CONSOLIDATED ANNUAL REPORT 2021

BAWAG Group

HIGHLIGHTS

2021 IN NUMBERS

€ 480 million
Net profit

16.1%
Return on tangible common equity

39.5%
Cost-income ratio

15.0%
CET1 ratio

€ 460 million
Dividend paid

€ 267 million
Dividend accrued for distribution in 2022

1.4%
NPL ratio

23 basis points
Risk-cost-ratio

CONTINUED EXECUTION OF OUR STRATEGY

1

GROWTH IN CORE MARKETS FOCUSED ON SERVING OUR CUSTOMERS

- Strong organic growth: +9% average customer loan growth across businesses
- Completed the acquisition of Hello bank! Austria, substantially increasing our retail brokerage market position and capabilities
- Growing in the United States: Signed a deal to acquire Peak Bancorp (Idaho community bank) in February 2022 providing US banking platform

2

EFFICIENCY THROUGH OPERATIONAL EXCELLENCE

- Launched several initiatives over the past two years which have allowed us to counter significant inflationary pressures and target net cost-out
- Simplifying our business through a continuous improvement mindset, technology investments, and organizational design
- Building an efficient and scalable banking platform

3

MAINTAIN A SAFE AND SECURE RISK PROFILE

- Resilient business model across all cycles with consistenly strong earnings & capital generation (+230 basis points in 2021)
- Solid asset quality, funding and capitalization:
  NPL ratio 1.4% (1.0% excluding City of Linz), € 35 billion customer deposits, and conservative CET1 target of 12.25%
- Increased focus on secured and public sector lending: ~80% of customer assets

NEW TARGETS & 4-YEAR PLAN THROUGH 2025

Return targets	RoTCE	**> 17%**
	CIR	**< 38%**
Financial targets 2025	Profit before tax	**> € 750 million**
	Earnings per share	**> € 7.25**
	Dividend per share	**> € 4.00**
ESG targets 2025	CO_2 emission (scope 1&2)	**> 50% reduction** vs. 2020
	Women quota	**33%**
	Green lending new business	**> € 1.6 billion**

KEY FIGURES

Profit or loss statement (in € million)	2021	2020 restated	Change (%)	2019	Change (%)
Net interest income	938.3	915.4	2.5	879.0	6.7
Net fee and commission income	282.1	254.8	10.7	283.5	(0.5)
Core revenues	**1,220.4**	**1,170.3**	**4.3**	**1,162.5**	**5.0**
Other income[1]	8.1	3.4	>100	78.0	(89.6)
Operating income	**1,228.5**	**1,173.7**	**4.7**	**1,240.5**	**(1.0)**
Operating expenses	**(485.3)**	**(519.7)**	**(6.6)**	**(529.7)**	**(8.4)**
Pre-provision profit	**743.2**	**653.9**	**13.7**	**710.8**	**4.6**
Regulatory charges	(51.6)	(59.2)	(12.8)	(42.4)	21.7
Total risk costs	(95.0)	(224.6)	(57.7)	(69.3)	37.1
Profit before tax	**600.4**	**371.2**	**61.7**	**604.3**	**(0.6)**
Income taxes	(120.4)	(85.7)	40.5	(145.0)	(17.0)
Net profit	**479.9**	**285.2**	**68.3**	**459.1**	**4.5**

Performance ratios (figures annualized)	2021	2020	Change (pts)	2019	Change (pts)
Return on common equity	13.6%	8.5%	5.1	13.5%	0.1
Return on tangible common equity	**16.1%**	**10.2%**	**5.9**	**16.1%**	**0.0**
Net interest margin	2.27%	2.29%	(0.02)	2.30%	(0.03)
Cost-income ratio	39.5%	44.3%	(4.8)	42.7%	(3.2)
Risk costs / interest-bearing assets	0.23%	0.56%	(0.33)	0.18%	0.05

Statement of financial position (in € million)	2021	2020 restated	Change (%)	2019	Change (%)
Total assets	56,325	53,122	6.0	45,648	23.4
Interest-bearing assets	42,412	40,404	5.0	36,827	15.2
Customer loans	34,963	32,129	8.8	30,568	14.4
Customer deposits and own issues	42,539	38,890	9.4	35,828	18.7
Common equity[2]	3,636	3,419	6.3	3,286	10.7
Tangible common equity[2]	3,101	2,867	8.2	2,717	14.1
Risk-weighted assets	20,135	20,073	0.3	20,391	(1.3)

Balance sheet ratios	2021	2020 restated	Change (pts)	2019	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**15.0%**	**14.0%**	**1.0**	**13.2%**	**1.8**
Total capital ratio (fully loaded)	20.4%	19.6%	0.8	16.9%	3.5
Leverage ratio (fully loaded)	6.0%	6.0%	0.0	6.5%	(0.5)
Liquidity coverage ratio (LCR)	239%	231%	8	146%	93
NPL ratio	1.4%	1.5%	(0.1)	1.7%	(0.3)

1) The term "Other Income" includes gains and losses on financial instruments and other operating income and expenses
2) Excluding AT1 capital and dividends
Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on pages 345-347. Prior-year figures were adjusted. For details, please refer to the Notes section Restatement in accordance with IAS 8.41.

SHARE RELATED FIGURES

Share & stock market data	2021	2020 restated	Change (%)	2019	Change (%)
Pre-tax earnings per share (in €)[1)]	6.74	4.17	61.8	6.17	9.2
After-tax earnings per share (in €)[1)]	5.39	3.20	68.3	4.69	14.9
Book value per share (in €)	40.92	38.88	5.2	37.36	9.5
Tangible book value per share (in €)	34.90	32.60	7.0	30.89	13.0
Dividend per share (in €)[2)]	3.00	2.59	15.8	2.59	15.8
Share price high (in €)	58.05	44.22	31.3	44.88	29.3
Share price low (in €)	35.94	20.34	76.7	32.50	10.6
Closing price (in €)	54.20	38.00	42.6	40.60	33.5
Price/book ratio	1.32	0.98	35.5	1.09	21.9
Price/tangible book ratio	1.55	1.17	33.2	1.31	18.2
Shares outstanding at the end of the period	88,855,047	87,937,130	1.0	87,937,130	1.0
Weighted average diluted number of outstanding shares	89,077,958	89,121,117	(0.0)	97,942,999	(9.1)
Market capitalization (in € billion)	4.8	3.3	44.1	3.6	34.9

1) Before deduction of AT1 coupon; 2021 Earnings per share after deduction of AT1 coupon pre-tax € 6.47, post-tax € 5.11
2) Based on eop shares incl. respective LTIP tranches; Dividend of 2019 paid out in 2021 due to ECB dividend restrictions during pandemic

BAWAG GROUP AT A GLANCE

DELIVERING RESULTS SINCE OUR IPO

OVERVIEW

BAWAG Group is a multi-brand and multi-channel commercial bank with 2.2 million customers across our markets

OUR MARKETS

Our focus is on Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe and the United States

73% DACH/NL

27% Western Europe & United States

OUR CUSTOMER BUSINESSES

76% Retail & SME

24% Corporates, Real Estate, Public Sector

~80% secured

~20% unsecured

BAWAG CULTURE IS OUR FOUNDATION FOCUSED ON

- Leadership & embracing change
- Accountability, meritocracy & inclusion
- Simple & flat organization
- Management, both fiduciaries & shareholders

OUR BRANDS

BAWAG PSK | easybank | easyleasing

start bausparkasse | PayLife

SÜDWESTBANK | Qlick

Zahnärztekasse AG | BFL

Health AG | HYPO TRUST VRIJ LEVEN HYPOTHEEK

OUR CHANNELS

- Physical network focused on high-touch & high-quality advisory services
- Non-branch origination through partnerships & platforms

79% Non-branch origination

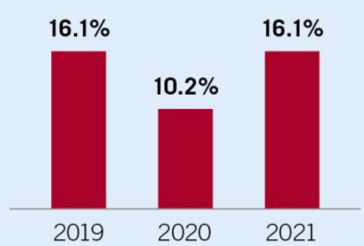
21% Branch origination

BUSINESS PRINCIPLES

- Focus on developed and stable markets
- Focus on risk-adjusted returns, conservative underwriting, and proactive risk management
- Consistent technology investments
- Data-driven in how we run the business
- Continuous focus on simplifying our business

RESILIENT BUSINESS MODEL

Return on tangible common equity



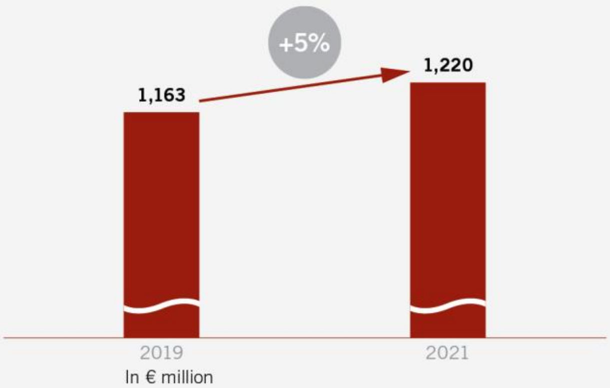
ACHIEVEMENTS SINCE IPO

- BAWAG Group TSR +33% vs. EuroStoxx Banks Index -14%
- Distributed € 1.13 billion of capital since 2017
- Completed 7 acquisitions
- Expanded footprint into new markets
- Optimized branch network with separation from Austrian Post
- Invested in platforms and partnerships

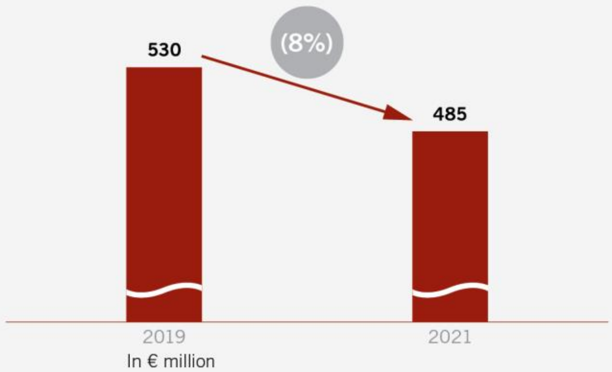
RESILIENT FRANCHISE STRENGTHENED POST-PANDEMIC

RECORD RESULTS IN 2021

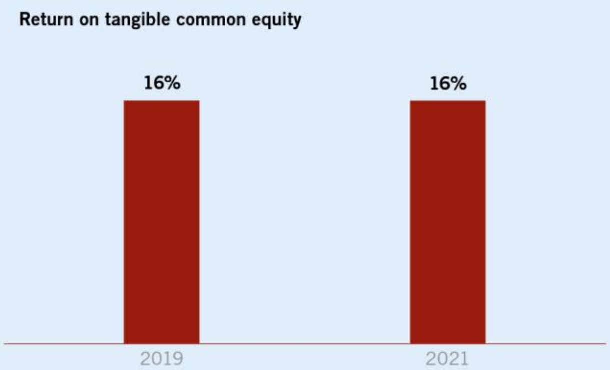
GROWING CORE REVENUES



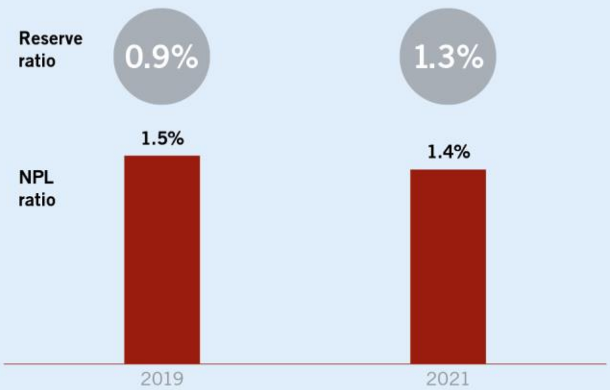
REDUCING OPERATING EXPENSES



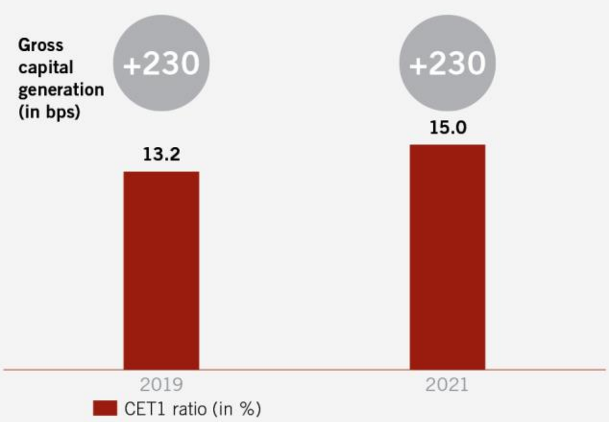
RoTCE AT PRE-PANDEMIC LEVELS



STRONG ASSET QUALITY



STRONG CAPITAL GENERATION



DISTRIBUTED COMMITTED DIVIDENDS

	2019		2021
Earnings per share (in €)	4.69	+15%	5.39
Dividend per share (in €)	2.59	+16%	3.00

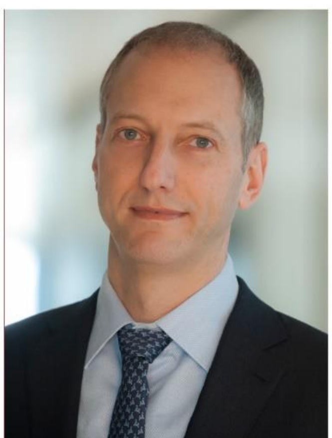
Note: 2019 dividend paid out in 2021

MANAGEMENT BOARD OF BAWAG GROUP AG

Anas Abuzaakouk
Chairman of the Management Board
Chief Executive Officer

Enver Sirucic
Member of the Management Board
Chief Financial Officer
Deputy Chief Executive Officer

Sat Shah
Member of the Management Board
Head of Retail & SME
Deputy Chief Executive Officer



Andrew Wise
Member of the Management Board
Chief Investment Officer
Head of Non-Retail Lending

David O'Leary
Member of the Management Board
Chief Risk Officer

Guido Jestädt
Member of the Management Board
Chief Administrative Officer

The tables in this report may contain rounding differences.

CONTENTS

LETTER FROM THE CEO

Dear Fellow Shareholders,

2021 was an incredible year for the Group. We delivered record net profit of € 480 million, EPS of € 5.39, a return on tangible common equity (RoTCE) of 16.1% and a cost-income ratio (CIR) of 39.5%. I want to thank our customers for placing their trust in us, our shareholders for their continued support and our team members for their commitment and execution.

As we entered the second year of the pandemic, we knew we had to continue to transform our business. This was not merely a reaction to the pandemic, but a result of changing customer behaviors and expectations of our stakeholders over the years. Our business transformation is about maintaining a best-in-class franchise while meeting the challenges of the future. This means a more dynamic engagement with customers, greater adoption of technology, reassessing the traditional job and how we work, building a diverse and inclusive team, and defining how we can play a positive role in addressing societal challenges. Banks, and companies in general, cannot idly sit by or be tone deaf to issues impacting the environment, our personal health, and the wellbeing of our local communities. At BAWAG Group, we take great pride in being good stewards of our shareholders capital, delivering on our financial commitments, and building the banking platform of the future all while being good citizens contributing to the betterment of the communities we serve. Our financial performance and our role as a positive contributor to society are not mutually exclusive.

During the fourth quarter of 2021 and the start of 2022 we have witnessed greater market volatility. This will most likely be a constant as central banks across the globe begin raising interest rates and unwinding their balance sheets to address significant inflationary pressures. No company will be immune from these developments. This is coupled with intensifying geopolitical, climate, and health risks translating to greater volatility, which require us to be more vigilant in how we manage these risks. However, the resilience of our franchise lies in our ability to deliver results across all cycles as we are built for all seasons. The benefits of creating a scalable and efficient banking platform that can deliver positive operating leverage are more evident today than ever. In the past this allowed us to deliver mid-teen returns in a deflationary negative interest rate environment defined by subdued growth and a benign credit environment. We believe this will change course with rising interest rates, significant inflationary headwinds, and the repricing of risk. Going forward we will be able to demonstrate continued positive operating leverage as we see greater revenue growth opportunities while continuing to reduce costs. Our approach is consistent, focus on the things that we can control, be a disciplined lender, maintain a conservative risk appetite, and only pursue profitable growth.

We learned a great deal navigating the pandemic over the past two years and making the necessary changes to our business. I will touch on the lessons learned, our culture, and how we've continued to execute on our strategy. The pandemic has made us more resilient, brought us closer to our customers, and provided an added catalyst in accelerating our transformation that has been taking place over the past decade.

Delivering a 16% RoTCE in 2021

Despite the lockdowns and inflationary pressures in 2021, we delivered a record net profit of € 480 million, EPS of € 5.39, an RoTCE of 16.1%, and a CIR of 39.5%. We continued to grow our business, with average customer loans up 9% year-over-year, completed two acquisitions, and have made several investments that will provide new opportunities for growth in the years ahead. We also delivered on our commitment to distribute capital to our shareholders, paying out € 460 million in dividends, or € 5.17 per share, which represented earmarked dividends from 2019 and 2020 earnings. We appreciate the commitment of our shareholder base, that remained patient as we followed the recommendation of the ECB to refrain from dividend distributions in 2020 resulting from the uncertainty brought on by the pandemic.

Capital Distribution in 2022

In terms of capital distributions in 2022, a dividend of € 3.00 per share, or € 267 million, will be proposed to the AGM on 28 March 2022. As of year-end 2021, our CET1 ratio was 15.0%, with excess capital of € 545 million versus our CET1 target of 12.25%. In line with our capital management framework to distribute excess capital to our shareholders, we are targeting a share buyback in 2022 of up to € 425 million, subject to regulatory approvals. After deducting a buyback of € 425 million, we would land at a CET1 ratio of 12.85%, or 60 basis points above our stated target, providing sufficient dry powder for bolt-on acquisitions and further organic growth outside of what we've already planned this year. We also changed our dividend policy to accrue for 55% of net profits going forward, an increase from prior years.

Inaugural Investor Day: Targeting RoTCE > 17%

Over the past decade, our operating performance and financial strength has been a true differentiator. This past year we delivered an RoTCE of 16.1%, updated our return target to an RoTCE greater than 17% and have averaged a 14% RoTCE over the past decade versus a 5% average of publicly listed European banks. Since our IPO in October 2017, BAWAG Group has delivered a Total Shareholder Return (TSR) of +33% as of year-end 2021, versus the Euro Stoxx Banks index (SX7E) of -14%, resulting in an outperformance of +47%pts. Our focus is not on short term stock performance, but we believe the stock price over the medium-to-long term is a good measure of a company's performance. We pride ourselves on delivering consistent results, year-in and year-out, across all cycles.

In September, we held our first Investor Day since our IPO, outlining our financial and ESG targets over the medium-term. The franchise is set to consistently deliver RoTCE greater than 17% and a CIR under 38%, demonstrating the benefits of establishing an efficient banking platform that has been years in the making. By 2025, we are targeting EPS of over € 7.25 (equal to ~10% CAGR), dividend per share over € 4.00, and pre-tax profit greater than € 750 million without any benefits of rising rates or further M&A factored into our targets. We plan to generate ~ € 2.6 billion of excess capital through 2025, of which ~ € 1.4 billion we plan to distribute in the form of dividends, up to € 425 million being earmarked for buybacks in 2022 and an additional ~€ 0.8 billion for either organic growth not factored into our targets, potential M&A, additional buybacks and/or special dividends. As we have done in the past, we will assess our capital position at the end of each year and communicate distributions according to our capital distribution framework. Since our IPO, we have distributed € 1.13 billion of capital in the form of dividends and buybacks.

For the first time we outlined ESG targets as well, which complement our strategic focus. We are setting ourselves a target to reduce Scope 1&2 CO_2 emissions by >50%, a gender diversity quota of at least 33% female representation across the Supervisory Board as well as the Senior Leadership team and targeting to at least double our annual green origination to over € 1.6 billion by 2025.

These financial and operational targets are ambitious, but executable. The whole management team is fully committed on our plans. We spent a considerable amount of time explaining our Group strategy and transformation over the past decade. If you haven't had a chance to review the material, please visit our Investor Relations site to listen and/or read through the presentation.

Lessons learned

Because change is the only constant, we need to continuously evolve and transform ourselves. This requires being self-critical, being open to feedback of all stakeholders, always challenging the status quo, and never growing complacent. We pride ourselves on focusing on the things we can control and embracing a "self-help" DNA.

Entering the second year of the pandemic, we knew that many things were going to change and that this was going to be a year unlike any other. We've reinvented parts of our business, adapted the way we work, continued to simplify the Group, and completed two acquisitions - all while delivering profitable and disciplined growth.

We transformed aspects of our business this past year that will pay dividends long into the future. From enhancing customer engagement, optimizing our physical footprint for both branches and central office locations, improving our analytics around portfolio management, embedding ESG into our operating framework, reconstituting the senior leadership team, and making a concerted effort to get ahead of inflationary headwinds as we continue to build-out an efficient and scalable banking platform. We've also witnessed how the traditional roles and responsibilities within companies are evolving, requiring a greater need for more cross-functional teams that are comfortable working with and adopting new technologies, all while working in a more collaborate environment.

We stressed the merits of consistent execution and having a mindset of continuous improvement. Although our transformation started over a decade ago, this is now being done from a position of strength as we do our best to anticipate the changes ahead of us. We also stressed the importance of guarding against complacency, a common message delivered across the company this past year. We recognize that financial services are not immune from the disruption brought upon by new technologies across the value chain, which ultimately serve customers better.

We learned that a robust risk management framework more broadly requires understanding the risks stemming from dealing with a health crisis, to climate change, and assessing the impact of changing geopolitical currents. First and foremost, we are in the business of managing risk and the past few years have provided us with context and experience that will inform the way we manage risk in the future. Our focus has always been on developed markets underpinned by stable and mature economies. This provides greater stability, institutions that are governed by the rule of law, and the necessary confidence required for investment and lending - which underpins the success of any financial institution.

We have also learned that more is required of companies in engaging on the issues of our time. Be it in addressing the climate crisis, issues stemming from socio-economic inequalities across society, or reengaging with the communities we serve on a grassroots level.

The BAWAG Group culture

Our foundation is as strong as ever. I truly believe this is born from our unique culture. One that captures the best parts of our legacy as a trade union bank focused on serving local communities infused with a culture of accountability, meritocracy, empathy, and inclusion. Today, our team members span 47 different nationalities operating across 7 core markets, with Austria as our foundation. We pride ourselves on being data driven in our decision making, promoting the best-and-brightest, being entrepreneurial, challenging the status quo and looking to improve ourselves and our business. We do not shy away from change, knowing that this is the only constant.

As a management team, we see every mistake as an opportunity to learn and grow. We've made our fair share of mistakes, but I'm most proud of our ability to adapt, pivot and grow from these experiences. The pandemic provided an opportunity to understand the real value of community banking and technology in best serving our customers. Our business transformation is ongoing and will be anchored by our culture and the values we uphold.

A great deal has been accomplished over the past decade, however, much more lies ahead as we continue to grow. Our tomorrow will look fundamentally different than the bank we see today.

We also reconstituted our senior leadership team (SLT), which today is made up of 79 team members. After recent promotions, the SLT is comprised of 11 nationalities, and we have increased female representation from 15% to 28%. The Group also added three new female members to the Supervisory Board, with female representation at 44%, providing both diversity of thought and experience to our Supervisory Board.

Our promotions are based on merit, character, and work ethic. This is the criteria we have, and will always use, in assessing our people. I'm proud that we were also able to identify, promote, and grow a diverse and inclusive leadership team. However, we still have more to do. The SLT represents the diversity of the whole company, our customer base, and our local communities. Diversity is a true strength of the Group and a pillar of the BAWAG culture – which ultimately makes us a stronger bank.

Going forward, we need to ensure we guard against complacency and a false sense of entitlement. Our success is not guaranteed. Technology has disrupted many industries, and financial services is not immune. The businesses that have proven to be resilient are those which proactively adapt with a sense of urgency led by committed and passionate teams. We need to be motivated, flexible, entrepreneurial, curious, embrace change and always challenge the status quo in pursuit of best serving our customers.

EXECUTING ON OUR STRATEGY

Growing in our core markets focused on serving our customers

Over the past decade we have grown our business from an Austrian focused bank - to creating a DACH/NL (Germany, Austria, Switzerland and Netherlands) regional business – to expanding to Western Europe and the United States. The diversity of our people and business is, and will always be, a core strength of the Group.

In 2021 we grew average customer loans by 9% across our retail, small business, corporate, real estate, and public sector customers as well as investing in several new channels (through partnerships and platforms) and markets that will serve as future growth drivers in the years ahead. We continued to make investments that will help us better serve our customers - from our enhanced digital products, data analytics, technology infrastructure, and improved training and education for our team members across the Group. We aim to provide our customers with 24/7 banking access by way of a multi-channel and multi-brand commercial banking platform. Our customer value proposition is straightforward and consistent over the years, “providing simple, transparent, and affordable financial products and services our customers need".

In terms of M&A, we closed on two deals in the fourth quarter of 2021. We acquired Hello bank! Austria, an online brokerage platform that will complement our Austrian Retail & SME franchise. This will strengthen our product offering as well as enhance our advisory capabilities to our 2.2 million customers in Austria. The acquisition will have immediate benefits to the Austrian business while also providing opportunities for future growth in adjacent markets. We also closed on DEPFA Group, an Irish public sector bank that was placed in wind-down a few years back. This transaction was more akin to a run-off portfolio deal, with the team being able to leverage our Group operational capabilities to expedite the orderly wind-down of the bank without taking any credit risk.

We recently signed on the purchase of Peak Bancorp earlier this year, which is the holding company of Idaho First Bank (IFB). IFB is a community bank that will provide us with a platform to drive organic growth across the United States – growing in a core market that is deep, broad, and transparent. We’re excited about the combination of community focused banking augmented with access to new asset origination channels as we continue to buildout a scalable and efficient banking platform across the Group. Our focus will primarily be on Retail & SME through raising deposits and providing residential mortgages, consumer, and small business loans.

Driving efficiency and operational excellence

We have always been committed to driving efficiency and operational excellence across the Group, as this is truly the one thing we can control and is the bedrock of our "self-help" DNA. We launched several initiatives over the past two years that have allowed us to counter the inflationary pressures we're confronted with today. A few examples of the actions taken were combining our technology and operations group, further optimizing our physical footprint, continuing to invest in our technology and data infrastructure, and streamlining our organizational design. These initiatives allow us to better serve our customers, make more informed decisions, simplify our processes, create a more robust technology infrastructure, and further scale our business.

As a result of our transformation over the past decade, as well as having executed on multiple initiatives during the pandemic, we will be in a position this year to more than fully offset record cost inflation. To put this into perspective, if we stood idle and accepted the status quo the past two years, we would have experienced total cost inflation upwards of 5% in 2022 from a baseline of € 485 million in 2021. However, because of the operational decisions taken over the past two years, we have a plan to reduce our operating expenses by approximately 2% on a net basis in 2022. This 7-point differential amounts to a € 35 million swing between deciding to proactively act versus standing idle and growing complacent. I bring up this example to demonstrate what differentiates our company as well as highlighting the risks of inaction and complacency.

Maintaining a safe and secure risk profile

Our focus has, and will always be, on developed and mature countries with solid finances, stable legal systems, and transparent markets. We have always maintained a conservative risk appetite and believe that credit markets have been quite frothy over the past few years (absent the brief window of market volatility at the onset of the pandemic). Our guiding lending principle as a bank has always been to focus on risk-adjusted returns, and not blindly chase volume growth. This discipline has served us well over the years and will continue to serve us well long into the future. We continued our focus on secured lending, which is the majority of our customer lending, augmented by disciplined underwriting. We anticipate this year will bring greater volatility as central banks across our core markets begin a process of increasing interest rates and unwinding their balance sheets after many years of quantitative easing. There are both risks and opportunities in this process, but we are cautiously optimistic that this will bring back greater discipline into the credit markets with a general repricing of risk. We have always avoided high-risk cyclical industries, as we believe the risk was not priced appropriately.

As to the strength of our balance sheet, a few events last year best reflect our balance sheet strength, asset quality, disciplined underwriting, and the conservatism of our risk management. Our 2021 stress test resulted in a 198 basis point drawdown under the adverse scenario versus the ECB SSM average of 520 basis points. We also aim to be prudent and conservative in our risk provisioning despite our solid asset quality. Our NPL ratio of 1.4% is one of the lowest across Europe (1.0% excluding the City of Linz receivable), and a conservative reserve ratio of 1.3% on customer loans, an increase of 40 basis points on pre-pandemic levels, despite a decreasing NPL ratio.

Supporting our team members & local communities

Despite the many emerging risks and uncertainties, we remain optimistic about the future. As a direct result of the pandemic, we transitioned to a permanent hybrid home-office model last year that provides our team members with greater flexibility in managing both their personal and work commitments. Today, we have the majority of our staff taking advantage of the home office model in one form or another. This work flexibility, which was overwhelming confirmed in our employee surveys, ensures that we provide our team members workplace flexibility, but also flexible work hours and is based on an underlying relationship of trust between company and employee that makes us better in the long term. We of course need to be mindful of maintaining our culture, onboarding new team members, ensuring collaboration and that we have the right operating metrics to manage our teams under such a framework. However, we believe this approach will serve us well as we compete for the best and brightest talent and continue to grow our business. I want to convey a special thanks to our employees in the branches and out in the field working on the front lines, serving our customers directly, and demonstrating the best of community focused banking.

Although the pandemic has taken a heavy toll on many, we also have much to celebrate. Over the past two years almost 300 BAWAG team members introduced new members into their family! A reminder of the circle of life and that even during a pandemic, we witness the miracles and joy of life.

As a recognition of each team member's contributions last year, we again provided a special bonus of € 300 to all employees. Additionally, we are providing a stock grant equal to € 1,000 to each employee and will be introducing a company stock matching program later this year. It's important to the Management Board, Supervisory Board, and Workers Council that all team members are also owners of the company as well.

In terms of our community outreach, the Bank marshaled its resources to partner with several non-profit organizations to support our local communities through donations, mentoring and community service. We have focused on child education, mental health, empowering disadvantaged communities and financial literacy. We're proud of our team members for their community involvement and will continue to support this outreach through both financial support and volunteerism.

The past two years have personally given me a greater appreciation for all that we are blessed with. I'm incredibly thankful for the hard work, commitment, and resilience of our team members. With each passing year you demonstrate the best of BAWAG Group!

Anas Abuzaakouk, CEO of BAWAG Group AG

STRATEGY

ESG UNDERPINS OUR STRATEGY DRIVING RESPONSIBLE, SUSTAINABLE AND PROFITABLE GROWTH

1 GROWTH IN CORE MARKETS FOCUSED ON SERVING OUR CUSTOMERS

- Core markets of Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe, and the United States
- Criteria for core markets: Fiscal position (single A or better sovereign rating), legal infrastructure, and geopolitical environment
- 24/7 banking access through multi-channel and multi-brand commercial banking platform
- Customer value proposition: "Providing simple, transparent and affordable financial products and services our customers need."

2 DRIVE EFFICIENCY THROUGH OPERATIONAL EXCELLENCE

- Our DNA is to focus on the things we can control through "self-help" management
- Greater need to simplify business structure, products, processes, and technology
- Technology is an enabler and differentiator

3 MAINTAINING A SAFE AND SECURE RISK PROFILE

- We believe in maintaining a fortress balance sheet through strong capital position, stable customer funding and low risk profile
- Conservative and disciplined underwriting in markets we understand with focus on secured lending
- Proactively manage non-financial risks › No capital markets activities, no trading activities, no exposure to high risk AML markets

GROWTH IN CORE MARKETS FOCUSED ON SERVING OUR CUSTOMERS

Growing in our core markets

BAWAG Group's strategy focuses on growth in developed and mature markets. We pursue organic growth and M&A that is strategic, value-add and earnings-accretive. Our growth strategy is defined by the following:

- Our core markets are Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe and the United States
- Focus on organic growth, M&A, minority investments, and partnerships
- Invest in platforms and partnerships to drive growth across the Group
- Pursue earnings-accretive M&A meeting our Group RoTCE target of at least 17%
- Continue to build-up middle-back-office sales support and product/channel standardization to drive profitable growth

Our core markets are defined by Austria, Germany, Switzerland, the Netherlands (DACH/NL region), Western Europe and the United States. We focus on regions and countries with solid fiscal positions, represented by a sovereign rating of at least Single A, reliable legal systems, and a stable geopolitical environment. This will be even more important with evolving ESG and regulatory standards to ensure we meet the needs of our various stakeholders. The pandemic has demonstrated the fiscal strength and capabilities of the countries we operate in, where governments have put in place extensive stimulus packages and support measures to support their citizens and their domestic economies.

The DACH/NL region comprises of 73% of our customer business and is the foundation of the Group. The region benefits from a common culture and language family, with a stable legal system and credit environment. The region also benefits from low levels of consumer indebtedness, home ownership and digital penetration; all of which presents opportunities for future growth. The macro fundamentals of the DACH/NL region are the following:

- Growing population with over 118 million people
- Annual GDP of € 5.8 trillion and GDP per capita of more than € 50,000 in a normalized environment
- Average unemployment rate of less than 5%

Average customer loan growth of 9% in 2021

With our long-history and headquarters in Austria, the domestic business provides us with a stable and scaleable platform to build a multi-channel and multi-product origination engine across our core markets. Within Austria, we continue to focus on disciplined growth into our current account market share entitlement of up to 20% in core products such as consumer loans, auto leasing and mortgages. BAWAG Group's expansion outside of Austria has been focused on identifying mature and developed markets with sound macroeconomic fundamentals and profitable growth opportunities. This has been achieved through a mixture of organic growth initiatives and acquisitions. While we remain a niche player in the German, Dutch and Swiss markets, the foundations that we have built provide us with significant opportunity to accelerate our growth without sacrificing profitability.

We also consistently monitor opportunities across our core markets of Western Europe (Ireland, UK) and the United States (US). We recently opened a representative office in the United States to better serve our US clients and pursue future growth. We know the market well as we've been lending to US corporate and real estate clients for over a decade. We also signed on the purchase of Peak Bancorp, which is the holding company of Idaho First Bank (IFB) in early February 2022. IFB is a community bank that will provide us with a platform to drive organic growth across the United States – growing in a core market that is deep, broad, and transparent. Our focus will primarily be on Retail & SME – raising deposits and providing residential mortgages, consumer, and small business loans.

Our Retail & SME focus continues to be about providing our customers quality products and services they have come to expect, preserving the differentiated value propositions of our separate brands, while ensuring we maintain a consistent approach to risk-adjusted pricing. The future growth drivers will be on financial advisory, enhanced data analytics, investing in partnerhips and platforms, enhancing digital engagement, leveraging technology across all our processes, and continuing to pursue earnings-accretive M&A.

The Corporates, Real Estate & Public Sector business is focused on developed and mature markets providing direct lending opportunities and payments. The corporates space has been challenged for a number of years, where we believe credit risk has not been appropriately priced, however we remain ready to actively engage once we believe risk is properly priced. We continue to expand our public sector business in Austria, where we are the payments provider to the Austrian government. In real estate lending, we continue to see quality lending opportunities in Western Europe and the United States. Our focus will always be on risk-adjusted returns, disciplined underwriting, driving profitable growth and being patient without ever chasing blind volume growth.

Two acquisitions completed in 2021

The acquisition of DEPFA Group represented an attractive and capital accretive investment opportunity. This allowed us to acquire high-quality low-risk assets, leverage our balance sheet and experience in the public sector space, and draw upon our operational capabilities to execute an orderly and expedited wind-down of the Bank.

With the acquisition of Hello bank! Austria BAWAG Group becomes the leading brokerage business in Austria bolstering growth in our Retail & SME franchise. The acquisition allows us to bring on the expertise and scale of the Austrian market leader in online brokerage and expanding the product and service offerings to a broader range of customers. In the short term, our goal is to embed the core business of Hello bank! Austria into BAWAG Group and to ensure that the culture, expertise and products of Hello bank! Austria are maintained as we address the domestic market. In the medium term, we will look to grow the business in adjacent markets.

Since 2015, BAWAG has executed on 11 smaller bolt-on acquisitions in Austria as well as new markets (Germany, Switzerland and Ireland), adding new channels, new products, and new brands across the Group.

Climate change

We are committed to addressing the immediate need to combat climate change across our business. However, the reality is today's actions will take time to have real impact on our climate. While we have seen a continued increase of our green lending over the past few years, we target to double our 2020 annual "green" origination to greater than € 1.6 billion by 2025.

Focusing on the customer and their needs

Customers are looking for a more rewarding and engaging experience with targeted products and services while having 24/7 access to manage their financial lives. We aim to fulfill these needs and to better leverage new and existing technologies to enhance the overall customer experience. We are building a multi-channel and multi-brand Retail & SME franchise from branches-to-partners-to-brokers-to-platforms leveraging digital products and technology across our entire customer value chain. Our products are designed to be simple, transparent, and affordable.

The following cornerstones are key to building and maintaining successful customer relationships:

- Build multi-channel and multi-brand franchise from branches-to-partners-to-brokers-to-platforms-to-digital products
- Physical network focused on high-touch and high-quality advisory
- Leverage technology to simplify processes and reduce complexity
- Enhance analytical capabilities to improve customer experience
- New retail partnerships and lending platforms to provide 24/7 customer access

With the shift towards more digital engagement, we have adjusted our business towards advisory services in our branch network, while shifting more straightforward administrative tasks to our digital/online channels. Fundamental to that development is the continuous enhancement of our digital product offering. As of today, we have fully digitized 75% of our product portfolio and target a 100% fully digitized Retail & SME product offering by 2025. The pandemic has accelerated the change in customer behavior. Customers are increasingly expecting the availability of traditional branch services to be available on e-banking and mobile platforms. Building on our established regulatory frameworks, we are able to offer competitive and convenient services without ever sacrificing on quality, compliance, or security.

Digitization also serves to streamline BAWAG Group's relationships with distribution partners creating faster response time to end customers. With our investments in digital channels, partnerships and platforms, we have diversified our originations away from branches. Close to 80% of originations are generated outside of the traditional branch channel.

Outlook 2022

Going into 2022, we will continue executing on our growth strategy in the DACH/NL region, Western Europe and the United States. Our M&A activities focus primarily on our core Retail & SME franchise; however, we monitor the market for opportunities across the banking sector. These opportunities range from profitable platforms with a solid business model and strong origination channels to financial institutions that require either an extensive operational turnaround or an orderly wind-down.

In February 2022 we signed a transaction to acquire 100% of the shares of Peak Bancorp, Inc., the holding company for Idaho First Bank, a state-chartered community bank in Idaho. The acquisition enables BAWAG Group to expand its footprint in the United States and better position it for future growth in one of the bank's core markets. BAWAG Group will work with the current leadership team of Idaho First Bank to continue growing its community-focused Retail and SME business in Idaho and adjacent markets, while also providing the operational support and financial strength of a broader banking group. The acquisition also provides BAWAG Group with a banking platform to pursue further growth opportunities across the United States. The transaction is subject to customary closing conditions including the approval of US regulators.

DRIVING EFFICIENCY AND OPERATIONAL EXCELLENCE

The banking industry across Europe continues to undergo a significant transformation and still faces multiple headwinds driven by years of subdued economic growth, negative interest rates, broken cost structures, over-leveraged balance sheets, pricing pressure, high regulatory costs, and sub-par technology. Additionally, more and more companies from outside the traditional financial services industry (FinTechs and e-commerce platforms) are entering the market, negatively impacting margins as they focus on loss-making growth in an effort to gain market share, and attacking the traditional revenue streams and financial institutions. The focus on efficiency, profitability and driving operational excellence is part of our team's DNA, as we believe this is one of the few things a management team truly controls and will continue to differentiate BAWAG Group from both the established institutions as well as new players entering the market.

We are convinced that in this challenging environment, banks have to transform their business models and cost structure to be much more simple and efficient. With the continued advancements in technology, that banking is becoming more commoditized. To this end, the key is, and will continue to be, focusing on simplification, standardization, automation and applying technology judiciously as we continue to transform our business and focus on operational excellence. This is more critical today than ever as the industry is confronted with significant inflationary headwinds.

Going into 2022, our focus continues to be on driving efficiency through process re-engineering, simplification, standardization and ultimately automation. The benefits of creating a scalable and efficient banking platform are more evident today than ever. Having executed on multiple initiatives during the pandemic, we will be in a position to deal with record cost inflation in 2022 and continue to target net cost out. We will continue to:

- Focus on the things we control through "self-help" management
- Simplify, standardize and automate product and service offerings across all channels
- Create simple end-to-end processing across the Group
- Continuously optimize our processes, footprint and technology infrastructure
- Embrace various forms of technological change and invest judiciously in technology
- Foster a meritocratic culture that promotes employees based on merit and character

Since 2012 we have invested over € 500 million in technology. Continuous investment in technology over the past decade has allowed us to modernize and simplify our technology stack, avoid large scale white-elephant digitization projects, and most importantly systematically work to scale our banking platform. We have expanded partnerships and investments with technology leaders as we modernize our technology infrastructure, simplify our architecture, and focus on straight-line processing. These investments will continue and today represent a greater percentage of our overall spend across the Group, moving from 15% in 2012 to ~ 25% of our total Group spend today.

