertible, specify instrument type convertible into	N/A	Participation certificate
29 If convertible, specify issuer of instrument it converts into	N/A	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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	None	None

31.12.2017 in €	Tier 2 12	Tier 2 13
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 capital bonds
8 Amount recognized in regulatory capital	5,451	445,825
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	Convertible	Non–covertible
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	None	None

31.12.2017 in €	Tier 2 14	Tier 2 15
1 Issuer	IMMO–BANK Aktiengesellschaft	Südwestbank AG
2 Unique identifier	AT000B086608	Schuldschein mit Nachrangabrede Nr. 572
3 Governing law(s) of the instrument	Austrian law	German law
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post–transitional CRR rules	Tier 2 (T2) capital	No capital
6 Eligible at solo/(sub–) consolidated/ solo & (sub–)consolidated	Solo and (sub–) consolidated	Solo and (sub–) consolidated
7 Instrument type	Convertible bond	Subordinated capital bonds
8 Amount recognized in regulatory capital	3,920,985	4,373,029
9 Nominal amount of instrument	10,000,000.00	10,000,000.00
9a Issue price	100	99.62
9b Redemption price	100	10,000,000
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	20.11.2006	10.03.2010
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	20.12.2019	10.03.2020
14 Issuer call subject date, contingent call dates and redemption amount	Yes	No
15 Optional call date, contingent call dates and redemption amount	20.12.2016 at 100%	N/A
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	4,000%	6,300%
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	Convertible	Non–covertible
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	No
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	None	N/A

31.12.2017 in €	Tier 2 16	Tier 2 17
1 Issuer	Südwestbank AG	Südwestbank AG
2 Unique identifier	Schuldschein mit Nachrangabrede Nr. 581	Schuldschein mit Nachrangabrede Nr. 573
3 Governing law(s) of the instrument	German law	German law
Regulatory treatment		
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post–transitional CRR rules	Tier 2 (T2) capital	No 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	8,409,727	2,271,590
9 Nominal amount of instrument	10,000,000.00	5,000,000.00
9a Issue price	99.457	99.05
9b Redemption price	10,000,000	5,000,000
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	22.03.2012	15.04.2010
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	22.03.2022	15.04.2020
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
Coupons / dividends		
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	5,140%	6,000%
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	Non–covertible	Non–covertible
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	No	No
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	N/A	N/A

31.12.2017 in €	Tier 2 18	Tier 2 19
1 Issuer	Südwestbank AG	Südwestbank AG
2 Unique identifier	Schuldschein mit Nachrangabrede Nr. 576	Schuldschein mit Nachrangabrede Nr. 577
3 Governing law(s) of the instrument	German law	German law
Regulatory treatment		
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post–transitional CRR rules	No capital	No 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	6,670,030	1,339,540
9 Nominal amount of instrument	10,000,000.00	2,000,000.00
9a Issue price	99.75	100
9b Redemption price	10,000,000	2,000,000
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	03.05.2011	05.05.2011
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	03.05.2021	05.05.2021
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
Coupons / dividends		
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	6,600%	6,750%
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	Non–covertible	Non–covertible
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	No	No
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	N/A	N/A

31.12.2017 in €	Tier 2 20	Tier 2 21
1 Issuer	Südwestbank AG	Südwestbank AG
2 Unique identifier	Schuldschein mit Nachrangabrede Nr. 578	Schuldschein mit Nachrangabrede Nr. 574
3 Governing law(s) of the instrument	German law	German law
Regulatory treatment		
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post–transitional CRR rules	No capital	No 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	670	2,407,126
9 Nominal amount of instrument	1,000,000.00	5,000,000.00
9a Issue price	100	99.05
9b Redemption price	1,000,000	5,000,000
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	05.05.2011	04.06.2010
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	05.05.2021	04.06.2020
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
Coupons / dividends		
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	6,570%	5,600%
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	Non–covertible	Non–covertible
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	No	No
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	N/A	N/A

31.12.2017 in €	Tier 2 22	Tier 2 23
1 Issuer	Südwestbank AG	Südwestbank AG
2 Unique identifier	Schuldschein mit Nachrangabrede Nr. 575	Schuldschein mit Nachrangabrede Nr. 580
3 Governing law(s) of the instrument	German law	German law
Regulatory treatment		
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post–transitional CRR rules	No capital	No 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	2,438,424	2,281,791
9 Nominal amount of instrument	5,000,000.00	3,000,000.00
9a Issue price	99	98.5
9b Redemption price	5,000,000	3,000,000
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	16.06.2010	08.11.2011
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	16.06.2020	08.11.2021
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
Coupons / dividends		
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	5,600%	6,000%
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	Non–covertible	Non–covertible
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	No	No
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	N/A	N/A

31.12.2017 in €	Tier 2 24	Tier 2 25
1 Issuer	Südwestbank AG	Südwestbank AG
2 Unique identifier	Schuldschein mit Nachrangabrede Nr. 579	A2BPFP
3 Governing law(s) of the instrument	German law	German law
Regulatory treatment		
4 Transitional CRR rules	Tier 2 (T2) capital	Tier 2 (T2) capital
5 Post–transitional CRR rules	No 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	1,524,194	11,702,000
9 Nominal amount of instrument	2,000,000.00	15,000,000.00
9a Issue price	98.5	100
9b Redemption price	2,000,000	15,000,000
10 Accounting classification	Liability – amortized cost	Liability – amortized cost
11 Original date of issuance	08.11.2011	24.10.2016
12 Perpetual or dated	Maturity date	Maturity date
13 Original maturity date	08.11.2021	24.10.2023
14 Issuer call subject date, contingent call dates and redemption amount	No	Yes
15 Optional call date, contingent call dates and redemption amount	N/A	N/A
16 Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends		
17 Fixed or floating dividend stopper	Fixed	Fixed
18 Coupon rate and any related index	6,000%	2,250%
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	Non–covertible	Non–covertible
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	No	No
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	Senior	Senior
36 Non–compliant transitioned features	No	No
37 If yes, specify non–compliant features	N/A	N/A

31.12.2017	Tier 2
in €	26
1 Issuer	Südwestbank AG
2 Unique identifier	Einlage mit Nachrangabrede
3 Governing law(s) of the instrument	German law
Regulatory treatment	
4 Transitional CRR rules	Tier 2 (T2) capital
5 Post–transitional CRR rules	Tier 2 (T2) capital
6 Eligible at solo/(sub–) consolidated/ solo & (sub–)consolidated	Solo and (sub–) consolidated
7 Instrument type	Subordinated capital bonds
8 Amount recognized in regulatory capital	11,738,673
9 Nominal amount of instrument	11,738,673.00
9a Issue price	100
9b Redemption price	11,738,673
10 Accounting classification	Liability – amortized cost
11 Original date of issuance	17.10.2016
12 Perpetual or dated	Maturity date
13 Original maturity date	17.10.2023
14 Issuer call subject date, contingent call dates and redemption amount	Yes
15 Optional call date, contingent call dates and redemption amount	N/A
16 Subsequent call dates, if applicable	N/A
Coupons / dividends	
17 Fixed or floating dividend stopper	Fixed
18 Coupon rate and any related index	2,250%
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	Non–covertible
24 If convertible, conversions trigger(s)	N/A
25 If convertible, fully or partially	N/A
26 If convertible, conversion rate	N/A
27 If convertible, mandatory or optional conversion	N/A
28 If convertible, specify instrument type convertible into	N/A
29 If convertible, specify issuer of instrument it converts into	N/A
30 Write–down features	No
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	Senior
36 Non–compliant transitioned features	No
37 If yes, specify non–compliant features	N/A

Art. 437 (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 REQUIREMENT AND OVERVIEW OF RWAS

Art. 438 (c)–(f) CRR – EU OV1

Table 7: Overview of RWAs

			RWAs		Minimum capital requirements
in € million			31.12.2017	31.12.2016	31.12.2017
	1	**Credit risk (excluding CCR)**	**19,168**	**16,871**	**1,533**
Art. 438 (c)(d)	2	Of which the standardised approach	11,866	8,985	949
Art. 438 (c)(d)	3	Of which the foundation IRB (FIRB) approach	4,979	5,323	398
Art. 438 (c)(d)	4	Of which the advanced IRB (AIRB) approach	2,242	2,111	179
Art. 438 (d)	5	Of which equity IRB under the simple risk–weighted approach or the IMA	80	451	6
Art. 107 Art. 438 (c) (d)	**6**	**CCR**	**341**	**331**	**27**
Art. 438 (c)(d)	7	Of which mark to market	167	151	13
Art. 438 (c)(d)	8	Of which original exposure	–	–	–
	9	Of which the standardised approach	–	–	–
	10	Of which internal model method (IMM)	–	–	–
Art. 438 (c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	9	9	1
Art. 438 (c)(d)	12	Of which CVA	165	171	13
Art. 438 (e)	13	Settlement risk	–	–	–
Art. 438 (o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**67**	**–**	**5**
	15	Of which IRB approach	64	–	5
	16	Of which IRB supervisory formula approach (SFA)	3	–	–
	17	Of which internal assessment approach (IAA)	–	–	–
	18	Of which standardised approach	–	–	–
Art. 438 (e)	**19**	**Market risk**	**52**	**59**	**4**
	20	Of which the standardised approach	52	59	4
	21	Of which IMA	–	–	–
Art. 438 (e)	22	Large exposures	–	–	–
Art. 438 (f)	**23**	**Operational risk**	**1,705**	**1,633**	**136**
	24	Of which basic indicator approach	–	–	–
	25	Of which standardised approach	1,705	1,633	136
	26	Of which advanced measurement approach	–	–	–
Art. 437(2) Art. 48 Art. 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	139	124	11
Art. 500	28	Floor adjustment	–	–	–
	29	**Total**	**21,473**	**19,019**	**1,718**

RWA UNDER IRB APPROACH

Art. 438 (d) CRR – EU CR8

Table 8: RWA flow statements of credit risk exposures under the IRB approach

31.12.2017 in € million	RWA amounts	Capital requirements
1 RWAs as at the end of the previous reporting period	**7,885**	**631**
2 Asset size	(289)	(23)
3 Asset quality	(164)	(13)
4 Model updates	324	26
5 Methodology and policy	–	–
6 Acquisitions and disposals	–	–
7 Foreign exchange movements	(63)	(5)
8 Other	–	–
9 RWAs as at the end of the reporting period	**7,693**	**615**