The pandemic has been a catalyst for accelerating productivity initiatives across the Group. We will continue to reduce our physical footprint due to the integration of a hybrid home-office working model, adapt to changing customer behavior through enhanced digital engagement, and further streamline and simplify operations. These initiatives will allow us to better serve our customers and scale our business even further.

We aim to further improve the efficiency and integration speed through a platform approach:

- **Data asset management**: Centralized data warehouse consolidating finance, risk, and regulatory reporting with customer analytics
- **Technology operations**: Driving towards a greater simplification across front, middle, and back-office functions through process re-engineering underpinned by enabling technologies
- **Infrastructure**: Centralized cloud infrastructure, container platform and workplace environment across the Group
- **Products**: Open architecture enabled through standardized interfaces

Sustainable value creation is also key for us in order to be able to be a reliable partner to all our stakeholders on a long-term basis. These measures allowed us to weather the cost and profitability challenges faced by the financial services industry over the past decade. Through consistent and continuous investments as well as optimization of our infrastructure we were able to accelerate the integration of acquired businesses, reduce operational complexity, and reduce unneccesary overhead costs. This positions us well for future integrations and collaboration with partners across the entire value chain of financial services.

Lastly, a core centerpiece to our company is the BAWAG culture based on the following values:

- **Leadership & Embracing Change**: We value leaders who are dynamic, lead with uncompromising integrity, have a strong work ethic, and do not shy away from taking hard decisions. Our Senior Leadership Team (SLT) of 79 team members, which has led our transformation over the past decade, have an average of 13-years of working experience at BAWAG.

- **Simple and flat organization**: We do our best to maintain a simple group structure and flat organization. We encourage all team members to focus on the work at hand, cut-out the noise, and always challenge the status quo for the betterment of the team. We believe hierarchy, bureaucracy, and a siloed organization lead to disjointed analysis, wide scale inefficiencies, poor decision-making, and ultimately a bloated cost structure.

- **Accountability, Meritocracy & Inclusion**: We believe our diversity, inclusivity and meritocratic culture are a real source of strength. The team members come from 47 different nationalities, and we are fully committed to gender equity and diversity. Our diversity and gender equity will be a byproduct of merit, integrity, and work ethic. Our greatest asset is our human capital, so we are focused on developing and mentoring our team members across the ranks. Today, our reconstituted SLT of 79 team members is comprised of 11 nationalities with a female representation of 28%. We're proud of the recent promotions this past year, with 43% of new promotions being female leaders, but recognize we have more to do.

- **Management, both Fiduciaries & Shareholders**: The Management Team are both fiduciaries as well as shareholders of the Bank. The incentives are directly tied to real financial and ESG targets, which we believe create long-term shareholder and stakeholder value. The Senior Leadership Team currently owns ~3.3% of the Bank. We believe stock ownership is the best way to create alignment with shareholders and long-term strategic value creation.

Instilling this culture within the organization has been pivotal in driving our "self help" DNA, building a scalable banking platform that will compete long into the future, and becoming one of the most efficient banks in Europe. Our culture has been the foundation of our success, motivating and retainining our team members, as well as attracting top talent over the years.

MAINTAINING A SAFE AND SECURE RISK PROFILE

A bank is fundamentally in the business of managing risk. For us, having a safe and secure risk profile is about maintaining a fortress balance sheet through a strong capital position, stable customer funding and a low risk profile through proactive risk management. These are fundamental cornerstones to the execution of our business strategy. Management is committed to running BAWAG Group in a safe and secure way.

Our low risk profile is defined by the following principles:

- **Maintaining strong capital position, stable customer funding and low risk profile**
  Our business model and strategy already limit certain risk areas. A key role of our activities is transforming deposits and other types of funding into customer loans. Customer deposits remain a key pillar of our funding strategy supplemented by covered bonds (secured by mortage and public sector collateral) and unsecured funding. In terms of capital, BAWAG Group's target CET1 ratio is 12.25% (fully loaded), providing a conservative management buffer above our minimum regulatory capital requirements.

- **Focus on mature, developed and sustainable markets**
  Our focus is on Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe and the United States. These countries/regions share the same characteristics: strong macroeconomic fundamentals, stable legal systems, robust capital markets, and governments that have the fiscal capability to support their economies in times of distress. Banking in more volatile and less developed markets provides optically higher returns and higher growth, but we do not believe that the risk-adjusted returns over the medium-to-long term are as attractive as more developed and mature markets. We believe the market will price these risks into the cost of equity of each bank in addition to overall asset quality, earnings volatility, funding profile and sustainability of business model.

- **Applying disciplined underwriting in markets we understand with a focus on secured lending and risk-adjusted returns**
  Our lending is focused on disciplined underwriting focused on risk-adjusted returns across developed and mature markets. We routinely review our underwriting guidelines and adjust accordingly. Fundamental to our business strategy is the core concept of the quality of volume versus the quantity of volume. We assess all lending by risk-adjusted returns to ensure our return thresholds are met and our future earnings remain resilient. We also target a long term shift to secured and public sector lending greater than 85% by 2025 (versus 79% today) as we see greater opportunities in collateralized lending in the years ahead.

- **Maintaining a fortress balance sheet**
  We focus on solid asset quality with a low NPL ratio of 1.4% (1.0% excluding City of Linz), strong capital generation with gross capital generation of +230 basis points in 2021, and conservative capitalization levels targeting CET1 ratio of 12.25% as we maintain a fortress balance sheet. In 2020 we decided to fully provision the City of Linz from a capital standpoint as well as applying the 100% NPE backstop to respective legacy NPLs. This is a reflection of our overall conservativism as we continue to fortify our balance sheet **to withstand all economic cycles.**

- **Proactively manage and mitigate non-financial risk**
  Being safe and secure is not limited to balance sheet numbers or regulatory KPIs, it's also around managing non-financial risk (be it AML or ESG risks). We continuously enhance our governance structure as well as risk management frameworks to address these risks, with climate risk having gained more importance across all stakeholders over the years. As an example, our oil and gas industry exposures are less than 1% of total assets today. We will continue to integrate environmental factors further, as we enhance our data collection and underwriting to account for these emerging climate risks. As of December 2021, we had no relevant exposure to emerging markets or CEE countries and no operations in countries with elevated AML risk.

Overall, this conservative approach positioned us well over the past two years when faced with the risks brought on by a global pandemic. Our focus on developed markets provided us with indirect benefits via the high-level of labor market support and social safety net benefits our customers received in the form of various stimulus programs. Our disciplined underwriting and focus on risk-adjusted returns also minimized our exposure to volatile and cyclical industries that were hardest hit during the pandemic.

The resilience of our business model, our conservative risk appetite and our disciplined underwriting was also highlighted by the stress test carried out by the EBA/ECB in 2021. Under the theoretical adverse scenario, BAWAG Group's CET1 ratio would fall by 198 basis points to 12.00% after three years from 13.98% at year-end 2020. Due to our strong capital generation in a normalized environment as a result of our transformation, BAWAG Group has the capacity to absorb stress scenarios while still maintaining a well capitalized balance sheet.

We will continue to maintain our conservative risk appetite, ensuring that we mitigate against both macro and micro risks. Our goal is to always maintain a fortress balance sheet and conservative underwriting, a cornerstone of how we run the Bank.

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKETS

Equity markets in Europe and the United States were influenced by the global COVID-19 pandemic as well as monetary policy discussions to counter rising inflation. Overall, share price performance in 2021 was dominated by optimism and normalization of economic activity after the volatility witnessed in 2020. The Euro Stoxx 600 increased by 22%, the subindex Euro Stoxx Banks increased by 34% and the S&P 500 increased by 27% in 2021.

The financial performance of the corporate sector reflects the significant recovery of overall economic activity as well as the ability to pass on increasing input prices. Earnings per share of the Euro Stoxx 600, the Euro Stoxx Banks and the S&P 500 increased significantly during 2021, surpassing pre-Covid levels of 2019. On the back of increasing earnings, valuation metrics decreased in Europe and in the United States compared to 2020. Compared to 2019, however, the valuation of the Euro Stoxx 600 was fairly similar, while the valuation of the S&P 500 exceeded pre-Covid levels and the valuation of the Euro Stoxx Banks was below pre-Covid levels in 2021. The price-to-earnings ratio of the Euro Stoxx 600, of the Euro Stoxx Banks and of the S&P 500 was 20.8x, 10.6x and 26.2x, respectively, as of year-end 2021.

Global liquidity conditions remained ample and interest rates remained low throughout 2021. Interest rate increases, however, are being discussed in the United States and Europe, which will result in potential interest rate hikes and unwinding of central bank balance sheets after years of expansionary monetary policy.

SHARE PERFORMANCE

BAWAG Group AG's shares closed the year 2021 with a share price of € 54.20, compared to € 38.00 as of year-end 2020. During the same period, the share price high was at € 58.05 and the low at € 35.94. BAWAG Group AG's shares total return, accounting for price performance and dividends, was 57% while the total return of the Euro Stoxx Banks was 42% during the year 2021. Thus, BAWAG Group AG's shares outperformed the benchmark index for banks in the Euro area by 15 points.

BAWAG Group AG shares are listed on the Vienna Stock Exchange. Following the market volatility in 2020, capital markets rebounded during 2021. The Management Board deducted dividends of € 460 million from CET1 capital at the end of 2020, earmarked for the financial years 2019 and 2020. In line with the ECB recommendation from December 2020, the extraordinary general meeting of BAWAG Group in March 2021 approved a dividend payment of € 40 million (or € 0.45 per share) paid on 12 March 2021. The remaining € 420 million dividends (or € 4.72 per share) were paid out on 8 October 2021.

	2021	2020
Closing price 31 December	€ 54.20	€ 38.00
Share price high (closing price)	€ 58.05	€ 44.22
Share price low (closing price)	€ 35.94	€ 20.34
Dividend paid out (for financial years 2019 and 2020)	€ 460 million	-
Total return BAWAG Group	57%	(6.4%)
Total return Euro Stoxx Banks	42%	(23.8%)

DEBT ISSUANCES

While our AT1 and T2 capital requirements were addressed in 2020, BAWAG Group has been an active issuer in the covered bond space with three successful benchmark placements of € 500 million each during 2021. We introduced a green bond framework in 2021 and therefore one of the covered bonds was a green issuance. We plan for a continuous issuance of covered bonds, subject to market conditions, matching the targeted growth in our customer mortgage business.

INVESTOR COMMUNICATION

Principles

Having an open dialogue, being transparent, and providing consistent information is our goal when communicating with investors and other stakeholders. Our aim is to align our interests with those of shareholders, as we are focused on long-term franchise value creation, which in our view is best aligned via stock ownership. The Management Team are both fiduciaries as well as shareholders of BAWAG Group and the incentives are directly tied to the financial and ESG targets. As of year-end 2021, the Senior Leadership Team owned 3.1% of the Bank (31 January 2022: 3.3%).

Investor relations in 2021

In 2021, the priorities of the investor relations team were focused on the increased communication due to the ongoing pandemic and the preparation of BAWAG Group's inaugural Investor Day following the IPO in October 2017.

- **Investor Day**
  On 20 September 2021, BAWAG Group hosted its inaugural Investor Day following the IPO in October 2017. We took stock on what we have achieved since our transformation that started over a decade ago, our performance since our IPO in 2/017 and more importantly focused on what we are planning for the future. We presented new financial and ESG targets through 2025. As part of the preparation for the Investor Day, we gathered feedback from various investors and analysts.

- **Two general meetings**
  In line with the ECB recommendation from December 2020, the extraordinary general meeting of BAWAG Group in March 2021 approved a dividend payment of € 40 million (or € 0.45 per share) paid on 12 March 2021. The remaining € 420 million dividends (or € 4.72 per share) were distributed on 8 October 2021, following the annual general meeting in August. In total, we paid out € 460 million in 2021, which equals € 5.17 per share. The next annual general meeting will take place on 28 March 2022.

- **Quarterly reporting** about the financial development and Group initiatives including management update call.

- **Ongoing dialogue** with existing and prospective equity investors, analysts, bondholders and rating agencies.

- **ESG communication**
  ESG has become a more integral part of our investor communication over the last two years. The topics with dedicated ESG teams of investors have broadened, from previously being primarily focused on corporate governance to now placing a greater focus on green lending, risk management and social initiatives. While having continuously enhanced the disclosure on our ESG initiatives, we have also introduced 2025 ESG targets. In addition, our sustainability performance is assessed by ESG rating providers on a regular basis. In 2021, we continued to see an improvement of our ESG ratings and we use their assessment to identify further areas of improvement.

On the day of quarterly earnings release, we meet with investors for one-on-one as well as group meetings to discuss quarterly and annual developments. In addition, BAWAG Group management meets current and potential investors during roadshows, conferences and one-on-one meetings. With the outbreak of COVID-19 in 2020, all meetings went to a virtual format. In 2021, members of the Management Board, together with the Investor Relations team, met with investors from the United States, the United Kingdom, Germany, France, Austria, Denmark, Norway, Finland, Netherlands, Belgium, Italy, Poland and across Asia. In addition, we attended 11 conferences dedicated to financial institutions or small-mid cap companies in 2021. This was a mix of both specialists in the financial sector as well as generalists. Besides roadshows and conferences we held one-on-one virtual meetings or calls with potential new investors as well as existing investors and ESG teams. The main discussion points were related to the new targets, strategy, capital distribution, asset quality and details on our busines model.

As a result of the increased debt issuance activities of BAWAG Group since 2018, we have also continued the dialogue with credit analysts and investors.

Shareholder base

With the secondary placements of GoldenTree in September 2021 and January 2022, their shareholding decreased to 4.56% as of 31 January 2022 (31 December 2021: 12.1%). Therefore, BAWAG Group has a 100% free-float as of February 2022 (31 December 2021: 88%). The shareholder base is well diversified with a broad geographic reach and different investment strategies. The institutional investors are primarily from Europe and North America. The Senior Leaderhip Team also owns 3.3% as of 31 January 2022.

Shareholding (based on shareholder notifications per 31 January 2022)	January 2022	December 2021
Free float	100%	87.9%
therein: Senior Leadership Team	3.3%	3.1%

	2021	2020
Number of research houses covering the stock	10	11
“Buy” / “Overweight” recommendation	9	8
“Hold” recommendation	1	3
Average target price (31 December)	€ 64.6	€ 41.0

Information on BAWAG Group, share data and the latest analyst recommendations are available on the website https://www.bawaggroup.com/ir.

Ratings

BAWAG P.S.K., the main operating subsidiary of BAWAG Group AG, is rated by Moody’s Investors Service.

	2021
Long-term Senior Unsecured / Issuer Rating	A2 (stable outlook)
Long-term Bank Deposits Rating	A2 (stable outlook)
Short-term Issuer / Bank Deposits Rating	P-1

Group Management Report

ECONOMIC AND REGULATORY DEVELOPMENTS

ECONOMIC DEVELOPMENTS

Macro trends

After the severe economic burden of the global pandemic in 2020, innovation, international cooperation and confidence fueled a pronounced economic recovery in 2021. The roll-out of vaccines, continuation of other safety concepts, like COVID testing, and working from home have been applied globally to deal with the pandemic. Thus, the pandemic became less of a threat to global economic stability than it continues to be for public health. Going forward, the coronavirus is expected to be a rather local and seasonal phenomenon (endemic) rather than a global threat (pandemic). GDP recovered with growth rates of 4.3% in Austria, 3.6% in Germany, 4.0% in the Netherlands and 5.5% in the Euro area in 2021.

The recovery of the labor market is well advanced although the dynamic is lagging behind overall economic activity with unemployment levels of 4.9% in Austria, 3.2% in Germany, 3.8% in the Netherlands and 7.0% in the Euro area. In Austria, government support measures introduced during the height of the pandemic in 2020 have been effective in preventing a surge in unemployment and have been extended into 2022 to foster continuation of the recovery.

Price increases for raw materials and supply chain disruptions have caused elevated consumer price inflation starting in summer 2021; reaching levels of 3.8% in Austria, 5.7% in Germany and 5.0% in the Euro area as of December 2021. While these factors alone may only be temporary and cannot be countered by monetary policy measures, tendencies towards a more permanent inflation might indeed call for monetary policy action. There are knock-on effects to wages and prices of non-tradable goods such as rents, which are signs of a more broadly based inflationary pressure in the Euro area.

Market developments in Austria

The improving economic environment resulted in increasing loan demand from consumers, with outstanding loan volume increasing by approximately 4.5%[1] versus 2020. Deposits from Austrian households continued to increase as they did throughout the COVID-19 pandemic. Loan demand from Austrian corporates increased by approximately 3.8%[1] versus 2020.

Outlook

The unprecedented crisis is causing a high degree of uncertainty with regards to the economic outlook, triggering frequent revisions to forecasts that differ among various institutions. However, the scenarios of major forecasting institutions call for a continuation of the improving economic environment in 2022. After the recovery in 2021, the EU commission expects GDP to continue at a stable pace with growth of +4.9% in Austria, +4.6% in Germany, +3.3% in the Netherlands and +4.3% in the Euro area in 2022. After inflationary pressure was predominantly caused by supply chain factors and price increases of raw materials in 2021, inflationary tendencies are expected to become more permanent in 2022. Thus, central banks have started to taper their ultra-expansionary monetary policy measures. The United States Federal Reserve has announced the start of a cycle of rate hikes as early as March 2022 and is expected to increase the key interest rate level by around 100 basis points during 2022. The ECB will most likely end the favorable pricing of its TLTRO in June 2022 and is discussing a reduction of its bond purchase programs. Thus, as in previous cycles, monetary policy in Europe is lagging behind the United States. The emergence of new variants of the coronavirus remains a downside risk. It remains to be seen, however, if these variants will evolve to cause less severe illness, and hence will have minor impact on the economic outlook. Monetary policy errors in both directions remains a risk, i.e. reacting too slow and, hence, causing excessive inflation or reacting too drastic and, in turn, depressing economic recovery. This risk, however, can be managed by a data-based and vigilant decision-making process that central banks continue to stress in public communication.

1) Source: Austrian National Bank (OeNB)

REGULATORY DEVELOPMENTS

The European Central Bank (ECB) continued its direct oversight of the Eurozone's main credit institutions, including BAWAG Group, under the Single Supervisory Mechanism (SSM). The main supervisory priority areas in 2021 were materially affected by the coronavirus (COVID-19) pandemic, namely credit risk management, capital strength, business model sustainability and governance. Furthermore, the ECB carried out further structural activities looking beyond the impact of the COVID-19 pandemic, in particular in relation to banks' alignment with the climate-related and environmental risks and their preparedness for the final stages of the implementation of Basel III.

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

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

In November 2016, the European Commission published a so-called Banking Package with amendments to the CRR (so-called CRR II or Regulation (EU 2019/876), CRD IV (so-called CRD V or Directive (EU 2019/878) and BRRD (so-called BRRD II or Directive (EU 2019/879). The negotiations on the proposals between the European Council, the European Parliament and the European Commission started in July 2018 and were finalized by the middle of 2019. The Banking Package was published in the Official Journal of the EU and has been partly applicable since June 2019. Changes in the CRR and CRD include the introduction of the leverage ratio, the net stable funding ratio, a revised SME supporting factor and amendments to the buffer regime. While parts of CRR II were already applicable, other chapters became applicable as of 28 June 2021. CRD V implementation, on the other hand, was published on 28 May 2021.

Due to the global COVID-19 pandemic and the economic impact on the banking industry, the ECB published on 27 March 2020 recommendations on dividend distributions during the coronavirus pandemic and released updates on 27 July 2020 and 15 December 2020. Based on the recommendation from December 2020, the ECB "called on banks to refrain from or limit dividends until 30 September 2021" and that those limited dividends are "to remain below 15% of cumulated 2019–20 profits and not higher than 20 basis points of CET1 ratio". The Management Board deducted dividends of € 460 million from CET1 capital at the end of 2020. In line with the ECB recommendation from December 2020, the extraordinary general meeting of BAWAG Group in March 2021 approved a dividend payment of € 40 million (or € 0.45 per share) paid on 12 March 2021. The remaining € 420 million dividends (or € 4.72 per share) were paid out on 8 October 2021.

On 27 October 2021, the European Commission adopted a review of the CRR and CRD. This package finalizes the implementation of the international Basel III agreement (also known as Basel IV) in the EU, while taking into account the specific features of the EU's banking sector. Although the Basel Committee timetable calls for the reforms to be implemented on 1 January 2023 (already deferred by one year due to the COVID-19 pandemic), the EU announcement indicates an application date of 1 January 2025 with transitional rules applying over a further five-year period.

The main points of the banking package mainly consist of significant adjustments to the measurement methods for credit, market and operational risk. The key elements are:

- Introduction of an output floor, limiting the capital benefits from risk models
- Update of the standardized approach for credit risk
- Changes to the internal ratings-based (IRB) approach for credit risk
- A new operational risk framework
- Amendments to the market risk framework and the calculation of credit valuation adjustments (CVA)

BAWAG Group is also preparing for the upcoming ESG requirements and is monitoring the European requirements such as EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector. In order to meet the upcoming requirements, working groups were already established last year within BAWAG Group in addition to the already appointed ESG officers.

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

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	2021	2020 restated	Change	Change (%)
Net interest income	938.3	915.4	22.9	2.5
Net fee and commission income	282.1	254.8	27.3	10.7
Core revenues	**1,220.4**	**1,170.3**	**50.1**	**4.3**
Gains and losses on financial instruments and other operating income and expenses[1)]	8.1	3.4	4.7	>100
Operating income	**1,228.5**	**1,173.7**	**54.8**	**4.7**
Operating expenses[1)]	**(485.3)**	**(519.7)**	**34.4**	**(6.6)**
Pre-provision profit	**743.2**	**653.9**	**89.3**	**13.7**
Regulatory charges	(51.6)	(59.2)	7.6	(12.8)
Operating profit	**691.6**	**594.8**	**96.8**	**16.3**
Total risk costs	(95.0)	(224.6)	129.6	(57.7)
Share of the profit or loss of associates accounted for using the equity method	3.8	1.1	2.7	>100
Profit before tax	**600.4**	**371.2**	**229.2**	**61.7**
Income taxes	(120.4)	(85.7)	(34.7)	40.5
Profit after tax	**480.0**	**285.5**	**194.5**	**68.1**
Non-controlling interests	(0.1)	(0.3)	0.2	(66.7)
Net profit	**479.9**	**285.2**	**194.7**	**68.3**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 46.7 million for 2021. The item Operating expenses includes regulatory charges in the amount of € 4.9 million for 2021 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Group Management Report. In addition, 2021 other operating expenses in IFRS includes a non-recurring event amounting to € 29.4 million for regulatory charges relating to an extraordinary contribution to the Deposit Guarantee Scheme following the exit of Raiffeisen Banking Group.

Profit after tax increased by € 194.5 million, or 68.1%, to € 480.0 million in 2021. The underlying operating performance of the business remained strong during 2021, generating pre-provision profit of € 743.2 million. Total risk costs returned to more normalized levels of € 95.0 million.

Net interest income increased by € 22.9 million, or 2.5%, to € 938.3 million in 2021 resulting from higher interest-bearing assets and full-year TLTRO contribution.

Net fee and commission income increased by € 27.3 million, or 10.7%, compared to 2020 , mainly driven by the advisory business but still impacted by the COVID-19 restrictions, showing ongoing recovery in the second half of 2021.

Gains and losses on financial instruments and other operating income and expenses increased by € 4.7 million to € 8.1 million in 2021. Other operating income includes badwill related to the acquisition of DEPFA Group of € 86 million. This was partly offset by an extraordinary contribution to the Deposit Guarantee Scheme of € 29.4 million following the exit of Raiffeisen Banking Group.

Operating expenses decreased by 6.6% to € 485.3 million in 2021 as a result of ongoing efficiency measures.

Regulatory charges of € 51.6 million, down 12.8% versus prior year, reflecting steady covered deposits in the deposit guarantee scheme and recoveries from prior guarantee cases.

Total risk costs were € 95.0 million in 2021, a decrease of € 129.6 million, or 57.7%, compared to the previous year. 2020 risk costs included an additional reserve of approximately € 65 million which was taken to address COVID-19-related effects. Payment deferrals came down further during 2021 to 0.2% in the Retail & SME business (December 2020: 1.2%) and to 0.1% in the Corporates, Real Estate & Public Sector business (December 2020: 0.2%). BAWAG Group had ECL provisions of € 139 million, of which € 60.5 million was the result of a management overlay to ensure adequate provisioning in light of the economic uncertainty.

Total assets

in € million	2021	2020 restated	Change	Change (%)
Cash reserves	1,894	907	987	>100
Financial assets				
Held for trading	257	441	(184)	(41.7)
Fair value through profit or loss	611	693	(82)	(11.8)
Fair value through OCI	3,754	4,343	(589)	(13.6)
At amortized cost	48,448	44,759	3,689	8.2
Customers	34,963	32,129	2,834	8.8
Debt instruments	2,319	2,741	(422)	(15.4)
Credit institutions	11,166	9,889	1,277	12.9
Valuation adjustment on interest rate risk hedged portfolios	(94)	24	(118)	-
Hedging derivatives	178	405	(227)	(56.0)
Tangible non-current assets	394	475	(81)	(17.1)
Intangible non-current assets	535	552	(17)	(3.1)
Tax assets for current taxes	20	9	11	>100
Tax assets for deferred taxes	10	9	1	11.1
Other assets	318	370	(52)	(14.1)
Non-current assets held for sale	-	135	(135)	(100)
Total assets	**56,325**	**53,122**	**3,203**	**6.0**

The **cash reserves** increased to € 1.9 billion in 2021.

The position **at amortized cost** increased by € 3.7 billion, or 8.2%, compared to year-end 2020 and stood at € 48.4 billion as of 31 December 2021. Customer volumes increased by 8.8% with a strong performance in retail housing loans.

Non-current assets held for sale decreased by € 135 million compared to year-end 2020, due to the sale of properties in Germany.

Total liabilities and equity

in € million	2021	2020 restated	Change	Change (%)
Total liabilities	**51,947**	**48,768**	**3,179**	**6.5**
Financial liabilities				
Fair value through profit or loss	234	468	(234)	(50.0)
Held for trading	301	422	(121)	(28.7)
At amortized cost	49,666	45,944	3,722	8.1
Customers	35,148	32,265	2,883	8.9
Issued securities	7,157	6,157	1,000	16.2
Credit institutions	7,361	7,522	(161)	(2.1)
Financial liabilities associated with transferred assets	-	97	(97)	(100)
Valuation adjustment on interest rate risk hedged portfolios	165	358	(193)	(53.9)
Hedging derivatives	107	62	45	72.6
Provisions	382	425	(43)	(10.1)
Tax liabilities for current taxes	131	45	86	>100
Tax liabilities for deferred taxes	93	110	(17)	(15.5)
Other obligations	868	837	31	3.7
Total equity	**4,378**	**4,354**	**24**	**0.6**
Common equity	3,902	3,879	23	0.6
AT1 capital	471	471	-	-
Non-controlling interests	5	4	1	25.0
Total liabilities and equity	**56,325**	**53,122**	**3,203**	**6.0**

Financial liabilities at amortized cost increased by € 3.7 billion, or 8.1%, to € 49.7 billion as of 31 December 2021 compared to year-end 2020. Customer deposits increased by 8.9% to € 35.1 billion in 2021 and we issued three mortgage covered bonds with a total volume of € 1.5 billion.

Total equity including Additional Tier 1 capital stood at € 4.4 billion as of 31 December 2021. Following the initial down-payment of € 40 million on the total € 460 million earmarked dividends from 2019 and 2020 profits on 12 March 2021, the remaining € 420 million were paid out on 8 October 2021. The 2021 dividend of € 267 million is based on a 56% payout ratio of net profit.

CAPITAL AND LIQUIDITY POSITION

BAWAG Group's **CET1 target ratio** is at 12.25% on a fully loaded basis. The target CET1 ratio takes the regulatory capital requirements into account and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

	2022	2021
Pillar 1 minimum	4.5%	4.5%
Pillar 2 requirement (CET1 requirement; total requirement 2.0%)	1.125%	1.125%
Capital conservation buffer	2.5%	2.5%
Systemic risk buffer	0.5%	1.0%
O-SII buffer[1]	0.5%	0.0%
Countercylical buffer (based on year-end exposure of 2021)	0.01%	0.01%
Overall capital requirement (OCR)	**9.14%**	**9.14%**
Pillar 2 guidance (P2G)	0.75%	1.00%
Overall capital requirement including P2G	**9.89%**	**10.14%**
CET1 target ratio	**12.25%**	**12.25%**
Management buffer to OCR (in basis points)	311	311
Management buffer to OCR including P2G (in basis points)	236	211

1) According to CRDV, Systemic risk buffer and O-SII buffer are considered additive and not the higher of. Due to this change, those two buffers were both reduced from 1.0% to 0.5%. This change is applicable since the BWG was published on 28.05.2021.

As of 31 December 2021, a fully loaded CET1 ratio of 15.0%, a fully loaded Tier 1 ratio of 17.3% and a fully loaded total capital ratio of 20.4% exceed both the target ratio and the regulatory requirements. These ratios consider the deduction of the 2021 dividend of € 267 million, which will be proposed to the Annual General Meeting on 28 March 2022. The 2021 dividend is based on a 56% payout ratio of net profit.

In 2021, we paid € 460 million dividends for 2019/2020 following the lift of the recommendation of the European Central Bank on dividend distributions during the COVID-19 pandemic in September.

	2021	2020
CET1 capital (in € million)	3,012	2,802
Risk-weighted assets (in € million)	20,135	20,073
CET1 ratio (post dividend)	**15.0%**	**14.0%**
Tier1 ratio (post dividend)	**17.3%**	**16.3%**
Total capital ratio (post dividend)	**20.4%**	**19.6%**

Based on the fully loaded capital ratios as of 31 December 2021, the **maximum distributable amount** above the regulatory requirements for 2021 (Pillar 1 minimum ratios, Pillar 2 CET1 requirement and combined buffer requirements) is € 1.17 billion (after taking € 267 million dividend for 2021 into account). **Available distributable items** as defined in Art. 4.1 (128) CRR on the level of BAWAG Group AG amount to approximately € 3.4 billion as of 31 December 2021.

Capital distribution policy

Maintaining a strong capital base with a conservative buffer above regulatory requirements is a strategic priority for BAWAG Group. At the same time, we want to offer a sustainable and balanced return to our shareholders. Since the IPO in 2017, we have distributed € 1.13 billion of capital through dividends and share buybacks, which equals approximately 25% of the market capitalization of BAWAG Group as of the end of 2021. At our investor day in September 2021, we communicated our updated capital distribution plans:

Dividend – 55% payout (from financial year 2022 onwards)
From financial year 2022 onwards, we target a dividend payout of 55% of net profit, barring unforeseen circumstances. Dividends will be distributed annually after the Annual General Meeting in line with the respective shareholders' resolution. Dividend distributions will comply with regulatory and/or corporate law restrictions and take into account recommendations made by a competent regulatory authority.

Share buyback 2022
In line with our capital management framework to distribute excess capital to our shareholders above our CET1 target of 12.25%, we are targeting a share buyback in 2022 in an amount of up to € 425 million, subject to regulatory approvals.

Additional capital
Any additional capital will be allocated to business growth, M&A, and/or share buybacks/special dividends, subject to our routine annual assessment.

Payout for financial year 2021	
Dividend payout ratio dividend policy / actual payout	50% / 56%
Dividend which will be proposed to Annual General Meeting	€ 267 million
Dividend per share	€ 3.00

Developments for / in 2022	
Targeted dividend payout ratio	55%
Share buyback in 2022 (subject to regulatory approval)	up to €425 million

Developments in other types of funding

A key role of our activities is transforming deposits and other types of funding into loans. **Customer deposits** remain a key pillar of our funding strategy. As of year-end 2021, approximately 60% of our assets were funded via customer deposits. Customer deposit funding is complemented by diversified capital market funding. Maintaining a strong capital base, customer deposit funding, and solid access to capital markets is a strategic priority for BAWAG Group.

In addition to our strong deposit and equity base, we are active in the international capital markets. While our AT1 and T2 capital requirements have been filled in 2020, BAWAG Group has been an active issuer in the covered bond space with three successful benchmark placements of € 500 million each during 2021. We introduced a green bond framework in 2021 and therefore one of the covered bonds was a green issuance. We plan a continuous issuance activity of covered bonds, subject to market conditions, matching the targeted growth in mortgages.

BAWAG Group also participated in the ECB's TLTRO III program with the maximum capacity of € 6.4 billion.

MREL

In the first quarter 2022, BAWAG Group received its new MREL decision from the Single Resolution Board ("SRB"). It is based on a single point of entry resolution strategy with BAWAG P.S.K. AG as the resolution entity. The MREL requirement (including combined buffer requirement[1)]) has been set at 25.7% of RWA on the consolidated level of BAWAG P.S.K. AG with the final requirement being applicable from 1 January 2024. The MREL decision also sets a binding interim target of 22.0% of RWA (including combined buffer requirement[1)]), which needs to be met by 1 January 2022. The current MREL decision does not contain a subordination requirement.

As of 31 December 2021, BAWAG reported MREL-eligible instruments amounting to 25.7%[2)] of RWA, thereby already exceeding the binding interim target applicable from 1 January 2022.

Liquidity management

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 239% at the end of 2021. BAWAG Group thereby significantly exceeds the regulatory LCR requirement of 100%.

1) based on 2021 year-end figures 2)Number on BAWAG P.S.K. level

KEY QUARTERLY PERFORMANCE INDICATORS

in € million	**Q4 2021**	Q3 2021	Q2 2021	Q1 2021	Q4 2020*	**2021**	2020 restated*
Net interest income	243.3	233.8	231.6	229.6	233.6	938.3	915.4
Net fee and commission income	72.5	71.7	70.1	67.7	64.3	282.1	254.8
Core revenues	315.8	305.5	301.7	297.3	297.9	1,220.4	1,170.3
Operating income	317.7	307.2	302.5	301.1	302.3	1,228.5	1,173.7
Operating expenses	(121.8)	(120.4)	(121.2)	(121.8)	(144.7)	(485.3)	(519.7)
Pre-provision profit	195.9	186.8	181.3	179.2	157.6	743.2	653.9
Regulatory charges	8.9	(4.3)	(2.0)	(54.2)	(6.1)	(51.6)	(59.2)
Total risk costs	(20.3)	(21.5)	(23.8)	(29.3)	(45.3)	(95.0)	(224.6)
Profit before tax	186.2	161.6	156.2	96.5	107.3	600.4	371.2
Income taxes	(22.3)	(38.1)	(37.0)	(23.0)	(24.5)	(120.4)	(85.7)
Net profit	163.9	123.2	119.1	73.7	83.1	479.9	285.2

(figures annualized)							
Return on common equity[1)]	18.1%	13.9%	13.7%	8.6%	9.7%	13.6%	8.5%
Return on tangible common equity[1)]	**21.3%**	**16.4%**	**16.3%**	**10.2%**	**11.6%**	**16.1%**	**10.2%**
Net interest margin	2.26%	2.24%	2.28%	2.28%	2.27%	2.27%	2.29%
Cost-income ratio	38.3%	39.2%	40.1%	40.5%	47.9%	39.5%	44.3%
Risk costs / interest-bearing assets	0.17%	0.21%	0.23%	0.29%	0.44%	0.23%	0.56%
Tax rate[2)]	12.0%	23.6%	23.7%	23.8%	22.8%	20.1%	23.1%

1) Excluding AT1 capital and dividends
2) 2021 tax rate lower due to badwill from DEPFA Group acquisition in the fourth quarter 2021
Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on pages 345-347.

BUSINESS SEGMENTS

RETAIL & SME

Strategy

BAWAG Group is one of the leading Retail & SME financial service providers across the DACH/NL-region with Austria as our foundation. Over the past few years, we have implemented an organic and inorganic growth strategy to expand the business across new products and channels. BAWAG Group employs a multi-brand and multi-channel strategy specific to the geography, product offering and market segment. These brands range from our traditional BAWAG P.S.K. and easybank brands in Austria, our organically grown brand, Qlick, in Germany and to acquired franchises such as easyleasing, the acquired business of Hello bank! Austria (will be rebranded to easybank brand) and start:bausparkasse in Austria. In Germany, we acquired and operate under the Health Coevo AG, BFL Leasing and start:bausparkasse brands. In Switzerland, our factoring business is under the Zahnärztekasse brand. Our overarching strategy is to employ a multi-branded business model leveraging simple and efficient products and services, various distribution channels, standardized processes, consistent risk-adjusted pricing, digital innovation, data analytics and niche partnerships to provide the best financial solutions to our customers. Our strategic growth pillars are:

1. A multi-brand and multi-channel lending & advisory platform across core markets
2. Serving 2.2 million loyal customers through high-quality advisory and advanced analytics
3. Continuous investments driving growth and efficiency across the business
4. Continue to identify new market opportunities, products, partnerships & strategic acquisitions

Across each of our brands, we drive a consistent strategy revolving around our 2.2 million customers, ensuring the best products and services are offered in the most efficient and frictionless manner. We deploy a sales-based organizational model where customer-facing teams are in the field, while centralizing middle and back office functions leveraging the Group platform. This results in enhanced operational rigor, streamlined processes, and helps drive efficiency across the Group.

The focus on an efficient and simple delivery of our core lending and savings products occurs through our own networks, strategic partners and various digital channels. We operate 3 main segments within **Retail & SME** where teams are aligned based on product offerings and not by geography and/or channel: **Transactional & Advisory Banking, Retail Lending & Leasing** and **SME & Specialty Finance.**

Our focus continues to be on providing customers quality products and services they have come to expect and preserving the differentiated value propositions of our separate brands in a well-coordinated manner that ensures we maintain a single Group mindset as we address the DACH/NL-region and other select developed markets.

Across Austria and Germany, we currently operate less than 90 branches primarily for our **Transactional & Advisory Banking customers**. Our strength is founded in our large share of primary relationships focused on current accounts, credit cards, payments, savings, brokerage, funds and insurance advisory and private banking. This fee-driven business is focused on leveraging our high-quality and high-touch advisory with over 800 sales & sales support advisors with deep personal relationships, allowing us to understand our customer needs and deliver tailored offerings via our simple and transparent products and services. Over the years, as customer behavior has evolved, we have rapidly shifted our customers onto digital banking channels, primarily in the non-advisory daily banking needs. We will continue to invest in our advisory capacity, align our physical footprint to the constantly changing customer behavior and invest in enhancing our overall product and service offerings. The transformation of financial services will continue to move closer to the customers' everyday experiences through mobile and e-banking, online advisory and partnerships providing our customers the necessary financial products and services to meet their financial goals. With the recent acquisition of Hello bank! Austria, we plan to further enhance our product offering in the online retail brokerage market, an area we see an increasing demand and interest in from our Austrian customers.

Our **Retail Lending & Leasing** product offering consists of secured lending products such as mortgages, building society housing products, auto loans and auto leases as well as unsecured consumer loans. These products are distributed through a variety of channels (both traditional and digital) and through partnerships across the DACH/NL-region. Our processes are highly automated, enabling us to have an efficient origination process from front-to-back in the markets we compete. This provides for a simple, easy and straightforward customer experience. Our 100+ sales & sales support advisors are physically located within our local markets, close to our partners and end customers, while our back office is centralized in our operations factory, which enables us to ensure timely responses to our customers. In each of our markets, we try to compete on enhanced customer experiences and responsive turnaround times.

Our **SME & Specialty Finance** offerings span across Austria, Germany and Switzerland, consisting of factoring, equipment leasing and small-business banking (current accounts, lending and securities). We run multi-branded strategies across geographies with 150+ specialized sales & sales support advisors in the field. While our sales organizations are split by experts in certain core products, all our sales professionals are also equipped to sell any of our SME & Specialty Finance products. Our products are distributed across various channels including our branch network, digital channels and/or partner relationships. Our end customers range from private entrepreneurs, domestic and international family run businesses to small cap public companies.

As we continue to grow our Retail & SME franchise, we plan for over 80% core revenue contribution (versus 76% in 2021) from our business segment by 2025.

2021 Business Review

During 2021, the Retail & SME segment delivered a profit before tax of € 483.9 million, a return on tangible common equity of 27.4% and a cost-income ratio of 38.4%. While the first months of the year were still dominated by the pandemic, we saw a gradual normalization of the business activity from the second quarter onwards. At the same time, we continued to execute on our strategic initiatives.

We delivered an average asset growth of 8.8% in 2021, mainly from mortgages and in line with our overall strategy to focus on secured lending. This is a further testament to the resilience of our business model, depth of our customer base and the rigor of our underwriting standards, where we continue to maintain disciplined pricing and focus on risk-adjusted returns to ensure responsible and profitable growth. The trend in asset quality continued to improve across our customer base, with payment holidays at 0.2% as of year end 2021 (December 2020: 1.2%).

From the onset of the COVID-19 pandemic, our response across the Group was to stand by our customers and aid wherever necessary. During this time, 100% of our branch network remained open, also during the partial lockdowns we had in 2021. Even with the transition to a home office model, our customer service centers maintained full capacity throughout the pandemic with some of the shortest wait times compared to the competition.

Despite these challenging times, our teams continued to execute on our strategy around simplification. We continued to optimize our footprint, adapt to changing customer behavior, and to make our operations more simple, straightforward and more efficient.

Outlook

We continue to execute on our long-term strategy centered around our 2.2 million customers, ensuring the best products and services are offered in the most efficient and simple manner. Our simplified operating model and focus on efficiency provides a cost advantage, enabling us to compete in low-risk but highly competitive markets and invest more to the benefit of both customers and shareholders. Customer behavior has been returning to normal pre-crisis levels in line with the wider economy, which we expect to continue through 2022. While this pandemic has changed us forever, our promise to our customers remains the same – providing simple, transparent and reliable financial products and services they need.

Financial results

Income metrics (in € million)	2021	2020	Change (%)	Q4 2021	Q4 2020	Change (%)
Net interest income	660.1	664.1	(0.6)	168.2	164.4	2.3
Net fee and commission income	251.1	218.6	14.9	64.7	54.9	17.9
Core revenues	**911.2**	**882.7**	**3.2**	**232.8**	**219.4**	**6.1**
Gains and losses from financial instruments & other operating income and expenses	5.8	10.2	(43.1)	1.7	3.3	(48.5)
Operating income	**917.0**	**892.9**	**2.7**	**234.6**	**222.7**	**5.3**
Operating expenses	**(351.7)**	**(360.8)**	**(2.5)**	**(88.0)**	**(90.4)**	**(2.7)**
Pre-provision profit	**565.4**	**532.2**	**6.2**	**146.6**	**132.2**	**10.9**
Regulatory charges	(21.4)	(31.4)	(31.8)	10.8	(4.6)	-
Total risk costs	(60.0)	(126.3)	(52.5)	(14.3)	(21.4)	(33.2)
Profit before tax	**483.9**	**374.4**	**29.2**	**143.1**	**106.3**	**34.6**
Income taxes	(121.0)	(93.6)	29.3	(35.8)	(26.6)	34.6
Net profit	**362.9**	**280.8**	**29.2**	**107.3**	**79.7**	**34.6**

Key ratios	2021	2020	Change (pts.)	Q4 2021	Q4 2020	Change (pts.)
Return on tangible common equity	27.4%	22.4%	5.0	31.0%	25.3%	5.7
Net interest margin	3.24%	3.55%	(0.31)	3.20%	3.42%	(0.22)
Cost-income ratio	38.4%	40.4%	(2.0)	37.5%	40.6%	(3.1)
Risk costs / interest-bearing assets	0.29%	0.68%	(0.39)	0.27%	0.44%	(0.17)
NPL ratio	1.9%	1.9%	0.0	1.9%	1.9%	0.0

Business volumes (in € million)	2021	2020	Change (%)
Assets (average)	20,344	18,703	8.8
Risk-weighted assets	8,105	8,029	0.9
Customer deposits (average)	26,839	24,949	7.6
Own issues	5,331	4,252	25.4

CORPORATES, REAL ESTATE & PUBLIC SECTOR

Overview & Strategy

The **Corporates, Real Estate & Public Sector** segment focuses on domestic and international lending, deposits and payment services. Across the segment, we focus on risk-adjusted returns and conservative underwriting.

Our regional focus in the **Corporates and Real Estate business** is on the DACH/NL region as well as developed and mature markets in Western Europe and the United States. We primarily target senior secured lending to strong sponsors on cash flow generating companies and assets, while avoiding blind volume growth.

In the **Public Sector** business, our focus is on sovereigns, federal state, and municipalities in Austria and Germany. Our goal is to maintain the strong market position in Austria and retain our cash management business. We do this by focusing on payments with existing top clients, acquiring new clients for our payments business, focusing on specific tenders and cross-selling to existing borrowers.

2021 Business Review

During 2021, the Corporates, Real Estate & Public Sector segment delivered a profit before tax of € 203.4 million, a return on tangible common equity of 16.5% and a cost-income ratio of 22.2%. Core revenues increased by 6.3% in 2021, while maintaining our focus on risk-adjusted returns. We delivered net asset growth as per year end of 7% and 2% growth on average, as we funded a solid pipeline of commitments during the second half of 2021 primarily across real estate and public sector lending.

While the outbreak of COVID-19 resulted in subdued demand for real estate and portfolio financing in 2020, we saw pent-up demand in 2021. However, our risk appetite on certain transactions has become even more cautious with select industries post-COVID.

Outlook

We continue to see a solid lending pipeline with diversified opportunities in 2022. However, competition for defensive, high-quality assets continues to remain high. Our focus will be maintaining our disciplined and conservative underwriting and focusing on risk-adjusted returns without ever chasing blind volume growth. We anticipate this year will bring greater volatility as central banks across our core markets begin a process of increasing interest rates and unwinding their balance sheets after many years of quantitative easing. There are both risks and opportunities in this process, but we are cautiously optimistic that this will bring back greater discipline into the credit markets with a general repricing of risk.

Financial results

Income metrics (in € million)	2021	2020	Change (%)	Q4 2021	Q4 2020	Change (%)
Net interest income	258.4	236.1	9.4	70.9	59.0	20.2
Net fee and commission income	34.0	38.9	(12.6)	8.6	10.0	(14.0)
Core revenues	**292.4**	**275.1**	**6.3**	**79.4**	**69.0**	**15.1**
Gains and losses from financial instruments & other operating income and expenses	19.9	1.9	>100	5.3	1.1	>100
Operating income	**312.4**	**276.9**	**12.8**	**84.7**	**70.1**	**20.8**
Operating expenses	**(69.5)**	**(80.4)**	**(13.6)**	**(16.6)**	**(19.1)**	**(13.1)**
Pre-provision profit	**242.9**	**196.5**	**23.6**	**68.1**	**51.0**	**33.5**
Regulatory charges	(10.4)	(9.3)	11.8	(1.1)	(0.9)	22.2
Total risk costs	(29.0)	(80.1)	(63.8)	1.9	(19.1)	-
Profit before tax	**203.4**	**107.1**	**89.9**	**68.9**	**31.1**	**>100**
Income taxes	(50.9)	(26.8)	89.9	(17.2)	(7.8)	>100
Net profit	**152.5**	**80.3**	**89.9**	**51.7**	**23.3**	**>100**

Key ratios	2021	2020	Change (pts.)	Q4 2021	Q4 2020	Change (pts.)
Return on tangible common equity	16.5%	9.3%	7.2	21.4%	10.6%	10.8
Net interest margin	1.83%	1.70%	0.13	1.89%	1.67%	0.22
Cost-income ratio	22.2%	29.0%	(6.8)	19.6%	27.2%	(7.6)
Risk costs / interest-bearing assets	0.21%	0.58%	(0.37)	(0.05)%	0.54%	-
NPL ratio	0.8%	1.2%	(0.4)	0.8%	1.2%	(0.4)

Business volumes (in € million)	2021	2020	Change (%)
Assets (average)	14,126	13,853	2.0
Risk-weighted assets	7,894	7,431	6.2
Customer deposits (average)	5,413	5,154	5.0

CORPORATE CENTER AND TREASURY

Overview and strategy

The **Corporate Center** contains central functions for BAWAG Group. Hence, the P&L comprises the funds transfer pricing (FTP) result as an outcome of the Asset & Liability Management function, one-off and project-related operating expenses and other one-off items. The balance sheet mainly includes non-interest-bearing assets, liabilities and equity.

Treasury continued to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our hold to collect and sell portfolio to preserve the flexibility of redeployment into customer loans or other balance sheet management activities. The overall composition of the portfolio reflects our strategy of maintaining high credit quality, short/medium duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility. We have generally been underinvested in our securities portfolio given the significant tightening of credit spreads over the years and lower risk-adjusted returns.

2021 Business Review

As of 31 December 2021, the investment portfolio amounted to € 5.1 billion and the liquidity reserve was € 13.1 billion. The investment portfolio's average maturity was four years, comprised 99% of investment grade rated securities, of which 72% were rated in the single A category or higher. The portfolio had no direct exposure to China, Russia or South-Eastern Europe. Exposure to Southern Europe continues to be moderate and comprises shorter-term, liquid bonds of well-known issuers.

The Corporate Center included consolidation effects from the acquisition of DEPFA Group (badwill and other valuation effects according to application of IFRS 3, restructuring).

Outlook

Treasury & Markets will continue to focus on keeping streamlined processes in support of BAWAG Group's core operating activities and customer needs. Central Banks' shift from accommodative to increasingly hawkish monetary approach, the potential tapering, inflation and COVID immunization are likely to continue to be the key themes and drivers of the financial markets. We are committed to maintaining high credit quality and highly liquid investments with solid diversification.

Financial results

Income metrics (in € million)	2021	2020 restated*	Change (%)	Q4 2021	Q4 2020*	Change (%)
Net interest income	19.9	15.2	30.9	4.2	10.2	(58.8)
Net fee and commission income	(3.1)	(2.7)	(14.8)	(0.7)	(0.6)	(16.7)
Core revenues	**16.8**	**12.5**	**34.4**	**3.5**	**9.5**	**(63.2)**
Gains and losses from financial instruments & other operating income and expenses	(17.6)	(8.7)	(100)	(5.1)	0.0	(100)
Operating income	**(0.9)**	**3.9**	**-**	**(1.6)**	**9.5**	**-**
Operating expenses	**(64.1)**	**(78.5)**	**(18.3)**	**(17.3)**	**(35.2)**	**(50.9)**
Pre-provision profit	**(65.0)**	**(74.8)**	**13.1**	**(18.9)**	**(25.6)**	**26.2**
Regulatory charges	(19.8)	(18.5)	7.0	(0.8)	(0.7)	14.3
Total risk costs	(6.0)	(18.2)	(67.0)	(7.9)	(4.8)	64.6
Profit before tax	**(86.9)**	**(110.3)**	**21.2**	**(25.9)**	**(30.0)**	**13.7**
Income taxes	51.5	34.7	48.4	30.7	9.8	>100
Net profit	**(35.6)**	**(75.9)**	**53.1**	**4.8**	**(20.0)**	**-**

Business volumes (in € million)	2021	2020	Change (%)
Assets	20,297	19,962	1.7
Risk-weighted assets	4,137	4,613	(10.3)
Equity	4,106	3,889	5.6
Own issues and other liabilities	4,637	6,193	(25.1)

OUTLOOK AND TARGETS

During the fourth quarter of 2021 and the start of 2022 we have witnessed greater market volatility. This will most likely be a constant as central banks across the globe begin raising interest rates and unwinding their balance sheets to address significant inflationary pressures. No company will be immune from these developments. This is coupled with intensifying geopolitical, climate, and health risks translating to greater volatility, which require us to be more vigilant in how we manage these risks. However, the resilience of our franchise lies in our ability to deliver results across all cycles as we are built for all seasons. The benefits of creating a scalable and efficient banking platform that can deliver positive operating leverage are more evident today than ever. In the past this allowed us to deliver mid-teen returns in a deflationary negative interest rate environment defined by subdued growth and a benign credit environment. We believe this will change course with rising interest rates, significant inflationary headwinds, and the repricing of risk. Going forward we will be able to demonstrate continued positive operating leverage as we see greater revenue growth opportunities while continuing to reduce costs. Our approach is consistent, focus on the things that we can control, be a disciplined lender, maintain a conservative risk appetite, and only pursue profitable growth.

In our outlook for 2022, we see full year core revenues growing by over 4% and operating expenses down by approximately 2%. We expect regulatory charges to be below € 50 million and total risk costs to amount approximately 20 basis points risk cost ratio, without benefit of any reserve releases. We are targeting a profit before tax over € 675 million. In terms of return targets, we target a RoTCE over 17% and a CIR under 38% in 2022.

Financial targets	2022 Outlook	2021
Core revenues	>4%	€ 1,220 million
Operating expenses	~(2%)	€ 485 million
Regulatory charges	< € 50 million	€ 52 million
Risk cost ratio	~20 basis points	23 basis points
Profit before tax	> € 675 million	€ 600 million

Return targets	2022 Outlook	2021
Return on tangible common equity	>17%	16%
Cost-income ratio	<38%	39%

Note: Financial and return targets are excluding any outcome of the City of Linz case. Dividend payout will be based on net profit excluding a City of Linz case impact.

At our investor day in September 2021, we presented our new 4-year Plan:

Financial targets			2025
Profit before tax			>€ 750 million
Earnings per share			>€ 7.25
Dividend per share			>€ 4.00
Return targets			2022 & beyond
Return on tangible common equity			>17%
Cost/Income ratio			<38%
ESG targets		Baseline 2020	2025
CO2 emissions (own scope 1&2 emissions)		~3,200tCO_2	>50% reduction
Women quota - Supervisory Board - Senior Leadership Team		 17% 15%	 33% 33%
Green lending new business		€ 0.8 billion	>€ 1.6 billion

Note: Financial and return targets are excluding any outcome of the City of Linz case. Dividend payout will be based on net profit excluding a City of Linz case impact.

In terms of capital distribution, we will increase the dividend payout ratio to 55% starting from financial year 2022, resulting in a targeted dividend distribution of ~€ 1.4 billion for the financial years 2021 through 2025. In line with our capital management framework to distribute excess capital to our shareholders, we are targeting a share buyback in 2022 of up to € 425 million, subject to regulatory approvals. Additional capital through 2025 of ~€ 0.8 billion will be allocated to business growth, M&A, and/or share buybacks and special dividends, subject to our routine annual assessment.

The Management Board deducted dividends of € 267 million from CET1 capital at the end of 2021, which will be proposed to the Annual General Meeting on 28 March 2022. The dividend is based on a 56% payout ratio of net profit.

Our strong operating performance during the pandemic so far was a true testament to the resilience of BAWAG Group's franchise and strategic focus. We will continue to maintain our low-risk strategy focused on the DACH/NL region, Western Europe and United States, providing our customers with simple, straightforward and reliable financial products and services that address our customers' needs.

RISK MANAGEMENT

CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

With respect to the explanations on financial and legal risks at BAWAG Group as well as the goals and methods of risk management, please refer to the information in the Notes section. For policies on our investment standards in the light of ESG please refer to our website https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG, where the latest policies are available.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

INTRODUCTION

The internal control system (ICS) relates to all processes designed by management and executed within BAWAG Group to facilitate the monitoring and control of

- the effectiveness and efficiency of its operating activities (including protecting assets against losses resulting from damages or misconduct);
- the reliability of the financial reports;
- BAWAG Group's compliance with applicable material legal regulations.

The risk management system covers all processes that serve to identify, analyze and measure risks and that serve to determine and implement appropriate measures that will ensure that BAWAG Group can still reach its objectives when risks are incurred.

According to the internationally recognized COSO framework for the design of risk management systems and the EBA Guideline for Internal Governance (EBA/GL/2021/05), the internal control system is one part of an organization-wide risk management system. Other aspects include the management and monitoring of risks that can affect the correctness and reliability of the accounting records.

BAWAG Group's management is responsible for the fundamental design, implementation and ongoing adaptation and refinement of the internal control and risk management policies, methods and system as well as for the alignment of these systems and processes with the existing requirements in a way that takes account of its strategy, the scope of its business and other relevant economic and organizational aspects.

Control environment

BAWAG Group's Code of Conduct describes the corporate values and is applicable to all employees. BAWAG Group's corporate culture is based on respect and teamwork, customer focus and image as well as integrity and compliance.

A conscious approach towards compliance topics as well as a sustainable risk culture are established to guide all employees to handle risks within their responsibility. The core of BAWAG Group's risk culture are internal provisions and above all open communication among the employees to ensure that they all have a broad understanding of risks that BAWAG Group faces.

In addition, the policy on the internal control system provides clear guidance and applies to all employees within BAWAG Group and defines the ICS as the sum of all systematically created processual, technical, structural or organizational principles, procedures and (control) measures at the Bank. This includes the organizational guidelines for the entire operational management and the defined control mechanisms and control tasks of the process owner.

The Accounting division is responsible for BAWAG Group's accounting records. Some of the newly acquired subsidiaries operate their own accounting departments, which work in close cooperation with the Accounting division. The primary responsibilities of the Accounting division are preparing the annual and interim financial statements as well as the annual financial statements of all domestic subsidiaries, maintaining the financial and consolidated accounts and regulatory reporting of domestic bank subsidiaries.

The Accounting division is responsible for setting directives on all matters of accounting and exercises the authority to ensure the application of uniform standards across BAWAG Group. To support the operational implementation, corporate guidelines were drawn up. This policy applies to all consolidated subsidiaries. For all other holdings, the adherence to these principles and standards is enforced and implemented as far as possible.

Risk assessment and control measures

BAWAG Group's internal control and risk management systems contain instructions and processes for the workflows

- to ensure the correct and appropriate documentation of business activities, including the use of assets;
- to record all information required for the preparation of the period-end financial statements; and
- to prevent unauthorized purchases or sales that could have a material effect on the financial statements.

The Accounting division is integrated into BAWAG Group's entire organizational, structural and operational workflows. Customer and transaction data are generally collected in the market and operating units, and supplementary information is entered by the risk units. The elements of this information that are needed for the accounting records are usually transferred automatically into the electronic accounting systems. In this, the Accounting division fulfills a control and monitoring function to ensure that the automatically transmitted data is handled properly in accordance with the applicable accounting rules, and also completes the various booking entry and other steps needed to prepare the financial statements.

The accounting of BAWAG Group AG, BAWAG P.S.K. AG and the significant domestic subsidiaries is contained in SAP New GL. The preparation of the consolidated financial statements under IFRS is done in SAP-ECCS, which receives the values of the individual financial statements of consolidated companies through interfaces. The accounting and all upstream systems are protected by access permission and automatic and obligatory manual control steps provided for in the process.

Information and communication

A comprehensive report about the balance sheet, the profit or loss statement and other financial and risk data is submitted to the Supervisory Board at least every quarter. Highly detailed reports about this information are also submitted to the Management Board on a regular (monthly or more frequent) basis. Given the increased importance of ESG, the Management Board receives updates on risks arising from these factors on a regular basis.

Monitoring

In order to limit or eliminate operational risks and control deficiencies, risk identification is performed annually through Risk Control Self Assessments (RCSA). Risk minimization measures are tracked proactively by the department data governance, OpRisk and ESG with regard to implementation. Loss incidents are documented separately and reported on a regular basis. Loss incidents are also used to identify necessary improvements in the systems and in the monitoring and control measures.

BAWAG Group's Internal Audit division conducts regular accounting system audits. The findings of these audits are also used to make ongoing improvements to the internal control and risk management systems as they pertain to the accounting process.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Per 31 December 2021, BAWAG Group AG's share capital amounted to € 89,142,237 and was divided into 89,142,237 non-par value bearer shares, which carry equal participation interest in the share capital of BAWAG Group AG.

BAWAG Group AG's Articles of Association contain no restrictions concerning voting rights or the transfer of shares. Notwithstanding the above, certain shareholders of BAWAG Group AG have concluded a deconsolidation agreement (*Entherrschungsverträge*) with BAWAG Group AG:

- BAWAG Group AG on the one hand and (i) GoldenTree HoldCo Lux 1 S.à r.l., (ii) GoldenTree HoldCo Lux 2 S.à. r.l., (iii) GoldenTree HoldCo Lux 3 S.à r.l., (iv) GoldenTree Asset Management Dutch BV, (v) GN3 SIP LP and (vi) Stichting PGGM Depositary, (jointly the "GoldenTree Shareholders") on the other hand, have entered into a deconsolidation agreement (*Entherrschungsvertrag*) (the "GoldenTree Deconsolidation Agreement"). In the GoldenTree Deconsolidation Agreement, the GoldenTree Shareholders undertook vis-à-vis BAWAG Group AG certain self-restraints. These self-restraints apply in respect of the election and dismissal of Supervisory Board members, any vote of no-confidence and management matters that are brought before the general meeting of BAWAG Group AG. With respect to such matters, the GoldenTree Shareholders shall exercise their voting rights only up to an aggregate maximum number equal to those voting rights of all other shareholders present at the respective general meeting minus 10,000 votes. This self-restraint undertaking only applies if the GoldenTree Shareholders were deemed to be the largest shareholder represented at such a general meeting. The GoldenTree Shareholders further undertook not to vote for the appointment (election) of Supervisory Board members of BAWAG Group AG who are not independent of GoldenTree and not to influence the composition of a board and any member of a board (other than by exercising GoldenTree Holdco Lux 2 S.à r.l.'s delegation right). If shares in BAWAG Group AG are to be transferred by a GoldenTree Shareholder to an affiliate or other entity controlled by GoldenTree, such transfer may only be effected if the transferee accepts to become a party to the GoldenTree Deconsolidation Agreement. Finally, the GoldenTree Shareholders are obliged to vote for the abolishment of GoldenTree Holdco Lux 2 S.à r.l.'s delegation right if the aggregated shareholding of the GoldenTree Shareholders falls below 20% of BAWAG Group AG's share capital for at least four consecutive weeks.

  Based on BAWAG Group AG's information pursuant to the major holdings notifications as per 18 February 2022, no shareholder held, individually or jointly, more than 10% of BAWAG Group AG's share capital. As per 31 December 2021, GoldenTree Shareholders held 10,753,214 shares in BAWAG Group AG, corresponding to approximately 12.1% of BAWAG Group AG's share capital, whereas no single GoldenTree Shareholder held shares corresponding to at least 10% of BAWAG Group AG's share capital. The aggregate shareholding of the GoldenTree Shareholders decreased to less than 5% following the sell-down in early January 2022.

Pursuant to BAWAG Group AG's Articles of Association, the shareholder GoldenTree Holdco Lux 2 S.à r.l. has the right to delegate one of the members of the Supervisory Board according to Section 88 Austrian Stock Corporation Act (*Aktiengesetz, AktG*), as long as it holds a direct participation in BAWAG Group AG of at least one share. Since the aggregated participation of GoldenTree fell below 20% of BAWAG Group AG's share capital, BAWAG Group AG will, in line with the provisions of the GoldenTree Deconsolidation Agreement, propose to the next Annual General Meeting to abolish the delegation right of GoldenTree Holdco Lux 2 S.à r.l.

There is no control of voting rights arising from interests held by employees in the share capital.

Pursuant to Section 7 of the Articles of Association, members of BAWAG Group AG's Management Board and Supervisory Board must fulfill certain personal requirements in order to be eligible.

- Members of the Management Board and Supervisory Board must have adequate professional and personal qualifications and meet the legal requirements. As for the election of board members, attention shall be paid to ensuring the professionally balanced composition of boards and the members' independence.

- Without prejudice to more extensive legal provisions, the following persons shall be excluded from membership in the Management Board and in the Supervisory Board of BAWAG Group AG:
  - employees of BAWAG Group AG, with the exception of staff representatives who are appointed to the Supervisory Board in accordance with the provisions of the Works Constitution Act (*Arbeitsverfassungsgesetz, ArbVG*);
  - members of the management boards and employees of Austrian credit institutions not belonging to the BAWAG P.S.K. group; furthermore, persons holding an interest of over 5% of the voting capital of Austrian credit institutions not belonging to the BAWAG P.S.K. group, unless said credit institutions or persons themselves hold an interest of at least 2% of BAWAG Group AG's voting capital;
  - persons who are directly and immediately related or related by marriage to a member of the Management Board, the Supervisory Board or an employee of BAWAG Group AG or who are the spouse of a member of the Management Board or Supervisory Board (whereas this ground for exclusion is only applicable to the members of the Management Board and to the elected members of the Supervisory Board);
  - persons who are prevented from carrying on a trade by Section 13 Para 1 to 6 of the Trade Act of 1994 (*Gewerbeordnung, GewO*).

Pursuant to Section 10.6 No 1 of the Articles of Association of BAWAG Group AG, the general meetings shall, unless the law mandatorily stipulates a different majority, pass their resolutions by simple majority of the votes cast, and, in cases where a majority of the capital is required, by simple majority of the share capital represented at the time the resolution is passed.

With regard to the authorization of the Management Board to issue or acquire shares, the following applies:

- Pursuant to Section 5 No 7 of the Articles of Association of BAWAG Group AG, the Management Board shall be authorized, with the consent of the Supervisory Board, to increase the share capital within five years from the date of the registration of the amendment to the Articles of Association in the commercial register, also in several tranches against contributions in cash and/or contributions in kind by up to € 40,000,000 by issuing up to 40,000,000 new bearer shares with no par value and to define the issue price conditions in agreement with the Supervisory Board (Authorized Capital 2019).

- The statutory subscription right of the shareholders to the new shares issued from the Authorized Capital 2019 shall be excluded (direct exclusion of the statutory subscription right) if and to the extent that this authorization is utilized by issuing shares against cash payments in a total amount of up to 10% of the share capital in the context of the placement of new shares of BAWAG Group AG to (i) exclude from the shareholders' subscription right fractional amounts which may arise in the case of an unfavorable exchange ratio and/or (ii) to satisfy the exercise of over-allotment options (greenshoe options) granted to the issuing banks.

  Furthermore, the Management Board, with the consent of the Supervisory Board, shall be authorized to exclude the statutory subscription right in the following cases:
  - to the extent necessary to service debt instruments (including participation rights) with conversion or option rights or a conversion obligation issued by BAWAG Group AG or its subsidiaries (Section 189a No 7 UGB) or yet to be issued;
  - to issue shares to employees, senior executives, and members of the Management Board of BAWAG Group AG or its subsidiaries (Section 189a No 7 UGB) for remuneration purposes;
  - in order to increase the share capital against contributions in kind, provided that the capital increase is carried out for the purpose of (also indirectly) acquiring companies, parts of companies or participations in companies or other assets related to an acquisition project;
  - to carry out a so-called "scrip dividend" in the course of which the shareholders of BAWAG Group AG are offered to contribute their dividend claim (in whole or in part) as a contribution in kind against the granting of new shares from the Authorized Capital 2019;
  - in case of capital increases against cash contributions, provided the exercise of this authorization is objectively justified on the exercise date in accordance with the respective applicable legal requirements. The shares issued with the exclusion of subscription rights on the basis of this authorization may not exceed a total of 10% of the share capital of

BAWAG Group AG at the time of the effective date or, if such value is lower, at the time of the exercise of this authorization.

- Pursuant to Section 5 No 8 of the Articles of Association of BAWAG Group AG, the share capital of BAWAG Group AG shall be conditionally increased by up to € 10,000,000 by issuing up to 10,000,000 no-par value bearer shares for the purpose of issuing them to creditors of convertible bonds which the Management Board, with the consent of the Supervisory Board, may issue in the future on the basis of the authorization granted at the shareholders' meeting on 30 April 2019. The conditional capital increase may only be carried out to the extent that creditors of convertible bonds to be issued by BAWAG Group AG or their subsidiaries make use of their conversion and/or subscription rights to shares of BAWAG Group AG. The amount to be issued and conversion ratio shall be determined in accordance with the interests of BAWAG Group AG, the existing shareholders and the subscribers of the convertible bonds within the framework of a customary market pricing procedure using recognized customary market methods and the stock exchange price of BAWAG Group AG's shares. The issue price of the new shares may not be less than the proportionate amount of the share capital. The shares to be issued as part of the conditional capital increase are entitled to dividends to the same extent as the existing shares of BAWAG Group AG.

- On 27 August 2021, the shareholders' meeting resolved to authorize the Management Board for a period of 30 months from the date of the resolution in accordance with Section 65 Para 1 No 8 and Para 1a and 1b AktG to acquire own shares. Pursuant to the authorization, the consideration to be paid per share when acquiring shares must not be lower than € 1.0 and must not be more than 50% above the volume-weighted average price of the last 20 trading days preceding the respective purchase; in the event of a public offer, the reference date for the end of this period shall be the day on which the intention to launch a public offer has been announced. The Management Board is authorized to determine the repurchase conditions.

  The Management Board may exercise the authorization within the statutory limits on the maximum number of own shares either once or on several occasions, provided that the percentage amount of the share capital of BAWAG Group AG relating to shares acquired by BAWAG Group AG on account of the authorization or otherwise does not exceed 10% of the share capital at any time. Repeated exercise of the authorization is permissible. The authorization may be exercised for one or several purposes by BAWAG Group AG, by a subsidiary or by third parties acting on behalf of BAWAG Group AG.

  The acquisition may take place at the discretion of the Management Board, with the consent of the Supervisory Board, via the stock exchange or a public offer or in another legally permissible, appropriate manner, in particular, also under exclusion of the shareholders' pro-rata rights to repurchase (reverse exclusion of subscription rights) and also by using equity capital derivatives. Trading in treasury shares is excluded as a purpose for purchase.

  On 27 August 2021, the Annual General Meeting also resolved to authorize the Management Board for a period of five years from the date of the resolution in accordance with Section 65 Para 1b AktG, to adopt a resolution, subject to the consent of the Supervisory Board, on the transfer of treasury shares using a different legally permitted method of sale than through the stock exchange or a public offer and on an exclusion of pre-emption rights (subscription rights) of shareholders, and to determine the terms and conditions of the transfer of shares.

  Pursuant to the authorization, the Management Board may, with the consent of the Supervisory Board, transfer the acquired shares without an additional resolution by the General Meeting via the stock exchange or a public offer and determine the terms of transfer. Furthermore, the Management Board is authorized to cancel the own shares acquired in whole or in part without an additional resolution by the General Meeting with the consent of the Supervisory Board. The cancellation causes a capital reduction by the portion of the share capital that is attributable to the cancelled shares.

All of these authorizations can be used once or on several occasions. The authorizations also include the use of treasury shares held by BAWAG Group AG, as well as shares in BAWAG Group AG acquired by subsidiaries or third parties for the account of BAWAG Group AG or a subsidiary pursuant to Section 66 AktG. The authorizations shall also apply to both, treasury shares already held by BAWAG Group AG at the date of the resolution as well as to future treasury shares which are yet to be acquired.

No material agreements exist (or must be disclosed pursuant to Sec 243a Para 1 No 8 UGB) to which BAWAG Group AG is a party and which take effect, change or end upon a change of control in BAWAG Group AG as a result of a takeover bid.

There are no indemnification agreements between BAWAG Group AG and its Management Board and Supervisory Board members or employees that would take effect in the event of a public takeover bid.

CORPORATE SOCIAL RESPONSIBILITY AND ESG

Being one of the largest banking groups in Austria with 2.2 million customers, our business activities have a major influence on the local communities, the economy, and the environment. The financial services industry has been facing significant challenges stemming from competition from big-tech, Fin-tech, and overall changing customer behaviors; which have only accelerated during the pandemic over the past two years. In addition, environmental and social aspects have connected us locally and globally as citizens of world. Therefore, it is critical for us to proactively address these challenges by continuously adjusting our business model and objectives, as well as integrating these growing challenges in our risk management framework.

Doing business sustainably is the key to long term success of all of our stakeholders. It also requires the financial resilience to support our stakeholders in times of an economic downturn, which we have demonstrated since 2020 as a consequence of the pandemic. The sustainable value creation is at the core of our decision-making and how we steer the Bank. We do not pursue a separate ESG strategy, as we view it as an integral part of our overall business strategy and this is also aligned on how we have embedded ESG across the organization. To prioritize and provide transparency to our ESG objectives and initiatives, we have established an ESG committee at the Supervisory Board level in 2021. The Supervisory Board, in addition to the Management Board, will address ESG topics working across various committees (Non-Financial Risk & ESG Committee on the Management Board level), ESG officers, and working groups at the Bank. Our detailed ESG initiatives are published in the Corporate Social Responsibility report.

While we have attempted to address various ESG risks over the years (e.g. human capital development, IT security, data protection, corporate governance), the more challending longer-term climate related risks require the full engagement of both the public and private sector.

Climate-related risks and climate change

We influence the climate in two ways: Our direct use of resources as a bank is fairly limited, however we have continuously driven initiatives to reduce our direct emissions and set ourselves as target to reduce our CO emissions (scope 1 and 2) by over 50% by 2025 versus 2020. More material is our indirect influence via our lending and investment book as well as the investments we offer to our clients. To limit the negative impact of our lending portfolio, we decided to implement lending criteria for selective industries with high ESG-risks, consisting of industry exclusions and restrictions in 2021. We will review this list on an annual basis in order to consider any new developments and will tighten the criteria where applicable. We currently have "0" exposure to prohibited businesses. Our oil and gas related industry exposures are less than 1% of total assets. The detailed list is published in the Corporate Social Responsibility Report.

We want to contribute to combating climate change through increasing our new business in green financing to more than € 1.6 billion annually – which is two times the levels of 2020, by no later than 2025. At the same time, we increased the share of green investment products we offer to our customer to 31% of fund sales in 2021, from 22% in 2020. We also established a green finance framework, of which we issued our first green bond in 2021.

As of today, we only publish our CO_2 footprint for scope 1, 2 and air travel. The key challenge on climate-related topics remains around data availability to meaningfully calculate CO_2 emissions of our lending book, we have started to integrate climate-related aspects into our risk management framework: We have performed a materiality assessment in light of the ESG risk score for our segments in the lending book.

Further integrating ESG risks into risk management framework

Because ESG risks span across all risk management pillars, we pursue a multidimensional steering approach within our risk management framework. It is embedded in our key risk policies and processes, ensuring an appropriate consideration of ESG risks. New or modified products and lines of business are examined for ESG contribution based on the ESG statement, inherent risk as well as the general conditions under which the product should be introduced. Service providers are evaluated for their ESG commitment as part of our outsourcing assessments. In the annual risk process assessment (RCSA), ESG-relevant aspects are identified from an operational and organizational perspective including internal controls contributing to risk mitigation.

The interaction of ESG risks and other material risk types is evaluated as part of the overarching risk materiality assessment. Scenarios have been defined as a starting point comprising both physical risks and transition risks, thus providing a holistic view of ESG risks impacting our Bank. For the first time, ESG risk has been considered within the overall ICAAP Framework following the ECB´s Guide on climate-related and environmental risks (November 2020), allowing an integral steering across the different risk types.

The management of restricted and prohibited sectors as part of the underwriting and loan origination process is essential.

ESG targets

As we view it as crucial to integrate ESG related topics more and more into our business considerations, we have laid out 2025 ESG targets in 2021:

ESG targets	Baseline	2025
CO_2 emissions (own scope 1&2 emissions)	~3,200t CO_2	>50% reduction
Women quota: - Supervisory Board - Senior Leadership Team	17% Supervisory Board / 15% Senior Leadership Team	33%
Green lending new business	€ 0.8 billion	>€ 1.6 billion

Outlook

In 2022, the European Central Bank will perform a climate stress test. In addition, it will conduct a full review of banks' climate-related and environmental risk management practices, to assess how banks have incorporated these risks into their strategy, governance and risk management frameworks and processes. The exercise will focus on two extreme weather events for physical risks and transition scenarios for the assessment of physical risks. While this data is not currently disclosed, we have started to work on the enhancement of the data availability in order to prepare for the upcoming climate stress test.

While we have continuously worked on enhancing our disclosure on the most critical ESG risks for the banking industry, we are aware that the financial industry plays a key role in combatting climate change through its lending practices. Being sustainable is embedded in the choices we make – as a financial partner, as a business partner, and- how we select our suppliers. However, we are aware that our standards and engagement can be more developed, the disclosure on environmental data enhanced and further integrated into our risk management frameworks; which we aim to do in the coming years.

CSR REPORTING

As of the financial year 2017, the Austrian Sustainability and Diversity Improvement Act extended and specified the reporting obligations for non-financial information (environmental, social and employee issues, respect for human rights and anti-corruption) in the Group Management Report by implementing EU Directive 2014/95/EU. With the reporting for financial year 2021, the reporting requirement was enhanced by the EU Taxonomy 2020/852 and the Disclosures Delegate Act 2021/2178. The purpose of mandatory reporting is to increase the transparency and comparability of non-financial information.

In 2021, BAWAG Group again used the statutory option provided for in Section 267a Para 6 UGB to produce a separate consolidated non-financial report. This report can be downloaded from the BAWAG Group website under https://www.bawaggroup.com/csr

RESEARCH AND DEVELOPMENT

BAWAG Group does not engage in any research and development activities pursuant to Section 243 UGB.

23 February 2022

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Management Board

Sat Shah
Member of the Management Board

David O'Leary
Member of the Management Board

Andrew Wise
Member of the Management Board

Guido Jestädt
Member of the Management Board

Consolidated Financial Report

CONSOLIDATED FINANCIAL REPORT PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

CONTENTS

Disclosures Required by Austrian Law

Statement of All Legal Representatives

Boards and Officers of BAWAG Group AG

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in € million	[Notes]	2021	2020 restated
Interest income		1,128.0	1,113.7
thereof calculated using the effective interest method		840.0	850.7
Interest expense		(207.4)	(201.1)
Dividend income		17.7	2.8
Net interest income	**[3]**	**938.3**	**915.4**
Fee and commission income		353.0	329.1
Fee and commission expense		(70.9)	(74.3)
Net fee and commission income	**[4]**	**282.1**	**254.8**
Gains and losses on financial assets and liabilities	[5]	11.3	(26.7)
thereof gains from the derecognition of financial assets measured at amortized cost		0.1	0.5
thereof losses from the derecognition of financial assets measured at amortized cost		0.0	(0.3)
Other operating income	[6]	198.3	127.7
Other operating expenses	[6]	(248.2)	(152.5)
Operating expenses		(490.1)	(524.0)
thereof administrative expenses	[7]	(421.6)	(443.0)
thereof depreciation and amortization on tangible and intangible non-current assets	[8]	(68.5)	(81.0)
Risk costs	[9]	(95.0)	(224.6)
thereof according to IFRS 9		(69.6)	(222.3)
Share of the profit or loss of associates accounted for using the equity method	[10]	3.8	1.1
Profit before tax		**600.4**	**371.2**
Income taxes	[11]	(120.4)	(85.7)
Profit after tax		**480.0**	**285.5**
Thereof attributable to non-controlling interests		0.1	0.3
Thereof attributable to owners of the parent		**479.9**	**285.2**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

STATEMENT OF OTHER COMPREHENSIVE INCOME

in € million	[Notes]	2021	2020 restated
Profit after tax		**480.0**	**285.5**
Other comprehensive income	**[32]**		
Items that will not be reclassified to profit or loss			
Actuarial gains (losses) on defined benefit plans		14.8	(13.9)
Fair value changes of shares and other equity investments at fair value through other comprehensive income		84.7	(40.0)
Change in credit spread of financial liabilities		(0.1)	(0.3)
Income tax on items that will not be reclassified		(24.7)	13.8
Total items that will not be reclassified to profit or loss		**74.7**	**(40.4)**
Items that may be reclassified subsequently to profit or loss			
Foreign exchange differences		12.0	(18.1)
Hedge of net investment in foreign operations		(10.3)	15.5
Cash flow hedge reserve		(27.8)	21.6
thereof transferred to profit (-) or loss (+)[1)]		0.1	1.5
Fair value changes of debt instruments at fair value through other comprehensive income		(32.2)	130.8
thereof transferred to profit (-) or loss (+)		(39.4)	(29.8)
Share of other comprehensive income of associates accounted for using the equity method		(2.5)	0.8
Income tax relating to items that may be reclassified		15.3	(38.3)
Total items that may be reclassified subsequently to profit or loss		**(45.4)**	**112.3**
Other comprehensive income		**29.3**	**71.9**
Total comprehensive income, net of tax		**509.4**	**357.4**
Thereof attributable to non-controlling interests		0.2	0.3
Thereof attributable to owners of the parent		**509.2**	**357.1**

1) To net interest income.

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

For further details, please refer to Note 32 Equity.