IRB PORTFOLIO SPECIALIZED LENDING EXPOSURES AND EQUITY EXPOSURES

Art. 438 last sentence CRR – EU CR10

Table 9: Specialized lending exposures

Regulatory categories	Remaining maturity	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Category 1	Less than 2.5 years	350	1	50%	351	175	–
	Equal or more than 2.5 years	2,348	17	70%	2,362	1,653	9
Category 2	Less than 2.5 years	444	–	70%	444	311	2
	Equal or more than 2.5 years	181	240	90%	182	164	1
Category 3	Less than 2.5 years	33	1	115%	33	38	1
	Equal or more than 2.5 years	26	1	115%	27	31	1
Category 4	Less than 2.5 years	–	–	250%	–	–	–
	Equal or more than 2.5 years	2	–	250%	2	5	–
Category 5	Less than 2.5 years	2	–	0%	6	–	3
	Equal or more than 2.5 years	8	–	0%	15	–	8
Total	**Less than 2.5 years**	**829**	**2**	**–**	**834**	**524**	**6**
	Equal or more than 2.5 years	**2,565**	**258**	**–**	**2,588**	**1,853**	**19**

Art. 438 last sentence CRR – EU CR10

Table 10: Equity exposures

31.12.2017
in € million

Regulatory categories	On-balance-sheet amount	Off-balance-sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Private equity	–	–	190%	–	–	–
Exchange traded	25	–	290%	25	72.5	0.2
Other equity exposures	9	–	370%	9	33.3	0.2
Total	**34**	**–**	**–**	**34**	**105.8**	**0.42**

COUNTERPARTY DEFAULT RISK

Art. 439 point (e), (f) and (i) CRR – EU CCR1

Table 11: Analysis of CCR exposure by approach

31.12.2017 in € million	Replacement cost / current market value	Potential future credit exposure	EAD post CRM	RWAs
1 Mark to market	502	453	554	167
11 Total				**167**

Art. 439 point (e), (f) CRR – EU CCR2

Table 12: CVA capital charge

31.12.2017 in € million	Exposure value	RWAs
1 Total portfolios subject to the advanced method	–	–
2 (i) VaR component (including the 3x multiplier)	–	–
3 (ii) SVaR component (including the 3x multiplier)	–	–
4 All portfolios subject to the standardised method	325	165
EU4 Based on the original exposure method	–	–
5 Total subject to the CVA capital change	**325**	**165**

Art. 439 (e) CRR – EU CCR5-A

Table 13: Impact of netting and collateral held on exposure values

31.12.2017 in € million	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1 Derivatives	1,660	573	1,087	478	609
4 Total	**1,660**	**573**	**1,087**	**478**	**609**

Art. 439 (e) CRR – EU CCR5-B

Table 14: Composition of collateral for exposures to CCR

31.12.2017 in € million	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash collateral	4	491	44	15	–	–
Total	**4**	**491**	**44**	**15**	**–**	**–**

Art. 439 (e), (f) CRR – EU CCR8

Table 15: Exposures to CCPs

31.12.2017 in € million	EAD post CRM	RWAs
1 Exposures to QCCPs (total)		**14**
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	132	5
3 (i) OTC derivatives	132	5
4 (ii) Exchange–traded derivatives	–	–
5 (iii) SFT	–	–
6 (iv) Netting sets where cross–product netting has been approved	–	–
7 Segregated initial margin	62	–
8 Non–segregated initial margin	–	–
9 Prefunded default fund contributions	1	9
10 Alternative calculation of own funds requirements for exposures	–	–
11 Exposures to non–QCCPs (total)	**–**	**–**
12 Exposures for trades at non–QCCPs (excluding initial margin and default fund contributions); of which	–	–
13 (i) OTC derivatives	–	–
14 (ii) Exchange–traded derivatives	–	–
15 (iii) SFTs	–	–
16 (iv) Netting sets where cross–product netting has been approved	–	–
17 Segregated initial margin	–	–
18 Non–segregated initial margin	–	–
19 Prefunded default fund contributions	–	–
20 Unfunded default fund contributions	–	–

Art. 439 (g), (h) CRR – EU CCR6

Table 16: Credit derivatives exposures

31.12.2017 in € million	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
Notionals	–	–	–
Other credit derivatives	–	29	–
Total notionals	**–**	**29**	**–**

BAWAG Group has no commodity–borrowing transactions, margin lending transactions or transactions involving long–term settlement. Netting is utilized at BAWAG 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 BAWAG 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 tables is confined to OTC derivatives.

CDS serve as hedges for part of the Bank's securities, synthetic securities (CDS sell positions) and loan portfolio. As of 31 December 2017 the Bank had no CDS in the portfolio.

CAPITAL BUFFER

COUNTERCYCLICAL CAPITAL BUFFER

Art. 440 CRR

Table 17: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

31.12.2017 in € 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	4,826	11,394	497	497	35.39%	0.00%
Germany	5,531	601	333	333	23.72%	0.00%
France	1,340	215	142	142	10.14%	0.00%
United Kingdom	2,417	866	134	134	9.52%	0.00%
USA	350	1,636	132	132	9.40%	0.00%
Ireland	53	577	40	40	2.82%	0.00%
Netherlands	234	313	31	31	2.19%	0.00%
Spain	157	344	26	26	1.87%	0.00%
Finland	145	233	15	15	1.09%	0.00%
Luxembourg	47	55	8	8	0.54%	0.00%
Canada	106	85	7	7	0.50%	0.00%
Sweden	223	60	6	6	0.45%	2.00%
Norway	259	67	6	6	0.41%	2.00%
Switzerland	98	9	5	5	0.33%	0.00%
Denmark	58	18	5	5	0.32%	0.00%
Italy	162	4	3	3	0.23%	0.00%
Slovakia	18	9	2	2	0.13%	0.50%
Croatia	–	21	2	2	0.13%	0.00%
Liechtenstein	9	4	2	2	0.12%	0.00%
Belgium	138	–	2	2	0.12%	0.00%
Slovenia	–	39	1	1	0.09%	0.00%
Czech Republic	9	6	1	1	0.07%	0.50%
Argentina	11	–	1	1	0.06%	0.00%
Turkey	11	2	1	1	0.06%	0.00%
Hungary	1	15	1	1	0.06%	0.00%
Poland	39	1	1	1	0.04%	0.00%
United Arab Emirates	6	–	–	–	0.03%	0.00%
Australia	47	–	–	–	0.03%	0.00%
Portugal	19	–	–	–	0.02%	0.00%
India	3	–	–	–	0.02%	0.00%
Cayman Islands	–	–	–	–	0.01%	0.00%
Malta	–	2	–	–	0.01%	0.00%
Mexiko	2	–	–	–	0.01%	0.00%
South Africa	2	–	–	–	0.01%	0.00%
Indonesia	2	–	–	–	0.01%	0.00%
Hong Kong	–	–	–	–	–	1.25%
Iceland	–	–	–	–	–	1.25%
Total	**16,330**	**16,599**	**1,404**	**1,404**	**100.00%**	**0,018%**

Table 18: Institution specific countercyclical capital buffer

in € million	31.12.2017
Total risk weighted assets	21,473
Institution specific countercyclical capital buffer rate	0,018%
Institution specific countercyclical capital buffer requirement	4

CREDIT RISK AND DILUTION RISK

TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

Art. 442 point (c) CRR – EU CRB-B

Table 19: Exposure values by exposure class

31.12.2017 in € million	Net value of exposures at the end of the period	Average net exposures over the period
1 Central governments or central banks	–	–
2 Institutions	–	–
3 Corporates	8,413	8,695
4 of which: Specialised lending	3,655	3,553
5 of which: SMEs	784	828
6 Retail	11,193	11,128
7 Secured by real estate property	5,220	5,214
8 SMEs	322	338
9 Non-SMEs	4,898	4,876
10 Qualifying revolving	1,035	1,023
11 Other Retail	4,938	4,890
12 SMEs	274	289
13 Non-SMEs	4,664	4,602
14 Equity	27	93
15 Total IRB approach	**19,633**	**19,915**
16 Central governments or central banks	5,001	3,983
17 Regional governments or local authorities	2,386	2,770
18 Public sector entities	1,642	1,885
19 Multilateral development banks	31	32
20 International organisations	84	91
21 Institutions	3,395	3,087
22 Corporates	5,035	3,131
23 of which: SMEs	2,114	928
24 Retail	4,681	2,417
25 of which: SMEs	1,545	747
26 Secured by mortgages on immovable property	5,962	4,214
27 of which: SMEs	1,393	842
28 Exposures in default	466	404
29 Items associated with particularly high risk	30	22.5
30 Covered bonds	2,243	1,651
31 Claims on institutions and corporates with a short–term credit assessment	–	–
32 Collective investments undertakings	1,370	1,280
33 Equity exposures	312	159
34 Other exposures	342	124
35 Total standardised approach	**32,980**	**25,252**
36 Total	**52,613**	**45,167**

GEOGRAPHICAL BREAKDOWN OF EXPOSURES

Art. 442 point (d) CRR – EU CRB-C

Table 20: Geographical breakdown of exposures

31.12.2017 in € million	Net value										
	EU	of which:					Europe	North America	Asia	Others	Total
		Austria	Germany	UK	France	Spain					
1 Central governments or central banks	–	–	–	–	–	–	–	–	–	–	–
2 Institutions	–	–	–	–	–	–	–	–	–	–	–
3 Corporates	6,614	3,049	591	850	216	583	68	1,731	–	–	8,413
4 Retail	11,171	11,127	21	2	1	–	18	–	4	–	11,193
5 Equity	27	1	–	6	–	–	–	–	–	–	27
6 Total IRB	**17,812**	**14,177**	**612**	**858**	**217**	**583**	**86**	**1,731**	**4**	**0**	**19,633**
7 Central governments or central banks	4,972	3,260	1,075	29	50	173	4	–	23	2	5,001
8 Regional governments or local authorities	2,386	2,383	3	–	–	–	–	–	–	–	2,386
9 Public sector entities	1,642	1,483	146	–	3	–	–	–	–	–	1,642
10 Multilateral development banks	26	–	–	–	–	–	–	–	–	5	31
11 International organisations	84	–	–	–	–	–	–	–	–	–	84
12 Institutions	2,108	118	358	498	376	93	250	781	203	53	3,395
13 Corporates	4,539	824	2,987	402	70	7	40	424	19	13	5,035
14 Retail	4,669	3,727	891	46			4	1	4	3	4,681
15 Secured by mortgages on immovable property	5,930	2,487	2,099	1,337	1	3	27	1	3	1	5,962
16 Exposures in default	463	322	91	50	–	–	1	1	1		466
17 Items associated with particularly high risk	30	16	14	–	–	–	–	–	–	–	30
18 Covered bonds	1,832	198	131	395	167	91	289	76		46	2,243
19 Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–
20 Collective investments undertakings	1,370	2	265	–	1,103	–	–	–	–	–	1,370
21 Equity exposures	305	103	47	56	–	56	7	–	–	–	312
22 Other exposures	342	78	263	–	–	–	–	–	–	–	342
23 Total standardised approach	**30,698**	**15,001**	**8,370**	**2,813**	**1,770**	**423**	**622**	**1,284**	**253**	**123**	**32,980**
24 Total	**48,510**	**29,178**	**8,982**	**3,671**	**1,987**	**1,006**	**708**	**3,015**	**257**	**123**	**52,613**

BREAKDOWN OF EXPOSURES BY INDUSTRY

Art. 442 point (e) CRR – EU CRB-D

Table 21: Concentration of exposures by industry or counterparty types (1/3)

31.12.2017 in € million	Agri-culture, forestry and fishing	Mining and quarrying	Manu-facturing	Electricity, gas, steam and air conditio-ning supply	Water supply	Cons-truction	Whole-sale and retail trade
1 Central governments or central banks	–	–	–	–	–	–	–
2 Institutions	–	–	–	–	–	–	–
3 Corporates	27	74	553	123	19	67	614
4 Retail	19	1	27	1	–	50	131
5 Equity	–	–	–	–	–	–	–
6 Total IRB	**46**	**75**	**580**	**124**	**19**	**117**	**745**
7 Central governments or central banks	–	–	–	–	–	–	–
8 Regional governments or local authorities	–	–	–	–	–	–	–
9 Public sector entities	–	–	–	–	–	–	–
10 Multilateral development banks	–	–	–	–	–	–	–
11 International organisations	–	–	–	–	–	–	–
12 Institutions	–	–	–	–	–	–	–
13 Corporates	185	7	879	231	–	302	297
14 Retail	129	2	105	40	–	73	130
15 Secured by mortgages on immovable property	118	–	176	13	–	284	76
16 Exposures in default	8	–	20	7	–	2	9
17 Items associated with particularly high risk	–	–	–	–	–	–	–
18 Covered bonds	–	–	–	–	–	–	–
19 Claims on institutions and corporates with a short–term credit assessment	–	–	–	–	–	–	–
20 Collective investments undertakings	–	–	–	–	–	–	–
21 Equity exposures	–	–	–	–	–	–	–
22 Other exposures	–	–	–	–	–	1	–
23 Total standardised approach	**440**	**9**	**1,180**	**291**	**–**	**662**	**512**
24 Total	**486**	**84**	**1,760**	**415**	**19**	**779**	**1,257**

Table 21: Concentration of exposures by industry or counterparty types (2/3)

31.12.2017 in € million	Transport and storage	Acco-mmoda-tion and food service activities	Infor-mation and commu-nication	Finance and insurance	Real estate activities	Pro-fessional, scientific and technical activities	Adminis-trative and support service activities
1 Central governments or central banks	–	–	–	–	–	–	–
2 Institutions	–	–	–	–	–	–	–
3 Corporates	158	188	308	330	4,866	209	329
4 Retail	16	54	25	20	56	70	39
5 Equity	–	–	–	27	–	–	–
6 Total IRB	**174**	**242**	**333**	**377**	**4,922**	**279**	**368**
7 Central governments or central banks	–	–	–	3,712	–	–	–
8 Regional governments or local authorities	–	–	–	–	24	–	–
9 Public sector entities	18	–	–	–	–	–	330
10 Multilateral development banks	–	–	–	31	–	–	–
11 International organisations	–	–	–	–	–	–	–
12 Institutions	–	–	–	3,395	–	–	–
13 Corporates	48	41	388	1,416	396	149	299
14 Retail	51	38	32	25	17	71	64
15 Secured by mortgages on immovable property	17	27	24	281	918	69	19
16 Exposures in default	3	2	1	23	9	3	3
17 Items associated with particularly high risk	–	–	–	30	–	–	–
18 Covered bonds	–	–	–	2,243	–	–	–
19 Claims on institutions and corporates with a short–term credit assessment	–	–	–	–	–	–	–
20 Collective investments undertakings	–	–	–	267	–	–	–
21 Equity exposures	–	–	2	310	–	–	–
22 Other exposures	–	–	–	309	4	–	–
23 Total standardised approach	**137**	**108**	**447**	**12,042**	**1,368**	**292**	**715**
24 Total	**311**	**350**	**780**	**12,419**	**6,290**	**571**	**1,083**

Table 21: Concentration of exposures by industry or counterparty types (3/3)

31.12.2017 in € million	Public adminis-tration and defense, com-pulsory social security	Education	Human health services and social work activities	Arts, entertain-ment and recreation	Other services	Private house-holds	Others	Total
1 Central governments or central banks	–	–	–	–	–	–	–	–
2 Institutions	–	–	–	–	–	–	–	–
3 Corporates	15	9	162	102	20	–	240	8,413
4 Retail	–	4	38	9	34	10,599	–	11,193
5 Equity	–	–	–	–	–	–	–	27
6 Total IRB	**15**	**13**	**200**	**111**	**54**	**10,599**	**240**	**19,633**
7 Central governments or central banks	1,289	–	–	–	–	–	–	5,001
8 Regional governments or local authorities	2,349	–	–	–	13	–	–	2,386
9 Public sector entities	1,274	–	–	–	20	–	–	1,642
10 Multilateral development banks	–	–	–	–	–	–	–	31
11 International organisations	–	–	–	–	–	–	84	84
12 Institutions	–	–	–	–	–	–	–	3,395
13 Corporates	2	5	129	31	81	149	–	5,035
14 Retail	–	5	27	9	125	3,738	–	4,681
15 Secured by mortgages on immovable property	1	5	36	10	40	3,848	–	5,962
16 Exposures in default	271	–	3	–	5	97	–	466
17 Items associated with particularly high risk	–	–	–	–	–	–	–	30
18 Covered bonds	–	–	–	–	–	–	–	2,243
19 Claims on institutions and corporates with a short–term credit assessment	–	–	–	–	–	–	–	–
20 Collective investments undertakings	–	–	–	–	–	1,103	–	1,370
21 Equity exposures	–	–	–	–	–	–	–	312
22 Other exposures	3	–	–	–	–	–	25	342
23 Total standardised approach	**5,189**	**15**	**195**	**50**	**284**	**8,935**	**109**	**32,980**
24 Total	**5,204**	**28**	**395**	**161**	**338**	**19,534**	**349**	**52,613**

BREAKDOWN OF EXPOSURES ACCORDING TO RESIDUAL MATURITY AND EXPOSURE CLASSES

Art. 442 point (f) CRR – EU CRB-E

Table 22: Maturity of exposures

31.12.2017 in € million	Net value					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1 Central governments or central banks	–	–	–	–	–	–
2 Institutions	–	–	–	–	–	–
3 Corporates	765	4,680	905	2,063	–	8,413
4 Retail	3,432	66	488	7,207	–	11,193
5 Equity	1	–	20	6	–	27
6 Total IRB	**4,198**	**4,746**	**1,413**	**9,276**	**–**	**19,633**
7 Central governments or central banks	2,072	2,262	391	276	–	5,001
8 Regional governments or local authorities	62	227	188	1,909	–	2,386
9 Public sector entities	425	31	127	1,059	–	1,642
10 Multilateral development banks	–	5	26		–	31
11 International organisations	–	–	54	30	–	84
12 Institutions	343	666	1,521	865	–	3,395
13 Corporates	1,140	1,461	1,215	1,219	–	5,035
14 Retail	3,146	94	773	668	–	4,681
15 Secured by mortgages on immovable property	276	89	498	5,099	–	5,962
16 Exposures in default	341	25	28	72	–	466
17 Items associated with particularly high risk	14	–	–	–	16	30
18 Covered bonds	–	152	1,146	945	–	2,243
19 Claims on institutions and corporates with a short–term credit assessment	–	–	–	–	–	–
20 Collective investments undertakings	299	6	78	987	–	1,370
21 Equity exposures	9	–	118	64	121	312
22 Other exposures	–	2	16	6	318	342
23 Total standardised approach	**8,127**	**5,020**	**6,179**	**13,199**	**455**	**32,980**
24 Total	**12,325**	**9,766**	**7,592**	**22,475**	**455**	**52,613**

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

Art. 442 point (g) CRR – EU CR1-A

Table 23: Credit quality of exposures by exposure class and instrument

	Gross carrying value of					
31.12.2017 in € million	Defaulted exposures	Non–defaulted exposures	Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
3 Corporates	142	8,329	51	7	34	8,413
4 of which: Specialised lending	22	3,644	11	–	6	3,655
5 of which: SMEs	16	775	4	3	1	784
6 Retail	249	11,100	149	7	63	11,193
7 Secured by real estate property	61	5,177	18	0	2	5,220
8 SMEs	17	307	2	–	1	322
9 Non-SMEs	44	4,870	16	–	1	4,898
10 Qualifying revolving	1	1,034	–	–	–	1,035
11 Other Retail	187	4,889	131	7	61	4,938
12 SMEs	28	264	17	1	3	274
13 Non-SMEs	159	4,625	114	6	58	4,664
14 Equity	–	27	–	–	–	27
15 Total IRB approach	**391**	**19,456**	**200**	**14**	**97**	**19,633**
16 Central governments or central banks	–	5,001	–	–	–	5,001
17 Regional governments or local authorities	–	2,386	–	–	–	2,386
18 Public sector entities	–	1,642	–	–	–	1,642
19 Multilateral development banks	–	31	–	–	–	31
20 International organisations	–	84	–	–	–	84
21 Institutions	–	3,395	–	–	–	3,395
22 Corporates	–	5,035	–	–	–	5,035
23 of which: SMEs	–	2,114	–	–	–	2,114
24 Retail	–	4,681	–	–	1	4,681
25 of which: SMEs	–	1,545	–	–	–	1,545
26 Secured by mortgages on immovable property	–	5,962	–	–	–	5,962
27 of which: SMEs	–	1,393	–	–	–	1,393
28 Exposures in default	726	–	257	3	7	466
29 Items associated with particularly high risk	–	30	–	–	–	30
30 Covered bonds	–	2,243	–	–	–	2,243
32 Collective investments undertakings	–	1,374	4	–	4	1,370
33 Equity exposures	–	312	–	–	–	312
34 Other exposures	–	342	–	–	–	342
35 Total standardised approach	**726**	**32,518**	**261**	**3**	**12**	**32,980**
36 Total	**1,117**	**51,974**	**461**	**17**	**109**	**52,613**
37 Of which: Loans	1,102	35,616	459	17	109	36,242
38 Of which: Debt securities	–	6,888	–	–	–	6,888
39 Of which: Off-balance-sheet exposures	15	9,470	2	–	–	9,483