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	31.12.2021	31.12.2020 restated	1.1.2020 restated
Cash reserves	[12]	1,894	907	1,323
Financial assets at fair value through profit or loss	[13]	611	693	740
Financial assets at fair value through other comprehensive income	[14]	3,754	4,343	3,009
Financial assets held for trading	[15]	257	441	353
Financial assets measured at amortized cost	[16]	48,448	44,759	38,265
Customers		34,963	32,129	30,568
Credit institutions		11,166	9,889	5,720
Securities		2,319	2,741	1,977
Valuation adjustment on interest rate risk hedged portfolios		(94)	24	5
Hedging derivatives	[31]	178	405	397
Property, plant and equipment	[18]	290	332	396
Investment properties	[18]	104	143	311
Goodwill	[19]	96	94	94
Brand names and customer relationships	[19]	254	255	274
Software and other intangible assets	[19]	185	203	201
Tax assets for current taxes		20	9	15
Tax assets for deferred taxes	[20]	10	9	8
Associates recognized at equity	[53]	42	44	48
Other assets	[21]	276	326	209
Non-current assets held for sale	[22]	–	135	–
Total assets		**56,325**	**53,122**	**45,648**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

Total liabilities and equity

in € million	[Notes]	31.12.2021	31.12.2020 restated	1.1.2020 restated
Total liabilities		**51,947**	**48,768**	**41,831**
Financial liabilities designated at fair value through profit or loss	[23]	234	468	848
Financial liabilities held for trading	[24]	301	422	334
Financial liabilities at amortized cost	[25]	49,666	45,944	38,065
Customers		35,148	32,265	29,900
Issued bonds, subordinated and supplementary capital		7,157	6,157	5,080
Credit institutions		7,361	7,522	3,085
Financial liabilities associated with transferred assets	[41]	–	97	729
Valuation adjustment on interest rate risk hedged portfolios		165	358	337
Hedging derivatives	[31]	107	62	116
Provisions	[29]	382	425	480
Tax liabilities for current taxes		131	45	34
Tax liabilities for deferred taxes	[20]	93	110	50
Other obligations	[30]	868	837	838
Total equity	**[32]**	**4,378**	**4,354**	**3,817**
Equity attributable to the owners of the parent (ex AT1 capital)		3,902	3,879	3,516
AT1 capital		471	471	297
Non-controlling interests		5	4	4
Total liabilities and equity		**56,325**	**53,122**	**45,648**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

STATEMENT OF CHANGES IN EQUITY

in € million	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates
Balance as of 01.01.2020 published	**87.9**	**1,126.2**	**297.5**	**2,444.3**	**(17.3)**	**(103.7)**	**29.0**
Adjustments	–	–	–	(1.1)	–	–	(10.3)
Balance as of 01.01.2020 adjusted	**87.9**	**1,126.2**	**297.5**	**2,443.2**	**(17.3)**	**(103.7)**	**18.7**
Transfer from other comprehensive income	–	–	–	(0.5)	–	–	–
Transactions with owners	–	21.9	–	–	–	–	–
Share-based payment	–	21.9	–	–	–	–	–
Dividends	–	–	–	–	–	–	–
Transactions with non-controlling interests	–	–	–	0.0	–	–	–
AT1 capital	–	–	173.0	–	–	–	–
AT1 coupon	–	–	–	(15.0)	–	–	–
Total comprehensive income (restated)	–	–	–	285.2	16.2[1)]	(10.3)	97.9[2)]
Balance as of 31.12.2020	**87.9**	**1,148.1**	**470.5**	**2,712.9**	**(1.1)**	**(114.0)**	**116.6**
Balance as of 01.01.2021	**87.9**	**1,148.1**	**470.5**	**2,712.9**	**(1.1)**	**(114.0)**	**116.6**
Transfer from other comprehensive income	–	–	–	(1.9)	–	–	–
Transactions with owners	0.9	0.2	–	(460.0)	–	–	–
Share-based payment	0.9	0.2	–	–	–	–	–
Dividends	–	–	–	(460.0)	–	–	–
Transactions with non-controlling interests	–	–	–	0.0	–	–	–
AT1 coupon	–	–	–	(24.5)	–	–	–
Total comprehensive income	–	–	–	479.9	(20.8)[1)]	11.1	(23.8)[2)]
Balance as of 31.12.2021	**88.9**	**1,148.3**	**470.5**	**2,706.4**	**(21.9)**	**(102.9)**	**92.8**

1) Thereof transferred to profit or loss: plus € 0.1 million (2020: plus € 1.1 million).
2) Thereof transferred to profit or loss: minus € 29.4 million (2020: minus € 21.9 million).

Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
3.7	**11.1**	**(54.0)**	**2.0**	**(2.5)**	**3,824.3**	**4.0**	**3,828.3**
–	–	–	–	–	(11.4)	–	(11.4)
3.7	**11.1**	**(54.0)**	**2.0**	**(2.5)**	**3,812.9**	**4.0**	**3,816.9**
–	–	–	–	–	(0.5)	–	(0.5)
–	–	–	–	–	21.9	0.0	21.9
–	–	–	–	–	21.9	–	21.9
–	–	–	–	–	–	0.0	0.0
–	–	–	–	–	0.0	–	0.0
–	–	–	–	–	173.0	–	173.0
–	–	–	–	–	(15.0)	–	(15.0)
0.8	(29.9)	(0.2)	15.5	(18.1)	357.1	0.3	357.4
4.5	**(18.8)**	**(54.1)**	**17.5**	**(20.6)**	**4,349.4**	**4.3**	**4,353.7**
4.5	**(18.8)**	**(54.1)**	**17.5**	**(20.6)**	**4,349.4**	**4.3**	**4,353.7**
–	–	–	–	–	(1.9)	–	(1.9)
–	–	–	–	–	(458.9)	0.0	(458.9)
–	–	–	–	–	1.1	–	1.1
–	–	–	–	–	(460.0)	0.0	(460.0)
–	–	–	–	–	0.0	–	0.0
–	–	–	–	–	(24.5)	–	(24.5)
(2.5)	63.7	0.0	(10.3)	12.0	509.2	0.2	509.4
2.0	**44.9**	**(54.2)**	**7.2**	**(8.6)**	**4,373.4**	**4.5**	**4,377.9**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

For further details, please refer to Note 32 Equity.

CASH FLOW STATEMENT

in € million	[Notes]	2021	2020 restated
I. Profit (after tax, before non-controlling interests)	Profit or loss statement	**480**	**285**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities			
Depreciation, amortization, impairment losses, write-ups	[8], [9]	79	256
Changes in provisions	[29]	158	18
Changes in other non-cash items		66	219
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	[5], [6]	17	(9)
Share of profit of equity-accounted investees, net of tax	Profit or loss statement	(4)	1
Other adjustments (mainly received interest less paid interest)		(931)	(841)
Subtotal		**(135)**	**(71)**
Change in assets and liabilities arising from operating activities after corrections for non-cash items			
Financial assets at amortized cost		(2,606)	(5,962)
Other financial assets (not including investing activities)		454	(44)
Other assets		(90)	(91)
Financial liabilities at amortized cost		1,315	5,993
Other financial liabilities (not including financing activities)		512	808
Other obligations		44	8
Interest receipts		1,066	1,052
Dividend receipts	Profit or loss statement	18	3
Dividends from equity-accounted investees		3	6
Interest paid		(223)	(205)
Income taxes paid		(46)	(35)
II. Net cash from operating activities		**312**	**1,462**
Cash receipts from sales and redemptions of			
Debt instruments at amortized cost		703	798
Debt instruments at fair value through other comprehensive income		1,908	198
Tangible and intangible non-current assets, investment properties		223	26
Cash paid for			
Subsidiaries and other equity instruments at fair value through other comprehensive income		(59)	(11)
Debt instruments at amortized cost		(584)	(1,583)
Debt instruments at fair value through other comprehensive income		(707)	(1,573)
Tangible and intangible non-current assets	[18], [19]	(42)	(21)

in € million	[Notes]	2021	2020 restated
Acquisition of subsidiaries, net of cash acquired	[38]	(253)	–
III. Net cash used in investing activities		**1,188**	**(2,166)**
Dividends paid	Statement of changes in equity	(460)	0
Issuance of subordinated liabilities (including those designated at fair value through profit or loss)		0	200
Issuance of AT1 capital	Statement of changes in equity	0	175
AT1 coupon	Statement of changes in equity	(25)	(15)
Cash paid for amounts included in lease liabilities		(25)	(27)
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)		(3)	(45)
IV. Net cash from financing activities		**(513)**	**288**
Cash and cash equivalents at end of previous period		**907**	**1,323**
Net cash from operating activities		**312**	**1,462**
Net cash used in investing activities		**1,188**	**(2,166)**
Net cash from financing activities		**(513)**	**288**
Cash and cash equivalents at end of period		**1,894**	**907**

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Accounting policies

BAWAG Group AG is the parent company of BAWAG Group. BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft (BAWAG P.S.K. AG), a subsidiary of BAWAG Group AG, is an Austrian bank operating predominantly in Austria with additional activities in selected international markets. The registered office of BAWAG Group AG is located at Wiedner Gürtel 11, 1100 Vienna.

The consolidated financial statements were prepared applying section 59a BWG in connection with section 245a UGB, according to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and in accordance with the provisions of the standards (IFRS/IAS) published by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee (IFRIC/SIC) as applicable on the reporting date as adopted by the EU and therefore mandatory with respect to the consolidated financial statements as of 31 December 2021.

These consolidated financial statements for BAWAG Group according to IFRS are based on the individual annual financial statements for all fully consolidated Group companies according to IFRS as of 31 December 2021. All material associates are accounted for using the equity method.

The preparation of consolidated financial statements according to IFRS requires that assumptions and estimates be made about factors that have a material influence on the Group's business operations. These assumptions are regularly reviewed and adjusted whenever needed. Such adjustments are taken into account in the current period and also for future periods when the adjustment has long-term effects.

The recognition and measurement principles described below have been applied uniformly to all of the financial years stated in these consolidated financial statements except for transactions described in the section Changes in accounting policies in accordance with IAS 8.14.

The reporting currency is euro. Unless indicated otherwise, all figures are rounded to millions of euros. The tables in this report may contain rounding differences.

All monetary figures in foreign currencies are translated at the middle exchange rate on the reporting date.

Scope of consolidation and consolidation principles

The scope of consolidation includes all direct and indirect material equity investments of BAWAG Group.

As of 31 December 2021, the consolidated financial statements included 48 (2020: 60) fully consolidated companies and 2 (2020: 2) companies that are accounted for using the equity method in Austria and abroad.

In the interest of materiality, the criteria for inclusion are both the amount of an entity's assets and its relative contribution to the Group's consolidated profit. All non-consolidated subsidiaries had only a minor influence on the Group's assets, financial position and the results of its operations. Note 50 List of consolidated subsidiaries contains a list of all fully consolidated subsidiaries and associates accounted for using the equity method.

The carrying amount of the associates that are not accounted for using the equity method totaled € 0 million (2020: € 1 million) on 31 December 2020. Controlled companies with a carrying amount of € 23 million (2020: € 18 million) were not consolidated because they did not have a material effect on the Group's assets, financial position or the results of its operations.

Further details on the scope of consolidation and major changes in the Group's holdings can be found in Notes 50 and 51.

The acquisition method according to IFRS 3 is used for business combinations. Under this method, the acquisition costs for the entity in question must be compared with the value of the net assets at the time of acquisition. The value of the net assets is the fair value of all identifiable assets, liabilities and contingent liabilities assumed at the time of acquisition.

All intragroup receivables and payables, expenses, and income and intragroup profits are eliminated unless they are insignificant.

Capitalized goodwill in the amount of € 96 million (2020: € 94 million) is recognized under Goodwill on the Statement of Financial Position. In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash-generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36.

Goodwill impairment testing is performed by applying the value in use for the respective entities.

Currently, the goodwill is allocated to the easybank franchise (€ 59 million), Zahnärztekasse AG (€ 21 million), Health Coevo AG (€ 15 million), brokerage business (€ 1 million), BAWAG P.S.K. Versicherung AG (€ 11 million) and PSA Payment Services Austria GmbH (€ 2 million) – the latter two entities are accounted for using the equity method – as these are the smallest CGUs to which goodwill can be assigned. Further details on the entities accounted for using the equity method can be found in Note 37 and Note 53.

The customer business of the easybank franchise is part of the Retail & SME segment, the rest is part of the Corporate Center segment. The brokerage business is part of the Retail & SME segment. BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH are part of the Corporate Center segment.

Also, all equity investments were tested for indicators of a sustained or material impairment. Impairment tests were carried out if necessary due to the indicators.

All non-consolidated equity instruments are measured according to IFRS 9 and classified as fair value through OCI or fair value through profit or loss. Further details can be found in Note 51.

IFRS 9 Financial Instruments

Financial instruments are recognized and derecognized on the trade date.

Classification of financial assets and financial liabilities

Financial assets

IFRS 9 establishes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortized cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature). A financial asset is measured at fair value through other comprehensive income if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and are held for a future sale and if the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature). Financial assets that do not meet these criteria are measured at fair value through profit or loss.

Premiums and discounts are recognized pro rata temporis via the effective interest rate. Expenses and revenues were set off against or added to interest income from the same financial instrument.

Processing fees are deferred over the term of the loan and recognized in the net interest income after deducting the directly attributable costs.

Please see the Risk Report for information about the formation of provisions.

Business model assessment for financial assets

The Group identified the following business models:

- Hold to collect
  Financial assets held in this business model are in general intended to be held until maturity and managed to realize cash flows by collecting principal and interest over the lifetime of the instruments. Not all of the financial assets need to be held until maturity. Under certain circumstances, sales are consistent with this business model independent of their volume and frequency, for example if the asset is sold close to the maturity of the financial asset and the proceeds approximate the collection of the remaining contractual cash flows or the asset is sold due to an increase in the asset's credit risk due to changes in tax or regulatory laws, within business combinations or reorganizations or in stress case scenarios. In addition, sales are considered as insignificant independent of their reason when sales volumes and earnings do not exceed 5% of the average book value of the respective portfolio in a year.

- Hold to collect and sell
  Financial assets that are held in this business model are managed both in order to collect contractual cash flows and for selling. This business model covers a portfolio of predominantly liquid investment grade bonds that can be sold, put up for an ECB tender or used in a repurchase agreement transaction if needed.

- Other financial assets
  Financial assets in this business model are held to sell. BAWAG Group designated a small portfolio of loans to the public sector in this business model. These loans are incurred principally for the purpose of selling them in the near term (loans are held for a short timeframe and are then sold).

- Held for trading
  This category covers financial assets and liabilities held for trading purposes. These financial instruments are recognized at their fair value. All derivatives in the banking book that are not part of a hedging transaction are assigned to this category. Financial liabilities include liabilities from derivative transactions, short positions and repurchase agreements.

Certain financial assets that do not meet the definition of trading assets are designated at fair value through profit or loss using the fair value option. BAWAG Group exercised the fair value option in the following cases:

- To avoid an accounting mismatch
  - For fixed-income securities and loans whose fair value on the date of acquisition has been hedged with interest rate derivatives;
  - Investment products whose fair value changes have been hedged with derivatives.

Assessment whether contractual cash flows are solely payments of principal and interest for financial assets

To identify whether a financial asset fulfills the SPPI criteria, BAWAG Group analyzes its portfolio in three steps:

1. Identifying all financial assets clearly fulfilling the SPPI criteria;
2. Qualitative benchmark test;
3. Quantitative benchmark test.

A qualitative or quantitative benchmark test must be performed for financial instruments with possibly harmful conditions. A qualitative benchmark test suffices if the possibly harmful feature is clearly immaterial when comparing cash flows, e.g. certain prior fixings. In this case, a quantitative benchmark test is not necessary and the financial instrument fulfills the SPPI criteria. In all other cases, a quantitative benchmark test is required comparing the cash flow of the financial asset with the harmful feature with a cash flow of a theoretical financial instrument having the same conditions but without the harmful feature. If the cash flows deviate significantly, the financial asset does not fulfill the SPPI criteria and must be measured at FVTPL.

When comparing cash flows in the benchmark test, BAWAG Group defined a deviation of 5% when comparing cumulative cash flows and 1% of annual cash flows as immaterial. A portfolio of loans and bonds currently fails the SPPI test, mainly due to their interest rate indicator being non-compliant.

Financial liabilities

In accordance with IFRS 9, Financial Liabilities
- not held for trading or
- designated as Financial liabilities at fair value through profit or loss

are measured at amortized cost.

Fair value changes of financial liabilities in the fair value option are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Certain financial liabilities that do not meet the definition of trading liabilities are designated at fair value through profit or loss using the fair value option. BAWAG Group exercised the fair value option in the following cases:

- To avoid an accounting mismatch
  - For fixed-income own issues whose fair value on the date of acquisition has been hedged with interest rate derivatives
- Presence of embedded derivatives
  - Own issues with embedded derivatives

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Contractual modifications

If the contractual cash flows are changed in the course of renegotiating loans, an assessment of the significance of the change is required. In the event of a non-significant change in the contractual cash flows, the gross carrying amount of the instrument is adjusted to the present value of the new contractual cash flows, discounted at the original effective interest rate. The difference between the old gross carrying amount and the new gross carrying amount is recognized in the income statement as a modification gain or loss in Gains and losses on financial assets and liabilities.

If the cash flows differ significantly (BAWAG Group has chosen a significance threshold for the change in present value of 10%), the contractual rights to the cash flows from the original instruments are considered forfeited. In this case, the original instrument is derecognized, and a new financial instrument is recognized at fair value plus any eligible transaction costs.

In addition, the original asset is derecognized in case of a qualitative modification of the contract. This is the case if there is a change in the contract party or the contract currency (unless this was already agreed in the original contract) and the introduction or removal of a contractual clause that is not SPPI-compliant.

In case of modifications that do not lead to derecognition, BAWAG Group assesses a significant increase in credit risk through one of the stage transfer criteria and determines if the assets' loss allowance is measured at lifetime or 12-month expected loss. A significant increase in credit risk is assessed by comparing:

- the remaining lifetime PD at the reporting date based on the modified terms; and
- the remaining lifetime PD estimated at the initial recognition with the original contractual terms.

When modification of a loan that is not credit-impaired results in a derecognition, a new loan is recognized and allocated to stage 1.

Equity instruments

IFRS 9 requires all equity instruments to be measured at fair value through profit or loss, but allows users to designate equity instruments that are not intended to be "held for trading" at fair value through OCI. This decision is made on an instrument-by-instrument basis. If the OCI option is used, all fair value changes including sales from gains will be shown in OCI. Gains and losses are not recycled to profit or loss (P&L). Only dividends are recognized in P&L. This designation can only be made at inception and cannot be changed afterwards.

The majority of BAWAG Group's equity investments are intended to be long-term investments and BAWAG Group is not focused on realizing short-term sales profits from these investments. Therefore, equity investments are generally classified as FVOCI as the Group regards this presentation as giving a clearer picture of the Group's profitability. This mainly concerns non-consolidated interests in subsidiaries as well as investments in AT1 instruments (Additional Tier 1). In case BAWAG Group plans to sell equity investments in the medium or near term, the use of the FVOCI option is decided on a case-by-case basis.

Impairment

Please see the Risk Report for information about impairments.

Hedge accounting

BAWAG Group chose to continue applying hedge accounting under IAS 39.

BAWAG Group uses fair value hedge accounting to account for hedges of interest rate risk inherent in fixed-rate financial instruments. Hedging instruments are usually interest rate swaps. The hedged items are securities in the category At fair value through other comprehensive income as well as the Group's own issues, savings accounts and loans to customers that are recognized at amortized cost. BAWAG Group applies cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios. Hedging instruments are usually cross currency swaps and foreign currency forward transactions.

In line with general regulations, derivatives are classified as financial assets held for trading or financial liabilities held for trading and are recognized at fair value. The valuation result is shown in the line item Gains and losses on financial assets and liabilities as gains (losses) on financial assets and liabilities held for trading. If derivatives are used to hedge risks of non-trading transactions, BAWAG Group applies hedge accounting if the conditions according to IAS 39 are met.

At inception of the hedge relationship, the relationship between the hedging instrument and the hedged item, the risk management objectives and the method used for assessing hedge effectiveness are documented. Furthermore, BAWAG Group documents at the inception of the hedge and at least on each reporting date whether the hedge is highly effective in offsetting changes in fair values of the hedged item and the hedging instrument attributable to the hedged risk.

Interest rate risk to which the Group applies hedge accounting arises from fixed-rate issues, loans and fixed-rate bonds whose fair value fluctuates when benchmark interest rates change. The Group hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of fixed-rate assets or liabilities are significantly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

The Group takes a conservative approach to market risk in general and specifically also to interest rate risk. The interest rate risk position is strategically managed at the IFRS Group level and measured, limited and managed based on the economic view and according to the IFRS accounting treatment (FVTPL, FVOCI). The Group's interest rate risk management approach has a focus on mitigating market risks, thereby using natural hedging capabilities of its balance sheet as well as derivatives for managing the risk position.

The foreign currency risk for which the Group applies cash flow hedge accounting results from future cash flows from foreign currency portfolios whose fair value fluctuates with changes in the FX exchange rate. Both FX outrights and cross-currency swaps are used in the Group to hedge foreign currency risk, as their change in market value is essentially influenced by the change in the FX exchange rate.

FX risks are deemed to be low, as the Group follows a strategy to hedge any FX risks arising from notional and base rate interest cash flows. The risk position is monitored on a daily basis and managed within narrow limits. Furthermore, the Group applies cash flow hedge accounting to mitigate FX risk from future expected spread income and currency basis risk.

By using derivative financial instruments to hedge exposures to changes in interest and FX rates, the Group also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Group minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties and requiring the counterparties to post collateral and clearing through CCPs.

BAWAG Group uses fair value hedge accounting for effective hedging relationships that reduce market risk.

The Group's risk management strategy has not changed due to the COVID-19 pandemic.

Implications in connection with Brexit

As of 31 December 2021, BAWAG Group uses hedging derivatives with a notional amount of € 221 million (2020: € 676 million) and a market value of € 2 million (2020: € 13 million) in a hedging relationship that were cleared via London Clearing House. The London Clearing House will keep its status as a third country central clearing counterparty (TC-CCP) under EMIR until 30 June 2022. Thus, there were no implications on the Group financials of BAWAG Group in 2021 and 2020. BAWAG Group will monitor the development of this topic and will set appropriate measures if necessary.

Micro fair value hedge

In a micro fair value hedge, a financial asset or financial liability or a group of similar financial assets or financial liabilities is hedged against changes in its fair value. Changes in the value of the hedged item and the hedging instrument are recognized in the Profit or Loss Statement in the line item Gains and losses on financial assets and liabilities in the same period. The hedging instrument is recognized at fair value through profit or loss and the hedged item is adjusted for any changes in fair value relating to the hedged risk.

As soon as the hedging instrument is sold, exercised or comes due, or when the eligibility requirements for hedge accounting are no longer met, the hedging relationship is no longer recognized on the Statement of Financial Position.

Any accumulated changes in the value of the former hedged item during the existence of the hedge relationship are recognized through profit or loss distributed over the remainder of the term.

For other types of fair value adjustments and whenever a fair value hedged asset or liability is sold or otherwise derecognized, any basis adjustments are included in the calculation of the gain or loss on derecognition.

As the critical terms of the interest rate swap contracts and their corresponding hedged items are the same, BAWAG Group performs a qualitative prospective assessment of effectiveness and it is expected that the value of the interest rate swap contracts and the value of the corresponding hedged items will systematically change in opposite directions in response to movements in the underlying interest rates. The main cause of hedge ineffectiveness is due to the fact that different discounting curves are used to determine the fair value of hedges and hedged items (OIS vs. IBOR discounting).

Portfolio fair value hedge

BAWAG Group applies fair value hedge accounting for a portfolio hedge of interest rate risk. In its accounts, the Bank has identified sight deposits in euros as well as customer loans with interest caps and floors and fixed rate loans as portfolios that are to be protected against interest rate risks. These portfolios are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG Group determines an amount of liabilities and/or loans from the identified portfolios to be hedged as the underlyings for the portfolio fair value hedges. Additions and reductions are initially allocated to the non-designated portion of the identified portfolios using the bottom layer approach. For this, BAWAG Group applies the EU carve-out for IAS 39, which allows sight deposits and similar instruments to be designated as part of a hedging relationship on the basis of the expected withdrawal and due dates. The EU carve-out for IAS 39 also allows the application of the bottom layer approach.

On the balance sheet, the changes in the value of the underlying transactions that can be attributed to the hedged risk are reported under the separate line item Valuation adjustment on interest rate risk hedged portfolios. Changes in the value of the underlying and the hedging transaction are reported on the income statement in the same period under Gains and losses on financial assets and liabilities.

In addition to the reason mentioned in the Micro fair value hedge section (OIS/IBOR basis spread), inefficiencies in portfolio fair value hedge accounting will arise if the volume of hedging transactions exceeds the actual volumes of the hedged positions.

Cash flow hedge

BAWAG Group applies cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios.

BAWAG Group has identified future spread income from GBP, CHF and USD assets as underlyings that are to be protected against changes in variability in cash flows from foreign currency rates.

IAS 39 allows parts of highly probable future cash flows to be designated as a hedged item subject to cash flow hedge accounting. In each case, BAWAG Group designates the first cash flows for a defined period of time as a hedged item.

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in 2021 fair value losses in the amount of € 27.8 million (2020: gains in the amount of € 21.6 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied cash flow hedge accounting.

In addition to the reason mentioned in the Micro fair value hedge paragraph (OIS/IBOR basis spread), inefficiencies in cash flow hedge accounting will arise if the expected cash flows exceed the actual cash flows of the hedged positions.

Net investment hedge

BAWAG Group applies net investment hedge accounting according to IAS 39 for net investments in subsidiaries whose functional currency is not the Euro.

Investments in subsidiaries with different functional currencies result in foreign exchange risks for BAWAG Group which are largely eliminated with foreign exchange swaps.

Net investment hedge accounting according to IAS 39 is applied to mitigate impacts on profit or loss resulting from instruments used to hedge the foreign exchange risk. The hedged risk is defined as the foreign currency exposure arising from the functional currency of the foreign operation (currently CHF and USD) and the functional currency of the parent, which is the Euro.

The hedging instrument is measured at fair value, with the effective portion of its changes recognized in other comprehensive income in a separate component of equity. Any ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss in the event that the fair value change of the hedging instrument exceeds the fair value change of the hedged item.

In other comprehensive income, the changes in the value of the hedging instruments are reported under Hedge of net investment in foreign operations. In 2021, fair value losses in the amount of € 10.3 million (2020: gains of € 15.5 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied net investment hedge accounting.

Inefficiencies in net investment hedge accounting will arise from the hedging instrument (the forward contract), which contains a foreign currency basis spread that is not present in the hedged item (the net investment). Furthermore, hedge ineffectiveness can arise when the carrying value of the net investment falls below the originally designated amount or when the hedged item and the hedging instrument are subject to different counterparty risks (e.g. OIS discounting of hedging instrument).

IBOR reform

BAWAG Group is closely monitoring current developments regarding interest benchmark reforms and the use of risk-free rates (IBOR reform). Given that substantial parts of the Bank's balance sheet are linked to Euribor/Libor rates (basically there is no exposure to €ESTR or other overnight interest rates), the Bank already conducted intensive analyses of potential impacts in order to initiate timely preparations for the adaption of benchmark interest rates. These Bank-wide analyses included, inter alia, implications on clients (pricing and contracts), hedging, systems and financial results. Based on this assessment, clear tasks and responsibilities (finance, risk, legal, operations, market, tech) have been assigned to implement necessary adaptions. The Bank is currently preparing the start of reformed IBOR rates beginning in 2022.

The European Commission has issued a regulation directly applicable in Austria, which provides that the CHF LIBOR used as a rate in all existing contracts (e.g. current account and loan agreements) will be replaced by the SARON Compound Rate as of 1 January 2022. In order to compensate for structural differences between LIBOR and the SARON Compound Rate and thus not to change the original interest rate level to the disadvantage of one party, the regulation provides for fixed spread adjustment which – depending on the duration of the interest period – slightly decreases or increases the SARON Compound Rate. The BAWAG Group has informed its customers about this statutory successor rate and will apply it in the contracts from 1 January 2022.

It is expected that the reform of IBOR rates will also have an impact on the Bank's defined interest rate risk steering and management framework. In line with its risk management objectives, the Bank currently is steered and hedged against 3M Euribor/Libor, including respective hedge accounting relationships. BAWAG Group uses fair value hedge accounting (micro fair value and portfolio fair value hedges), cash flow hedge accounting and net investment hedges to mitigate market risks. Hedging instruments and hedged items are predominantly denominated in Euro, US Dollar, British Pound and to a lesser extent in Swiss Francs. As of 31 December 2021, approximately € 29 billion (2020: € 24 billion) of hedging instruments were assigned to a hedge accounting relationship (approximately € 13 billion [2020: € 12 billion] in hedged assets and approximately € 16 billion [2020: € 12 billion] in hedged liabilities).

Non-derivative financial assets and financial liabilities as of 31 December 2021

	EURIBOR (incl. EONIA)		CHF LIBOR		USD LIBOR		GBP LIBOR		OFX-LIBOR	
in € million	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included
Total assets	**22,823**	**6,593**	**934**	**127**	**3,660**	**3,599**	**191**	**191**	**230**	**213**
Loans and advances	21,999	5,834	934	127	3,614	3,599	191	191	230	213
Debt securities	824	759	–	–	46	–	–	–	–	–

	EURIBOR (incl. EONIA)		CHF LIBOR		USD LIBOR		GBP LIBOR		OFX-LIBOR	
in € million	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included
Total liabilities	**1,743**	**302**	**–**	**–**	**140**	**–**	**–**	**–**	**–**	**–**
Deposits	1,726	300	–	–	140	–	–	–	–	–
Debt securities issued	17	2	–	–	–	–	–	–	–	–

The securities without replacement language will mature within the next 5 years. They either consist of securities with interest rate floors that would require an increase in benchmark interest rates of more than 200bp for a benchmark interest rate to be applicable in the calculation of the coupon, or are private placements with a good and ongoing dialogue with the investors and a common understanding of the applicable benchmark succession.

Non-derivative financial assets and financial liabilities as of 31 December 2020

	EURIBOR (incl. EONIA)		CHF LIBOR		USD LIBOR		GBP LIBOR		OFX LIBOR	
in € million	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included
Total assets	**22,227**	**7,698**	**1,080**	**153**	**1,829**	**1,773**	**691**	**691**	**324**	**301**
Loans and advances	21,072	6,718	1,080	153	1,785	1,773	691	691	324	301
Debt securities	1,155	980	–	–	44	–	–	–	–	–

	EURIBOR (incl. EONIA)		CHF LIBOR		USD LIBOR		GBP LIBOR		OFX LIBOR	
in € million	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included	Total	Fallback included
Total liabilities	**1,301**	**302**	**–**	**–**	**47**	**–**	**174**	**174**	**–**	**–**
Deposits	1,277	300	–	–	47	–	–	–	–	–
Debt securities issued	25	2	–	–	–	–	174	174	–	–

Derivatives and hedge accounting

The Group holds derivatives for risk management purposes. Some derivatives held for risk management purposes are designated in hedging relationships. The interest rate and cross-currency swaps have floating legs that are indexed to various IBORs. The Group's derivative instruments are governed by ISDA's 2006 definitions.

ISDA has reviewed its definitions in light of the IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the 2006 ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The Group has adhered to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. For derivative counterparties also adhering to the protocol, then new fallbacks were automatically implemented in existing derivative contracts when the supplement became effective – i.e. on 25 January 2021. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks. Consequently, the Group is monitoring whether its counterparties will also adhere to the protocol and, if there are counterparties that will not, then the Group plans to negotiate with them bilaterally about inclusion of new fallback clauses. Counterparties for derivative contracts in the currencies of GBP and CHF are adhering to the protocol, therefore no negotiations were necessary with these counterparties.

The following tables show the total amounts of unreformed derivative instruments and amounts that include appropriate fallback language at 1 January 2021 and at 31 December 2021 and at 1 January 2020 and at 31 December 2020, respectvely. For cross-currency swaps, the Group used the notional amount of the receive leg of the swap. The Group expects both legs of cross-currency swaps to be reformed simultaneously.

	CHF LIBOR		GBP LIBOR		USD LIBOR		EONIA	
in € million	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
31.12.2021	**–**	**–**	**–**	**–**	**5,585**	**5,585**	**–**	**–**
Derivatives held for risk management								
Interest rate swaps	–	–	–	–	804	804	–	–
Cross-currency swaps	–	–	–	–	4,781	4,781	–	–
01.01.2021	**1,199**	**1,199**	**1,760**	**1,760**	**4,306**	**4,306**	**1,500**	**1,500**
Derivatives held for risk management								
Interest rate swaps	297	297	537	537	1,107	1,107	1,500	1,500
Cross-currency swaps	903	903	1,224	1,224	3,199	3,199	–	–

	CHF LIBOR		GBP LIBOR		USD LIBOR		EONIA	
in € million	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause	Total amount of unreformed contracts	Amount with appropriate fallback clause
31.12.2020	**1,199**	**1,199**	**1,760**	**1,760**	**4,306**	**4,306**	**1,500**	**1,500**
Derivatives held for risk management								
Interest rate swaps	297	297	537	537	1,107	1,107	1,500	1,500
Cross-currency swaps	903	903	1,224	1,224	3,199	3,199	–	–
01.01.2020	**1,379**	**1,379**	**1,731**	**1,731**	**2,164**	**2,164**	**1,000**	**1,000**
Derivatives held for risk management								
Interest rate swaps	297	297	203	203	606	606	1,000	1,000
Cross-currency swaps	1,083	1,083	1,528	1,528	1,558	1,558	–	–

Financial guarantees

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

In the ordinary course of business, BAWAG Group provides financial guarantees. Financial guarantees are initially measured at fair value. Subsequent to initial recognition, the financial guarantee contract is reviewed in order to determine whether a provision according to IAS 37 is required.

If BAWAG Group is a guarantee holder, the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset. For details, see Note 29.

Methods for determining the fair value of financial instruments

The assessment of an “active market” of a given security is derived from a set of defined criteria. Additionally, minimum requirements (e.g. issuance size, exchange listing, etc.) apply. BAWAG Group uses market data (e.g. quoted volumes, frequency of quotes) to determine the liquidity and market depth of securities.

Derivatives

To measure exchange-traded instruments such as futures and options on futures, exchange prices are used. Details are presented in Note 34. Some basic information is presented here:

The basic valuation model used for plain vanilla OTC options is the Black-Scholes option price model, which varies according to the underlying instruments and hedged items. Currency options are measured using the Garman-Kohlhagen model, and interest rate options using the Black, Hull-White or Bachelier (in the case of negative interest rates for caps, floors and swaptions) model.

The total value of an interest rate swap is derived from the present values of its fixed and variable rate legs. For cross currency swaps (CCS), the cash value in the respective transaction currency is also calculated per leg, which is then converted into the functional currency of the Group company and summed up.

In the case of foreign currency forwards and futures, the agreed forward rate, which depends on movements in exchange and interest rates for both currencies, is compared with the forward rate on the reporting date and the result is used to calculate the instrument's value.

Credit default swaps (CDS) are calculated with the Duffie-Singleton model. Based on the credit spread curve, the default probability curve (hazard rate) is calculated, which is used to generate the protection leg. Hence, the total value of a CDS is the sum of the protection and premium leg.

BAWAG Group determines a credit (CVA) or debt value adjustment (DVA) for the credit risk of OTC derivatives. For calculation, internal probabilities of default (PD) are used and a recovery rate (RR) of 0.4 is assumed.

For the counterparties, a market value + add-on model is used to determine the EPE/ENE (expected positive/negative exposure). The add-on is calculated separately for each transaction type and currency and is generally derived from observable parameters on the market.

If a netting agreement is in force, netting effects at the customer level within transactions of the same kind and currency are also taken into account.

The CVA is determined from the discount rates, the counterparty PD and loss rate (1-REC) as well as the EPE. The DVA is determined from BAWAG Group's PD and loss rate as well as the ENE.

If the risk discount rate cannot be derived from market transactions, it is estimated by the management. This applies especially to non-payment risks arising from legal uncertainty that cannot be derived from the customer's general credit spread. Provided that BAWAG Group believes that the transaction is legally enforceable, the Bank still reports an asset in the amount of the positive fair value of the transaction with the counterparty even if objections have been lodged.

To value financial assets whose parameters cannot be derived from market transactions, the expected cash flow (including interest on arrears, if contractually agreed) is discounted on the day of valuation and weighted according to the probability of its occurrence. If the legal validity or enforceability of the claim is contested on the basis of possible grounds for annulment or an appeal, these legal considerations are taken into account in the valuation.

In the case of the close-out of a derivative transaction with a customer, the type of claim changes for BAWAG Group. Before the contract is terminated, the asset is a derivative, while after the contract is closed out, the asset is a contractual claim whose value no longer changes depending on market parameters. For this reason, the claim no longer satisfies the definition of a derivative according to IFRS 9.

In the event of the early termination of a derivative transaction, the variability of the payment flows in terms of amount and time of occurrence are materially changed by the close-out, and the original derivative is replaced with a new asset. This new asset is recognized at its fair value according to IFRS 9.5.1.1. The fair value corresponds to the carrying amount of the derivative at the time that the agreement is terminated, including any valuation adjustments applied up to the time of termination. A claim arising from the termination of the agreement meets the criteria in IFRS 9.4.1.2 for being measured at amortized cost.

This approach was chosen following IFRS 9.3.3.2 and IFRS 9.3.2.7, since IFRS 9 contains no explicit rules for when a financial instrument first fulfills the characteristics of a derivative and then no longer exhibits these characteristics at a later time. According to IAS 8.10 to 8.12, such gaps in the standards must be closed by applying a similar provision in the IFRS and taking the framework into account.

The method described above was applied for the transaction with the City of Linz in 2011.

Credit-linked notes

For credit-linked notes where no active markets exist, fair values are determined by applying a valuation model. Credit-linked notes (CLNs) are bonds with an embedded credit default swap (CDS) allowing the issuer to transfer a specific credit risk to investors. The valuation model for CLNs uses bond or CDS spreads of the issuer and the reference entity, as well as coupon and maturity.

Valuations by outside experts are also used when measuring complex structures. Appropriate tests and verifications are carried out.

Measurement for asset backed investments

Each position of the collateralized loan obligation (CLO) portfolio of BAWAG Group is subject to the mark-to-model valuation, which is performed on a monthly basis within the pricing functionality developed by Moody’s Analytics. Specifically, the measurement is performed within the CDOnet functionality of Moody’s Structured Finance solutions, where the present value technique is applied. The model uses the inputs already available in Moody’s Structured Finance (e.g. cash flows, original spreads for each tranche, weighted average maturity, etc.), as well as additional parameters that are derived independently by the Market Risk unit (primarily discounting spreads at the valuation date) from comparable CLO tranches with respect to credit rating, type of CLO, average subordination, etc. The source for the market spread levels is the Moody’s Structured Finance Portal as well as other external data sources like Wells Fargo Securities.

Fair value of participations

To determine the fair value of the participations, the present value of the projected potential dividends was calculated by using the risk-weighted pre-tax discount rate in the market applicable to the participation in question. These projections take into account the most recent forecasts including the observed and expected impact of the COVID-19 pandemic on the relevant entity’s profitability.

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

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

The post-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. The following parameters are used as of 31 December 2021:

- The risk-free rate (-0.12%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank.
- The source for the country-specific market risk premium is the website of Damodaran in conjunction with the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose Business Valuation working group sets a range from 7.5% to 9%. Due to the low level of the risk-free rate, a market risk premium of 8.13% was chosen.

- The applied beta factor for banks and financial service companies (1.10) is the two-year weekly average beta of 12 banks listed on European stock exchanges with retail as their core business. To avoid unsustainable overemphasis of the market in the wake of the COVID-19 crisis, a rolling beta factor is derived, the two-year betas of the peer group are formed over 12 quarters taking the mean value (rolling beta). Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 and/or a value for the t-test (hypothesis test) of at least 1.98 qualify for the peer group. The applied beta factor for stock exchanges is 0.84.

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

Transfers of financial instruments

Financial assets are derecognized as soon as the Group is no longer entitled to receive the financial rewards from the instruments. This generally occurs when the rights and obligations of the financial instruments pass to a third party by exercise, sale or assignment or if the Group has lost its right of disposal or the rights have lapsed.

When financial assets are transferred and BAWAG Group has significant continuing rights and obligations under them, such assets are still reported on the Consolidated Statement of Financial Position.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled.

Repurchase agreements, also known as “repos” or “sale and repurchase agreements,” are contracts under which financial assets are transferred to a transferee (lender) in return for a cash payment while also specifying that the financial assets must later be transferred back to the transferor (borrower) for an amount of money agreed in advance. The financial assets transferred out by BAWAG Group under repurchase agreements remain on the Group’s Statement of Financial Position and are measured according to the rules applicable to the respective Statement of Financial Position item. The liabilities resulting from cash received under repo arrangements are recorded in liabilities held for trading or financial liabilities associated with transferred assets depending on the purpose of the contract.

Conversely, under agreements to resell (known as reverse repos), financial assets are acquired for a consideration while at the same time committing to their future resale.

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the loan. Securities lent to counterparties are accounted for in the same way as repos. They are retained in the Group’s financial statements and are measured in accordance with IFRS 9. Securities lending and borrowing transactions are generally collateralized. Collateral furnished by the securities borrower continues to be recorded in the borrower’s financial statements.

Intangible non-current assets, property, plant and equipment

Intangible non-current assets consist mainly of acquired goodwill and related intangible assets such as brand names and customer relationships as well as other acquired and self-developed intangible assets (in particular software) and projects recognized in accordance with IAS 38.