Art. 442 point (g) CRR – EU CR1-B

Table 24: Credit quality of exposures by industry or counterparty types

31.12.2017 in € million	Gross carrying value of		Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non–defaulted exposures				
1 Agriculture, forestry and fishing	13	477	4	–	–	486
2 Mining and quarrying	40	59	15	–	11	84
3 Manufacturing	55	1,739	32	2	1	1,760
4 Electricity, gas, steam and air conditioning supply	15	409	9	–	–	415
5 Water supply	–	19	–	–	–	19
6 Construction	42	753	14	2	3	779
7 Wholesale and retail trade	60	1,232	34	1	16	1,257
8 Transport and storage	8	307	4	–	1	311
9 Accommodation and food service activities	11	344	5	–	1	350
10 Information and communication	6	778	4	–	–	780
11 Finance and Insurance	35	12,397	12	1	–	12,419
12 Real estate activities	42	6,268	18	2	2	6,290
13 Professional, scientific and technical activities	10	567	6	–	–	571
14 Administrative and support service activities	26	1,070	13	–	7	1,083
15 Public administration and defence, compulsory social security	400	4,933	129	–	–	5,204
16 Education	1	27	–	–	–	28
17 Human health services and social work activities	4	392	1	–	–	395
18 Arts, entertainment and recreation	2	160	1	–	–	161
19 Other services	11	332	5	–	–	338
20 Private Households	336	19,362	155	9	67	19,534
21 Others	–	349	–	–	–	349
22 Total	**1,117**	**51,974**	**461**	**17**	**109**	**52,613**

Art. 442 point (h) CRR – EU CR1-C

Table 25: Credit quality of exposures by geography

31.12.2017 in € million	Gross carrying value of		Specific credit risk adjustment	Accu-mulated write-offs	Credit risk adjust-ment charges	Net values
	Defaulted exposures	Non–defaulted exposures				
1 EU	1,098	47,882	453	17	103	48,510
2 of which: Austria	779	28,731	317	15	69	29,178
3 of which: Germany	217	8,878	112	1	15	8,982
4 of which: Great Britain	96	3,596	19	2	14	3,671
5 of which: France	–	1,991	4	–	4	1,987
6 of which: Spain	–	1,006	–	–	–	1,006
7 Rest Europe	2	707	1	–	–	708
8 North America	16	3,006	7	–	6	3,015
9 Asia	1	256	–	–	–	257
10 Others	–	123	–	–	–	123
Total	**1,117**	**51,974**	**461**	**17**	**109**	**52,613**

PAST–DUE, NON–PERFORMING AND FORBORNE EXPOSURES

Art. 442 point (g), (i) CRR – EU CR1-D

Table 26: Ageing of past due exposures

31.12.2017 in € million	Gross carrying amount					
	<=30 days	> 30 days <= 60 days	> 60 days <= 90 days	> 90 days <= 180 days	> 180 days <= 1 year	> 1 year
1 Loans	279	89	53	49	20	69
3 Total exposures	**279**	**89**	**53**	**49**	**20**	**69**

Art. 442 (g), (i) CRR – EU CR1-E

Table 27: Non–performing and forborne exposures (1/2)

31.12.2017 in € million	Gross carrying amount of performing and non–performing exposures						
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non–performing			
					Of which defaulted	Of which impaired	Of which forborne
1 Debt securities	6,888	–	–	–	–	–	–
2 Loans and advances	36,242	77	45	1,102	1,102	687	258
3 Off-balance-sheet exposures	9,483	–	–	15	15	–	–

Table 27: Non–performing and forborne exposures (2/2)

31.12.2017 in € million	Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	On performing exposures		On non–performing exposures		On non–performing exposures	Of which forborne exposures
		Of which forborne		Of which forborne		
1 Debt securities	1	–	–	–	–	–
2 Loans and advances	(41)	–	(216)	(57)	220	4
3 Off-balance-sheet exposures	11	–	8	–	5	–

Art. 442 (i) CRR – EU CR2-B

Table 28: Changes in the stock of defaulted and impaired loans and debt securities

31.12.2017 in € million	Gross carrying value defaulted exposures
1 Opening balance	**712**
2 Loans and debt securities that have defaulted or impaired since the last reporting period	284
3 Return to non–defaulted status	(43)
4 Amounts written off	(17)
5 Other changes	164
6 Closing balance	**1,100**

Art. 442 (i) and last sentence CRR – EU CR2-A

Table 29: Changes in the stock of general and specific credit risk adjustments

31.12.2017 in € million	Accumulated specific credit risk adjustment
1 Opening balance	**204**
2 Increases due to amounts set aside for estimated loan losses during the period	105
3 Decreases due to amounts reversed for estimated loan losses during the period	(40)
4 Decreases due to amounts taken against accumulated credit risk adjustments	(18)
5 Transfers between credit risk adjustments	–
6 Impact of exchange rate differences	–
7 Business combinations, including acquisitions and disposals of subsidiaries	–
8 Other adjustments	10
9 Closing balance	**261**
10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	3
11 Specific credit risk adjustments directly recorded to the statement of profit or loss	(13)

ASSET ENCUMBRANCE

Art. 443 CRR

Table 30: Assets

31.12.2017 in € 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	**7,658**		**32,864**	
Of which: equity instruments	–	–	2	1,303
Of which: debt securities	398	412	7,564	5,295
Of which: other assets	–	–	2,351	–

Table 31: Collateral received

31.12.2017 in € 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	**–**	**2,489**
Of which: equity instruments	–	–
Of which: debt securities	–	–
Of which: other collateral received	–	2,489
Own debt securities issued other than own covered bonds or ABSs	**–**	**71**

Table 32: Encumbered assets/collateral received and associated liabilities

31.12.2017 in € 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	**5,558**	**7,542**

The funding strategy of BAWAG Group is focused 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. ECB TLTRO). 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

03/2017	7.445.341.165 EUR
06/2017	7.141.117.535 EUR
09/2017	7.869.756.884 EUR
12/2017	8.596.827.519 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"). BAWAG Group has committed to ensure an over–collateralization of 3% for the public pool and 7% for the mortgage pool in order to meet the requirements for an "Aaa" rating 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 – EU CR5

Table 33: Standardised approach (1/2)

31.12.2017 in € million	Risk weight						
Exposure class	0%	10%	20%	35%	50%	70%	75%
1 Central governments or central banks	4,524	–	61	–	–	–	–
2 Regional governments or local authorities	3,477	–	12	–	–	–	–
3 Public sector entities	–	–	550	–	–	–	–
4 Multilateral development banks	26	–	5	–	–	–	–
5 International organizations	84	–	–	–	–	–	–
6 Institutions	–	–	1,427	–	1,733	–	–
7 Corporates	8	–	59	–	84	–	–
8 Retail	–	–	–	–	–	1	1,782
9 Secured by mortgages on immovable property	–	–	–	4,609	690	2	157
10 Exposures in default	–	–	–	–	–	1	–
11 Higher–risk categories	–	–	–	–	–	–	–
12 Covered bonds	–	2,155	88	–	–	–	–
13 Institutions and corporates with a short–term credit assessment	–	–	–	–	–	–	–
14 Collective investment undertakings	265	–	–	–	–	–	–
15 Equity	–	–	–	–	–	–	–
16 Other items	163	–	–	–	–	–	–
17 Total	**8,547**	**2,155**	**2,202**	**4,609**	**2,507**	**4**	**1,939**

Table 33: Standardised approach (2/2)

31.12.2017 in € million	Risk weight				Total	Of which unrated
Exposure class	100%	150%	250%	Others		
1 Central governments or central banks	4	–	81	–	4,670	4,581
2 Regional governments or local authorities	–	–	–	–	3,489	1,189
3 Public sector entities	–	–	–	–	550	518
4 Multilateral development banks	–	–	–	–	31	26
5 International organizations	–	–	–	–	84	84
6 Institutions	67	–	–	–	3,227	386
7 Corporates	4,001	9	–	–	4,161	3,566
8 Retail	–	–	–	–	1,783	1,783
9 Secured by mortgages on immovable property	339	–	–	–	5,797	5,797
10 Exposures in default	402	55	–	–	458	458
11 Higher–risk categories	–	30	–	–	30	30
12 Covered bonds	–	–	–	–	2,243	190
13 Institutions and corporates with a short–term credit assessment	–	–	–	–	–	–
14 Collective investment undertakings	–	–	–	1,105	1,370	1,370
15 Equity	256	–	56	–	312	312
16 Other items	179	–	–	–	342	342
17 Total	**5,248**	**94**	**137**	**1,105**	**28,547**	**20,632**

Art. 444 point (e) CRR – EU CCR3

Table 34: Standardised approach – CCR exposures by regulatory portfolio and risk

31.12.2017 in € million	Risk weight						Total	Of which unrated
Exposure class	0%	4%	20%	50%	75%	100%		
1 Central governments or central banks	–	–	–	–	–	–	–	–
2 Regional governments or local authorities	46	–	–	–	–	–	46	0
3 Public sector entities	–	–	8	–	–	–	8	8
4 Multilateral development banks	–	–	–	–	–	–	–	–
5 International organizations	–	–	–	–	–	–	–	–
6 Institutions	–	132	105	222	–	–	459	165
7 Corporates	–	–	–	–	–	6	6	6
8 Retail	–	–	–	–	15	–	15	15
9 Institutions and corporates with a short–term credit assessment	–	–	–	–	–	–	–	–
10 Other items	–	–	–	–	–	–	–	–
11 Total	**46**	**132**	**113**	**222**	**15**	**6**	**534**	**194**

OWN FUNDS REQUIREMENTS FOR MARKET RISK UNDER THE STANDARDISED APPROACH

Art. 445 CRR

Table 35: Market risk under the standardised approach

31.12.2017 in € million	RWAs	Capital requirements
Outright products		
1 Interest rate (general and specific)	52	4
2 Equity risk (general and specific)	–	–
3 Foreign exchange risk	–	–
4 Commodity risk	–	–
Options		
5 Simplified approach	–	–
6 Delta-plus method	–	–
7 Scenario approach	–	–
8 Securitisation (specific risk)	–	–
Total	**52**	**4**

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 BAWAG Group: These are majority and minority interests intended to be held over the long term within the financial services sector.