Intangible non-current assets with an indefinite useful life are recognized at cost less impairments. Brands are not amortized as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life if there are no legal, contractual, regulatory or other factors limiting that useful life. Intangible assets and property, plant and equipment with limited useful lives are recognized at cost less straight-line amortization or depreciation and impairments. Buildings are depreciated at an annual rate of between 2.0% and 4.0%, other furniture and equipment is depreciated at annual rates between 2.0% and 50.0%, while IFRS 16 right-of-use assets are depreciated at annual rates between 5.0% and 85.7%. Purchased and self-produced software and other intangible assets and rights (other than goodwill and brand names) are amortized at annual rates between 2.8% and 33.3%. Customer relationships are amortized over approximately 8–30 years (2020: approximately 8–30 years) using a linear amortization rate. The amortization method and period are reviewed annually according to IAS 38. For details, please refer to Note 19.

When circumstances change, the useful life is adjusted considering the remaining economic life.

Development costs for internally generated software are capitalized when the development is technically feasible, there is the intention to complete the software, economic benefits will be generated and costs incurred can be measured reliably. Expenses for pre-studies (research costs) are not capitalized.

Investment properties

Investment properties include the real estate that meets the criteria for designation as investment property within the meaning of IAS 40.5. These properties are primarily held to earn rental revenue. To a limited degree, the Group also uses some of these properties itself. However, because these portions cannot be sold separately and are insignificant for the purposes of IAS 40.10, the entirety of such properties is included in Investment properties. Investment properties are measured at fair value.

Impairment testing

The fair value of the brand names is calculated using a modified relief from royalty method (the Brand Equity Method). In order to derive the brand share that can be associated with the income before taxes of the relevant profit centers, both the brand relevance and the brand strength are taken into consideration. After having derived the brand-related income, the cash flows are discounted with the specific discount rate. The fair value of the brand name equals the present value of all brand-related cash flows.

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate (depending on the business model 0.5% to 1.0%) thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make. The discount rate was estimated based on average equity returns in the sector and amounts to 6.73% for Zahnärztekasse AG and 9.29% for all other entities (2020: 7.16% for Zahnärztekasse AG and 9.01% for all other entities). The planning assumptions for the period 2022–2026 are based on the ECB's economic assumptions and prudent estimates for risk costs. The planning input is based on the business strategy, which envisages organic growth in the core market and continuous improvement of our product range.

In addition, intangible and tangible assets are tested at the reporting date to determine whether or not there is evidence that they are impaired. If there is evidence for impairment, the recoverable amount is calculated for the asset. This is the higher of the value in use or the net selling price. If the recoverable amount is lower than the carrying amount, an impairment loss in the amount of the difference is recognized according to IAS 36. Details regarding impairments and appreciations are provided in Note 9.

In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash-generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36 or when an impairment trigger exists based on the current business plan.

IFRS 16 Leases

Definition of a lease

At the inception of a contract, BAWAG Group assesses whether the contract is a lease according to IFRS 16. This is the case if the leased asset is an identified asset, the lessee substantially obtains all of the economic benefits from the use and the lessee has the right to control the asset.

The lease term starts at the commencement date of the lease contract, which is the date the lessor makes the underlying asset available for use by the lessee. It includes the non-cancellable period as well as periods where it is reasonably certain that the lessee exercises any extension option or does not exercise any termination option. BAWAG Group also considers all relevant circumstances that provide an economical incentive for the execution of such options. Examples are:

- importance of the leased asset for the Bank's business
- scope and costs of leasehold improvements
- costs of termination

A lessee considers all fixed, essentially fixed (i.e. variable but unavoidable) and variable lease payments depending on an index or rate. Other variable payments, such as those based on a percentage of sale or usage and maintenance costs, are not included, but recognized in profit or loss.

BAWAG Group as lessor

A lease is classified as a finance lease if it substantially transfers all the risks and rewards incidental to ownership to the lessee. By contrast, leases that do not substantially transfer all of the risks and rewards to the lessee are classified as operating leases.

For finance leases, the rights of claims against the lessee are recognized in the amount of the present value of the contractually agreed payments, taking any residual value into account and reported under receivables from customers.

By contrast, operating leases in which BAWAG Group retains all risks and rewards incidental to ownership of the leased asset are reported under tangible non-current assets. Each leased asset is depreciated as appropriate.

Lease payments received for operating leases and interest payments for finance leases are recognized in the Profit or Loss Statement.

The operating leasing business is not material for BAWAG Group.

BAWAG Group as lessee

At the commencement of a lease, a right-of-use asset as well as a lease liability are recognized. The lease liability is measured at the present value of the lease payments. For discounting lease payments for the majority of leasing contracts, BAWAG Group uses the incremental borrowing rate because the implicit interest rate cannot be determined. The incremental borrowing rate corresponds to the interest rate at which BAWAG Group can refinance itself on the market. It is assumed that the refinancing has a term and collateral comparable to that of the leasing contract. Since the share of leasing contracts not denominated in euros is insignificant, only refinancing in euros is considered. The right-of-use asset is recognized in the same amount as the corresponding lease liability, adjusted by initial direct costs.

For the subsequent measurement, the lease liability is increased by interest expense on the outstanding amount and reduced by lease payments made. The right-of-use asset is reduced by the accumulated depreciation on a straight-line basis.

BAWAG Group applies two recognition exemptions for lessees as permitted by the standard:

- short-term leases for contracts with a lease term of 12 months or less at the commencement date
- leases of low-value assets

In applying these exemptions, the lessee does not recognize the lease payments as a right-of-use asset and lease liability, but as rental expenses on a straight-line basis over the lease term in profit or loss.

Existing lease contracts are subject to a regular assessment for the purpose of considering significant events that have an impact on the lease payment or the lease term, e.g. an adjustment of the lease payments to a current index or rate. In such cases, the lease liability is re-measured to reflect the changes. Accordingly, the revised carrying amount is recognized either as an increase or decrease of the existing lease liability. The right-of-use asset is generally adjusted by the same amount.

Income taxes and deferred taxes

According to IAS 12, income taxes must be computed and reported using the liability method. The computation is based on the local tax rates that are legally binding at the time the consolidated financial statements are prepared.

Deferred tax assets and liabilities result from different methods used to measure assets and obligations on the Statement of Financial Position under IFRS and the respective tax code. This generally leads to positive or negative differences in the income tax to be paid for future periods (temporary differences). A deferred tax asset is recognized for the carryforward of unused tax losses when it is probable that future taxable profit will be generated by the same taxable unit. Deferred tax assets and liabilities are not discounted.

Tax expenses allocable to the taxable profit were recognized in the Profit or Loss Statement under Income taxes and broken down into current and deferred income taxes. Other taxes that are not attributable to profit are recognized under Other operating income and expenses.

According to IAS 12.34, a deferred tax asset is recognized for tax loss carryforwards if it is probable that future taxable profit will be available against which the unused tax losses can be utilized. As of 31 December 2021, unused tax losses amounted to € 0 million (2020: € 0 million) at the level of BAWAG Group AG and € 9 million (2020: € 23 million) at the level of members of the tax group included in the consolidated financial statements, hence a total of € 9 million (2020: € 23 million). Tax goodwill amortization contributed another € 76 million per year as tax-deductible expenses until the end of 2021.

The utilizability of unused tax losses and deferred tax assets by BAWAG Group was tested on the basis of the Group's long-term plan (planning period: five years). The expected utilization of unused tax losses is projected to amount to € 6 million (2020: € 23 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately € 1 million (2020: € 6 million) are recognized within BAWAG Group. If the forecasted taxable results varied by 10% compared to management estimates, deferred tax assets would remain unchanged (2020: would remain unchanged) if results improve and would remain unchanged (2020: would remain unchanged) if forecasted results turn out to be lower than expected. COVID-19 has no effect on the utilizability of unused tax losses of BAWAG Group.

Foreign subsidiaries had tax loss carryforwards of € 103 million as of 31 December 2021 (2020: € 106 million), which are currently not utilized for tax purposes.

A tax group pursuant to section 9 KStG was parented by BAWAG Group AG in the financial year. On 31 December 2021, the tax group consisted of the group parent and 27 members, both consolidated and non-consolidated in these financial statements (2020: group parent and 29 members).

In 2017, a tax compensation agreement effective 1 January 2018 was concluded between the group parent and each tax group member. The tax compensation payments shall be calculated using the standalone method. This method simulates that each group member is an independent taxpayer. Group members are obligated to make a tax compensation payment amounting to their taxable profit multiplied by the enacted tax rate. The compensation payment is independent from the taxable result of the group. An internal tax loss carryforward for tax losses transferred to the tax group parent is sustained and taken into account. As far as the tax group parent only has to pay the minimum corporate tax, no tax compensation payment will be charged. A final settlement for uncredited tax losses must be effected upon dissolution of the tax group or when a member entity leaves the group.

In addition, the new tax group and tax compensation agreement stipulates that the tax group parent abstains from subsequently charging tax compensation payments for periods prior to 1 January 2018. Internal tax loss carryforwards for periods prior to 1 January 2018 will be sustained.

As of 31 December 2021, the exit of BAWAG Group AG from the tax group and the exit of all other group members, with the exception of the new members in 2020 and 2021, would not result in a corporate income tax back payment as of 31 December 2021 because the minimum period of three years as required by section 9 paragraph 10 KStG was already fulfilled. The new group members who entered the tax group in 2020 and 2021 would incur a corporate income tax back payment in the amount of € 1 million (2020: € 1 million).

Provisions for employee benefits

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method. The present values of obligations outstanding as of the measurement date are calculated on the basis of actuarial assumptions applying an appropriate discount rate and taking into account the expected rates of increase in salaries and post-employment benefits. They are recognized as a provision in the Consolidated Statement of Financial Position. Actuarial gains and losses relating to provisions for post-employment and termination benefits are recognized in full in other comprehensive income in the year in which they are incurred.

The principal parameters underlying the actuarial calculations are:

Parameters for post-employment pension obligations

	2021	2020
Interest rate EUR	1.00% p.a.	0.70% p.a.
Interest rate CHF	0.26% p.a.	0.20% p.a.
Wage growth	1.0%–2.0% p.a.	1.0%–2.0% p.a.
Fluctuation discount	0%–10.00% p.a.[1)]	0%–7.64% p.a.[1)]

Parameters for severance payments and anniversary bonuses

	2021	2020
Interest rate	1.00% p.a.	0.70% p.a.
Wage growth severance payments	3.10% p.a.	3.10% p.a.
Wage growth anniversary bonuses	2.00%–2.80% p.a.	2.00%–2.80% p.a.
Fluctuation discount severance payments	0%–0.34% p.a.	0%–0.34% p.a.
Fluctuation discount anniversary bonuses	0%–9.75% p.a.[1)]	0%–9.75% p.a.[1)]
Retirement age	59–65 years[2)]	59–65 years[2)]

1) Südwestbank: 0%–25% p.a.
2) The earliest possible individual retirement age according to the legal requirements (excluding corridor pension) was assumed.

The interest rate used in 2021 was changed from 0.70% in the previous year to 1.00%.

In 2018, the Actuarial Association of Austria reviewed the mortality tables to be used for determining pension, severance and anniversary benefit obligations and reissued them as "Pensionstafeln AVÖ 2018-P." BAWAG P.S.K. used the new mortality tables to calculate personnel provisions and recognized the resulting effect (increase in provisions) in December 2018.

Since 1 January 2018, no active staff members are entitled to post-employment benefits from the Group. The retired employees who are entitled to post-employment benefits from the Group were awarded these entitlements under the provisions of the 1961 pension reform or on the basis of individual commitments by the Group. All employees are entitled to pension benefits from a pension fund under the provisions of the collective bargaining agreement for pension funds (defined contribution plan).

The existing post-employment benefit plans in BAWAG Group are financed entirely through provisions because they are defined benefit obligations. The allocated assets disclosed by the pension fund set up for certain beneficiaries are set off against the determined amounts of provisions for post-employment benefits.

These defined benefit plans expose BAWAG Group to actuarial risks such as interest rate risk and longevity risk.

The post-employment benefit rights of the majority of employees are defined contribution plans. The contributions that are made to these pension funds are recognized as expenses in the current period; there are no further obligations. Payments to pension funds for defined contribution plans amounted to € 7 million in 2021 (2020: € 8 million).

Other provisions for uncertain obligations to third parties are formed in accordance with the expected amount of the obligation. For details, see Note 29.

Share-based payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments (equity-settled and cash-settled transactions). Accounting is based on IFRS 2.

Equity-settled awards

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognized in employee benefits expense together with a corresponding increase in equity (other capital reserves) over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award but without an associated service requirement are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as of the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Cash-settled awards

For cash-settled awards, IFRS 2 defines that the fair value of services received is based on the fair value of the liability. Unlike the grant date model for equity-settled awards for employees, the Group remeasures the fair value of the award at each reporting date and on settlement. The ultimate cost of a cash-settled award is the cash paid to the beneficiary, which is the fair value at settlement date. Until settlement, the cash-settled award is presented as a liability and not within equity. Changes in the measurement of the liability are reflected in the statement of profit or loss.

The effect of a market condition or a non-vesting condition is reflected in the estimation of the fair value of the cash-settled share-based payments both at the grant date and subsequently. Vesting conditions (other than market conditions) are not taken into account when estimating the fair value of cash-settled share-based payments. Instead, vesting conditions (other than market conditions) are taken into account in the measurement of the liability incurred by adjusting the number of awards that are expected to vest. Such an estimate is revised when the liability is remeasured at each reporting date and until the vesting date. On a cumulative basis, no expense is recognized if the awards granted do not vest because of failure to satisfy a vesting condition or a non-vesting condition.

If an employee is not required to provide a service, expense and liability are recognized immediately upon the grant date. If the employee is required to provide services over a specified period, expense and liability are spread over the vesting period, while reconsidering the likelihood of achieving vesting conditions and remeasuring the fair value of the liability at the end of each reporting period.

Modifications from equity-settled to cash-settled and vice versa

In case of modifications of a program from equity-settled to cash-settled share-based payment, a liability to settle in cash is recognized at the modification date based on the fair value of the shares at the modification date to the extent to which the specified services have been received.

If the amount of the liability recognized on the modification date is less than the amount previously recognized as an increase in equity, then no gain is recognized for the difference between the amount recognized to date in equity and the amount reclassified for the fair value of the liability; that difference remains in equity. Subsequent to the modification, the Group continues to recognize the grant-date fair value of equity instruments granted as the cost of the share-based payment. Any subsequent remeasurement of the liability (from the date of modification until the settlement date) is recognized in profit or loss.

In case of modifications of a program from cash-settled to equity-settled share-based payment, the outstanding liability is revalued with the current share price on the date of modification with fair value movements recognized in profit or loss. Afterwards, the liability is released against equity and no further fair value movements are recognized.

Contingent liabilities and unused lines of credit

For the most part, contingent liabilities are guarantees and unused lines of credit. Guarantees are used when subsidiaries of BAWAG Group guarantee payment to the creditor to fulfill the obligation of a third party. Unused lines of credit are commitments from which a credit risk may occur. Loan loss provisions for contingent liabilities and unused lines of credit are reported under provisions for anticipated losses on pending business. For details, see Note 45.

Equity

Equity is the capital provided by the Bank's owners (issued capital and capital reserves), AT1 capital and the capital generated by the Bank (retained earnings, reserves from currency translation, FVOCI reserve, cash flow hedge reserve, net-investment-hedge reserve, actuarial gains and losses, profit brought forward and the profit for the period). Details are provided in Note 32.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a framework for determining whether, how much and when revenue is recognized. Accordingly, revenues coming from fees and commissions are recognized when control of goods and services is transferred and hence the contractual performance obligation to the customer has been satisfied.

BAWAG Group receives fee and commission income from various services provided to customers. These are presented in net commission income in the statement of profit or loss.

Fees and commissions for services performed over a certain period of time are collected over the period in which the service is performed. This includes commissions from lending and current account business, liability commissions and other management and custody fees. In cases where an associated financial instrument exists, fees that are an integral part of the effective interest rate of this financial instrument are reported as part of interest income.

Fees associated with providing a particular service or the occurrence of a certain event (transaction-related services) are recognized when the service has been provided in full or the significant event has occurred. Commissions from the performance of transaction-related services include securities transactions, the brokerage of insurance policies and building society savings contracts as well as foreign exchange transactions.

Expenses that are directly and incrementally related to the generation of commission income are shown under commission expenses.

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration received is allocated to the separately identifiable performance obligations in a contract. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts, performance bonuses and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

Note 4 shows a breakdown of commission income and expenses by business segment.

Description of P&L lines

Interest income and interest expense

Interest income consists primarily of interest income from loans and receivables, fixed-income securities, variable-rate securities and assets held for trading. Furthermore, regular income from equity investments, shares as well as fees and commissions similar to interest income are shown in this item. Interest income and interest expense also include premiums and discounts on securities and loans using the effective interest rate method and the amortization of day-one profits. Also, the interest portion of interest-bearing derivatives, separated into income and expenses, is recognized in interest income and expense. Income from negative interest liabilities is also included.

Interest expense consists mainly of interest for liabilities to credit institutions and customers, issued bonds, subordinated capital and supplementary capital. Expenses from negative interest assets are also included.

Interest income and interest expense are recognized on an accrual basis

Details concerning the net interest income can be found in Note 3.

Fee and commission income and expense

This item consists mainly of income from and expenses for payment transfers, securities and custody business and lending. Income and expenses are recognized on an accrual basis. For details, see Note 4.

Gains and losses on financial assets and liabilities

This item consists mainly of the valuation and sales gains or losses of the Group's investments, sales gains and losses from non-performing loans and issued securities, and the result from trading in securities and derivatives. Moreover, hedging inefficiencies and foreign exchange differences are shown within this position. The gains and losses from the derecognition of financial assets measured at amortized cost result from sales of financial instruments to third parties. This item also includes modification gains and losses. For details, see Note 5.

Other operating income and expenses

The other operating result reflects all other income and expenses not directly attributable to ordinary activities, such as results on the sale of property. In addition, the other operating result encompasses expenses for other taxes and regulatory charges (bank levy, the contributions to the deposit guarantee scheme and to the bank resolution fund), income from the release of other provisions and the reimbursement of expenses to customers as well as consolidation results from business combinations and related expenses. The annual IAS 40 valuation result is recognized in other operating income for appreciation or in other operating expenses for impairment. For details, see Note 6.

Administrative expenses

General administrative expenses represent personnel and other administrative expenses accrued in the reporting period. Details are explained in Note 7.

Risk costs

This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances and for contingent liabilities bearing credit risk as well as changes in expected credit losses. Also reported in this item are direct write-offs of loans and advances as well as recoveries on written-off loans removed from the balance sheet. Furthermore, this line item includes all charges resulting from operational risk events.

In addition, this line item includes impairment losses or reversals of impairment losses on property and equipment and other intangible assets as well as impairment losses on goodwill. For details, see Note 9.

Net gains or losses on financial instruments

Net gains or losses on financial instruments include fair value measurements recognized in the income statement, impairments, impairment reversals, gains realized on disposal and subsequent recoveries on written-down financial instruments classified in the respective IFRS 9 categories. The components are detailed for each IFRS 9 category in the notes on net interest income, gains and losses on financial assets and liabilities, and risk costs.

Cash Flow Statement

The Cash Flow Statement provides information about the current state and development of the Group's cash and cash equivalents as of the reporting date. It shows inflows and outflows of cash broken down by operational activities, investing activities and financing activities. The amount of cash and cash equivalents reported comprises cash on hand and balances at central banks.

Financial investments include debt instruments recognized at amortized cost or at fair value through other comprehensive income.

The Cash Flow Statement is of low relevance for BAWAG Group. It is not a substitute for liquidity or financial planning and is not used as a management tool.

Latitude of judgment and uncertainty of estimates

The consolidated financial statements include values which are determined, as permitted, on the basis of estimates and judgments. The estimates and judgments used are based on past experience and other factors, such as planning and expectations or forecasts of future events that are considered likely as far as we know today. The estimates and judgments themselves and the underlying estimation methods and judgment factors are reviewed regularly and compared with actual results. With respect to COVID-19, please refer to the bullet point on IFRS 9.

The measurement of financial instruments and the related estimates in respect of measurement parameters, in particular the future development of interest rates, have a material effect on the results of operations. The parameter values applied by the Bank are derived largely from market conditions prevailing as of the reporting date.

The determination of the fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently, calculation of fair value requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Details regarding valuation techniques and uncertainty of estimates regarding unobservable input factors are described in Note 1 Accounting policies and in Note 34 Fair value.

Assessments as to whether or not cash-generating units (CGUs) were unimpaired are based on planning calculations. These naturally reflect the management's evaluations, which are in turn subject to a degree of predictive uncertainty. Details on the impairment test and the analysis of uncertainties surrounding the estimation of goodwill are set out in Note 1 Accounting policies and Note 19 Goodwill, Brand names and customer relationships and Software and other intangible assets.

In determining the amount of deferred tax assets, the Group uses historical utilization possibilities of tax loss carryforwards and a multi-year forecast prepared by the management of the subsidiaries and the approved budget for the following year, including tax planning. The Group regularly re-evaluates its estimates related to deferred tax assets, including its assumptions about future profitability. Details regarding deferred taxes are set out in Note 1 Accounting policies and in Note 20 Net deferred tax assets and liabilities on the Statement of Financial Position.

Pension obligations are measured based on the projected unit credit method for defined benefit pension plans. In measuring such obligations, assumptions have to be made regarding long-term trends for salaries, pensions and future mortality in particular. Changes in the underlying assumptions from year to year and divergences from the actual effects each year are reported under actuarial gains and losses (see Note 1 Accounting policies).

The Bank may also face an impact from changing weather patterns and consequently see an impact on the loan portfolio or any collaterals (e.g. through floodings). Other ESG risks may contain changes in client behavior, changes in relevant legislation, etc. ESG-risks may impact our planning assumptions used for impairment testing, valuation of collateral and financial instruments. The analysis and monitoring of these risks is an ongoing process. For further information on ESG risks we refer to the risk report.

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

- recoverability of intangible assets
- recognition of provisions for uncertain liabilities
- assessments of legal risks from legal proceedings, supreme court rulings and inspections of regulatory authorities and the recognition of provisions regarding such risks
- assessment of the lease term applied for the standard IFRS 16 Leases
- assessing which entities are structured entities, and which involvements in such entities are interests
- IFRS 9: Judgment may be required when assessing the SPPI criterion to ensure that financial assets are classified into the appropriate measurement category. Assessments of the recoverability of long-term loans are based on assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to the lending business. In light of the ongoing COVID-19 pandemic, assessment regarding the measurement of individual financial assets, assessments regarding the transfer of financial instruments from stage 1 to stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans are based on the latest observations available to us. The long-term impact of the pandemic on economic development, the development of labor and other industry-specific markets as well as the payment holidays granted inside and outside of state or industry moratoria may be overestimated or underestimated when applying hindsight in the future. For details regarding quantitative effects of COVID-19 as at 31 December 2021, please refer to the Risk Report.
- fair value calculation for unquoted financial instruments where some parameters required for the valuation model are not observable in the market (Level 3). For details regarding effects of COVID-19 as at 31 December 2021, please refer to Note 34 Fair value.

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 swap agreement. This transaction was intended by the City of Linz to optimize a CHF bond (please note that the party to the transaction and consequently the lawsuit is BAWAG P.S.K. AG, a subsidiary of BAWAG Group AG).

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 further payments in connection with the swap agreement. Consequently, BAWAG Group exercised its right to close out the transaction.

The City of Linz filed a lawsuit against BAWAG Group at the Commercial Court of Vienna (court of first instance) at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling € 24.2 million at the exchange rate at that time), which corresponds to the net cash payments made by the City of Linz whilst still performing the swap agreement. BAWAG Group filed a (counter) suit against the City of Linz for the performance of its contractual rights arising from the same transaction in the amount of € 417.7 million, which mainly reflects close-out costs BAWAG Group incurred. The court combined the two suits. The first hearings were held in the spring of 2013 and a court-commissioned expert opinion as well as a supplementary opinion thereto were submitted in August 2016 and December 2017. On 8 April 2019, the City of Linz filed a motion for an interim judgment (Zwischenurteil) with respect to their CHF 30.6 million claim to determine whether the swap agreement is valid. The court responded to such motion with a separation of the previously combined two proceedings and suspended BAWAG Group's (counter) claim pending the outcome of the interim judgment (Zwischenurteil). On 7 January 2020, the court of first instance issued an interim judgment (Zwischenurteil) in which it held that the swap agreement is void. The Court of Appeal confirmed the interim judgment (Zwischenurteil) of the court of first instance on 31 March 2021 and permitted a regular appeal (ordentliche Revision) to the Supreme Court. BAWAG Group filed its appeal to the Supreme Court on 4 May 2021 and the decision of the Supreme Court is still pending.

The interim judgment relates to the validity of the swap agreement only and is not a decision on the mutual payment claims of BAWAG Group and the City of Linz. Therefore, notwithstanding the final decision on the validity of the swap agreement by the Supreme Court, ultimately mutual payment claims will be decided by the court of first instance and potentially again the Court of Appeal and the Supreme Court. BAWAG Group therefore takes the view that its strong legal position remains unchanged and it is well prepared for the forthcoming court proceedings. It is difficult to predict how much longer the lawsuit is going to continue. However, based on experience it is assumed that the further legal proceedings until a final judgment is enforceable will take several years.

Future court decisions on the validity of the swap agreement may impact the recognition of the receivable asserted thereunder. In case the swap agreement is held void by the Supreme Court, BAWAG Group would have to derecognize the receivable against City of Linz. A potential consequential damage claim resulting therefrom would only be recognized after a final judgment has determined the amount awarded to BAWAG Group. In addition, even if the courts ultimately were to hold that the swap agreement is valid, BAWAG Group may still not be awarded, in full or in part, the payment sought, in which case it may also be required to further write down its receivable.

BAWAG Group has valued the transaction until termination according to the general principles (see Note 1 Accounting policies in the Annual Report) and has adequately accounted for the risks associated with the claim arising from the swap agreement. 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 a respective valuation adjustment.

After the termination of the transaction, the swap was derecognized, and a receivable was recognized under receivables from customers (classified under At amortized cost – receivables from customers). In 2011, when derecognizing the swap, a credit value adjustment of € 164 million (equals around 40% of € 417.7 million) was set off against the gross receivable, thus a new receivable was recognized in the amount of approximately € 254 million.

Restatement in accordance with IAS 8.41

Adjustments due to the result of the audit by the FMA

BAWAG Group was subject to an examination pursuant to section 2 (1) line 1 of the Austrian Financial Reporting Control Act (RL-KG). The examination covered the consolidated financial statements as of 31 December 2019 and the half-year financial report as of 30 June 2020. The examination result led to the adjustments described below in connection with the initial consolidation of start:bausparkasse AG and the reclassification of bonds in 2019 to the fair value through other comprehensive income measurement category. The adjustments were taken into account in accordance with IAS 8.41 in these consolidated financial statements.

Below is a description of the misstatements identified and the resulting adjustments made by BAWAG Group:

start:bausparkasse AG

As part of the acquisition of start:bausparkasse AG as of 1 December 2016, building society savings deposits with embedded interest rate caps and floors were included in the consolidated financial statements of BAWAG Group. The embedded interest rate limitation agreements were not separated from the host contracts.

In the context of business combinations, IFRS 3.16c) in conjunction with IFRS 3.15 requires an entity to assess whether an embedded derivative is required to be separated from the host contract at the acquisition date in accordance with IFRS 9.

Since BAWAG Group did not measure or classify the hybrid building society savings deposits at fair value through profit or loss, and since stand-alone instruments with the same terms as the embedded derivatives would meet the definition of derivatives (IFRS 9.4.3.3b)), the decisive factor in assessing whether the embedded interest rate cap agreements must be separated is whether their economic characteristics and risks were closely related to the economic characteristics and risks of the host contracts at the acquisition date (IFRS 9.4.3.3a)).

According to IFRS 9.B4.3.8b), the economic characteristics and risks of an embedded floor or cap on interest rates of a debt instrument are closely related to the host contract if, at the date the contract is acquired, the interest rate cap is equal to or higher than the prevailing market interest rate or the interest rate floor is equal to or lower than the prevailing market interest rate and the cap or floor is not leveraged relative to the host contract. The economic characteristics and risks of interest rate caps below and interest rate floors above the prevailing market interest rate are not closely related to the host contract.

Due to the partly high levels of the embedded floors acquired in relation to the market situation prevailing in December 2016 and due to the interest rate development between the date of origin of the contracts and the date of acquisition of start:bausparkasse AG, which is reflected, among other things, in the partially high fair values at the acquisition date, after taking into account the relevant parameters and components, at least the floors from the contracts that had already existed for a longer period at the acquisition date were "in the money" by comparison with a swap rate in line with the maturity or with the respective forward rate and therefore had to be separated.

This "classification" as defined by the use of this term in IFRS 3 as of 1 December 2016 has an impact on the measurement in subsequent periods and affects the consolidated financial statements as of 31 December 2019 as well as the half-year financial report as of 30 June 2020, as building savings deposits acquired on 1 December 2016 with embedded floors in different amounts were still recognized in the portfolio on these reporting dates.

As a result of the audit conducted by the FMA, a further review was carried out to determine whether the building society savings deposits acquired in 2016 included embedded derivatives that were subject to separation. The agreed interest rate floors were compared with the maturity-matched swap rate plus spread. Based on this comparison, building savings deposits with a remaining term of less than four years and an interest rate floor of more than 0.25% at the acquisition date contain derivatives that must be separated.

In accordance with IFRS 9.4.2.2 in conjunction with IFRS 9.4.3.5, a financial liability that contains one or more separable embedded derivatives may be irrevocably designated upon initial recognition as at fair value through profit or loss. Due to the correction of the error and the associated existence of a derivative that must be separated, it is now possible to measure the savings deposits concerned in their entirety at fair value through profit or loss. BAWAG Group exercises this option and designates the savings deposits concerned as financial liabilities at fair value through profit or loss as of the acquisition date.

The change in measurement made on the occasion of the examination resulted in a decrease in financial liabilities measured at amortized cost of € 478 million as of 31 December 2019 (€ 144 million as of 31 December 2020) and an increase in financial liabilities measured at fair value of € 479 million as of 31 December 2019 (€ 144 million as of 31 December 2020). Taking into account deferred taxes, equity decreased by € 1.1 million as of 31 December 2019, increased by € 0.1 million as of 30 June 2020 and decreased by € 0.1 million as of 31 December 2020. Net income for the first half-year 2020 increased by € 1.2 million, net income for 2020 increased by € 1.0 million.

Reclassification of securities to the fair value measurement category in 2019 (IFRS 9)

In the financial year 2019, BAWAG P.S.K. sold securities with a nominal value of € 1,597.8 million (including securities acquired in the financial year 2019) in several tranches. The securities in this investment book were allocated to the business model "hold to collect" ("HTC", holding assets to collect contractual cash flows, measurement at amortized cost) as defined by IFRS 9. The securities held in this investment book served the purpose of natural hedging of interest rate risks from non-interest bearing balance sheet items. The amount of the net non-interest bearing position was € 2,820.0 million in December 2018. The carrying amount of the securities held was € 2,283.6 million as of 31 December 2018.

At the end of fiscal year 2019, the Bank decided to reclassify part of the securities held in this investment book with a nominal value of approximately € 600 million to other securities books and to leave the position, whose book value at the time of the decision to reclassify was approximately € 2,500 million, fully unsecured. The proposed decision also provided that the reclassification would result in a change of the business model from "hold to collect" to "hold to collect and sell" ("HTCS", the collection of contractual cash flows and the sale of financial assets, measured at fair value through other comprehensive income).

As of 31 December 2019, securities from this investment book with a nominal value of almost € 600 million were reclassified from the category of measurement at amortized cost to the category of measurement at fair value through other comprehensive income. The one-time positive effect on other comprehensive income from the reclassification amounted to € 10.2 million net of deferred taxes. As of 31 December 2020, the effect amounted to € 4.3 million net after consideration of the related hedge in the amount of € 1.7 million.

The remaining securities in the portfolio continued to be managed under the "hold to collect" business model and were measured at amortized cost. The carrying amount of the securities held in this investment book amounted to € 187.6 million as of 31 December 2019.

The executed reclassification of securities transferred from this investment book to other securities books to the fair value through other comprehensive income category is not in accordance with the requirements of IFRS 9.4.4.1 in conjunction with IFRS 9.B4.4.1ff. and IFRS 9.5.6.1 in conjunction with IFRS 9.B5.6.1.

According to IFRS 9.B4.4.1, the reclassification of financial assets requires, among other things, existing external or internal changes that are demonstrable to external parties. According to the standard, the business model is only changed if the entity either commences or ceases an activity that is significant to its operations. IFRS 9.B4.4.3 clarifies that a change of intention with respect to certain financial assets or a transfer of financial assets between parts of the entity with different business models does not constitute a change in the business model.

Accordingly, the transfer of some of the securities held in this investment book to other securities books does not result in a change of business model even if the hedging strategy associated with those securities changes. The requirements for reclassification are therefore not met in the present case.

As a result, other comprehensive income was overstated by € 10.2 million (after tax) in the financial statements as of 31 December 2019, and by € 4.3 million (after tax) as of 31 December 2020.

Impact of sales of securities on the assessment of the business model for newly acquired financial assets (IFRS 9)

The Bank held the security of this investment book newly acquired in 2020 as part of a business model whose objective is to hold financial assets to collect the contractual cash flows (IFRS 9.4.1.2a)). This security was subsequently measured at amortized cost.

This is contrary to IFRS 9.4.1.2 in conjunction with IFRS 9.B4.1.2A and B4.1.2C, according to which the frequency, value, timing and reasons for sales in previous periods must be taken into account when determining whether cash flows are realized through the collection of contractual cash flows from financial assets. As a result of the intensity of sales of securities from this investment book observable in 2018 and 2019, the conditions for classification to the business model "hold to collect contractual cash flows" were not met for the newly acquired securities from this investment book after 31 December 2019. As a further consequence, the presentation of this security in the balance sheet in the half-year financial report for 30 June 2020 is incorrect. The resulting effect on earnings amounts to € 0.0 million. As of 31 December 2020, the security had been redeemed.

Changes in accounting policies in accordance with IAS 8.14

Change in the presentation of cash held in third-party ATMs

BAWAG Group has outsourced the operation of ATMs that are located outside its branch to a cooperation partner, which also holds the ownership of the ATMs it operates. Physical possession of the cash contained in these ATMs and the risk of loss lie with the cooperation partner, while ownership under civil law remains with BAWAG Group. As the Bank is the owner of the cash under civil law, it was previously reported under the balance sheet item cash reserve, particularly in view of the fact that the cash is available to settle BAWAG Group's obligations to its own customers.

A recent internal analysis has shown that transactions at ATMs operated by the cooperation partner affect significantly more third-party bank customers than the Bank's own customers, as the cooperation partner is basically free to determine the locations of the ATMs. As BAWAG Group provides a certain amount of cash for filling the ATMs, which it can only use to a limited extent, BAWAG Group has decided to change the presentation of the cash provided and to report it under loans and advances to customers in order to make it clear that a significant portion of the cash provided is not actually used to settle obligations to the Bank's own customers and, moreover, that these cash holdings cannot be accessed without restriction.

The change in accounting policy is made retrospectively in accordance with IAS 8.

The effects of all above-mentioned adjustments on the statement of financial position, total comprehensive income and earnings per share are shown in the following tables:

Assets

in € million	1.1.2020 published	Reclassification of securities	Building savings deposits	Change in the presentation of cash held in third-party ATMs restated	1.1.2020 restated
Cash reserves	1,424	–	–	(101)	1,323
Financial assets at fair value through other comprehensive income	3,631	(622)	–		3,009
Financial assets measured at amortized cost	37,556	608	–	101	38,265
Customers	30,467	–	–	101	30,568
Securities	1,369	608	–	–	1,977
Total assets	**45,662**	**(14)**	**–**	**–**	**45,648**

Liabilities and equity

in € million	1.1.2020 published	Reclassification of securities	Building savings deposits	Change in the presentation of cash held in third-party ATMs restated	1.1.2020 restated
Financial liabilities designated at fair value through profit or loss	369	–	479	–	848
Financial liabilities at amortized cost	38,543	–	(478)	–	38,065
Customers	30,378	–	(478)	–	29,900
Tax liabilities for deferred taxes	54	(4)	0	–	50
Equity attributable to the owners of the parent (ex AT1 capital)	3,527	(10)	(1)	–	3,516
Total liabilities and equity	**45,662**	**(14)**	**–**	**–**	**45,648**

Assets

in € million	31.12.2020 published	Reclassification of securities	Building savings deposits	Change in the presentation of cash held in third-party ATMs restated	31.12.2020 restated
Cash reserves	1,032	–	–	(125)	907
Financial assets at fair value through other comprehensive income	4,830	(487)	–	–	4,343
Financial assets measured at amortized cost	44,153	481	–	125	44,759
Customers	32,004	–	–	125	32,129
Securities	2,260	481	–	–	2,741
Total assets	**53,128**	**(6)**	**–**	**–**	**53,122**

Liabilities and equity

in € million	31.12.2020 published	Reclassification of securities	Building savings deposits	Change in the presentation of cash held in third-party ATMs restated	31.12.2020 restated
Financial liabilities designated at fair value through profit or loss	324	–	144	–	468
Financial liabilities at amortized cost	46,088	–	(144)	–	45,944
Customers	32,409	–	(144)	–	32,265
Tax liabilities for deferred taxes	112	(2)	0	–	110
Equity attributable to the owners of the parent (ex AT1 capital)	3,883	(4)	0	–	3,879
Total liabilities and equity	**53,128**	**(6)**	**–**	**–**	**53,122**

Statement of comprehensive income

in € million	2020 published	Reclassification of securities	Building savings deposits	Change in the presentation of cash held in third-party ATMs restated	2020 restated
Interest expense	(200.2)	–	(0.9)	–	(201.1)
Net interest income	**916.3**	**–**	**(0.9)**	**–**	**915.4**
Gains and losses on financial assets and liabilities	(28.9)	–	2.2	–	(26.7)
thereof gains from the derecognition of financial assets measured at amortized cost	0.1	0.4	–	–	0.5
thereof losses from the derecognition of financial assets measured at amortized cost	(0.3)	0.0	–	–	(0.3)
Profit before tax	**369.9**	**–**	**1.3**	**–**	**371.2**
Income taxes	(85.4)	–	(0.3)	–	(85.7)
Profit after tax	**284.5**	**–**	**1.0**	**–**	**285.5**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Fair value changes of debt instruments at fair value through other comprehensive income	123.0	7.8	–	–	130.8
thereof transferred to profit (-) or loss (+)	(30.2)	0.4	–	–	(29.8)
Income tax relating to items that may be reclassified	(36.4)	(1.9)	–	–	(38.3)
Total items that may be reclassified subsequently to profit or loss	**106.4**	**5.9**	**–**	**–**	**112.3**
Other comprehensive income	**66.0**	**5.9**	**–**	**–**	**71.9**
Total comprehensive income, net of tax	**350.5**	**5.9**	**1.0**	**–**	**357.4**

Earnings per share

	2020 published	Reclassification of securities	Building savings deposits	Change in the presentation of cash held in third-party ATMs restated	2020 restated
Basic earnings per share (in €)	3.06	–	0.01	–	3.07
Diluted earnings per share (in €)	3.02	–	0.01	–	3.03

Effects of adopting amended and new standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2021 consolidated financial statements:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Impact on BAWAG Group
Amendments to IFRS 4: Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020)	1 January 2021	15 December 2020	None
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)	1 January 2021	13 January 2021	See Note 1 – IBOR reform

The following standards, amendments and interpretations to existing standards were approved by the International Accounting Standards Board (IASB) and endorsed by the EU but are not yet mandatory for the preparation of IFRS financial statements for the period ended 31 December 2021. BAWAG Group does not plan an early application of endorsed but not yet effective standards:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Expected impact on BAWAG Group
Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021)	1 April 2021	30 August 2021	None
Amendments to • IFRS 3 Business Combinations; • IAS 16 Property, Plant and Equipment; • IAS 37 Provisions, Contingent Liabilities and Contingent Assets • Annual Improvements 2018–2020 (issued on 14 May 2020)	1 January 2022	28 June 2021	Immaterial
IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)	1 January 2023	19 November 2021	None

The following standards and amendments approved by the International Accounting Standards Board (IASB) have not yet been endorsed by the European Union. BAWAG Group does not plan early application:

Standard/Interpretation/Amendment	Expected impact on BAWAG Group
Amendments to IAS 1: Classification of Liabilities as Current or Non-current and Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively)	Immaterial
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (issued on 12 February 2021)	Immaterial
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)	None
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)	None
Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)	None

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

2 | Earnings per share

Earnings per share pursuant to IAS 33

	2021	2020 restated
Net result attributable to owners of the parent (in € million)	479.9	285.2
AT1 coupon (in € million)	(24.5)	(15.0)
Net result attributable to owners of the parent after deduction of AT1 coupon (in € million)	**455.4**	**270.2**
Weighted average number of outstanding shares	88,777,087	87,937,130
Basic earnings per share (in €)	**5.13**	**3.07**
Weighted average diluted number of outstanding shares	89,077,958	89,121,117
Diluted earnings per share (in €)	**5.11**	**3.03**

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

	2021	2020 restated
Net result attributable to owners of the parent (in € million)	**479.9**	**285.2**
Weighted average diluted number of outstanding shares	89,077,958	89,121,117
After-tax earnings per share in (€) – BAWAG definition	**5.39**	**3.20**

Changes in number of outstanding shares

	2021	2020
Shares outstanding at the beginning of the period	87,937,130	87,937,130
Shares outstanding at the end of the period	88,855,047	87,937,130
Weighted average number of outstanding shares	88,777,087	87,937,130
Weighted average diluted number of outstanding shares	89,077,958	89,121,117

Earnings per share represent the net result attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding during the reporting period. A part of the shares bought back in prior periods is used for a part of our long-term incentive program which only has a service condition. For these shares, a potential dilutive effect is calculated.