Participations performing auxiliary services for BAWAG Group: e.g. payment transactions or IT–services.

Other participations: These primarily include participations in private equity financing, credit guarantees and real estate as well as legally mandatory participations in the deposit guarantee scheme.

Table 36: Equity exposures by objective

31.12.2017 in € million	Book value
Core business	79
Auxiliaries	1
Other participations	71
Total of not fully consolidated companies	**150**

Table 37: Shares in non–consolidated companies

31.12.2017 in € million	Book value [1)]
Shares categorized as "Available for sale"	**135**
Shares in credit institutions	*19*
Subsidiaries	–
Associates	0
Other shares	18
Shares in other companies	*116*
Subsidiaries	55
Associates	34
Other shares	27
Shares accounted for using the equity method	**16**
Associates	16
Total shares in not fully consolidated companies	**150**

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

Table 38: Breakdown of securities

31.12.2017 in € million	Not listed	Listed			Total
		Total	Loans and receivables	Other valuation	
Bonds and other fixed–income securities	1,247	4,389	520	3,869	5,636
Shares and variable–income securities	299	2	–	2	301
Shares in associates and other shares	79	–	–	–	79
Shares in non–consolidated subsidiaries	55	–	–	–	55
Total securities	**1,680**	**4,391**	**520**	**3,871**	**6,071**

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 BAWAG Group amounts to EUR 4.5 million. (2016: EUR 11,0 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 16.6 million.

INTEREST RATE RISK FROM NON TRADING BOOK POSITIONS

Art. 448 point (b) CRR

Table 39: Exposure to interest rate risk on positions not included in the trading book (PvBP per currency)

31.12.2017 in € thousand	<1Y	1Y(3)Y	3Y(5)Y	5Y(7)Y	7Y(10)Y	>10Y	Total
EUR	(366)	(315)	–	(82)	156	(233)	**(839)**
USD	19	28	10	1	9	(1)	**66**
CHF	(11)	(6)	(4)	23	(12)	(22)	**(31)**
GBP	25	15	(11)	(10)	2	(2)	**19**
Other currencies	(5)	(7)	(5)	(1)	(1)	–	**(18)**
Total	**(337)**	**(284)**	**(10)**	**(68)**	**154**	**(259)**	**(804)**

BAWAG 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.

SECURITIZATION

Art. 449 point (o) I, Art. 449 point (n) v CRR

Table 40: Exposures and capital requirements for securitization

31.12.2017 in € million	Risk weight	Exposure value	Capital requirement
Securitization	Traditional securitisation in IRB – rating based approach		
	7%	641	4
	12%	5	–
	15%	102	1
Total		**748**	**5**
Securitization	Traditional securitisation in IRB – Supervisory formula method		
	7%	41	–
Total		**41**	**–**

REMUNERATION POLICY AND PRACTICES

REMUNERATION BROKEN DOWN BY BUSINESS AREA

Art. 450 (1) point (g)

The following summary of quantitative information regarding remuneration in financial year 2017 shows a breakdown by business segments and refers to employees whose activities have a material influence on the Bank's risk profile.

Variable remuneration for the year 2017 consists of bonus or Long Term Incentive Program (LTIP). Amounts stated as variable remuneration just reflect bonus amounts for 2017. Deferred parts of the bonus for 2017 are granted in shares of BAWAG Group AG. LTIP participants (table 51) did not receive any other bonus for the year 2017.

Table 41: Remuneration by business area

31.12.2017	Supervisory Board	Manage–ment Board	Investment banking	Retail banking	Corporate functions	Independent controlling functions	Others
Number of beneficiaries	6	6					
Full–time equivalents (FTE)		6	93.7	1,572.7	565.0	217.5	658.1
Number of identified full–time equivalents (FTE)			7	26	19	23	19
Number of full–time equivalents in Senior Management Position			1	9	11	7	5
Net profit for the financial year 2017	467						
Total pay in the financial year 2017 (in EUR)	451,670	20,899,570	1,703,955	8,048,429	6,550,581	3,215,741	6,197,128
Of which variable component in the financial year 2017	–	–	350,000	1,619,900	724,000	257,700	976,750

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

Art. 450 (1) point (h) (i–vi) CRR

The following summary of quantitative information regarding remuneration in financial year 2017 shows a breakdown by top management and employees whose activities have a material influence on the Bank's risk profile.

Table 42: Remuneration

31.12.2017 in €	Fixed remuneration	Variable remuneration	Total	Number of beneficiaries
Higher level management	13,233,356	879,900	**14,113,256**	33
Employees whose activities have a material influence on the bank's risk profile	8,554,028	3,048,450	**11,602,478**	61
Total	**21,787,385**	**3,928,350**	**25,715,735**	**94**

Table 43: Variable remuneration

31.12.2017 in €	Cash	Deferred cash[1)]	Total
Higher level management	839,547	40,353	879,900
Employees whose activities have a material influence on the bank's risk profile	874,850	2,173,600	3,048,450
Total	**1,714,397**	**2,213,953**	**3,928,350**

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

Table 44: Deferred remuneration

31.12.2017 in €	Earned portions	Portions not yet earned including prior years
Higher level management	1,740,351	5,087,326
Employees whose activities have a material influence on the bank's risk profile	689,137	4,122,091
Total	**2,429,488**	**9,209,416**

Table 45: Deferred remuneration awarded during financial year 2017

31.12.2017 in €	Granted	Paid out	Reduced due to performance adjustments
Higher level management	40,353	1,018,811	–
Employees whose activities have a material influence on the bank's risk profile	2,173,600	427,737	–
Total	**2,213,953**	**1,446,548**	**–**

In financial year 2017 no payments were made for hiring bonuses and severance payments. For data privacy reasons and pursuant to Art. 241, (4) UGB, information is not being disclosed if fewer than three people are concerned.

PAY BANDS

Art. 450 (1) point (i)

Table 46: Pay bands

31.12.2017 **in €**	Number of beneficiaries
1,000,000 to 1,500,000	1
1,500,000 to 2,000,000	2
2,000,000 to 2,500,000	–
2,500,000 to 3,000,000	–
3,000,000 to 3,500,000	1
3,500,000 to 4,000,000	1
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	–
7,000,000 to 8,000,000	–
8,000,000 to 9,000,000	–
9,000,000 to 10,000,000	–

REMUNERATION FOR MANAGING DIRECTORS

Art. 450 (2) CRR

Table 47: Remuneration

31.12.2017 in €	Fixed remuneration	Variable remuneration	Total remuneration	Number of beneficiaries
Managing director	21,351,240	–	21,351,240	12

Table 48: Deferred remuneration

31.12.2017 in €	Earned portions	Portions not yet earned including prior years
Managing director	2,057,260	7,290,400

Table 49: Deferred remuneration awarded during financial year 2017

31.12.2017 in €	Granted	Paid out
Managing director	–	898,560

In financial year 2017 no payments were made for hiring bonuses and severance payments. For data privacy reasons and pursuant to Article 241, (4) UGB, information is not being disclosed if fewer than three people are concerned.

LONG TERM INCENTIVE PROGRAM

BAWAG Group established a long–term incentive program (LTIP) for members of the key senior leaders as well as certain experts. The LTIP is intended to closely align the interests of the participants with those of the shareholders. This shall be achieved by granting ordinary shares of BAWAG Group AG to the participants based on the fulfillment of certain conditions. The actual bonus shares will be granted in early 2018 by BAWAG Group, based on an assessment of the individual's performance in 2017 (and earlier years). LTIP participants did not receive any other bonus for 2017.

Vesting of 75% of the shares of each participant depends on a performance target based on average pre–tax EPS for 2018–2020, which will be evaluated in early 2021. Based on the achieved average pre–tax EPS of BAWAG Group, between 0% and 100% of those shares will be attributed (“part 1”). For part 1, vesting only depends on the achieved pre–tax EPS with no additional service condition.

For 25% of the shares of each participant, there is a service condition (“part 2”): Those shares only vest in two equal instalments if the participant keeps working for the Group until March 2022 resp. 2023. This part is lost if the participant terminates the employment himself or is dismissed. If the participant is a "good leaver" based on Austrian labor law, a pro rata allocation shall take place.

After the regulatory required deferral period (including limitations to dividend payments), a retention period of one year is foreseen. For members of the Managing Board, the retention period for 50% of the shares will be set until the end of the mandate.

After fulfillment of the vesting conditions, the LTIP participants are entitled to the shares in BAWAG Group without providing any consideration in cash for the acquisition of the shares.