Prior-year figures were adjusted. For details, please refer to the section Restatement in accordance with IAS 8.41.

3 | Net interest income

in € million	2021	2020
Interest income	**1,128.0**	**1,113.7**
Financial assets at fair value through profit or loss	16.5	13.3
Financial assets at fair value through other comprehensive income	62.7	70.4
Financial assets held for trading	63.0	101.0
Financial assets at amortized cost	777.3	780.3
Derivatives – Hedge accounting, interest rate risk	126.5	102.5
Interest income from financial liabilities	80.7	46.3
Other assets	1.3	(0.1)
Interest expense	**(207.4)**	**(201.1)**
Deposits at central banks	(43.7)	(18.1)
Financial liabilities designated at fair value through profit or loss	(8.6)	(13.8)
Financial liabilities held for trading	(10.6)	(29.6)
Financial liabilities measured at amortized cost	(56.8)	(54.4)
Derivatives – Hedge accounting, interest rate risk	(72.7)	(68.1)
Provisions for social capital	(2.6)	(3.8)
Interest expense from IFRS 16 lease liabilities	(2.5)	(2.6)
Interest expense from financial assets	(9.9)	(10.7)
Dividend income	**17.7**	**2.8**
Financial assets mandatorily at fair value through profit or loss	2.5	2.3
Financial assets at fair value through other comprehensive income	15.2	0.5
Net interest income	**938.3**	**915.4**

Interest income and similar income are recognized on an accrual basis. Interest income also includes premiums and discounts on securities classified as financial investments as well as premiums and discounts on acquired loan portfolios that are allocated in accordance with the accruals concept, among other items. Interest income on impaired receivables during 2021 amounted to € 3.7 million (2020: € 5.6 million). Interest income includes income from negative interest of € 80.7 million (2020: € 46.3 million). Interest expense includes expenses from negative interest of € 53.6 million (2020: € 28.8 million). Interest income from financial assets at fair value through other comprehensive income and financial assets at amortized cost is calculated using the effective interest method. Dividend income from financial assets at fair value through other comprehensive income is related to investments held at the end of the reporting period.

4 | Net fee and commission income

Net fee and commission income can be broken down by BAWAG Group's segments as follows:

2021 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**313.0**	**39.6**	**0.1**	**0.3**	**353.0**
Transactional	180.4	39.6	-	-	220.0
Advisory	74.0	-	-	1.4	75.4
Securities	63.8	-	-	1.4	65.2
Insurance	10.2	-	-	-	10.2
Lending and others	58.6	-	0.1	(1.1)	57.6
Lending	33.6	-	-	-	33.6
Factoring	17.4	-	-	-	17.4
Others	7.6	-	0.1	(1.1)	6.6
Fee and commission expense	**(61.9)**	**(5.6)**	**-**	**(3.4)**	**(70.9)**
Transactional	(51.3)	(5.6)	-	-	(56.9)
Advisory	(2.0)	-	-	(2.8)	(4.8)
Securities	(2.0)	-	-	(2.8)	(4.8)
Insurance	-	-	-	-	-
Lending and others	(8.6)	-	-	(0.6)	(9.2)
Lending	(5.1)	-	-	-	(5.1)
Factoring	(2.3)	-	-	-	(2.3)
Others	(1.2)	-	-	(0.6)	(1.8)
Net fee and commission income	**251.1**	**34.0**	**0.1**	**(3.1)**	**282.1**

2020 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**283.5**	**45.2**	**0.1**	**0.3**	**329.1**
Transactional	184.0	45.2	-	-	229.2
Advisory	53.4	-	-	1.6	55.0
Securities	46.5	-	-	1.6	48.1
Insurance	6.9	-	-	-	6.9
Lending and others	46.1	-	0.1	(1.3)	44.9
Lending	22.2	-	-	-	22.2
Factoring	16.0	-	-	-	16.0
Others	7.9	-	0.1	(1.3)	6.7
Fee and commission expense	**(64.9)**	**(6.3)**	**-**	**(3.1)**	**(74.3)**
Transactional	(57.6)	(6.3)	-	-	(63.9)
Advisory	(0.2)	-	-	(2.5)	(2.7)
Securities	(0.2)	-	-	(2.5)	(2.7)
Insurance	-	-	-	-	-
Lending and others	(7.1)	-	-	(0.6)	(7.7)
Lending	(3.1)	-	-	-	(3.1)
Factoring	(1.7)	-	-	-	(1.7)
Others	(2.3)	-	-	(0.6)	(2.9)
Net fee and commission income	**218.6**	**38.9**	**0.1**	**(2.8)**	**254.8**

Net fee and commission income includes an amount of € 2.5 million (2020: € 3.0 million) for fiduciary transactions. Income from payment transfers and securities and custody business is recognized mainly at a point in time. Income from lending is recognized mainly over time. Other income is recognized using a mix of point in time and over time.

5 | Gains and losses on financial assets and liabilities

in € million	2021	2020
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**21.1**	**25.4**
Financial assets at fair value through other comprehensive income	39.5	30.3
Financial assets measured at amortized cost	(11.5)	(1.9)
thereof gains from the derecognition of financial assets measured at amortized cost	0.1	0.5
thereof losses from the derecognition of financial assets measured at amortized cost	0.0	(0.3)
Financial liabilities measured at amortized cost	(1.6)	(1.3)
Gain from the sale of subsidiaries and associates	–	–
Net gain or loss from modification	(5.3)	(1.7)
Gains (losses) on financial assets and liabilities held for trading, net	**(45.1)**	**(84.2)**
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	**54.3**	**22.3**
Gains (losses) from fair value hedge accounting	**(20.4)**	**14.2**
Fair value adjustment of hedged item	54.8	(23.0)
Fair value adjustment of hedging instrument	(75.2)	37.2
Exchange differences, net	**1.4**	**(4.4)**
Gains and losses on financial assets and liabilities	**11.3**	**(26.7)**

The item gains and losses on financial assets and liabilities was influenced primarily by the valuation and sale of the Group's investments, the valuation of issued securities and derivative transactions with customers.

6 | Other operating income and expenses

in € million	2021	2020
Other operating income	**198.3**	**127.7**
Income from investment properties	11.1	31.7
Consolidation result from business combinations	116.0	–
Lease objects maintenance costs charged to the lessees	45.6	68.8
Other income	25.6	27.1
Other operating expenses	**(248.2)**	**(152.5)**
Expenses relating to investment properties	(9.3)	(13.4)
Restructuring and other expenses relating to the acquisition of DEPFA Group	(30.2)	–
Losses from the sale and derecognition of property, plant and equipment	(28.0)	(0.7)
Regulatory charges	(76.1)	(54.8)
Lease objects maintenance costs	(45.8)	(69.3)
Other expenses	(58.8)	(14.3)
Other operating income and expenses	**(49.9)**	**(24.8)**

The line item Regulatory charges includes the bank levy and the contributions to the deposit guarantee scheme and to the bank resolution fund. The bank levy included in this item amounts to € 7.0 million for 2021 (2020: € 5.3 million).

Income from investment properties includes rental income of € 11.1 million (2020: € 19.5 million).

Expenses relating to investment properties include negative valuation results of net minus € 3.3 million (2020: positive valuation results of net € 3.1 million shown under Income from investment properties) and operating costs of € 5.7 million (2020: € 13.4 million).

For further details regarding the result from business combinations please refer to Note 38.

7 | Administrative expenses

in € million	2021	2020
Staff costs	**(295.4)**	**(297.4)**
Wages and salaries	(218.7)	(218.9)
Statutory social security contributions	(60.6)	(59.5)
Increase/Release of pension provision and pension payments	(10.3)	(10.9)
Increase/Decrease of provision for severance payments	(4.2)	(4.3)
Increase/Decrease of provision for jubilee benefits	0.9	(1.7)
Staff benefit fund costs	(2.5)	(2.1)
Other administrative expenses	**(126.2)**	**(145.6)**
IT, data, communication	(59.0)	(59.1)
Real estate, utility, maintenance expenses	(9.4)	(13.2)
Advertising	(5.5)	(13.7)
Legal, consulting, outsourcing	(6.8)	(12.2)
Postage fees and logistics	(14.6)	(15.6)
Regulatory and audit fees	(10.4)	(11.0)
Other general expenses	(20.5)	(20.8)
Administrative expenses	**(421.6)**	**(443.0)**

8 | Depreciation and amortization on tangible and intangible non-current assets

in € million	2021	2020
Depreciation and amortization		
Customer relationships	(9.0)	(9.2)
Software and other intangible assets	(32.4)	(39.2)
Property, plant and equipment	(27.1)	(32.6)
thereof depreciation of right of use assets	(15.1)	(18.6)
Depreciation and amortization	**(68.5)**	**(81.0)**

9 | Risk costs

in € million	2021	2020
Changes in provisions for financial assets at amortized cost	(80.8)	(229.5)
Stage 1	19.4	(13.5)
Stage 2	(40.0)	(43.4)
Stage 3	(60.2)	(172.6)
Changes in provisions for off-balance credit risk	6.8	10.0
Stage 1	6.5	(7.3)
Stage 2	1.7	(2.8)
Stage 3	(1.4)	20.1
Change in provisions for financial assets at fair value through other comprehensive income	4.4	(2.8)
Stage 1	4.4	(2.9)
Stage 2	–	0.1
Subtotal – risk costs according to IFRS 9	**(69.6)**	**(222.3)**
Provisions and expenses for operational risk	(17.7)	9.7
Impairment losses on non-financial assets	(6.0)	(12.0)
CDS premia	(1.7)	–
Provisions – other	0.0	0.0
Risk costs	**(95.0)**	**(224.6)**

Impairment losses on non-financial assets

in € million	2021	2020
Software and other intangible assets	(6.0)	(12.0)
thereof Brand name	–	(1.8)
thereof Software and other intangible assets	(6.0)	(10.2)
Impairment and appreciation of non-current assets	**(6.0)**	**(12.0)**

For further details regarding impairment losses on non-financial assets, please refer to Note 19.

10 | Share of the profit or loss of associates accounted for using the equity method

The result reported for 2021 of € 3.8 million (2020: € 1.1 million) contains the proportionate shares in BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH of in total € 3.8 million (2020: € 5.5 million) and impairment of entities accounted for using the equity method of € 0.0 million (2020: € 4.4 million).

The unrecognized share of the losses of entities that were accounted for using the equity method according to IFRS 12.22 (c) came to € 0.0 million (2020: € 0.0 million).

The following table shows key financial indicators for the Group's associates accounted for using the equity method:

Associates accounted for using the equity method

in € million	2021	2020
Cumulated assets	2,212	2,327
Cumulated liabilities	2,079	2,186
Cumulated equity	133	141
Earned premiums (gross)	196	190
Fee and commission income	216	193
Cumulated net profit	14	16

The associates accounted for using the equity method are BAWAG P.S.K. Versicherung Aktiengesellschaft (stake of 25.00%) and PSA Payment Services Austria GmbH (stake of 20.82%). For further details, please refer to Note 37 Related parties.

11 | Income taxes

in € million	2021	2020
Current tax expense	(150.0)	(50.6)
Deferred tax expense/income	29.6	(34.8)
Income taxes	**(120.4)**	**(85.4)**

The following reconciliation shows the relationship between computed tax expenses and reported tax expenses:

in € million	2021	2020
Profit before tax	600.4	371.2
Tax rate	25%	25%
Computed tax expenses	**(150.1)**	**(92.8)**
Reductions in tax		
Due to tax-exempt income from equity investments	5.5	0.1
Due to tax goodwill amortization	18.9	18.7
Due to first time consolidation	22.3	–
Due to other tax-exempt income	6.1	4.5
Due to foreign exchange differences	–	0.5
Due to differing foreign tax rates	–	0.1
Due to use of tax loss carryforwards	1.2	0.1
Due to other tax effects	2.1	3.9
Increases in tax		
Due to gains and losses from the valuation of equity investments	(2.8)	(1.0)
Due to valuation of real estate properties	(0.0)	(3.8)
Due to unrecognized deferred taxes on tax loss carryforwards	(0.9)	(1.5)
Due to non-tax deductible expenses	(10.9)	(8.2)
Due to foreign exchange differences	(2.0)	–
Due to differing foreign tax rates	(3.6)	(3.6)
Due to other tax effects	(3.0)	(4.0)
Income tax in the period	**(117.3)**	**(87.0)**
Out-of-period income tax	(3.1)	1.3
Reported income tax (expense)	**(120.4)**	**(85.7)**

The Group's assets included deferred tax assets recognized for benefits arising from as-yet-unused tax losses in the amount of € 1 million (2020: € 6 million). The tax losses can be carried forward for an unlimited period.

As of 31 December 2021, unused tax losses amounted to € 0 million (2020: € 0 million) at the level of BAWAG Group AG and € 9 million (2020: € 23 million) at the level of members of the tax group included in the consolidated financial statements, hence a total of € 9 million (2020: € 23 million). Tax goodwill amortization contributed another € 76 million per year as tax-deductible expenses until the end of 2021.

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

12 | Cash reserves

in € million	31.12.2021	31.12.2020
Cash on hand	110	173
Balances at central banks	1,784	734
Cash reserves	**1,894**	**907**

13 | Financial assets at fair value through profit or loss

in € million	31.12.2021	31.12.2020
Financial assets designated at fair value through profit or loss	**77**	**90**
Receivables from customers	77	90
Financial assets mandatorily at fair value through profit or loss	**534**	**603**
Bonds and other securities	328	364
Receivables from customers	108	168
Subsidiaries and other equity investments	98	71
Financial assets at fair value through profit or loss	**611**	**693**

The category Financial assets designated at fair value through profit or loss contains all financial instruments that are carried at their fair value through profit or loss because the fair value option defined in IFRS 9 has been exercised for them.

Further information on the fair value option can be found in Note 1. The maximum credit risk of loans and advances to customers equals book value.

14 | Financial assets at fair value through other comprehensive income

in € million	31.12.2021	31.12.2020
Debt instruments	**3,395**	**4,124**
Bonds and other fixed income securities	3,395	4,124
Bonds of other issuers	3,327	4,071
Public sector debt instruments	68	53
Subsidiaries and other equity investments	**359**	**219**
AT1 capital	20	178
Investments in non-consolidated subsidiaries	17	13
Interests in associates	0	1
Other shareholdings	322	27
Financial assets at fair value through other comprehensive income	**3,754**	**4,343**

In 2021, 12-month ECL Stage 1 for financial assets at fair value through other comprehensive income was reversed in the amount of € 4.4 million (2020: € 3.0 million recognized). Lifetime ECL Stage 2 remained flat (2020: € 0.4 million reversed).

The item AT1 capital comprises investments in AT1 issues by credit institutions. A large part of these investments was sold in the current fiscal year. At the time of derecognition, the fair value of the securities sold was €158 million and the cumulative gain €0.5 million.

Other investments mainly include investments in financial institutions and relate to listed shares in the amount of € 193 million and unlisted shares in the amount of € 129 million.

In 2021, fair value valuations of non-consolidated participations at fair value through other comprehensive income amounted to € 84.8 million (2020: minus € 39.0 million) of which € 44.4 million relate to listed shares and € 40.4 million relate to non listed shares. The prior year related to non listed shares only. Dividends received from equity investments recognized at fair value through other comprehensive income amounted to € 15.2 million (2020: € 2.6 million).

15 | Financial assets held for trading

in € million	31.12.2021	31.12.2020
Derivatives in banking book	**257**	**441**
Foreign currency derivatives	39	103
Interest rate derivatives	218	338
Financial assets held for trading	**257**	**441**

16 | Financial assets measured at amortized cost

The following breakdown depicts the composition of the item Financial assets at amortized cost of the Group.

31.12.2021 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	35,361	(29)	(100)	(269)	34,963
Securities	2,320	(1)	–	–	2,319
Public sector debt instruments	123	0	–	–	123
Debt instruments of other issuers	2,197	(1)	–	–	2,196
Receivables from credit institutions	11,166	0	0	–	11,166
Total	**48,847**	**(30)**	**(100)**	**(269)**	**48,448**

31.12.2020 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	32,501	(46)	(60)	(266)	32,129
Securities	2,743	(2)	–	–	2,741
Public sector debt instruments	151	0	–	–	151
Debt instruments of other issuers	2,592	(2)	–	–	2,590
Receivables from credit institutions	9,889	0	0	–	9,889
Total	**45,133**	**(48)**	**(60)**	**(266)**	**44,759**

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

in € million	**31.12.2021**	31.12.2020
Loans	31,444	28,347
Current accounts	1,230	1,240
Finance leases	1,636	1,741
Cash advances	150	111
Money market	503	690
Receivables from customers	**34,963**	**32,129**

Financial instruments that have been modified but not derecognized during the reporting period and that have been allocated to stage 2 or stage 3 at the time of modification:

31.12.2021 in € million	Lifetime-ECL – not impaired	Lifetime-ECL – impaired	Purchased / originated credit impaired
Amortized cost before modification in the current reporting period	262	7	–
Net gain or loss from modification	0	–	–

31.12.2020 in € million	Lifetime-ECL – not impaired	Lifetime-ECL – impaired	Purchased / originated credit impaired
Amortized cost before modification in the current reporting period	279	91	–
Net gain or loss from modification	0	–	–

Modified financial assets whose risk provision was allocated to stage 2 or stage 3 at the time of modification and that have been reallocated to stage 1 during the reporting period had a gross book value as of 31 December 2021 of € 140 million (2020: € 186 million).

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

31.12.2021 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	20,974	(21)	(52)	(229)	20,672
Corporates, Real Estate & Public Sector	14,443	(9)	(47)	(39)	14,348
Treasury	13,029	0	0	–	13,029
Corporate Center	401	0	–	(2)	399
Total	**48,847**	**(30)**	**(100)**	**(269)**	**48,448**

31.12.2020 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	19,032	(31)	(31)	(204)	18,766
Corporates, Real Estate & Public Sector	13,358	(16)	(28)	(61)	13,253
Treasury	12,409	(1)	(1)	0	12,407
Corporate Center	334	0	0	(1)	333
Total	**45,133**	**(48)**	**(60)**	**(266)**	**44,759**

17 | Asset maturities

The following table contains a breakdown of financial assets (excluding subsidiaries and other equity investments and derivatives) by remaining period to maturity.

Financial assets – breakdown by remaining period to maturity 2021

31.12.2021 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	3	7	30	37	77
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	0	3	14	46	45	108
Bonds and other securities	2	0	220	82	24	328
Financial assets at fair value through other comprehensive income						
Bonds and other fixed income securities	–	129	93	1,942	1,231	3,395
At amortized cost						
Receivables from customers	1,240	15,056	3,613	1,598	13,456	34,963
Receivables from credit institutions	479	10,585	2	13	87	11,166
Bonds and other fixed income securities	0	20	74	833	1,392	2,319
Total	**1,721**	**25,796**	**4,023**	**4,544**	**16,272**	**52,356**

Financial assets – breakdown by remaining period to maturity 2020

31.12.2020 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	3	8	34	45	90
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	0	4	17	54	93	168
Bonds and other securities	0	0	58	279	27	364
Financial assets at fair value through other comprehensive income						
Bonds and other fixed income securities	–	66	166	2,328	1,564	4,124
At amortized cost						
Receivables from customers	1,192	13,864	2,248	2,369	12,456	32,129
Receivables from credit institutions	1,826	7,940	3	13	107	9,889
Bonds and other fixed income securities	0	159	155	705	1,722	2,741
Total	**3,018**	**22,036**	**2,655**	**5,782**	**16,014**	**49,505**

18 | Property, plant and equipment, Investment properties

Changes in property, plant and equipment 2021

in € million	Carrying amount 31.12.2020	Acquisition cost 01.01.2021	Change in scope of consolida-tion Acquisition cost	Change in foreign exchange differences	Additions	Disposals	Realloca-tions	Reclassifi-cation to/from non-current assets held for sale	Write-downs cumulative	**Carrying amount 31.12.2021**	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equip-ment	**332**	**519**	**5**	**0**	**23**	**(45)**	**–**	**–**	**(212)**	**290**	**(40)**
Land and buildings used by the enterprise for its own operations	20	48	–	0	0	(1)	–	–	(28)	19	(1)
Office furniture and equipment	90	203	3	0	7	(14)	1	–	(118)	82	(12)
Plant under construc-tion	1	1	–	–	0	–	(1)	–	1	1	–
Right of use assets IFRS 16	221	267	2	0	16	(30)	–	–	(67)	188	(27)

Changes in property, plant and equipment 2020

in € million	Carrying amount 31.12.2019	Acquisition cost 01.01.2020	Change in scope of consolida-tion Acquisition cost	Change in foreign exchange differences	Additions	Disposals	Realloca-tions	Reclassifi-cation to/from non-current assets held for sale	Write-downs cumulative	Carrying amount 31.12.2020	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equip-ment	**396**	**561**	**0**	**0**	**21**	**(25)**	**0**	**(38)**	**(187)**	**332**	**(39)**
Land and buildings used by the enterprise for its own operations	58	87	0	0	0	(1)	–	(38)	(28)	20	(1)
Office furniture and equipment	86	199	–	0	15	(15)	4	–	(113)	90	(13)
Plant under construc-tion	4	4	–	–	1	0	(4)	–	–	1	–
Right of use assets IFRS 16	248	271	–	0	5	(9)	–	–	(46)	221	(25)

Changes in investment properties as of 31.12.2021

in € million	Carrying amount 31.12.2020	Change in scope of consolidation	Change in foreign exchange differences	Changes in fair value valuation in accordance with IAS 40	Additions	Disposals	Reallocations	Reclassification to/from non-current assets held for sale	**Carrying amount 31.12.2021**
Investment properties	**143**	**(56)**	**8**	**0**	**–**	**–**	**–**	**9**	**104**

Changes in investment properties as of 31.12.2020

in € million	Carrying amount 31.12.2019	Change in scope of consolidation	Change in foreign exchange differences	Changes in fair value valuation in accordance with IAS 40	Additions	Disposals	Reallocations	Reclassification to/from non-current assets held for sale	Carrying amount 31.12.2020
Investment properties	**311**	**0**	**(9)**	**3**	**0**	**(1)**	**0**	**(161)**	**143**

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

The brand name “BAWAG P.S.K.” with a book value of € 114 million (2020: € 114 million), customer relationships of Group companies with a total book value of € 129 million (2020: € 131 million) and software and other intangible assets with a total book value of € 185 million (2020: € 203 million) are the Bank’s most important intangible non-current assets. The book value of the customer relationships is amortized on a straight-line pro rata temporis basis.

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

The line items Goodwill, Brand names and customer relationships, and Software and other intangible assets are shown under the line item Intangible non-current assets in Note 34.

Changes in Goodwill, Brand names and customer relationships, Software and other intangible assets 2021

in € million	Carrying amount 31.12.2020	Acquisition cost 01.01.2021	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	**Carrying amount 31.12.2021**	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**94**	**659**	**–**	**2**	**–**	**–**	**(565)**	**96**	**–**
Brand names and customer relationships	**255**	**475**	**–**	**14**	**–**	**–**	**(235)**	**254**	**(15)**
Software and other intangible assets	**203**	**617**	**–**	**37**	**(49)**	**–**	**(420)**	**185**	**(32)**
Software and other intangible non-current assets	198	597	–	32	(47)	4	(407)	179	(32)
Thereof purchased	119	492	–	7	(33)	1	(374)	93	(18)
Thereof internally generated	79	105	–	25	**(14)**	3	(33)	86	(14)
Intangible non-current assets in development	5	5	–	5	0	(4)	–	6	–
Thereof purchased	1	1	–	2	–	(1)	–	2	–
Thereof internally generated	4	4	–	3	–	(3)	–	4	–
Rights and compensation payments	–	15	–	–	(2)	–	(13)	–	–

Changes in Goodwill, Software and other intangible assets 2020

in € million	Carrying amount 31.12.2019	Acquisition cost 01.01.2020	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2020	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**94**	**659**	**–**	**–**	**–**	**–**	**(565)**	**94**	**–**
Brand names and customer relationships	**274**	**475**	**–**	**–**	**–**	**–**	**(220)**	**255**	**(19)**
Software and other intangible assets	**201**	**579**	**–**	**43**	**(5)**	**–**	**(414)**	**203**	**(39)**
Software and other intangible non-current assets	192	555	–	37	(4)	9	(399)	198	(39)
Thereof purchased	130	482	–	16	(4)	(2)	(373)	119	(26)
Thereof internally generated	62	73	0	21	–	11	(26)	79	(13)
Intangible non-current assets in development	9	9	–	6	(1)	(9)	–	5	–
Thereof purchased	3	3	–	2	(1)	(3)	–	1	–
Thereof internally generated	6	6	–	4	–	(6)	–	4	–
Rights and compensation payments	–	15	–	–	–	–	(15)	–	–

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

Intangible assets	Book value as of 31.12.2021 in € million	Remaining useful life	Book value as of 31.12.2020 in € million
Total goodwill	**96**		**94**
thereof: goodwill easybank franchise	59	Indefinite	59
thereof: goodwill brokerage business	1	Indefinite	–
thereof: goodwill Zahnärztekasse	21	Indefinite	20
thereof: goodwill Health Coevo	15	Indefinite	15
Total brand names	**124**		**124**
thereof: brand name BAWAG P.S.K.	114	Indefinite	114
thereof: brand name Südwestbank franchise	1	Indefinite	1
thereof: brand name Zahnärztekasse AG	6	Indefinite	6
thereof: brand name Health Coevo AG	2	Indefinite	2
Total customer relationships	**129**		**131**
thereof: customer relationships BAWAG P.S.K.	94	9–18 years	99
thereof: customer relationships Südwestbank franchise	4	16–26 years	6
thereof: customer relationships brokerage business	13	10–16 years	–
thereof: customer relationships start:bausparkasse	4	15 years	8
thereof: customer relationships Paylife	5	4 years	7
thereof: customer relationships IMMO-BANK	2	15 years	2
thereof: customer relationships Zahnärztekasse AG	4	6 years	4
thereof: customer relationships Health Coevo	1	5 years	2
thereof: customer relationships BFL GmbH	2	7 years	3
Total other intangibles	**185**		**203**
thereof: core banking system for Austrian operations (Allegro)	40	19 years	42

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

If the carrying amount of the brand name is higher than the recoverable amount, an impairment loss will be recognized. The recoverable amount is calculated using a modified relief from royalty method. BAWAG Group uses the brand's fair value less cost of disposal as its recoverable amount, utilizing level 2 and level 3 input parameters. Major parameters are brand-specific core income and the brand's royalty rate. The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate (depending on the business model 0.5% to 1.0%) thereafter (2020: 0.5% to 1.0%). The after-tax discount rate was set at 6.73% for Zahnärztekasse AG and 9.29% for other entities (2020: 7.16% for Zahnärztekasse AG and 9.01% for other entities). Additionally, asset-specific premiums between 1% and 2% are added to the discount rate (2020: between 1% and 2%).

As of 31 December 2021, the individual impairment tests for the brand names resulted in no impairment requirement (2020: € 1.8 million of the brand name Südwestbank).

Customer relationships were reviewed for impairment in the event that there was objective evidence of an impairment trigger ((such as customer development differing from the initial plans). The fair value or value in use was calculated for all customer relationships taking into account current experience on customer retention, current cash flow forecasts and discount rates. Fair value was calculated using either the value in use or fair value less cost of disposal valuations, using the multi-period excess earnings method, utilizing level 2 and level 3 input parameters. Major input parameters used in customer relationships valuation were customer-specific income, churn rate and asset charge. Fair value less costs of disposal represents the recoverable amount from the sale in an arm's length transaction. The value in use is determined by discounting the cash flows at a rate that contains present market rates and the specific risks of the entity.

After reviewing the planning projections, the expected cash flows were adjusted. Impairment was booked for the customer relationships of start:bausparkasse Austria of € 3.6 million, IMMO-BANK of € 0.1 million and Südwestbank of € 2.3 million (2020: Impairments for the customer relationships of start:bausparkasse Austria of € 6.7 million, IMMO-BANK of € 0.8 million and Südwestbank of € 0.9 million). The pre-tax discount rates used for the impairment test of Südwestbank was 19.33% (18.45% in prior year). All customer relationships are part of the Corporate Center segment. The planning periods of both start:bausparkasse Austria and IMMO-Bank last until 2056; the planning period of Südwestbank until 2037. The original valuation was performed by an external advisor; the impairment test was carried out internally.

Impairment testing for cash-generating units with goodwill

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

in € million	31.12.2021	31.12.2020
easybank franchise	59	59
Zahnärztekasse AG	21	20
Health Coevo AG	15	15
Brokerage business	1	–
Goodwill	**96**	**94**

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

The forecast is subject to greater uncertainty due to COVID-19, which has been reflected in the current cash flow projections. These projections take into account the most recent forecasts including the observed and expected impact of the COVID-19 pandemic on the relevant CGU's profitability. The planning assumptions for the period 2022–2026 are based on the ECB's economic assumptions and prudent estimates for risk costs. The planning input is based on the business strategy, which envisages organic growth in the core market and continuous improvement of our product range.

in %	2021	2020
Pre-tax discount rate easybank franchise	12.2%	11.9%
Pre-tax discount rate Zahnärztekasse AG	11.2%	10.9%
Pre-tax discount rate Health Coevo AG	12.5%	12.3%
Pre-tax discount rate brokerage business	11.8%	–
Planned profit growth rate (average for the next five years) easybank franchise	(6.7)%	(4.2)%
Planned profit growth rate (average for the next five years) Zahnärztekasse AG	3.4%	1.8%
Planned profit growth rate (average for the next five years) Health Coevo AG	8.6%	17.0%
Planned profit growth rate (average for the next five years) brokerage business	25.9%	–
Sustainable growth rate easybank franchise	0.5%	0.5%
Sustainable growth rate Zahnärztekasse AG	0.5%	0.5%
Sustainable growth rate Health Coevo AG	1.0%	1.0%
Sustainable growth rate brokerage business	0.5%	–

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

Sensitivity analysis as of 31.12.2021

A sensitivity analysis was used to test the robustness of the impairment test for goodwill, which was based on the assumptions outlined above. A change in the discount rate and a change in growth were chosen as the relevant parameters. The table below shows to what extent an increase in the discount rate or a decline in growth after 2022 could occur without the fair value of the cash-generating unit falling below the carrying value (equity plus goodwill).

	Change in discount rate (in percentage pts)	Change in growth after 2022 (in %)
easybank franchise	5.14	(3.63)%
Zahnärztekasse AG	0.79	(2.22)%
Health Coevo AG	11.84	(21.54)%
Brokerage business	5.80	(4.83)%
PSA Payment Services Austria GmbH	0.87	(0.68)%
BAWAG P.S.K. Versicherung Aktiengesellschaft	1.53	(1.17)%

in € million	Discount rate increase by 1%	Decrease of net profit by 10% in the period 2022–2024
Fully consolidated		
easybank franchise	no impairment	no impairment
Zahnärztekasse AG	(1.6)	no impairment
Health Coevo AG	no impairment	no impairment
Brokerage business	no impairment	no impairment
Equity method		
BAWAG P.S.K. Versicherung Aktiengesellschaft	(0.6)	no impairment
PSA Payment Services Austria GmbH	no impairment	no impairment

Sensitivity analysis as of 31.12.2020

	Change in discount rate (in percentage pts)	Change in growth after 2021 (in %)
easybank franchise	2.66	(1.76)%
Zahnärztekasse AG	4.11	(6.72)%
Health Coevo AG	7.13	(13.39)%

in € million	Discount rate increase by 1%	Decrease of net profit by 10% in the period 2021–2023
Fully consolidated		
easybank franchise	no impairment	no impairment
Zahnärztekasse AG	no impairment	no impairment
Health Coevo AG	no impairment	no impairment
Equity method		
BAWAG P.S.K. Versicherung Aktiengesellschaft	(3.3)	(0.6)
PSA Payment Services Austria GmbH	(1.5)	(0.1)

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

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

in € million	31.12.2021	31.12.2020
Financial liabilities designated at fair value through profit or loss	25	24
Financial liabilities at amortized cost	104	172
Provisions	67	67
Tax loss carryforwards	1	6
Other	–	5
Deferred tax assets	**197**	**274**
Financial assets at fair value through profit or loss	25	14
Financial assets at fair value through other comprehensive income	18	38
Financial assets at amortized cost	36	59
Assets held for trading	16	30
Hedging derivatives	104	138
Internally generated intangible assets	18	18
Other intangible assets	63	65
Property, plant and equipment	–	13
Deferred tax liabilities	**280**	**375**
Net deferred tax assets/liabilities	**(83)**	**(101)**
Deferred tax assets reported on the balance sheet[1)]	**10**	**9**
Deferred tax liabilities reported on the balance sheet	**93**	**110**

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

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

Temporary differences for which no deferred tax liabilities were recognized, as permitted by IAS 12.39, came to € 818 million (2020: € 841 million). IAS 12.39 stipulates that in the case of temporary differences associated with investments in subsidiaries, deferred tax liabilities do not have to be recognized if the parent is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will be reversed in the foreseeable future.

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

As of December 2021, deferred tax assets on tax loss carryforwards of BAWAG Group amount to € 1 million. The risk that COVID-19 will have an impact on the recoverability of tax loss carryforwards that have not yet been utilized is therefore considered to be low. As can be seen in the table above, the statement of financial position shows a net deferred tax liability of € 83 million. There is therefore no increased risk that deferred tax assets cannot be used for future taxable profits.

21 | Other assets

in € million	31.12.2021	31.12.2020
Accruals	34	46
Contract assets	9	12
Other items	233	268
Other assets	**276**	**326**

The other items include accounts relating to payment and miscellaneous other assets. As of 31 December 2021, other assets in the amount of € 36 million (31 December 2020: € 36 million) have a maturity of more than one year.

22 | IFRS 5 Non-current assets held for sale

In the financial year 2020, BAWAG Group decided to sell certain real estate properties in Germany. Following corresponding resolutions, a broker was engaged for the sales process. As the criteria under IFRS 5 were met, the properties in question were classified as non-current assets held for sale. At the beginning of the current financial year, they comprised investment properties in the amount of € 99 million, which are recognized at fair value, and real estate which is used by the enterprise for its own operations in the amount of € 37 million, which was measured using the cost model in accordance with IAS 16. The non-current assets held for sale are reported in the Corporate Center segment.

One property with a book value of € 9 million was reclassified to Investment properties as the Group has no longer the intention to sell the asset. All other properties classified as non-current assets held for sale as of 31 December 2020 were sold in the financial year 2021. The valuation result was recognized in other operating income or expenses in accordance with IAS 40.

As of 31 December 2021, there were no non-current assets held for sale.

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

in € million	31.12.2021	31.12.2020
Issued bonds, subordinated and supplementary capital	**222**	**318**
Issued debt securities and other securitized liabilities	73	19
Subordinated capital	103	106
Short-term notes and non-listed private placements	46	193
Deposits from customers	**12**	**150**
Financial liabilities designated at fair value through profit or loss	**234**	**468**

The issued bonds are listed issues. Financial liabilities designated at fair value through profit or loss include issues of the former P.S.K. that are guaranteed by the Republic of Austria.

The carrying amount of the securities issued by BAWAG Group and recognized at their fair value as of 31 December 2021 was € 17 million above their repayment amount (2020: € 21 million above the repayment amount).

24 | Financial liabilities held for trading

in € million	31.12.2021	31.12.2020
Derivatives banking book	**301**	**422**
Foreign currency derivatives	122	170
Interest rate derivatives	171	252
Credit derivatives	8	–
Financial liabilities held for trading	**301**	**422**

25 | Financial liabilities measured at amortized cost

in € million	31.12.2021	31.12.2020
Deposits from credit institutions	**7,361**	**7,522**
Deposits from customers	**35,148**	**32,265**
Savings deposits – fixed interest rates	572	611
Savings deposits – variable interest rates	5,453	5,791
Deposit accounts	6,794	6,187
Current accounts – Retail	14,920	11,551
Current accounts – Corporates	4,638	5,005
Other deposits[1]	2,771	3,120
Issued bonds, subordinated and supplementary capital	**7,157**	**6,157**
Issued debt securities	6,280	5,261
Subordinated capital	45	61
Supplementary capital	642	612
Other obligations evidenced by paper	190	223
Financial liabilities at amortized cost	**49,666**	**45,944**

1) Primarily time deposits.

The issued bonds are mainly listed securities.

As of 31 December 2021, BAWAG Group utilized € 6.4 billion of funding under the ECB's TLTRO III facility compared to € 5.8 billion as of 31 December 2020. BAWAG Group has decided to participate in the TLTRO III facility despite its already strong liquidity position as an economically attractive measure to pre-position liquidity and to support lending to the real economy.

The negative interest expense from the TLTRO III program amounting to € 63.37 million (2020: € 30.62 million) is reported under interest income.

The TLTRO III funding has a term of three years with an early repayment option after one year. The interest rate on the TLTRO III depends on the lending volumes granted to non-financial corporates and households (excluding housing loans).

For banks that achieved sufficient lending volumes between 1 March 2020 and 31 March 2021, the interest rate applied on all TLTRO III operations outstanding over the period between 24 June 2020 and 23 June 2021 is 50 basis points below the average interest rate on the ECB's deposit facility prevailing over the same period, and in any case not higher than -1%. BAWAG Group met the required lending criteria to benefit from the most advantageous interest rate of -1%.

In December 2020, the ECB decided to extend the special interest rate terms for the period between 24 June 2021 and 23 June 2022 for banks that achieve sufficient lending volumes in the additional reference period between 1 October 2020 and 31 December 2021. In subsequent years, the interest rate will be between the deposit facility and main refinancing operations rates, depending to what extent BAWAG Group meets the lending growth conditions of the TLTRO III program. BAWAG Group is closely monitoring its eligible lending vs. the applicable lending benchmark. BAWAG Group is confident that it will also meet the required lending benchmark in the additional reference period to continue to benefit from the most advantageous TLTRO III interest rates.

The outstanding TLTRO facility is recognized at amortized cost using the effective interest rate method under deposits from credit institutions. The expected cash flows take into account the Bank's assessment of achieving the required lending benchmark. BAWAG Group uses the specific applicable interest rate expected for the respective individual interest period of TLTRO III.

Based on an analysis of the conditions observable for the BAWAG Group on the market for comparable secured refinancing, the Bank has come to the conclusion that the conditions of the TLTRO III program do not offer any significant advantage for it compared to the market. The liabilities were therefore recognized as a financial instrument in accordance with IFRS 9.

26 | Issued bonds, subordinated and supplementary capital

Issued bonds, subordinated and supplementary capital are shown in the category Financial liabilities designated at fair value through profit or loss and in the category Financial liabilities measured at amortized cost. The total volume amounts to (IFRS book values):

	Recognized at fair value		Recognized at amortized cost		Total	
in € million	**2021**	2020	**2021**	2020	**2021**	2020
Issued bonds (own issues)	73	19	6,280	5,261	6,353	5,280
Subordinated capital	103	106	45	61	148	167
Supplementary capital	–	–	642	612	642	612
Short-term notes and unlisted private placements	46	193	190	223	236	416
Total	**222**	**318**	**7,157**	**6,157**	**7,379**	**6,475**

The following table shows the main conditions of issued bonds exceeding a nominal value of € 200 million:

ISIN	Type	Currency	Nominal value in € million	Type of interest payment	Coupon	Maturity date
XS2234573710	Covered	EUR	750	Fixed	0.010%	23.09.2030
XS1369268534	Covered	EUR	500	Fixed	0.375%	23.02.2022
XS1551294926	Covered	EUR	500	Fixed	0.750%	18.01.2027
XS2013520023	Covered	EUR	500	Fixed	0.625%	19.06.2034
XS2049584084	Senior unsecured	EUR	500	Fixed	0.375%	03.09.2027
XS2058855441	Covered	EUR	500	Fixed	0.010%	02.10.2029
XS2259776230	Covered	EUR	500	Fixed	0.010%	19.11.2035
XS2106563161	Covered	EUR	500	Fixed	0.010%	21.01.2028
XS2320539765	Covered	EUR	500	Fixed	0.375%	25.03.2041
XS2340854848	Covered	EUR	500	Fixed	0.100%	12.05.2031
XS2380748439	Covered	EUR	500	Fixed	0.010%	03.09.2029
XS1968814332	Tier II	EUR	400	Fixed	Fixed coupon until reset date (26 March 2024) of 2.375%, from including 26 March 2024 to final maturity (26 March 2029) the annual coupon will be a fixed coupon corresponding to the 5y swap rate + 230bp, whereas the 5y swap rate will be fixed two payment days before the reset date	26.03.2029
XS0987169637	Tier II	EUR	300[1)]	Fixed	8.125%	30.10.2023
XS2230264603	Tier II	EUR	200	Fixed	Fixed coupon until reset date (23 September 2025) of 1.875%, from including 23 September 2025 to final maturity (23 September 2030) the annual coupon will be a fixed coupon corresponding to the 5y swap rate + 235bp, whereas the 5y swap rate will be fixed two payment days before the reset date	23.09.2030

1) Thereof € 268 million bought back.

27 | Deposits from customers

The following table depicts the breakdown of deposits from customers by product class and segment.

Deposits from customers – breakdown by product class and segments

in € million	At amortized cost 31.12.2021	At amortized cost 31.12.2020
Savings deposits	**6,025**	**6,402**
Retail & SME	6,020	6,397
Corporates, Real Estate & Public Sector	3	3
Corporate Center	2	2
Other deposits	**29,123**	**25,863**
Retail & SME	22,893	18,365
Corporates, Real Estate & Public Sector	5,731	6,122
Treasury	420	729
Corporate Center	79	647
Deposits from customers	**35,148**	**32,265**

28 | Liabilities maturities

The following tables depict a breakdown of the financial liabilities (excluding derivatives) by legal maturity.

Financial liabilities – breakdown by remaining period to maturity 2021

31.12.2021 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	2	5	–	6	13
Bonds	–	–	–	51	22	73
Subordinated capital	–	–	–	86	17	103
Short-term notes and non-listed private placements	–	–	–	29	17	46
Liabilities at amortized cost						
Deposits from customers	30,364	854	2,055	1,050	825	35,148
Deposits from credit institutions	80	156	23	6,199	903	7,361
Bonds	–	510	15	380	5,375	6,280
Subordinated capital	–	–	–	45	–	45
Supplementary capital	–	–	–	35	607	642
Short-term notes and non-listed private placements	–	–	3	121	66	190
Total	**30,444**	**1,522**	**2,101**	**7,996**	**7,838**	**49,901**

Financial liabilities – breakdown by remaining period to maturity 2020

31.12.2020 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	–	–	–	6	6
Bonds	–	–	–	19	–	19
Subordinated capital	–	–	–	89	17	106
Short-term notes and non-listed private placements	–	4	140	32	17	193
Liabilities at amortized cost						
Deposits from customers	27,296	824	2,227	1,042	876	32,265
Deposits from credit institutions	128	793	44	5,486	1,071	7,522
Bonds	–	–	175	886	4,200	5,261
Subordinated capital	–	–	3	58	–	61
Supplementary capital	–	–	–	–	612	612
Short-term notes and non-listed private placements	–	4	20	62	137	223
Total	**27,424**	**1,625**	**2,609**	**7,674**	**6,936**	**46,268**

29 | Provisions

in € million	31.12.2021	31.12.2020
Provisions for social capital	334	385
Thereof for severance payments	84	95
Thereof for pension provisions	221	258
Thereof for jubilee benefits	29	32
Anticipated losses from pending business	15	25
Credit promises and guarantees	15	25
Other items including legal risks	33	15
Provisions	**382**	**425**

Provisions for social capital are long-term liabilities. Provisions for anticipated losses from pending business in the amount of € 15 million and other risks including legal risks in the amount of € 20 million are expected to be used after more than 12 months.

Changes in social capital

in € million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2021	**273**	**95**	**32**	**400**
Service cost	1	4	2	7
Interest cost	2	1	0	3
Actuarial gain/loss				
from demographic assumptions	(1)	–	–	(1)
from financial assumptions	(9)	(3)	(1)	(13)
due to other reasons, mainly experience results	2	(3)	(2)	(3)
Gain from settlements	(2)	–	–	(2)
Return on plan assets (excl. interest income)	(1)	–	–	(1)
Other				
Payments	(16)	(12)	(2)	(30)
Payments from settlements	(16)	–	–	(16)
Change in scope of consolidation	3	2	0	5
Defined benefit obligation as of 31.12.2021	**237**	**84**	**29**	**350**
Fair value of plan assets	(16)	–	–	(16)
Provision as of 31.12.2021	**221**	**84**	**29**	**334**

in € million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2020	**282**	**95**	**33**	**410**
Service cost	0	4	2	6
Interest cost	3	1	0	4
Actuarial gain/loss				
from demographic assumptions	–	–	–	–
from financial assumptions	10	3	1	14
due to other reasons, mainly experience results	2	0	(1)	1
Gain from settlements	(1)	–	–	(1)
Other				
Payments	(16)	(8)	(3)	(27)
Payments from settlements	(7)	–	–	(7)
Change in scope of consolidation	–	–	–	–
Defined benefit obligation as of 31.12.2020	**273**	**95**	**32**	**400**
Fair value of plan assets	(15)	–	–	(15)
Provision as of 31.12.2020	**258**	**95**	**32**	**385**

On 31 December 2021, the weighted average duration was 11.26 years (2020: 12.03 years) for defined benefit obligations relating to pension plans (excluding Südwestbank, start:bausparkasse Germany, BFL Leasing, Health Coevo, Zahnärztekasse and Depfa Bank) and 11.26 years (2020: 11.75 years) for obligations arising from entitlement to severance payments.

Weighted average duration for defined benefit obligations relating to pension plans in years	2021	2020
start:bausparkasse Deutschland	15.70	16.60
Südwestbank	8.20	8.50
BFL Leasing	10.20	10.90
Health Coevo	17.30	18.20
Zahnärztekasse	15.40	15.90
Depfa Bank	17.33	–

Assignable unit-linked pension fund assets

in € million	2021	2020
Pension fund assets as of 01.01.2021	**15**	**14**
Additions	1	1
Payments	(1)	0
Fair value changes	0	0
Returns on plan assets	1	0
Pension fund assets as of 31.12.2021	**16**	**15**

The fair value changes contain expected returns on plan assets, actuarial gains and losses, contributions by the employer, contributions by plan participants and benefits paid.

The pension fund assets consist of:

in %	2021	2020
Qualified insurance policies	13%	59%
Bonds	38%	28%
Equities	24%	6%
Real estate	12%	–
Cash and cash equivalents	3%	2%
Alternative investments	2%	–
Other	8%	5%

Bonds issued by BAWAG P.S.K. amount to 0.003% of plan assets.

All equity securities and fixed-income bonds have quoted prices in active markets. All fixed-income investments are mainly issued by European entities and have an average rating of A.

The strategic investment policy of the pension funds can be summarized as follows:

- a strategic asset mix comprising 38% bonds, 24% equities, 13% qualified insurance policies, 12% real estate and 13% other investments;
- the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: bonds: 25%–100%, equities: 10%–18%, other investments: 0%–33%;
- interest rate risk is monitored and managed through active duration risk management of all fixed-income assets;
- currency risk is managed with the objective of reducing the risk to a maximum of 20%.

BAWAG Group expects that payments in the amount of € 0.2 million will have to be made to the pension fund in 2022 (2021: € 0.2 million) for asset purchases.

Sensitivity analysis

Reasonably possible changes to one of the relevant actuarial assumptions on the reporting date, holding other assumptions constant, would have resulted in the following defined benefit obligation for pension and severance payments. The basis for the calculation is the present value of the defined benefit obligations as of 31 December 2021 in the amount of € 320 million (2020: € 368 million):

Sensitivity analysis as of 31 December 2021

	Provisions for post-employment benefits and severance payments	
in € million	Increase of variable	Decrease of variable
Discount rate – 1 percentage point movement	276	351
Future salary growth – 1 percentage point movement	345	280
Attrition – 1 percentage point movement	300	311
Future mortality – 1 percentage point movement (post-employment benefits only)	226	228

Sensitivity analysis as of 31 December 2020

	Provisions for post-employment benefits and severance payments	
in € million	Increase of variable	Decrease of variable
Discount rate – 1 percentage point movement	318	408
Future salary growth – 1 percentage point movement	402	321
Attrition – 1 percentage point movement	347	359
Future mortality – 1 percentage point movement (post-employment benefits only)	264	261

Changes in other provisions

in € million	Balance 01.01.2021	Change in scope of consolidation	Added	Used	Released	Other adjustments	Balance 31.12.2021
Other provisions	**40**	**34**	**8**	**(16)**	**(16)**	**(2)**	**48**
Anticipated losses from pending business	25	0	8	(2)	(16)	–	15
Other items	15	34	–	(14)	0	(2)	33

in € million	Balance 01.01.2020	Change in scope of consolidation	Added	Used	Released	Balance 31.12.2020
Other provisions	**84**	**–**	**17**	**(3)**	**(59)**	**40**
Anticipated losses from pending business	37	–	17	(2)	(27)	25
Other items	47	–	–	(1)	(32)	15

30 | Other obligations

in € million	31.12.2021	31.12.2020
Accounts relating to payment transactions	275	240
Lease liabilities IFRS 16	209	226
Liabilities resulting from restructuring	67	74
Other liabilities	294	264
Accruals	23	33
Other obligations	**868**	**837**

According to IFRS 16, a lease liability is recognized at the commencement of a lease. The lease liability is measured at the present value of the lease payments. As of 31 December 2021, other obligations in the amount of € 328 million (31 December 2020: € 314 million) have a maturity of more than one year.

31 | Hedging derivatives

in € million	31.12.2021	31.12.2020
Hedging derivatives in fair value hedges		
Positive market values	169	308
Negative market values	17	45
Hedging derivatives in cash flow hedges		
Positive market values	9	89
Negative market values	87	15
Hedging derivatives in net investment hedge		
Positive market values	–	8
Negative market values	3	2

Fair value hedge

	Notional of hedged items		Net book value of hedging instruments		Net result of hedged item and hedging instrument recognized in the financial year	
in € million	**31.12.2021**	31.12.2020	**31.12.2021**	31.12.2020	**31.12.2021**	31.12.2020
Financial assets at fair value through other comprehensive income	**3,847**	**4,574**	**0**	**(3)**	**3**	**0**
Securities	3,847	4,574	0	(3)	3	0
Financial instruments recognized at amortized cost	**23,949**	**20,029**	**152**	**269**	**16**	**14**
Securities	332	325	0	(2)	1	0
Own issues	5,777	3,445	49	76	29	11
Savings deposits of customers	0	30	0	0	(0)	(0)
Loans to customers	3,871	2,775	82	(70)	2	0
Liabilities to customers	13,969	13,454	21	265	(16)	2
Total	**27,796**	**24,603**	**152**	**266**	**19**	**14**

The valuation of hedged items and hedging instruments is recognized in profit or loss in the line item "Gains and losses on financial assets and liabilities" (Note 5).

Cash flow hedge

The time periods in which the hedged cash flows are expected to occur and affect profit or loss are:

31.12.2021 in € million	Within 1 year	1 to 5 years	Over 5 years	**Total**
	637	2,024	2,537	5,198

31.12.2020 in € million	Within 1 year	1 to 5 years	Over 5 years	**Total**
	896	1,950	1,356	4,202

Profile of the timing of the nominal amount of the hedging instrument:

31.12.2021 in € million	Within 1 year	1 to 5 years	Over 5 years	**Total**
	662	2,023	2,520	5,205

31.12.2020 in € million	Within 1 year	1 to 5 years	Over 5 years	**Total**
	889	1,920	1,341	4,150

Disclosure according to IFRS 7.24B a)

31.12.2021 in € million	Micro hedges	Hedge adjustments on micro hedges		Macro hedges
	Carrying amount	Hedge adjustments included in the carrying amount of assets/liabilities	Remaining adjustments for discontinued micro hedges including hedges of net positions	Hedged items in portfolio hedge of interest rate risk
ASSETS				
Financial assets measured at fair value through other comprehensive income				
Interest rate related	3,092	(20)	0	–
Financial assets measured at amortized cost				
Interest rate related	2,897	(42)	–	2,095
LIABILITIES				
Financial liabilities measured at amortized cost				
Interest rate related	6,214	(66)	32	9,107

31.12.2020 in € million	Micro hedges	Hedge adjustments on micro hedges		Macro hedges
	Carrying amount	Hedge adjustments included in the carrying amount of assets/liabilities	Remaining adjustments for discontinued micro hedges including hedges of net positions	Hedged items in portfolio hedge of interest rate risk
ASSETS				
Financial assets measured at fair value through other comprehensive income				
Interest rate related	4,196	62	0	–
Financial assets measured at amortized cost				
Interest rate related	2,380	59	0	1,296
LIABILITIES				
Financial liabilities measured at amortized costs				
Interest rate related	4,122	108	50	8,215

Hedged items in cash flow hedges

31.12.2021 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
Foreign exchange risk	21	22	-

31.12.2020 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
Foreign exchange risk	(16)	1	-

Hedged items in net investment hedges

31.12.2021 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Net investment hedge reserve for continuing hedges	Net investement hedge reserve for terminated hedges
Foreign exchange risk	(10)	7	-

31.12.2020 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Net investment hedge reserve for continuing hedges	Net investement hedge reserve for terminated hedges
Foreign exchange risk	15	18	-

32 | Equity

Share capital

The fully paid-in share capital of BAWAG Group AG amounts to € 89.1 million (2020: € 89.1 million) divided into 89,142,237 bearer shares (2020: 89,142,237 bearer shares). BAWAG Group AG holds 287,190 own shares (2020: 1,205,107 own shares), thus the share capital amounts to € 88.9 million for accounting purposes (2020: € 87.9 million). The number of bearer shares excluding own shares is 88,855,047 (2020: 87,937,130).

Authorized capital

Pursuant to Section 5 No 7 of the Articles of Association of BAWAG Group AG, the Management Board shall be authorized, with the consent of the Supervisory Board, to increase the share capital within five years from the date of the registration of the amendment to the Articles of Association in the commercial register, also in several tranches against contributions in cash and/or contributions in kind by up to € 40 million by issuing up to 40,000,000 new bearer shares with no par value and to determine the issue price conditions in agreement with the Supervisory Board (Authorized Capital 2019).

Conditional capital

In accordance with Section 159 Para 2 No 1 AktG, the share capital shall be conditionally increased by up to € 10 million by issuing up to 10,000,000 no-par value bearer shares for the purpose of issuing them to creditors of convertible bonds which the Management Board, with the consent of the Supervisory Board, may issue in the future on the basis of the authorization granted at the Annual General Meeting on 30 April 2019. The conditional capital increase may only be carried out to the extent that creditors of convertible bonds to be issued make use of their conversion and/or subscription rights to shares of BAWAG Group AG. The amount to be issued and conversion ratio shall be determined in accordance with the interests of BAWAG Group AG, the existing shareholders and the subscribers of the convertible bonds within the framework of a customary market pricing procedure using recognized customary market methods and the stock exchange price of BAWAG Group AG's shares. The issue price of the new shares may not be less than the proportionate amount of the share capital. The shares to be issued as part of the conditional capital increase are entitled to dividends to the same extent as the existing shares.

Capital reserves and retained earnings

Capital reserves include contributions from shareholders that do not represent subscribed capital. Retained earnings and other reserves represent accumulated net profit brought forward as well as income and expense recognized in other comprehensive income.

AT1 capital

In April 2018, BAWAG Group issued Additional Tier 1 capital in the amount of € 300 million. Based on the contractual framework, the issue is classified as equity in accordance with IAS 32. Expenses and tax effects directly related to the issuance are subtracted from equity. Coupon payments are recognized as dividends directly in equity.

In September 2020, BAWAG Group issued Additional Tier 1 capital in the amount of € 175 million. Based on the contractual framework, the issue is classified as equity in accordance with IAS 32. Expenses and tax effects directly related to the issuance are subtracted from equity. Coupon payments are recognized as dividends directly in equity.

Dividends

BAWAG Group earmarked dividends of € 267 million, subject to shareholder approvals, for the financial year 2021, which will be proposed to the ordinary Annual General Meeting on 28 March 2022 (total of € 3.00 per share; based on shares outstanding as of 31 January 2022).

Non-controlling interests

The 97.87% share in BFL Leasing GmbH, the 92.98% share in Morgenstern Miet + Leasing GmbH and the 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests in the amount of € 5 million (2020: € 4 million; 97.44% share in BFL Leasing GmbH, 92.57% share in Morgenstern Miet + Leasing GmbH and 75% share in ACP-IT Finanzierungs GmbH).

Liability reserve (Haftrücklage)

Credit institutions are required to allocate a liability reserve (Haftrücklage) according to section 57 paragraph 5 BWG. The liability reserve may be reversed only insofar as this is required to meet obligations pursuant to section 93 BWG or to cover other losses to be reported in the annual financial statements.

Changes in other comprehensive income

in € million	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2021	**479.9**	**(20.8)**	**11.1**	**(23.8)**	**(2.5)**	**63.7**	**(0.1)**	**(10.3)**	**12.0**	**509.2**	**0.2**	**509.4**
Consolidated profit/loss	479.9	–	–	–	–	–	–	–	–	479.9	0.2	480.1
Income and expenses recognized directly in equity	**–**	**(20.8)**	**11.1**	**(23.8)**	**(2.5)**	**63.7**	**(0.1)**	**(10.3)**	**12.0**	**29.3**	**–**	**29.3**
Change in cash flow hedge reserve	–	(27.8)	–	–	–	–	–	–	–	(27.8)	–	(27.8)
Change in Debt securities at fair value through other comprehensive income	–	–	–	(32.2)	–	–	–	–	–	(32.2)	–	(32.2)
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	(2.5)	–	–	–	–	(2.5)	–	(2.5)
Actuarial gains (losses) on defined benefit pension plans	–	–	14.8	–	–	–	–	–	–	14.8	–	14.8
Fair value changes of shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	84.7	–	–	–	84.7	–	84.7
Change in credit spread of financial liabilities	–	–	–	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Hedge of net investment in foreign operations	–	–	–	–	–	–	–	(10.3)	–	(10.3)	–	(10.3)
Foreign exchange differences	–	–	–	–	–	–	–	–	12.0	12.0	–	12.0
Income taxes	–	7.0	(3.7)	8.4	–	(21.0)	0.0	–	–	(9.3)	–	(9.3)

in € million	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other compre-hensive income net of tax excluding equity associates	Debt instruments at fair value through other compre-hensive income net of tax from equity associates	Shares and other equity investments at fair value through other compre-hensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2020	**285.2**	**16.2**	**(10.3)**	**97.9**	**0.8**	**(29.9)**	**(0.2)**	**15.5**	**(18.1)**	**357.1**	**0.3**	**357.4**
Consolidated profit/loss	285.2	–	–	–	–	–	–	–	–	285.2	0.3	285.5
Income and expenses recognized directly in equity	**–**	**16.2**	**(10.3)**	**97.9**	**0.8**	**(29.9)**	**(0.2)**	**15.5**	**(18.1)**	**71.9**	**–**	**71.9**
Change in cash flow hedge reserve	–	21.6	–	–	–	–	–	–	–	21.6	–	21.6
Change in Debt securities at fair value through other comprehensive income	–	–	–	130.8	–	–	–	–	–	130.8	–	130.8
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	0.8	–	–	–	–	0.8	–	0.8
Actuarial gains (losses) on defined benefit pension plans	–	–	(13.9)	–	–	–	–	–	–	(13.9)	–	(13.9)
Fair value changes of shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	(40.0)	–	–	–	(40.0)	–	(40.0)
Change in credit spread of financial liabilities	–	–	–	–	–	–	(0.3)	0.0	–	(0.3)	–	(0.3)
Hedge of net investment in foreign operations	–	–	–	–	–	–	0.0	15.5	–	15.5	–	15.5
Foreign exchange differences	–	–	–	–	–	–	–	–	(18.1)	(18.1)	–	(18.1)
Income taxes	–	(5.4)	3.6	(32.9)	–	10.1	0.1	–	–	(24.5)	–	(24.5)

Deferred income taxes recognized in Other comprehensive income

in € million	Before taxes	Income taxes	After taxes
	01.01. – 31.12.2021		
Cash flow hedge reserve	(27.8)	7.0	(20.8)
Actuarial gains (losses) on defined benefit pension plans	14.8	(3.7)	11.1
Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	(32.2)	8.4	(23.8)
Debt instruments at fair value through other comprehensive income net of tax from equity associates	(2.5)	–	(2.5)
Shares and other equity investments at fair value through other comprehensive income net of tax	84.7	(21.0)	63.7
Change in credit spread of financial liabilities net of tax	(0.1)	(0.0)	(0.1)
Hedge of net investment in foreign operations net of tax	(10.3)	–	(10.3)
Foreign exchange differences	12.0	–	12.0
Income and expenses recognized directly in equity	**38.6**	**(9.3)**	**29.3**

in € million	Before taxes	Income taxes	After taxes
	01.01.–31.12.2020		
Cash flow hedge reserve	21.6	(5.4)	16.2
Actuarial gains (losses) on defined benefit pension plans	(13.9)	3.6	(10.3)
Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	130.8	(32.9)	97.9
Debt instruments at fair value through other comprehensive income net of tax from equity associates	0.8	–	0.8
Shares and other equity investments at fair value through other comprehensive income net of tax	(39.9)	10.1	(29.8)
Change in credit spread of financial liabilities net of tax	(0.3)	0.1	(0.2)
Hedge of net investment in foreign operations net of tax	15.5	–	15.5
Foreign exchange differences	(18.1)	–	(18.1)
Income and expenses recognized directly in equity	**96.5**	**(24.5)**	**71.9**

SEGMENT REPORTING

This information is based on the Group structure as of 31 December 2021.

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

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

BAWAG Group is managed in accordance with the following four business and reporting segments:

- **Retail & SME** – includes savings, payment, card and lending activities, investment and insurance services for our private customers, small business lending, factoring & leasing business and our social housing activities as well as own issues covered with retail assets and Wohnbaubank bonds. The segment services its domestic and international private and small business customers through a centrally managed branch network focused on high-touch and high-quality advisory and complementary online, mobile and platform (broker, dealers) and partnership channels providing 24/7 customer access and driving asset origination. Our online product offering for example covers savings, payments, securities, card and lending activities for private and small business customers while the platform business provides auto, mobile and real estate leasing as well as consumer and mortgage loans. It also includes lending portfolios to our international retail borrowers in Western Europe and the USA. While driving our cross-border multi-brand and multi-channel strategy, we are committed to conservative lending strongly supported by our platform business in the DACH/NL-region, which primarily offers secured mortgage lending.

- **Corporates, Real Estate & Public Sector –** includes lending activities to international corporates as well as international real estate financing activities. It also includes our corporate, mid-cap and public lending business and other fee-driven financial services for mainly Austrian and German customers. Own issues covered with corporate or public assets are included in this segment as well.

- **Treasury –** includes any treasury activities associated with providing trading and investment services such as certain asset-liability management transactions (including secured and unsecured funding) and the investment results of the portfolio of financial securities of BAWAG Group.

- **Corporate Center –** provides central functions for the entire Group such as legal services, risk management and Group asset-liability management and includes unallocated items related to these support functions, accounting positions (e.g. market values of derivatives), the company's equity, real estate and fixed assets, non- interest bearing assets and liabilities as well as selected results related to subsidiary and participation holdings and reconciliation positions.

Our segments are fully aligned with our business strategy as well as our objective of providing transparent reporting of our business units and Bank-wide results while minimizing the financial impact within the Corporate Center. The segments in detail:

2021 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total
Net interest income	660.1	258.4	49.8	(30.0)	938.3
Net fee and commission income	251.1	34.0	0.1	(3.1)	282.1
Core revenues	**911.2**	**292.4**	**49.9**	**(33.1)**	**1,220.4**
Gains and losses on financial instruments	3.1	19.9	22.3	(34.0)	11.3
Other operating income and expenses	2.7	0.0	0.0	(5.9)	(3.2)
Operating income	**917.0**	**312.4**	**72.3**	**(73.2)**	**1,228.5**
Operating expenses	**(351.7)**	**(69.5)**	**(34.8)**	**(29.3)**	**(485.3)**
Pre-provision profit	**565.4**	**242.9**	**37.5**	**(102.6)**	**743.2**
Regulatory charges	(21.4)	(10.4)	(7.8)	(12.0)	(51.6)
Total risk costs	(60.0)	(29.0)	3.0	(9.0)	(95.0)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	3.8	3.8
Profit before tax	**483.9**	**203.4**	**32.7**	**(119.6)**	**600.4**
Income taxes	(121.0)	(50.9)	(8.2)	59.7	(120.4)
Profit after tax	**362.9**	**152.5**	**24.5**	**(59.9)**	**480.0**
Non-controlling interests	–	–	–	(0.1)	(0.1)
Net profit	**362.9**	**152.5**	**24.5**	**(60.0)**	**479.9**
Business volumes					
Assets	21,129	14,899	18,213	2,084	56,325
Liabilities	34,330	13,252	2,814	5,929	56,325
Risk-weighted assets	8,105	7,894	1,845	2,291	20,135

2020 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center restated	Total restated
Net interest income	664.1	236.1	56.1	(40.9)	915.4
Net fee and commission income	218.6	38.9	0.1	(2.8)	254.8
Core revenues	**882.7**	**275.1**	**56.3**	**(43.8)**	**1,170.3**
Gains and losses on financial instruments	7.5	1.9	18.2	(54.2)	(26.6)
Other operating income and expenses	2.7	0.0	0.0	27.3	30.0
Operating income	**892.9**	**276.9**	**74.5**	**(70.6)**	**1,173.7**
Operating expenses	**(360.8)**	**(80.4)**	**(30.1)**	**(48.4)**	**(519.7)**
Pre-provision profit	**532.2**	**196.5**	**44.4**	**(119.2)**	**653.9**
Regulatory charges	(31.4)	(9.3)	(6.7)	(11.8)	(59.2)
Total risk costs	(126.3)	(80.1)	(1.8)	(16.4)	(224.6)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	1.1	1.1
Profit before tax	**374.4**	**107.1**	**35.9**	**(146.2)**	**371.2**
Income taxes	(93.6)	(26.8)	(9.0)	43.7	(85.7)
Profit after tax	**280.8**	**80.3**	**26.9**	**(102.5)**	**285.5**
Non-controlling interests	–	–	–	(0.3)	(0.3)
Net profit	**280.8**	**80.3**	**26.9**	**(102.8)**	**285.2**
Business volumes					
Assets	19,246	13,913	17,446	2,517	53,122
Liabilities	30,089	12,950	3,840	6,243	53,122
Risk-weighted assets	8,029	7,431	2,580	2,033	20,073

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

Geographical split

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

The following tables show core revenues per segment and geography:

2021 **in € million**	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total
DACH / NL	860.0	108.1	11.3	(49.8)	929.6
thereof Austria	711.2	75.2	2.7	(48.7)	740.4
thereof Germany	111.1	30.2	3.5	(1.1)	143.7
Western Europe/USA	51.2	184.3	38.6	16.7	290.8
Total	**911.2**	**292.4**	**49.9**	**(33.1)**	**1,220.4**

2020 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center restated	Total restated
DACH / NL	836.2	111.1	12.0	(48.0)	911.3
thereof Austria	703.8	72.3	3.6	(42.4)	737.3
thereof Germany	113.3	34.5	2.8	(5.6)	145.0
Western Europe/USA	46.5	164.0	44.3	4.2	259.0
Total	**882.7**	**275.1**	**56.3**	**(43.8)**	**1,170.3**

The segment result can be reconciled with the Profit or Loss Statement as follows:

in € million	**2021**	2020
Other operating income and expenses according to segment report[1)]	(3.2)	30.0
Regulatory charges[1)]	(46.7)	(54.8)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**(49.9)**	**(24.8)**

in € million	**2021**	2020
Operating expenses according to segment report[1)]	(485.3)	(519.7)
Regulatory charges[1)]	(4.9)	(4.4)
Operating expenses according to Consolidated Profit or Loss Statement	**(490.1)**	**(524.0)**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 46.7 million for 2021. The item Operating expenses includes regulatory charges in the amount of € 4.9 million for 2021 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Group Management Report. In addition, 2021 other operating expenses in IFRS include a non-recurring one-off position in the amount of € 29.4 million for regulatory charges relating to an extraordinary contribution to the Deposit Guarantee Scheme following the exit of Raiffeisen Banking Group.

CAPITAL MANAGEMENT

The capital management of BAWAG Group is based on own funds as defined by the CRR (Capital Requirements Regulation) and the corresponding national regulations (Basel 3 Pillar 1) and the economic capital management approach (Basel 3 Pillar 2) related to the Internal Capital Adequacy Assessment Process (ICAAP).

The Group employs a centralized capital management process. The main responsibilities of this function are to continuously monitor the development of the Group's business, to analyze changes in its risk-weighted assets and to reconcile those with the available regulatory own funds or the ICAAP limit and utilizations for each segment.

The capital management function is fully integrated into the Group's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon. Besides regulatory capital management, economic capital limits aligned with the business plan are assigned to the business segments as part of the ICAAP process.

The Capital Management Team gives recommendations to the Management Board of BAWAG Group for strengthening and optimizing the own funds position when necessary and reports to the Bank's Enterprise Risk Meeting once a month.

The ICAAP is modeled taking into account the Group's business and risk profile and is an integral part of the planning and the control system. In the course of the ICAAP, the risk-bearing capacity of the Group is ensured and the efficient use of capital for risk coverage monitored. In addition, stress tests complement the steering process.

As part of the SREP, minimum regulatory capital requirements as well as a Pillar 2 capital guidance are set for BAWAG Group. In addition to the minimum capital ratios required by the regulators, BAWAG Group defines early warning and recovery levels in BAWAG Group's recovery plan and the corresponding processes. The recovery and warning levels refer to regulatory and economic capital figures. The recovery plan was prepared within the framework of the BaSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, the Austrian Banking Resolution and Recovery Act).

BAWAG Group constantly monitors its compliance with the warning and recovery levels and therefore at the same time with the stipulated own funds ratios on the basis of the notifications sent to Oesterreichische Nationalbank (the Austrian national bank) and on the basis of current business developments.

Additionally, the Capital Management Team tracks all regulatory changes in its field of responsibility, e.g. MREL or Basel IV/V. The impact of the regulatory changes is estimated and the expected effects on the capital position of the Bank are presented to the respective division heads and board members. Expected future regulatory requirements are proactively integrated into the capital management process. This is intended to ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

Regulatory reporting on a consolidated basis is performed on the level of BAWAG Group as the EU parent financial holding company of the group of credit institutions.

The following table shows the breakdown of own funds of BAWAG Group applying transitional rules (including interim profit and the deduction of the foreseen dividend in the amount of € 267 million payable subject to the respective resolution in the general assembly) and its own funds requirement as of 31 December 2021 and 31 December 2020 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

	BAWAG Group	
in € million	**31.12.2021**	31.12.2020
Share capital and reserves (including funds for general banking risk)[1)2)]	3,694	3,266
Deduction of intangible assets	(414)	(407)
Other comprehensive income	(55)	(48)
IRB risk provision shortfalls	(4)	(3)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	17	(5)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	–	0
Deduction for CET1 instruments of financial sector entities where the institution does not have a significant investment	(4)	(1)
Additional deductions of CET 1 capital due to article 3 CRR[2)]	(222)	–
Common Equity Tier I	**3,012**	**2,802**
Capital instruments eligible as additional Tier 1 capital	475	475
Excess of deduction from AT1 items over AT1 capital	0	(2)
Additional Tier I	**475**	**473**
Tier I	**3,487**	**3,275**
Supplementary and subordinated debt capital	620	651
Tier II capital in grandfathering	19	1
Excess IRB risk provisions	28	25
Less significant investments	(25)	(24)
Tier II	**642**	**653**
Own funds	**4,129**	**3,928**

1) In this position, dividends not yet paid out for the financial year 2021 in the amount of € 267.0 million were deducted (31 December 2020: € 459.5 million for the financial years 2019 and 2020).

2) As of 31 December 2020, the line item "Share capital and reserves" included a deduction of a prudential filter. In accordance with CRR2, the prudential filter was reclassified to the line item "Additional deductions of CET 1 Capital due to article 3 CRR" as of 31 December 2021.

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

	BAWAG Group	
in € million	31.12.2021	31.12.2020
Credit risk	18,117	18,049
Operational risk	2,018	2,024
Capital requirements (risk-weighted assets)	**20,135**	**20,073**

Supplemental information on a fully loaded basis

	BAWAG Group	
	31.12.2021	31.12.2020
Common Equity Tier 1 capital ratio based on total risk	15.0%	14.0%
Total capital ratio based on total risk	20.4%	19.6%

Key figures according to CRR including its transitional rules

	BAWAG Group	
	31.12.2021	31.12.2020
Common Equity Tier 1 capital ratio based on total risk	15.0%	14.0%
Total capital ratio based on total risk	20.5%	19.6%

During the financial year 2021, BAWAG Group complied with the overall capital requirement imposed by the SREP of 9.14% CET1, 11.01% Tier 1 and 13.51% total capital or 10.14%/12.01%/14.51% including Pillar 2 guidance.[1]

Restatement of prior-period comparatives in accordance with IAS 8

In the first half of 2021, certain comparative information was restated in accordance with IAS 8.41. For details, please refer to the section Restatement in accordance with IAS 8.41. The following table presents the restatement of the capital disclosures affected:

[1] Countercyclical buffer of 0.0107% based on exposure as of December 2021.

	31.12.2020	
in € million	Published	Adjusted
Capital requirements (risk-weighted assets)	20,072	20,073
Common Equity Tier I	2,807	2,802
Own funds	3,933	3,928
Common Equity Tier 1 capital ratio based on total risk (incl. interim profit) on a fully loaded basis	14.0%	14.0%
Total capital ratio based on total risk (incl. interim profit) on a fully loaded basis	19.6%	19.6%
Common Equity Tier 1 capital ratio based on total risk (incl. interim profit) on a transitional basis	14.0%	14.0%
Total capital ratio based on total risk (incl. interim profit) on a transitional basis	19.6%	19.6%

FURTHER DISCLOSURES REQUIRED BY IFRS

33 | Changes in liabilities arising from financing activities in accordance with IAS 7.44A, including both changes arising from cash flows and non-cash changes

Liabilities arising from financing activities are liabilities for which cash flows are classified as cash flows from financing activities in the Cash Flow Statement. At BAWAG Group, these are cash flows from subordinated and supplementary capital (for details regarding subordinated and supplementary capital, please refer to Note 26). Thus, the following table discloses the changes from subordinated and supplementary capital in the reporting period:

in € million	01.01.2021	Change in scope of consolidation	Fair value adjustment of hedged item from hedge accounting	Valuation of liabilities designated at fair value through profit or loss	Issuance of new bonds	Additions	Repurchase/ Redemption/ Cash change	Others	**31.12.2021**
Financial liabilities designated at fair value through profit or loss									
Subordinated and supplementary capital	106	–	–	(4)	–	–	0	1	103
Financial liabilities measured at amortized cost									
Subordinated and supplementary capital	673	23	(5)	–	0	–	(4)	0	687
Other obligations									
Lease liability	226	4	–	–	–	–	(26)	5	209

in € million	01.01.2020	Change in scope of consolidation	Fair value adjustment of hedged item from hedge accounting	Valuation of liabilities designated at fair value through profit or loss	Issuance of new bonds	Additions	Repurchase/ Redemption/ Cash change	Others	31.12.2020
Financial liabilities designated at fair value through profit or loss									
Subordinated and supplementary capital	130	–	–	(3)	–	–	(20)	(1)	106
Financial liabilities measured at amortized cost									
Subordinated and supplementary capital	500	–	(2)	–	200	–	(25)	0	673
Other obligations									
Lease liability	253	–	–	–	–	–	(27)	0	226

Regarding changes in equity due to dividends paid, please refer to the Statement of Changes in Equity.

34 | Fair value

The following tables depict a comparison of the carrying amounts and fair values for selected items on the Statement of Financial Position.

in € million	Carrying amount 31.12.2021	Fair value 31.12.2021	Carrying amount 31.12.2020	Fair value 31.12.2020
Assets				
Cash reserves	1,894	1,894	907	907
Financial assets designated at fair value through profit or loss	77	77	90	90
Loans to customers	77	77	90	90
Financial assets mandatorily at fair value through profit or loss	534	534	603	603
Securities	328	328	364	364
Loans to customers	108	108	168	168
Subsidiaries and other equity investments	98	98	71	71
Financial assets at fair value through other comprehensive income	3,754	3,754	4,343	4,343
Debt instruments	3,395	3,395	4,124	4,124
Subsidiaries and other equity investments	359	359	219	219
Financial assets held for trading	257	257	441	441
At amortized cost	48,448	48,771	44,759	45,160
Customers	34,963	35,238	32,129	32,441
Credit institutions	11,166	11,160	9,889	9,892
Securities	2,319	2,373	2,741	2,827
Valuation adjustment on interest rate risk hedged portfolios	(94)	(94)	24	24
Hedging derivatives	178	178	405	405
Property, plant and equipment	290	n/a	332	n/a
Investment properties	104	104	143	143
Intangible non-current assets	535	n/a	552	n/a
Other assets	348	n/a	388	n/a
Non-current assets held for sale	–	–	135	146
Total assets	**56,325**		**53,122**	

in € million	Carrying amount 31.12.2021	Fair value 31.12.2021	Carrying amount 31.12.2020	Fair value 31.12.2020
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	234	234	468	468
Issued debt securities and other securitized liabilities	119	119	212	212
Subordinated and supplementary capital	103	103	106	106
Deposits from customers	12	12	150	150
Financial liabilities held for trading	301	301	422	422
Financial liabilities at amortized cost	49,666	49,745	45,944	46,118
Deposits from credit institutions	7,361	7,360	7,522	7,544
Deposits from customers	35,148	35,174	32,265	32,339
Issued bonds, subordinated and supplementary capital	7,157	7,211	6,157	6,235
Financial liabilities associated with transferred assets	–	–	97	97
Valuation adjustment on interest rate risk hedged portfolios	165	165	358	358
Hedging derivatives	107	107	62	62
Provisions	382	n/a	425	n/a
Other obligations	1,092	n/a	992	n/a
Equity	4,373	n/a	4,350	n/a
Non-controlling interests	5	n/a	4	n/a
Total liabilities and equity	**56,325**		**53,122**	

The fair values of material investment properties are based on external and internal valuations. For details regarding the reclassification of a subset of Investment properties to Non-current assets held for sale, please refer to Note 22. The carrying amount of other assets and other obligations is a reasonable approximation of their fair value. Therefore, information on the fair value of these items is not shown.

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

Fair value hierarchy

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

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

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

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

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

  Linear derivative financial instruments containing no optional components (such as interest rate swaps, currency forwards and futures) were also measured using a present value technique (discounting of future cash flows applying the current swap curve, derivatives with counterparties with a Credit Support Annex [CSA] agreement are discounted by the corresponding RFR curve [risk free rate; e.g. €STR]).

  Optional instruments were measured using option price models such as Black-Scholes (swaptions, caps, floors), Bachelier (caps, floors and swaptions in currencies with negative interest rates), Garman-Kohlhagen (currency options) or the Hull-White model (swaps with multiple cancellation rights), which were implemented and applied consistently in the front office systems.

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

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

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

In 2021, the portion of change in fair values of securities issued by BAWAG Group accounted for solely by changes in the Group's credit spreads was plus € 0.5 million (plus € 0.4 million as of 31 December 2020). This is defined as the product of the credit spread basis point value with the respective spread change, supplemented by the pull-to-par effect. As of 31 December 2021, the cumulative fair value change resulting from changes in the Group's credit rating amounted to minus € 1.9 million (minus € 1.9 million as of 31 December 2020).

A one basis point narrowing of the credit spread is expected to change their valuation by minus € 0.06 million (minus € 0.04 million as of 31 December 2020).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to € 0.0 million as of 31 December 2021 (€ 0.0 million as of 31 December 2020) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to € 0.0 million (€ 0.0 million as of 31 December 2020).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.04 million (plus € 0.05 million as of 31 December 2020).

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

The fair values of material investment properties are based on external and internal valuations.

For the determination of the credit value adjustment for the credit risk of OTC derivatives, netting effects at the customer level within transactions of the same kind and currency are taken into account.