The following table shows an overview of the shares awarded in January 2018 per group of beneficiaries:

Table 50: Long Term Incentive Program – LTIP

31.12.2017

Group of beneficiaries	Number of shares awarded in Part 1 of the LTIP program	Number of shares awarded in Part 2 of the LTIP program	Maximum number of shares to be actually allocated	Minimum number of shares to be actually allocated	Number of shares actually allocated on the grant date
Management Board	660,821	220,273	881,094	–	–
Higher level management and experts	433,786	144,596	578,382	–	–
Total	**1,094,607**	**364,869**	**1,459,476**	**–**	**–**

LEVERAGE RATIO

Art. 451 (1)

Table 51: Summary reconciliation of accounting assets and leverage ratio exposures

31.12.2017 in € million	Applicable Amounts incl. transitional rules acc. to CRR
Total assets as per published financial statements	46,071
Adjustment for entities which are consolidated for accounting purposes but are otuside the scope of regulatory consolidation	8
Adjustments for derivative financial instruments	(390)
Adjustments for securities financing transactions	–
Adjustment for off–balance sheet items (ie conversion to credit equivalent amounts of off–balance sheet exposures)	1,545
Other adjustments	(602)
Leverage ratio exposure	**46,632**

Table 52: Leverage ratio

31.12.2017 in € million	Applicable Amounts incl. transitional rules acc. to CRR
On–balance sheet items (excluding derivatives and SFTs, but including collateral)	45,107
Asset amounts deducted in determining Tier 1 capital	(581)
Total on–balance sheet exposures (excluding derivatives and SFTs)	**44,526**
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	128
Add–on amounts for PFE associated with all derivatives transactions (mark–to–market method)	454
Deductions of receivables assets for cash variation margin provided in derivatives transactions	(21)
Total derivative exposures	**561**
Total securities financing transaction exposures	**–**
Off–balance sheet exposures at gross notional amount	9,571
Adjustments for conversion to credit equivalent amounts	8,026
Total off–balance sheet exposures	**1,545**
Tier 1 capital	**2,906**
Total leverage ratio exposures	**46,632**
Leverage Ratio	**6.23%**

Table 53: Split–up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

31.12.2017 in € million	Applicable Amounts incl. transitional rules acc. to CRR
Total on–balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**45,107**
Trading book exposures	–
Banking book exposures, of which:	45,107
Covered bonds	2,243
Exposures treated as sovereigns	6,864
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,188
Institutions	3,494
Secured by mortgages of immovable properties	11,935
Retail exposures	4,540
Corporate	10,140
Exposures in default	648
Other exposures (eg equity, securitisations, and other non–credit obligation assets)	4,055

QUANTITATIVE DISCLOSURE USING THE INTERNAL RATINGS BASED APPROACH

EXPOSURES TO CORPORATES

Art. 452 points (d)–(g) CRR – EU CR6

Table 54: Exposures to small and medium–sized enterprises and corporates (1/2)

31.12.2017 in € million	PD scale	Original on–balance sheet gross exposures	Off–balance sheet exposures pre–CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors
Small and medium–sized enterprises	0.00 to <0.15	343	13	60.7%	209	0.1%	132
	0.15 to <0.25	44	3	51.2%	40	0.2%	29
	0.25 to <0.50	50	6	52.3%	53	0.4%	50
	0.50 to <0.75	31	7	32.5%	31	0.6%	36
	0.75 to <2.50	91	35	47.9%	105	1.8%	207
	2.50 to <10.00	74	11	46.7%	75	6.0%	178
	10.00 to <100.00	56	7	55.4%	59	22.3%	250
	100.00 (Default)	12	–	44.7%	12	100.0%	37
	Subtotal	**700**	**82**	**49.4%**	**583**	**5.6%**	**919**
Corporates	0.00 to <0.15	1,313	167	6.9%	992	0.1%	179
	0.15 to <0.25	305	32	52.7%	306	0.2%	46
	0.25 to <0.50	523	94	35.4%	554	0.4%	71
	0.50 to <0.75	619	40	45.7%	636	0.7%	113
	0.75 to <2.50	492	121	34.5%	521	1.3%	342
	2.50 to <10.00	181	6	48.9%	179	5.8%	69
	10.00 to <100.00	6	2	5.4%	4	28.7%	183
	100.00 (Default)	99	1	49.8%	84	100.0%	35
	Subtotal	**3,538**	**464**	**27.0%**	**3,277**	**3.4%**	**1,038**
Total (Corporates)		**4,238**	**547**	**30.4%**	**3,861**	**3.7%**	**1,957**

Table 54: Exposures to small and medium–sized enterprises and corporates (2/2)

31.12.2017 in € million	PD scale	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Small and medium–sized enterprises	0.00 to <0.15	37.3%	2.5	44	21.1%	–	–
	0.15 to <0.25	37.9%	2.5	15	37.5%	–	–
	0.25 to <0.50	38.7%	2.5	25	47.8%	–	–
	0.50 to <0.75	39.0%	2.5	18	57.8%	–	–
	0.75 to <2.50	38.1%	2.5	80	76.0%	1	–
	2.50 to <10.00	37.6%	2.5	76	101.5%	2	–
	10.00 to <100.00	37.2%	2.5	84	142.9%	5	–
	100.00 (Default)	40.0%	2.5	–	0.0%	5	4
	Subtotal	**37.9%**	**2.5**	**343**	**58.7%**	**12**	**4**
Corporates	0.00 to <0.15	39.9%	2.5	270	27.2%	–	–
	0.15 to <0.25	40.0%	2.5	141	46.1%	–	–
	0.25 to <0.50	42.2%	2.5	356	64.2%	1	–
	0.50 to <0.75	44.6%	2.5	535	84.1%	2	–
	0.75 to <2.50	44.6%	2.5	549	105.4%	3	–
	2.50 to <10.00	44.6%	2.5	295	164.7%	5	–
	10.00 to <100.00	44.9%	2.5	9	263.2%	–	–
	100.00 (Default)	44.5%	2.5	–	0.0%	44	36
	Subtotal	**42.3%**	**2.5**	**2,155**	**65.8%**	**56**	**36**
Total (Corporates)		**41.6%**	**2.5**	**2,498**	**64.7%**	**69**	**40**

RETAIL EXPOSURES

Table 55: Exposures secured by real estate, qualifying revolving and other retail (1/2)

31.12.2017 in € million	PD scale	Original on–balance sheet gross exposures	Off–balance sheet exposures pre–CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors
Exposures secured by real estate	0.00 to <0.15	1,226	13	49.9%	1,233	0.1%	8,975
	0.15 to <0.25	456	6	50.0%	459	0.2%	3,232
	0.25 to <0.50	799	18	50.0%	808	0.4%	6,076
	0.50 to <0.75	467	12	49.7%	473	0.6%	3,578
	0.75 to <2.50	1,381	32	49.8%	1,397	1.6%	10,379
	2.50 to <10.00	458	4	49.2%	460	5.9%	3,094
	10.00 to <100.00	302	1	49.9%	302	20.7%	1,684
	100.00 (Default)	61	–	50.0%	61	100.0%	526
	Subtotal	**5,149**	**88**	**49.8%**	**5,193**	**3.5%**	**37,544**
Qualified revolving retail exposures	0.00 to <0.15	53	575	54.5%	366	0.1%	232,960
	0.15 to <0.25	8	77	39.4%	39	0.2%	30,711
	0.25 to <0.50	8	97	29.8%	37	0.4%	36,485
	0.50 to <0.75	7	63	29.9%	25	0.6%	24,315
	0.75 to <2.50	16	92	34.0%	49	1.5%	37,818
	2.50 to <10.00	2	9	30.2%	5	5.3%	3,738
	10.00 to <100.00	2	25	46.8%	14	34.1%	8,822
	100.00 (Default)	–	–	35.7%	–	100.0%	158
	Subtotal	**96**	**939**	**46.6%**	**536**	**1.3%**	**375,007**
Other retail exposures	0.00 to <0.15	304	917	25.5%	537	0.1%	252,227
	0.15 to <0.25	177	185	35.8%	243	0.2%	62,994
	0.25 to <0.50	236	440	34.1%	386	0.4%	131,717
	0.50 to <0.75	279	257	36.6%	373	0.6%	82,294
	0.75 to <2.50	1,057	377	41.5%	1,217	1.6%	171,147
	2.50 to <10.00	392	60	26.4%	411	5.8%	38,735
	10.00 to <100.00	186	22	22.6%	199	23.3%	62,170
	100.00 (Default)	179	1	49.9%	179	100.0%	20,646
	Subtotal	**2,808**	**2,260**	**32.0%**	**3,547**	**7.8%**	**821,930**
Total (Retail)		**8,054**	**3,287**	**36.6%**	**9,275**	**4.99%**	**1,234,481**

Table 55: Exposures secured by real estate, qualifying revolving and other retail (2/2)

31.12.2017 in € million	PD scale	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjustments and provisions
Exposures secured by real estate	0.00 to <0.15	9.9%	2.5	31	2.5%	–	–
	0.15 to <0.25	10.9%	2.5	23	5.1%	–	–
	0.25 to <0.50	10.6%	2.5	61	7.6%	–	–
	0.50 to <0.75	11.3%	2.5	52	11.0%	–	–
	0.75 to <2.50	11.1%	2.5	266	19.1%	2	–
	2.50 to <10.00	10.3%	2.5	172	37.5%	3	–
	10.00 to <100.00	9.6%	2.5	156	51.6%	6	11
	100.00 (Default)	16.9%	2.5	–	0.0%	10	7
	Subtotal	**10.7%**	**2.5**	**762**	**14.7%**	**22**	**18**
Qualified revolving retail exposures	0.00 to <0.15	45.9%	2.5	10	2.8%	–	–
	0.15 to <0.25	58.9%	2.5	3	7.4%	–	–
	0.25 to <0.50	61.3%	2.5	5	12.3%	–	–
	0.50 to <0.75	60.9%	2.5	4	17.4%	–	–
	0.75 to <2.50	59.6%	2.5	17	33.8%	–	–
	2.50 to <10.00	61.6%	2.5	4	81.8%	–	–
	10.00 to <100.00	42.4%	2.5	19	134.4%	2	–
	100.00 (Default)	73.4%	2.5	–	0.0%	–	–
	Subtotal	**49.9%**	**2.5**	**62**	**11.6%**	**3**	**–**
Other retail exposures	0.00 to <0.15	48.7%	2.5	68	12.7%	–	–
	0.15 to <0.25	42.8%	2.5	49	20.1%	–	–
	0.25 to <0.50	47.1%	2.5	123	31.9%	1	–
	0.50 to <0.75	42.4%	2.5	137	36.7%	1	–
	0.75 to <2.50	40.1%	2.5	606	49.8%	8	–
	2.50 to <10.00	35.9%	2.5	227	55.2%	8	–
	10.00 to <100.00	36.2%	2.5	163	82.0%	17	–
	100.00 (Default)	44.9%	2.5	–	0.0%	81	128
	Subtotal	**42.1%**	**2.5**	**1,374**	**38.7%**	**116**	**128**
Total (Retail)		**25.0%**	**2.5**	**2,197**	**23.7%**	**142**	**146**

CCR EXPOSURES

Art. 452 (e) CRR – EU CCR4

Table 56: IRB approach – CCR exposures by portfolio and PD scale

31.12.2017 in € million	PD scale	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Small and medium–sized enterprises	0.00 to <0.15	4	0.1%	3	45.0%	2.5	1	31.7%
	0.15 to <0.25	1	0.2%	4	45.0%	2.5	–	45.5%
	0.25 to <0.50	–	–	–	–	–	–	–
	0.50 to <0.75	–	–	–	–	–	–	–
	0.75 to <2.50	–	–	–	–	–	–	–
	2.50 to <10.00	–	–	–	–	–	–	–
	10.00 to <100.00	–	–	–	–	–	–	–
	100.00 (Default)	1	100.0%	1	45.0%	2.5	–	0.0%
	Subtotal	**6**	**11.5%**	**18**	**45.0%**	**2.5**	**2**	**34.5%**
Corporates	0.00 to <0.15	–	–	–	–	–	–	–
	0.15 to <0.25	–	–	–	–	–	–	–
	0.25 to <0.50	1	0.4%	2	45.0%	2.5	1	69.4%
	0.50 to <0.75	3	0.7%	4	45.0%	2.5	2	84.7%
	0.75 to <2.50	3	1.3%	4	45.0%	2.5	4	104.7%
	2.50 to <10.00	–	–	–	–	–	–	–
	10.00 to <100.00	–	–	–	–	–	–	–
	100.00 (Default)	–	–	–	–	–	–	–
	Subtotal	**8**	**1.1%**	**14**	**45.0%**	**2.5**	**7**	**93.1%**
Total (Corporates)		**14**	**5.6%**	**32**	**45.0%**	**2.5**	**9**	**64.3%**

IRB BACKTESTING

Art. 452 (i) CRR – EU CR9

Table 57: IRB approach - Backtesting of PD per exposure class (1/4)

31.12.2017 in € million	PD scale	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors	
					End of previous year	End of the year
Small and medium–sized enterprises	0.00 to <0.15	Aaa – A3	0.1%	0.1%	145	132
	0.15 to <0.25	Baa1	0.2%	0.2%	35	29
	0.25 to <0.50	Baa2	0.4%	0.4%	48	50
	0.50 to <0.75	Baa3	0.6%	0.7%	49	36
	0.75 to <2.50	Ba1 – Ba3	1.8%	1.9%	243	207
	2.50 to <10.00	B1 – B3	6.0%	6.0%	194	178
	10.00 to <100.00	Caa1 – Caa3	22.3%	26.2%	276	250
	100.00 (Default)	Ca, C	100.0%	100.0%	35	37
	Subtotal		**4.4%**	**12.8%**	**1,025**	**919**
Corporates	0.00 to <0.15	Aaa – A3	0.1%	0.1%	169	179
	0.15 to <0.25	Baa1	0.2%	0.2%	59	46
	0.25 to <0.50	Baa2	0.4%	0.4%	97	71
	0.50 to <0.75	Baa3	0.7%	0.7%	121	113
	0.75 to <2.50	Ba1 – Ba3	1.3%	1.6%	343	342
	2.50 to <10.00	B1 – B3	5.8%	5.2%	86	69
	10.00 to <100.00	Caa1 – Caa3	28.7%	29.3%	227	183
	100.00 (Default)	Ca, C	100.0%	100.0%	44	35
	Subtotal		**3.2%**	**9.5%**	**1,146**	**1,038**
Total (Corporates)			**3.3%**	**11.1%**	**2,171**	**1,957**

Table 57: IRB approach – Backtesting of PD per exposure class (2/4)

31.12.2017 in € million	PD scale	Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
Small and medium–sized enterprises	0.00 to <0.15	–	–	1.3%
	0.15 to <0.25	–	–	2.4%
	0.25 to <0.50	–	–	0.0%
	0.50 to <0.75	–	–	0.0%
	0.75 to <2.50	–	–	1.0%
	2.50 to <10.00	–	–	1.9%
	10.00 to <100.00	3	1	3.3%
	100.00 (Default)	15	12	2.4%
	Subtotal	**18**	**13**	**4.1%**
Corporates	0.00 to <0.15	–	–	0.6%
	0.15 to <0.25	–	–	1.5%
	0.25 to <0.50	–	–	1.6%
	0.50 to <0.75	–	–	1.3%
	0.75 to <2.50	–	–	1.1%
	2.50 to <10.00	3	–	3.1%
	10.00 to <100.00	–	–	5.2%
	100.00 (Default)	2	1	1.1%
	Subtotal	**5**	**1**	**2.2%**
Total (Corporates)		**23**	**14**	**3.1%**

Table 57: IRB approach – Backtesting of PD per exposure class (3/4)

31.12.2017 in € million	PD scale	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors	
					End of previous year	End of the year
Exposures secured by real estate	0.00 to <0.15	Aaa – A3	0.1%	0.1%	5,490	8,975
	0.15 to <0.25	Baa1	0.2%	0.2%	3,850	3,232
	0.25 to <0.50	Baa2	0.4%	0.4%	11,070	6,076
	0.50 to <0.75	Baa3	0.6%	0.6%	4,015	3,578
	0.75 to <2.50	Ba1, Ba2	1.6%	1.6%	8,964	10,379
	2.50 to <10.00	Ba3, B1 – B3	5.9%	5.8%	2,032	3,094
	10.00 to <100.00	Caa1 – Caa3	20.8%	22.1%	1,217	1,684
	100.00 (Default)	Ca, C	100.0%	100.0%	576	526
	Subtotal		**3.5%**	**3.5%**	**37,214**	**37,544**
Qualified revolving retail exposures	0.00 to <0.15	Aaa – A3	0.1%	0.1%	205,321	232,960
	0.15 to <0.25	Baa1	0.2%	0.2%	61,020	30,711
	0.25 to <0.50	Baa2	0.4%	0.4%	36,405	36,485
	0.50 to <0.75	Baa3	0.6%	0.6%	20,350	24,315
	0.75 to <2.50	Ba1, Ba2	1.5%	1.5%	24,625	37,818
	2.50 to <10.00	Ba3, B1 – B3	5.3%	5.3%	4,055	3,738
	10.00 to <100.00	Caa1 – Caa3	34.1%	34.0%	11,743	8,822
	100.00 (Default)	Ca, C	100.0%	100.0%	155	158
	Subtotal		**1.3%**	**1.2%**	**363,674**	**375,007**
Other retail exposures	0.00 to <0.15	Aaa – A3	0.1%	0.1%	241,538	252,227
	0.15 to <0.25	Baa1	0.2%	0.2%	163,822	62,994
	0.25 to <0.50	Baa2	0.4%	0.4%	126,213	131,717
	0.50 to <0.75	Baa3	0.6%	0.6%	42,742	82,294
	0.75 to <2.50	Ba1, Ba2	1.7%	1.6%	124,396	171,147
	2.50 to <10.00	Ba3, B1 – B3	5.8%	5.7%	32,557	38,735
	10.00 to <100.00	Caa1 – Caa3	23.3%	27.5%	62,700	62,170
	100.00 (Default)	Ca, C	100.0%	100.0%	15,881	20,646
	Subtotal		**5.6%**	**5.4%**	**809,849**	**821,930**
Total (Retail)			**4.0%**	**4.0%**	**1,210,737**	**1,234,481**

Table 57: IRB approach – Backtesting of PD per exposure class (4/4)

31.12.2017 in € million	PD scale	Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
Exposures secured by real estate	0.00 to <0.15	–	–	0.1%
	0.15 to <0.25	–	–	0.1%
	0.25 to <0.50	3	2	0.2%
	0.50 to <0.75	–	–	0.2%
	0.75 to <2.50	8	6	0.4%
	2.50 to <10.00	2	2	1.0%
	10.00 to <100.00	50	27	5.2%
	100.00 (Default)	121	77	2.7%
	Subtotal	**184**	**114**	**1.0%**
Qualified revolving retail exposures	0.00 to <0.15	–	–	0.0%
	0.15 to <0.25	–	–	0.0%
	0.25 to <0.50	–	–	0.1%
	0.50 to <0.75	–	–	0.1%
	0.75 to <2.50	3	2	0.3%
	2.50 to <10.00	2	2	1.2%
	10.00 to <100.00	29	19	1.1%
	100.00 (Default)	50	34	1.5%
	Subtotal	**84**	**57**	**2.0%**
Other retail exposures	0.00 to <0.15	1	–	0.1%
	0.15 to <0.25	–	–	0.1%
	0.25 to <0.50	2	1	0.3%
	0.50 to <0.75	3	3	0.4%
	0.75 to <2.50	32	15	1.2%
	2.50 to <10.00	46	36	3.2%
	10.00 to <100.00	1,060	577	6.2%
	100.00 (Default)	7,450	3,673	1.5%
	Subtotal	**8,594**	**4,305**	**1.8%**
Total (Retail)		**8,862**	**4,476**	**1.8%**

RISK CATEGORIES ACCORDING TO GEOGRAPHICAL LOCATION OF THE EXPOSURE VALUE

Art. 452 point (j) CRR

Table 58: Risk categories according to geographical location of the exposure value

31.12.2017 in € million	Austria Position–weighted average LGD	Austria Position–weighted average PD
Exposures to corporates		**3%**
Exposures to SMEs		5%
Exposures to other corporates		3%
Retail exposures	**25%**	**4%**
Mortgage–secured retail exposure SME	7%	13%
Mortgage–secured retail exposure non–SME	11%	3%
Qualified revolving retail exposures	50%	1%
Retail exposures – other SMEs	28%	17%
Retail exposures – other Non-SMEs	43%	5%

CRM TECHNIQUES

Art. 453 (f), (g) CRR – EU CR3

Table 59: CRM techniques – overview

31.12.2017 in € million	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1 Total loans	36,623	14,941	13,482	1,983	–
2 Total debt securities					
3 Total exposures	**36,623**	**14,941**	**13,482**	**1,983**	**–**
4 Of which defaulted	492	147	133	–	–

Art. 453 (f), (g) CRR – EU CR4

Table 60: Standardised approach – credit risk exposure and CRM effects

	Exposure before CCF and CRM		Exposure post CCF and CRM		RWAs and RWA density	
31.12.2017 in € million	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Exposures to central governments or central banks	4,469	532	4,640	30	217	4.6%
Exposures to regional governments or local authorities	2,285	101	3,449	40	3	0.1%
Exposures to public-sector entities, administrative bodies and non-commercial undertakings	1,184	458	533	17	110	20.0%
Multilateral development banks	31	–	31	–	1	3.2%
International organisations	84	–	84	–	–	0.0%
Exposures to institutions	3,337	58	3,223	4	1,218	37.7%
Exposures to corporates	3,915	1,120	3,873	288	4,010	96.4%
Retail exposures	1,827	2,854	1,740	43	1,204	67.5%
Exposures secured by mortgages on immovable property	5,699	263	5,694	103	2,366	40.8%
Exposures in default	459	7	456	2	486	106.1%
Higher-risk categories	30	–	31	–	46	148.4%
Covered bonds	2,243	–	2,243	–	233	10.4%
Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–
Exposures in the form of units or shares in collective investment undertakings ("CIUs") – Look Through	1,367	3	1,368	1	1,537	112.3%
Equity exposures	312	–	312	–	396	126.9%
Other items	342	–	342	–	179	52.3%
Total	**27,584**	**5,396**	**28,019**	**528**	**12,006**	**52.3%**

ADEQUACY OF LIQUIDITY RISK MANAGEMENT

Art. 411 CRR

Table 61: LCR quantitative disclosure (1/2)

in € million	Total unweighted value			
Quarter ending on	31.03.2017	30.06.2017	30.09.2017	31.12.2017
Number of data points used in the calculation of averages	7	10	12	12
HIGH–QUALITY LIQUID ASSETS				
1 Total high–quality liquid assets (HQLA)				
CASH–OUTFLOWS				
2 Retail deposits and deposits from small business customers, of which:	19,395	19,431	19,361	19,511
3 Stable deposits	14,613	14,640	14,555	14,618
4 Less stable deposits	4,782	4,790	4,807	4,893
5 Unsecured wholesale funding	3,532	3,718	4,074	4,453
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	860	891	984	1,092
7 Non–operational deposits (all counterparties)	2,610	2,760	3,014	3,267
8 Unsecured debt	62	66	76	94
9 Secured wholesale funding				
10 Additional requirements	6,384	6,271	6,134	6,527
11 Outflows related to derivative exposures and other collateral requirements	445	421	401	368
12 Outflows related to loss of funding on debt products	–	–	–	–
13 Credit and liquidity facilities	5,940	5,849	5,733	6,159
14 Other contractual funding obligations	71	59	59	113
15 Other contingent funding obligations	8	8	8	7
16 TOTAL CASH OUTFLOWS				
CASH–INFLOWS				
17 Secured lending (eg reverse repos)	34	24	20	–
18 Inflows from fully performing exposures	1,212	1,322	1,324	1,402
19 Other cash inflows	296	297	304	325
EU(19)a (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non–convertible currencies)				
EU(19)b (Excess inflows from a related specialised credit institution)				
20 TOTAL CASH INFLOWS	**1,542**	**1,643**	**1,648**	**1,727**
EU(20)a Fully exempt inflows	–	–	–	–
EU(20)b Inflows Subject to 90% Cap	–	–	–	–
EU(20)c Inflows Subject to 75% Cap	1,542	1,643	1,648	1,727
21 LIQUIDITY BUFFER				
22 TOTAL NET CASH OUTFLOWS				
23 LIQUIDITY COVERAGE RATIO (%)				

Table 61: LCR quantitative disclosure (2/2)

in € million	Total weighted value			
Quarter ending on	31.03.2017	30.06.2017	30.09.2017	31.12.2017
Number of data points used in the calculation of averages	7	10	12	12
HIGH–QUALITY LIQUID ASSETS				
1 Total high–quality liquid assets (HQLA)	4,389	4,489	4,740	4,907
CASH–OUTFLOWS				
2 Retail deposits and deposits from small business customers, of which:	1,225	1,226	1,223	1,237
3 Stable deposits	731	732	728	731
4 Less stable deposits	494	494	495	506
5 Unsecured wholesale funding	1,550	1,648	1,790	1,963
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	211	219	242	269
7 Non–operational deposits (all counterparties)	1,277	1,364	1,472	1,601
8 Unsecured debt	62	66	76	94
9 Secured wholesale funding	56	39	33	33
10 Additional requirements	1,236	1,158	1,119	979
11 Outflows related to derivative exposures and other collateral requirements	445	421	401	368
12 Outflows related to loss of funding on debt products	–	–	–	–
13 Credit and liquidity facilities	791	736	718	612
14 Other contractual funding obligations	–	–	–	53
15 Other contingent funding obligations	8	8	8	7
16 TOTAL CASH OUTFLOWS	**4,074**	**4,079**	**4,172**	**4,272**
CASH–INFLOWS				
17 Secured lending (eg reverse repos)	34	24	20	–
18 Inflows from fully performing exposures	755	809	807	845
19 Other cash inflows	128	112	98	96
EU(19)a (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non–convertible currencies)	–	–	–	–
EU(19)b (Excess inflows from a related specialised credit institution)	–	–	–	–
20 TOTAL CASH INFLOWS	**917**	**945**	**925**	**941**
EU(20)a Fully exempt inflows	–	–	–	–
EU(20)b Inflows Subject to 90% Cap	–	–	–	–
EU(20)c Inflows Subject to 75% Cap	917	945	925	941
TOTAL ADJUSTED VALUE				
21 LIQUIDITY BUFFER	**4,389**	**4,489**	**4,740**	**4,907**
22 TOTAL NET CASH OUTFLOWS	**3,157**	**3,134**	**3,246**	**3,331**
23 LIQUIDITY COVERAGE RATIO (%)	**142%**	**145%**	**148%**	**148%**

QUANTITATIVE DISCLOSURES ACCORDING TO FMA CIRCULAR

QUANTITATIVE DISCLOSURE USING MACRO HEDGING

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

Table 62: Scenario analysis for assessing the ramifications of changes in the risk parameters

31.12.2017	(200)bp	(145)bp	(110)bp	(50)bp	(25)bp	25bp	50bp	110bp	145bp	200bp	Flatte–ning	Steepen–ing
EUR incl. other currencies	113%	113%	113%	113%	113%	113%	113%	113%	113%	113%	105%	115%
USD	117%	120%	120%	119%	119%	119%	119%	118%	118%	117%	115%	118%

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 2017 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.

QUANTITATIVE DISCLOSURE OF FOREIGN CURRENCY LOANS AND LOANS WITH REPAYMENT VEHICLES

FMA minimum standard in June 2017

BAWAG Group in accordance with FMA Minimum Standards for Risk management and Granting of Foreign currency Loans and Loans with repayment vehicles (FMA–FXTT–MS) dated June 2017 is disclosing the information on loans with repayment vehicles due to the funding gap for loans with repayment vehicles being over prescribed threshold of 20% as follows: Share of loans with repayment vehicles is 3.8% of total Portfolio. The share of non–performing loans is 3.2% of the repayment vehicles portfolio.

Table 63: Asset quality of loans with repayment vehicles

31.12.2017
in € million

Total	1,358
of which: NPL	44
LLP	14
of which: NPL LLP	14

Table 64: Loans with repayment vehicles by maturity

31.12.2017
in € million

Residual maturity	Loans with repayment vehicles	of which: Bullet loans
< 1 year	22	22
1 - 5 years	147	147
5 - 10 years	318	318
10 - 15 years	658	658
> 15 years	213	213
Total	**1,358**	**1,358**

Table 65: Funding gap of loans with repayment vehicles based on currencies

Funding gap based on portfolio booked in Austria	31.12.2017
Currency	GAP (%)
EUR	39.7%
CHF	29.6%
JPY	20.9%
Total	**30.5%**

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	11-13	74-75	45	
Risk management	Internal capital adequacy assessment process	14-16	136-137, 177-178	20	
	Capital allocation and limitation at total bank level	17	14, 177-178	20	
	Group-wide stresstests	17-18	177-178, 202-203	29	
	Group-wide risk management	18-22	50-51, 177	20, 32-33	
Credit risk	Objectives and principles	23-25	177	20-21	
	Couterparty default risk Treasury	26-28	79-80		
	Credit risk mitigation	26-27, 28-31	185-186	23-24	
	Value adjustments and reserves	31-32	185-186	23-24	
	Rating systems and rating processes	32-43	178-179	20	
Market risk	Objectives and principles	44-46	177, 200	27	
	Internal models for limitation of market risk	46-47	200-203	27	
	Interest rate risk from positions not held in the trading book	48-49	177, 200-203	27-28	
Operational risk / Non-Financial risk	Strategy and processes	50	51, 205-206	31	
	Structure and organization	50	205-206	31	
	Risk measurement systems	51-53	178, 205-206	31	
	Risk hedging and mitigation	54	205-206	31	
	Own fund requirements	54	205-206	31	
Other risks	Liquidity risk	55-59	203-205	28-30	
	Concentration risk	60-61	180-181, 191-198	20, 25	
	Risk of money laundering and terrorist financing	62-63	178		
	Residual risk from techniques of credit risk mitigation	64	178		
	Macroeconomic risks	65	178	4-5	
Additionals	Participation not held in the trading book	66-67	199-200	26, 56	
	Securitizations	68-69	82		
	Leverage Ratio	70	2-3, 7, 14, 24	5, 62	
	Remuneration policy disclosure	71-72	210-211	73-76	Corporate Governance Kodex BAWAG P.S.K.
	Company information		2-5, 7-14, 15-16	4-10	Pages Internet BAWAG P.S.K.
	Ratings BAWAG P.S.K.		10		Pages Internet BAWAG P.S.K.
	Funding		14, 28	8, 9	Pages Internet BAWAG P.S.K.
	Corporate Governance BAWAG P.S.K.		18-19		Pages Internet BAWAG P.S.K.

OWNER AND PUBLISHER

BAWAG Group AG
Wiesingerstraße 4, A-1010 Vienna, Austria
Companies Registry number: 269842b
EU VAT number: ATU72252867
Telephone: +43 (0)5 99 05 0
Internet: www.bawaggroup.com

Investor Relations:
investor.relations@bawaggroup.com

Media:
communications@bawaggroup.com

Typesetting:
In-house using firesys