31.12.2021 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	77	–	77
Financial assets mandatorily at fair value through profit or loss	2	72	460	534
Financial assets at fair value through other comprehensive income	3,427	180	147	3,754
Debt instruments	3,235	160	0	3,395
Subsidiaries and other equity investments	192	20	147	359
Financial assets held for trading	–	257	–	257
At amortized cost	1,518	12,747	34,506	48,771
Valuation adjustment on interest rate risk hedged portfolios	–	(94)	–	(94)
Hedging derivatives	–	178	–	178
Investment properties	–	–	104	104
Non-current assets held for sale	–	–	–	–
Total assets	**4,947**	**13,417**	**35,217**	**53,581**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	194	40	234
Issued debt securities and other securitized liabilities	–	86	33	119
Subordinated and supplementary capital	–	103	–	103
Deposits from customers	–	5	7	12
Financial liabilities held for trading	–	301	–	301
Financial liabilities at amortized cost	–	13,978	35,767	49,745
Financial liabilities associated with transferred assets	–	–	–	–
Valuation adjustment on interest rate risk hedged portfolios	–	165	–	165
Hedging derivatives	–	107	–	107
Total liabilities	**–**	**14,745**	**35,807**	**50,552**

31.12.2020 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	90	–	90
Financial assets mandatorily at fair value through profit or loss	32	58	513	603
Financial assets at fair value through other comprehensive income	4,174	128	41	4,343
Debt instruments	3,996	128	–	4,124
Subsidiaries and other equity investments	178	–	41	219
Financial assets held for trading	0	441	–	441
At amortized cost	1,727	10,068	33,365	45,160
Valuation adjustment on interest rate risk hedged portfolios	–	24	–	24
Hedging derivatives	–	405	–	405
Investment properties	–	–	143	143
Non-current assets held for sale	–	–	146	146
Total assets	**5,933**	**11,214**	**34,208**	**51,355**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	148	320	468
Issued debt securities and other securitized liabilities	–	36	176	212
Subordinated and supplementary capital	–	106	–	106
Deposits from customers	–	6	144	150
Financial liabilities held for trading	–	422	–	422
Financial liabilities at amortized cost	–	13,311	32,807	46,118
Financial liabilities associated with transferred assets	–	97	–	97
Valuation adjustment on interest rate risk hedged portfolios	–	358	–	358
Hedging derivatives	–	62	–	62
Total liabilities	**–**	**14,398**	**33,127**	**47,525**

BAWAG Group recognizes transfers between levels as of the end of the reporting period during which the transfer has occurred.

Movements between Level 1 and Level 2

In 2021, securities at fair value through other comprehensive income with a book value of € 0 million (2020: € 66 million) were moved from Level 1 to Level 2 due to subsequent illiquid market prices. Securities at fair value through other comprehensive income with a book value of € 63 million (2020: € 0 million) were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 financial instruments measured at fair value

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

			Financial assets at fair value through other comprehensive income		
in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Debt instruments	Subsidiaries and other equity investments	Financial liabilities
Opening balance as of 01.01.2021	**513**	**–**	**0**	**41**	**320**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	52	–	0	–	(1)
for assets no longer held at the end of the period	0	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	39	1
for assets no longer held at the end of the period	–	–	0	–	–
Purchases/Additions	6	–	–	61	–
Redemptions	(65)	–	(1)	–	(280)
Sales	(58)	–	–	0	–
Foreign exchange differences	13	–	–	6	–
Change in scope of consolidation	(1)	–	–	1	–
Closing balance as of 31.12.2021	**460**	**–**	**0**	**147**	**40**

in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Financial liabilities
			Debt instruments	Subsidiaries and other equity investments	
Opening balance as of 01.01.2020	**511**	**–**	**1**	**80**	**674**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	6	–	0	0	(6)
for assets no longer held at the end of the period	0	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	(38)	(2)
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	84	–	–	12	–
Redemptions	(33)	–	(1)	–	(347)
Sales	(43)	–	–	(12)	–
Foreign exchange differences	(12)	–	–	(1)	–
Closing balance as of 31.12.2020	**513**	**–**	**–**	**41**	**320**

Valuation (including the parameterization of observable input factors) is performed by a market-independent back office division within the risk group on a monthly basis. Changes that have occurred are verified, as far as possible, by comparing them to references observable on the market.

Quantitative and qualitative information regarding the valuation of Level 3 financial instruments

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank and the former IMMO-BANK is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The gross spread premium for own issues of BAWAG P.S.K. Wohnbaubank depends on the maturity and is currently 117 basis points (31 December 2020: 117 basis points) for 5 years (mid). For issues of the former IMMO-BANK, the spreads depend on the seniority of the bond and the maturity.

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

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

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

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

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

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

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

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

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

The fair values of customer liabilities at fair value through profit or loss are determined analogously to receivables using the discounted cash flow method and the Bachelier model.

Sensitivity analysis of fair value measurement from changes in unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters can be drawn from a range of reasonably possible alternatives. The current COVID-19 situation results in increased uncertainty with regard to unobservable input parameters and the measurement of the fair value of such items. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank and the former IMMO-BANK and customer deposits in start:bausparkasse.

If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 31 December 2021 would have increased by € 0.1 million (31 December 2020: € 0.1 million). If the credit spread used in calculating the fair value of own issues decreased by 20 basis points, the accumulated valuation result as of 31 December 2021 would have decreased by € 0.1 million (31 December 2020: € 0.1 million).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to plus € 2.0 million as of 31 December 2021 (31 December 2020: plus € 1.2 million) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The corresponding annual fair value change amounted to plus € 0.8 million (31 December 2020: minus € 0.5 million).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.07 million (31 December 2020: plus € 0.07 million).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 31 December 2021 would have decreased by € 5.8 million (31 December 2020: € 7.1 million). If the credit spread used in calculating the fair value of loans decreased by 100 basis points, the accumulated valuation result as of 31 December 2021 would have increased by € 6.6 million (31 December 2020: € 8.1 million).

If the liquidity discount of illiquid funds is increased by 10 percentage points, the valuation result as of 31 December 2021 would have decreased by € 0.9 million (31 December 2020: € 1.3 million). If the liquidity discount of illiquid funds is decreased by 10 percentage points, the valuation result as of 31 December 2021 would have increased by € 0.9 million (31 December 2010: € 1.3 million).

For the valuation of a part of the investments in equity instruments, the main input parameters are the discount factor, dividend income or earnings as well as (possibly) necessary capital measures. If the discount rate for investments in equity instruments is decreased by 100 basis points, the fair value would increase by € 20.0 million (thereof € 16.1 million FVTOCI and € 3.9 million FVTPL; 31 December 2020: € 5.9 million; thereof € 4.1 million FVTOCI and € 1.8 million FVTPL), whereas if the discount rate is increased by 100 basis points, the fair value would decrease by € 15.8 million (thereof € 12.7 million FVTOCI and € 3.1 million FVTPL; 31 December 2020: € 4.5 million; thereof € 3.1 million FVTOCI and € 1.4 million FVTPL). If changes in dividend income or net profit where applicable rose by 20%, the fair value of those assets would rise by € 39.1 million (thereof € 32.6 million FVTOCI and € 6.5 million FVTPL; 31 December 2020: € 1.1 million; thereof € 0.5 million FVTOCI and € 0.6 million FVTPL); if changes in dividend income or net profit where applicable declined by 20%, the fair value would decrease by € 37.8 million (thereof € 31.8 million FVTOCI and € 6.0 million FVTPL; 31 December 2020: € 0.9 million; thereof € 0.5 million FVTOCI and € 0.4 million FVTPL).

A part of the investments in equity instruments is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 7.9 million (thereof € 0.9 million FVTOCI and € 7.0 million FVTPL; 31 December 2020: € 6.1 million, thereof € 0.8 million FVTOCI and € 5.3 million FVTPL). If these indications were 10% higher, the fair value of this portion would increase by € 7.9 million (thereof € 0.9 million FVTOCI and € 7.0 million FVTPL; 31 December 2020: € 6.1 million; thereof € 0.8 million FVTOCI and € 5.3 million FVTPL).

The smallest portion is valued based on pro-rata equity. If the equity was 10% lower, this would result in a decrease of € 2.1 million (thereof € 2.1 million FVTOCI and € 0.0 million FVTPL; 31 December 2020: € 1.5 million; thereof € 0.0 million FVTOCI and € 1.5 million FVTPL), whereas if the equity was 10% higher, there would be an increase of € 2.1 million (thereof € 2.1 million FVTOCI and € 0.9 million FVTPL; 31 December 2020: € 1.5 million; thereof € 0.0 million FVTOCI and € 1.5 million FVTPL).

The fair value of two non-traded investment funds is based on fair value quotes provided by the fund manager. Based on the current portfolio allocation, one fund has an expected interest rate sensitivity of approximately minus € 0.8 million (31 December 2020: minus € 1.1 million) if rates rise by 100 bp and a credit spread sensitivity of minus € 0.8 million (31 December 2020: minus € 1.2 million) if credit spreads widen by 100 bp (and vice versa).

For the other fund, the following applies: if the fair value indicated increased by 10%, the Group would recognize a gain of € 17.3 million in profit or loss (31 December 2020: € 15.4 million). If the fair value indicated decreased by 10%, the Group would recognize a loss of € 17.3 million in profit or loss (31 December 2020: € 15.4 million).

If the interest rates used in calculating the fair value of customer liabilities accounted for at fair value through profit or loss increased by 100 basis points, the accumulated valuation result as of 31 December 2021 would have increased by € 0.0 million (31 December 2020: increase by € 0.3 million). If the interest rates decreased by 100 basis points, the accumulated valuation result as of 31 December 2021 would have decreased by € 0.0 million (31 December 2020: decrease by € 0.4 million).

Fair value changes of Level 3 assets with alternative parametrization

To determine the potential impact, credit spreads are used for debt securities, income funds with the risk factor credit spreads as well as loans. For these, the value range between +100bp and -50bp is used in the sensitivity analysis. An increase (a reduction) in spreads leads to a reduction (an increase) in the respective fair value.

31.12.2021 in € million	(50) bp	+50 bp	+100 bp
Financial assets at fair value through profit or loss	**3.6**	**(3.4)**	**(6.6)**
Debt securities	0.0	0.0	0.0
Loans to customers	3.2	(3.0)	(5.8)
Income funds	0.4	(0.4)	(0.8)
Financial assets at fair value through other comprehensive income	**0.0**	**0.0**	**0.0**
Debt securities	0.0	0.0	0.0

31.12.2020 in € million	(50) bp	+50 bp	+100 bp
Financial assets at fair value through profit or loss	**4.6**	**(4.4)**	**(8.5)**
Debt securities	0.1	(0.1)	(0.2)
Loans to customers	3.9	(3.7)	(7.1)
Income funds	0.6	(0.6)	(1.2)
Financial assets at fair value through other comprehensive income	**0.0**	**0.0**	**0.0**
Debt securities	0.0	0.0	0.0

35 | Treatment of day one gain

IFRS 9.B5.1.2A states that the fair value on initial recognition will normally be equal to the transaction price. If the entity determines that the fair value on initial recognition differs from the transaction price and this fair value measurement is not evidenced by a valuation technique that uses only data from observable markets, the carrying amount of the financial instrument on initial recognition is adjusted. If the fair value of a loan portfolio differs from the transaction price, the initial recognition must be based on the fair value but will be adjusted for any day one profit or loss; this will eventually lead to a book value of the loan portfolio that equals the transaction price.

In the case of the acquisition of three loan portfolios, market interest rates on the transaction date were lower than when prices were negotiated. In all cases, the seller wanted to exit the respective business. Therefore, the transaction prices in these cases did not represent the fair value of the loans. The initial recognition is based on the fair value of the acquired loans and receivables determined using a DCF method taking into consideration market conditions on the purchase date. Because the fair value and therefore the day one gain is neither evidenced by a quoted price nor based on a valuation technique that uses only data from observable markets, the day one gain must not be realized on day one but must be accrued and the difference is subsequently recognized as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. IFRS 9 does not state how to subsequently measure this difference.

IFRS does not provide guidance on the presentation of the amortization of day one profits. As the day one profit will be amortized on a systematic basis, BAWAG Group is of the view that this regular amortization income is similar to interest income. From an economic point of view, BAWAG Group earns a higher margin on the loans acquired. Consequently, BAWAG Group presents the systematic amortization of day one profits in the line item Interest income.

The following differences will be recognized in income in subsequent years:

in € million	31.12.2021	31.12.2020
Balance at the beginning of the period	**25**	**36**
New transactions	–	–
Amounts recognized in profit or loss during the period	(11)	(11)
FX effects	0	0
Balance at the end of the period	**14**	**25**

36 | Receivables from and payables to subsidiaries and associates

BAWAG Group's receivables from and payables to non-consolidated subsidiaries and associates were as shown below. Business relationships with these entities were subject to normal banking terms and conditions.

Receivables from and payables to subsidiaries[1)]

in € million	31.12.2021	31.12.2020
Receivables from customers	80	39
Receivables from subsidiaries	**80**	**39**
Deposits from customers	8	7
Payables to subsidiaries	**8**	**7**

1) Previous year adjusted due to correction of editorial error.

Interest income from business with subsidiaries in 2021 totaled € 1 million (2020: € 1 million) and interest expense € 0 million (2020: € 1 million).

Receivables from and payables to associates

in € million	31.12.2021	31.12.2020
Receivables from customers	40	69
Securities[1)]	25	24
Receivables from associates	**65**	**93**
Deposits from customers	24	30
Payables to associates	**24**	**30**

1) Previous year adjusted due to correction of editorial error.

37 | Related parties

Owners of BAWAG Group AG

The shares of BAWAG Group AG were admitted for trading on the Vienna Stock Exchange as of 25 October 2017 (first day of trading). Pursuant to the major holdings notifications received by BAWAG Group AG, (i) several funds and accounts under management by or whose holdings in BAWAG Group AG are subject to an investment management agreement with Golden Tree Asset Management LP held 12.1%, (ii) funds and accounts under management by T.Rowe Price Group, Inc. and its affiliates held 5.6% and funds and accounts under management by Wellington Management Group LLP. and its affiliates held 5.1% as of 31 December 2021.

Major non-fully consolidated subsidiaries, joint ventures and equity investments of BAWAG P.S.K.

BAWAG P.S.K. Versicherung AG

BAWAG Group indirectly holds 25% plus one share of BAWAG P.S.K. Versicherung AG, Vienna. The majority of this company is owned by Generali Group. BAWAG P.S.K. Versicherung AG is accounted for using the equity method in BAWAG Group's accounts. The business dealings between BAWAG Group and BAWAG P.S.K. Versicherung AG cover insurance products, all of which are offered at standard market terms. The business relations between BAWAG Group and Generali are governed by contracts with standard market terms, including a cooperation agreement, a license agreement, a commission agreement and others.

PSA Payment Services Austria GmbH

BAWAG Group holds 20.82% in PSA Payment Services Austria GmbH. PSA is owned by several Austrian banks and banking groups and is engaged in the service and organization of ATM card business. PSA is accounted for using the equity method in BAWAG Group's accounts.

Other subsidiaries

Please refer to Note 51 for a list of all non-consolidated subsidiaries.

Transactions with related parties

The following table shows transactions with related parties (data included in Statement of Financial Position as at 31 December 2021; P&L data are for the full year 2021).

31.12.2021 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	80	1	40	–
Unutilized credit lines	–	–	12	0	5	0
Securities	–	–	–	25	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	8	87	–	0
Other liabilities (incl. derivatives)	–	–	–	–	–	–
Guarantees provided	–	–	1	–	–	–
Interest income[1])	–	–	0.6	0.2	0.2	–
Interest expense	–	–	0.0	1.0	–	0.0
Net fee and commission income	–	–	0.0	8.6	0.0	0.0

1) Gross income; hedging costs not offset.

The following table shows transactions with related parties (data included in Statement of Financial Position as at 31 December 2020; P&L data are for the full year 2020).

31.12.2020 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	39	2	68	0
Unutilized credit lines	–	–	5	23	20	–
Securities	–	–	–	24	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	5	91	1	0
Other liabilities (incl. derivatives)	–	–	–	–	–	–
Guarantees provided	–	–	0	–	1	–
Interest income[1])	–	–	0.7	0.3	0.2	–
Interest expense	–	–	0.0	1.2	0.0	0.0
Net fee and commission income	–	–	0.0	5.7	0.0	0.0

1) Gross income; hedging costs not offset.

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to € 0.0 million in 2021 (2020: € 0.0 million).

For loans with related parties, valuation losses of € 5 million have been recognized in the current financial year.

Information regarding natural persons

Key management

Key management of BAWAG Group refers to the members of the Management Board and the Supervisory Board of BAWAG Group AG and BAWAG P.S.K. AG. Total personnel expenses for the key management amount to € 34.1 million (2020: € 22.3 million).

Expenses for remuneration (including accrued and deferred bonuses and payments to the pension fund) relating to active members of the Management Board of BAWAG Group AG and BAWAG P.S.K. AG during the financial year amounted to € 33.0 million (2020: € 21.3 million). These expenses consist of short-term benefits in the amount of € 19.8 million, expenses for long-term bonus benefits in the amount of € 10.3 million (total award including deferred parts € 18.0 million) and payments to the pension fund in the amount of € 2.9 million (2020: short-term benefits € 18.2 million, long-term bonus benefits € 0.0 million and payments to the pension fund € 3.1 million). Expenses for remuneration in 2021 for former members of the Management Board amounted to € 0.0 million (2020: € 0.0 million).

As of 31 December 2021, contractual agreements governing the payment of contributions to pension funds were in force for all Management Board members.

Under consideration of the regulatory principles, a long-term incentive program was implemented in 2017, among others, for the Management Board. The long-term incentive program is awarded 50% in shares and 50% in phantom shares or optionally 100% in shares of BAWAG Group AG under the precondition of long-term corporate success. In 2022, an additional long-term incentive program awarded 100% in shares will be implemented for Management Board members and certain employees.

As of the reporting date, there were seven outstanding loans in the amount of € 9.6 million to members of the Management Board (2020: two outstanding loans in the amount of € 3.3 million). Loans, building society loans and leasing financing to members of the Supervisory Board totaled € 0.2 million (2020: € 0.0 million). Repayments of loans granted to executives and staff took place as contractually agreed.

Furthermore, Management Board and Supervisory Board members made no use of current account limits (2020: € 0.0 million) as of the reporting date. Turnover on credit cards guaranteed to third parties by the Bank that belong to Management Board members amounted to € 0.0 million in December 2021 (2020: € 0.0 million). Turnover on guaranteed credit cards that belong to members of the Supervisory Board amounted to € 0.0 million in December 2021 (2020: € 0.0 million).

Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG amounted to € 0.9 million in 2020 (2020: € 0.8 million). Works Council delegates to the Supervisory Board do not receive any incremental remuneration. Remuneration of members of the Supervisory Board of BAWAG Group AG amounted to € 0.3 million (2020: € 0.3 million).

There were no consulting expenses in 2021 or 2020.

Pension payments to former members of the Management Board and their surviving dependents came to € 1.5 million (2020: € 1.5 million).

Expenditures for severance pay for former members of the Management Board came to € 0.0 million (2020: € 0.0 million).

Long-term incentive program

BAWAG Group established a long-term incentive program (LTIP) for the members of the Management Board and key senior leaders as well as certain advisors. The LTIP is intended to closely align the interests of the participants with those of the shareholders. This shall be achieved by granting the bonus and part of the advisory fees in the form of shares in BAWAG Group AG to the participants based on the fulfillment of certain conditions. LTIP represents a share-based transaction, which is accounted for in accordance with IFRS 2.

The shares were granted in early 2018 by BAWAG Group, based on an assessment of the individual's performance in 2017 (and earlier years).

Vesting of 75% of the shares of each participant depended on a performance target based on average pre-tax EPS for 2018–2020, which was be evaluated in early 2021. Based on the achieved average pre-tax EPS of BAWAG Group, between 0% and 100% of those shares were 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 may only vest in 2022 and 2023 if the participant keeps working for the Group until 31 March 2021. This part is lost if the participant terminates the employment prior to 31 March 2021 himself or is dismissed prior to that date. Based on Austrian labor law requirements, a pro-rata allocation of non-vested parts of the LTIP shall take place for “good leavers.”

After the regulatory required deferral period (including limitations to dividend payments), a retention period of one year is stipulated. For members of the Management 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.

On 29 April 2019, the Supervisory Board of BAWAG Group decided to modify the LTIP program. The prior arrangement defined a 100% share settlement. According to the new arrangement, 50% of the bonus award would still be settled in shares whereas for 50% of the bonus award the beneficiaries could choose between settlement of the rewards in cash or settlement in shares. The cash payment was dependent on the fair value of the shares of BAWAG Group (phantom shares). Vesting and market conditions remained unchanged.

As 50% of the awards contained a cash settlement alternative, these 50% qualified as a cash-settled share-based payment. Consequently, BAWAG Group recognized a liability to settle in cash at the modification date, based on the fair value of the shares at the modification date to the extent to which the specified services have been received. The initial recognition of this liability was P&L neutral, leading to a reduction of capital reserves in the amount of € 24.9 million. In the last quarter of 2020, the majority of all beneficiaries opted for settlement in 100% shares, this option was defined in the program. As a result of this decision, the LTIP program for the relevant beneficiaries changed from a cash-settled share-based payment to an equity-settled share-based payment. At the date of exercise of the option, the respective outstanding liability was remeasured at the current share price and subsequently reversed against equity.

Liabilities from cash-settled share-based payments resulting from the LTIP program amounted to € 0.9 million as of 31 December 2021 (31 December 2020: € 0.6 million).

The achievement of the performance targets set in relation to the LTIP Part 1 for the years 2018–2020 has been evaluated by the responsible corporate bodies as part of an assessment. The result of this assessment was that the performance targets have been met and therefore 75% of the LTIP shares have been allocated in 2021. The remaining 25% will vest in 2022 (12.5%) and 2023 (12.5%) regardless of the achievement of performance targets. In all cases, the malus and clawback rules apply in accordance with the Compensation Policy.

The program includes a “net settlement feature” enabling BAWAG Group to withhold the number of shares necessary to pay the tax obligation (unless the participant pays the necessary amount to the employer). The following shares were awarded in 2018. No further shares have been awarded since then:

	Number of shares	Fair value in € million	Fair value per share as of 31.12.2021
Granted as of 31.12.2021	1,235,831	67.0	54.20
Thereof awarded in part 1 of the LTIP program	934,960	50.7	54.20

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

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 grant date
Members of the Management Board of the company					
Anas Abuzaakouk	169,880	56,626	226,506	–	–
Guido Jestädt	13,912	4,638	18,550	–	–
David O'Leary	108,395	36,131	144,526	–	–
Sat Shah	136,979	45,660	182,639	–	–
Enver Sirucic	60,497	20,166	80,663	–	–
Andrew Wise	124,573	41,524	166,097	–	–
Senior leadership team of the company and its subsidiaries	260,227	75,960	336,187	–	–
Former Members of the Management Boards of the company	60,497	20,166	80,663	–	–
Total	**934,960**	**300,871**	**1,235,831**	**–**	**–**

Valuation

BAWAG Group used the fair value of the equity instruments granted to measure the fair value of the services received from its employees.

The fair value of the equity instruments at the grant date was based on the observable market price of BAWAG Group AG shares. No adjustment for expected dividends and dividend restrictions was incorporated into the measurement of fair value.

For part 1 of the LTIP program, market and non-vesting conditions are taken into account by estimating the probability of achieving the earnings per share target. This probability was estimated to be 100%.

Service conditions as agreed in part 2 of the LTIP program are not taken into account when measuring the grant date fair value of equity instruments. Instead, those are taken into account by adjusting the number of equity instruments included in the measurement of the transaction.

Accounting for cancellations

If a grant of equity instruments (equity-settled share-based payment) is cancelled or settled during the period between granting and vesting, the cancellation or settlement is accounted for as an acceleration of vesting, and the amount that otherwise would have been recognized for services received over the remainder of the vesting period is immediately recognized in profit or loss. Any payment made to the employee on the cancellation or settlement of the grant is accounted for as a deduction from equity. If the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date, the exceeding amount is recognized as an expense.

If parts of the modified part of the LTIP (cash-settled share-based payment) are cancelled or settled during the vesting period, the cancellation or settlement is also accounted for as an acceleration of vesting, and the amount that otherwise would have been recognized for services received over the remainder of the vesting period is immediately recognized in profit or loss. The liability is then remeasured at the current fair value on the reporting date taking into account all effects from cancellations and settlements through profit or loss.

Amounts recognized in the consolidated financial statements

The services received in an equity-settled share-based payment transaction are recognized as the services are received, with a corresponding increase in equity.

For the modified part of the LTIP program (which is now classified as cash-settled), the grant date fair value of the shares granted continued to be recognized as a share-based payment cost as if no modification had occurred. The expense was credited partially to the liability and partially to equity. The amount credited to the liability was the amount that equaled the annual proportion of the fair value of the liability at the date of modification, without taking into account any subsequent changes in the value of the liability. The remainder was credited to equity. In a second step, the liability was remeasured based on the current share price of the instruments granted with all changes in the fair value recognized in profit or loss.

For part 1 of the LTIP program, there was no service period attached to the awards and the expense was recognized immediately.

For part 2, costs were recognized over the vesting period using a straight-line method following the modified grant date method. According to this method, the fair value of the equity instruments is measured at the grant date, with some true-up for instruments that do not vest. Pro-rata expense was recognized in the financial statements for awards relating to part 2 of the LTIP program as these relate to the service periods 2018 to 2021.

The following amounts have been recognized in the Profit or Loss Statement for the period:

in € million	2021	2020
Expenses for equity-settled share-based payments	1.1	4.0
Thereof relating to		
Members of the Management Board of the company	0.7	2.7
Members of the Management Board of a subsidiary	0.0	0.0
Senior leadership team of the Company and its subsidiaries	0.3	1.3
Former Members of the Management Boards of the company	0.1	0.0

in € million	2021	2020
Expenses/Income from cash-settled share-based payments	0.3	(2.4)
Thereof relating to		
Members of the Management Board of the company	0.0	(1.9)
Members of the Management Board of a subsidiary	0.0	0.0
Senior leadership team of the Company and its subsidiaries	0.3	(0.5)
Former Members of the Management Boards of the company	0.0	0.0

Annual bonus program

Annual bonus awards are granted to selected employees and Management Board members. The bonus of this group is based on the annual result and defined external targets. If the individual bonus exceeds a certain limit, 50% of the bonus is paid in cash and 50% in the form of BAWAG Group AG phantom shares.

All expected bonus allocations for employees that are granted for services rendered in 2021 were taken into account in the consolidated financial statements as of 31 December 2021 by recognition of a provision.

Business relations with related party individuals

The following breakdowns depict the business relations with related individuals and their family members. All business is conducted at standard industry and group terms for employees or at standard market terms.

in € million	Key management of the entity or its parent 31.12.2021	Other related parties 31.12.2021	Key management of the entity or its parent 31.12.2020	Other related parties 31.12.2020
Current account deposits	7	6	7	5
Savings deposits	0	4	0	5
Loans	10	7	3	5
Building savings deposits	–	0	–	0
Leasing	0	0	–	0
Securities	2	0	2	0
Interest income	0	0	0.0	0.1
Interest expense	0	0	0.0	0.0

Number of shares	Key management of the entity or its parent 31.12.2021	Other related parties 31.12.2021	Key management of the entity or its parent 31.12.2020	Other related parties 31.12.2020
Shares of BAWAG Group AG	2,337,644	249,064	927,156	724,965

38 | Major changes in the Group's holdings

Acquisition of DEPFA Group, Ireland

On 19 November 2021, BAWAG Group acquired 100% of the shares of DEPFA BANK plc, after receiving all the relevant approvals. For details regarding its subsidiaries, please refer to Note 50 and Note 51. In accordance with IFRS 10, the subsidiary DEPFA ACS Bank DAC has been consolidated in the Group financial statements for 2021.

DEPFA Group, headquartered in Dublin, Ireland, was part of Hypo Real Estate Holding AG, which was taken over by the German state in 2009 in order to rescue DEPFA Group. Before, DEPFA Group primarily focused on issuing public sector covered bonds. In 2014, DEPFA Group was acquired by the German state agency FMS Wertmanagement AöR, which was established to wind down the risk positions of Hypo Real Estate. The focus of the DEPFA Group management and employees has been to manage and run down its public sector finance asset base. BAWAG Group will continue to ensure an orderly wind-down of the DEPFA Group and implement this in a timely manner.

The sale of DEPFA Group was carried out as part of a bidding process launched by FMS Wertmanagement AöR in July 2020. The purchase price offered by BAWAG Group consisted of a fixed and a variable component, which was dependent on the achievement of certain targets related to the reduction of the financial assets. At the time of closing in November 2021, the defined measures had already been implemented and the final purchase price amounted to € 419 million (including taxes and duties of € 4 million), which was settled in cash.

According to IFRS 3, the consolidation result was recognized in the Profit or Loss Statement in the line item Other operating income.

The Group incurred acquisition-related costs of € 0.7 million in legal and consulting fees. These costs have been included in the line item Other operating income and expenses.

In accordance with IFRS 3, the fair values were reassessed after the calculation of a gain on bargain purchase (fair value of the assets and liabilities acquired exceeded the purchase price). The reassessment showed that the fair values of the assets and liabilities do not differ significantly from the carrying amounts recognized so far in the consolidated financial statements of DEPFA Group. There are particularly no previously unrecognized default risks that market participants would include in the fair value measurement, or other risks that have not been provided for.

IFRS 3.35 clarifies that a gain on a bargain purchase may arise if the seller is in a constrained situation. As already mentioned above, FMS Wertmanagement AöR was established solely with the aim of winding down the risk positions and non-strategic business areas of the nationalized Hypo Real Estate Holding AG. After successfully winding down a significant portion of the risk positions and associated financing, FMS Wertmanagement AöR found itself in a constrained situation, as the wind-down of the remaining assets and liabilities would only have been possible over a comparatively long period of time with corresponding high costs. Therefore, without a sale of the investment in DEPFA BANK plc, a wind-down of FMS Wertmanagement AöR would not have been feasible in the near future.

The purchase price does not only consider the fair values of the assets acquired and liabilities assumed, but also the risks associated with a delayed wind-down of DEPFA Group and the fact that any delay in the sale process would have resulted in an additional burden on FMS Wertmanagement AöR as well as a reduction of a potentially achievable purchase price.

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

in € million	2021
Cash reserves	189
Financial assets at fair value through profit or loss	52
Financial assets at fair value through other comprehensive income	194
Financial assets held for trading	8
Financial assets measured at amortized cost	283
Customers	252
Credit institutions	31
Property, plant and equipment	3
Tax assets for current taxes	2
Other assets	1
Financial liabilities designated at fair value through profit or loss	54
Financial liabilities held for trading	39
Financial liabilities at amortized cost	76
Customers	0
Issued bonds, subordinated and supplementary capital	73
Credit institutions	3
Provisions	10
Other obligations	18
Total identifiable net assets acquired	**535**
Total consideration transferred	**419**
Consolidation result	**116**
Restructuring and other expenses after consolidation result	**(29)**
Legal and advisory costs	**(1)**
Net consolidation result	**86**

The valuation techniques used for measuring the fair values of material assets acquired and liabilities assumed were as follows:

Financial assets and liabilities

Group-wide valuation methodologies and standards are applied. Depending on the information available for the determination of the fair values, different approaches are chosen.

Industry standard market models are applied, for example discounted cash flow analysis and standard option pricing models. Market parameters such as interest rates, exchange rates or default risks are used as input for the valuation model to determine the fair value.

For financial instruments where the fair value cannot be determined directly by reference to market-observable information (Level 3), a discounted cash flow model is used. The valuation is based on expected future cash flows. Different parameters are used for the discounting of these expected cash flows, which can be derived from market data. The discount rates which are then used for valuations are basically composed of a “risk-free” yield curve and counterparty credit risk premiums.

For the low liquidity and various restrictions on the transferability of the acquired promissory notes and loans, a discount of €7 million that is not directly observable on the market was considered in addition to the calculated fair value. The acquired loans and receivables from customers in the amount of € 256 million (including cash collateral of € 9 million) represent the fair value as of the acquisition date. Additionally, loans and receivables from credit institutions in the amount of € 31 million were acquired. The total loans and receivables comprise gross amounts of € 287 million, of which none was expected to be uncollectable at the date of acquisition.

As part of the acquisition, bonds measured at fair value through profit or loss of € 48 million and bonds measured at fair value through other comprehensive income of € 194 million were acquired. Issued bonds and supplementary capital with fair values of € 128 million were assumed. Furthermore, provisions of € 10 million and liabilities to suppliers and employees of € 18 million were assumed, which account for future restructuring and wind-down costs of DEPFA Group.

The derivatives had positive fair values of € 8 million and negative fair values of € 39 million at the acquisition date. The derivatives taken over from Depfa are interest rate and cross currency swaps which are mainly back-to-back hedges of securities and Depfa own issues. These are mapped to BAWAG's valuation systems and valued using the discounted cash flow method (discounting of future cash flows applying the current swap curve, derivatives with counterparties with a Credit Support Annex [CSA] agreement are discounted by the corresponding RFR curve [risk free rate; e.g. €STR]). Some of these derivatives are structured in such a way that an external valuation was used.

The acquired property, plant and equipment consist mainly of office equipment including leasehold improvements and hardware. BAWAG Group has assigned only a minor fair value to these assets.

In accordance with IFRS 3.28B, rights-of-use assets acquired must be recognized at the amount of the lease liability determined at the acquisition date plus or minus an amount that reflects the differences in the terms of the lease compared with market terms. Based on the expectations of BAWAG Group, the carrying amount determined in accordance with IFRS 3 was fully impaired as part of the subsequent measurement in 2021.

All costs identifiable at the acquisition date that will be incurred until the complete wind-down of DEPFA Group in Ireland have been accounted for by BAWAG Group in the preparation of the Group financial statements as of 31 December 2021.

According to IFRS 3.45, the acquirer may retrospectively adjust the accounting for a business combination if the business combination is accounted for using provisional amounts at the acquisition date. The measurement period ends when the acquirer obtains the information it sought about facts and circumstances that existed at the acquisition date or learns that no further information is available.

Due to the small size and complexity of DEPFA Group, all assets and liabilities were identified by the end of the balance sheet preparation period. The remaining assets of DEPFA Group consist of cash and low-risk loans and bonds without significant valuation uncertainties. No contingent liabilities were identified, whereby a compensation payment by the seller was additionally agreed in the purchase agreement in this case. The consideration payable to the seller was finally calculated and paid in November 2021.

Restructuring costs and future operating costs for the wind-down in Ireland were considered based on a conservative estimate of the time required for the integration of DEPFA Group into BAWAG Group.

As of the balance sheet preparation date, there are no uncertainties within the meaning of IFRS 3.45, so that the accounting for the business combination in the Group financial statements as of 31 December 2021 could be fully completed.

For the period from 19 November 2021 to 31 December 2021, DEPFA Group contributed core expense (net interest expense and net commission expense) of € 0.2 million and a consolidated loss of € 0.4 million to the Group financial statements. If the acquisition had occurred on 1 January 2021, management estimates that DEPFA Group would have contributed core revenues of € nil, and a consolidated loss of € nil. In determining these amounts, management has assumed that the fair value adjustments determined that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

Acquisition of Hello bank! Austria

On 1 December 2021, after receiving all the relevant approvals, the Group acquired Hello bank! Austria („Hello bank!").

Hello bank! has been a pioneer and market leader in online brokerage in Austria for more than 25 years. Hello bank! serves around 80,000 customers with more than € 8 billion in assets under management (AUM). As of the end of 2020, more than 1.8 million securities transactions were processed. The acquisition complements BAWAG Group's online brokerage business by providing additional expertise, enhanced capabilities, new opportunities and a valued customer base within the securities business.

The acquisition is a business recognized according to IFRS 3.

The fixed purchase price amounted to € 23 million, which was settled in cash. The Group incurred acquisition-related costs of € 0.6 million in legal and consulting fees. These costs have been included in the line item Other operating income and expenses.

The Goodwill recognized in this business combination is attributed to the company's position as a market leader in online brokerage and the possibility to expand this business. For tax purposes, goodwill in the amount of € 2 million is recognized, which is amortized over a term of 15 years.

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

in € million	2021
Financial assets measured at amortized cost	1,313
Customers	87
Credit institutions	1,226
Property, plant and equipment	1
Intangible assets	16
Other assets	10
Financial liabilities at amortized cost	1,292
Customers	1,287
Credit institutions	5
Provisions	2
Other liabilities	25
Total identifiable net assets acquired	**21**
Total consideration transferred	**23**
Consolidation result	**2**

The valuation techniques used for measuring the fair values of material assets acquired and liabilities assumed were as follows:

Intangible assets

BAWAG Group has recognized customer relationships and a brand name as separately identifiable intangible assets. The valuation was carried out with the assistance of an external advisor using state-of-the-art valuation models. Customer relationships were valued using a multi-period excess earnings method (MPEEM).

The following customer relationships were identified: B2C – acquired predominantly via the own online distribution channel and B2B(2C) – acquired predominantly via intermediaries.

The following table summarizes the main assumptions:

	Customer Relationship B2C	Customer Relationship B2B(2C)
Valuation method	MPEEM	MPEEM
Customer segment	Retail & SME	Retail & SME
Income/expenses	Derived from BAWAG Group's business plan assumptions	
Term of model	10.1 years	16.1 years
Cost of capital	10.84%	10.75%

Financial assets and liabilities

Group-wide valuation methodologies and standards are applied. Depending on the information available for the determination of the fair values, different approaches are chosen.

For financial instruments where the fair value cannot be determined directly by reference to market-observable information (Level 3), a discounted cash flow model is used. The valuation is based on expected future cash flows. Different parameters are used for the discounting of these expected cash flows, which can either be derived from market data or from internal information of the acquired company (e.g. expected credit losses). The discount rates that are then used for valuations are basically composed of a risk-free yield curve, refinancing costs, counterparty credit risk premiums and capital costs. In addition, a residual spread component is calculated to calibrate the applied discount spreads to current market observed transactions (e.g. new business margins that reflect current fair value spreads).

The financial liabilities are payable on demand and are recognized with their amount payable according to IFRS 13.47.

The receivables purchased are lombard loans, where credit risk and interest rate risks only have an immaterial impact on the fair value of the receivables as compared to their initial value.

Therefore, the acquired financial assets from customers in the amount of € 87 million represent the fair value as of the acquisition date. Additionally, financial assets from credit institutions in the amount of € 54 million were acquired. The total financial assets comprise gross amounts of € 141 million, of which € 0.2 million was expected to be uncollectable at the date of acquisition.

As of the balance sheet preparation date, there are no uncertainties within the meaning of IFRS 3.45, so that the accounting for the business combination in the Group financial statements as of 31 December 2021 could be fully completed.

For the period from 1 December 2021 to 31 December 2021, Hello bank! contributed core revenues (net interest income and net commission income) of € 3 million and a consolidated profit before tax of € 1 million (without restructuring cost) to the Group financial statements. If the acquisition had occurred on 1 January 2021, management estimates that Hello bank! would have contributed core revenues of € 35 million and a consolidated profit before tax of € 10 million (without restructuring cost). In determining these amounts, management has assumed that the fair value adjustments determined that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

Consolidation of Garrison Earlsfort Investments 2 DAC

In the fourth quarter 2021, BAWAG Group obtained control over several real estate companies. Before the default and consolidation, BAWAG P.S.K. was senior lender to the holding company Garrison Earlsfort Investments 2 DAC.

As these companies are not a business as defined in IFRS 3, the transaction is not accounted for as a business combination according to IFRS 3. The acquisition costs of BAWAG Group are allocated to the acquired assets and liabilities based on their relative fair values. No consolidation result or goodwill was recognized for the transactions.

Deconsolidation of real estate companies

Deconsolidation of LSREF3 Tiger entities

The LSREF3 Tiger entities (LSREF3 Tiger Aberdeen S.à r.l., LSREF3 Tiger Falkirk I S.à r.l., LSREF3 Tiger Gloucester S.à r.l., LSREF3 Tiger Romford S.à r.l., LSREF3 Tiger Southampton S.à r.l.) are real estate companies located in Luxembourg and each of them holds an investment property in the United Kingdom. After the purchase of the LSREF3 Tiger entities through two holding companies (Tiger Retail UK RE 1 and Tiger Retail UK RE 2) as well as meeting the criteria for the control rights as set out in IFRS 10, the LSREF3 Tiger entities and the two holding companies had been consolidated in BAWAG Group's consolidated financial statements from April 2019 until March 2021.

In the first quarter 2021, the senior refinancing provided by third parties defaulted, changing the decision-making rights between the senior lenders and BAWAG Group. BAWAG Group no longer has substantive control rights over the LSREF3 Tiger entities since it lost its power over the relevant activities and is no longer exposed to the variable returns from its involvement as set out in IFRS 10. Therefore, the LSREF3 Tiger entities were deconsolidated in March 2021. Furthermore, the two holding companies were also deconsolidated in March 2021 due to immateriality.

The following table compares the assets and liabilities over which control was lost:

in € million	31.03.2021
Financial assets measured at amortized cost	11
Investment properties	82
Other assets	1
Financial liabilities at amortized cost	86
Other obligations	8
Equity	**0**

Deconsolidation of SWBI entities

In the financial year 2021, BAWAG Group sold investment properties in Germany. These investment properties were held by certain real estate entities in Germany. After the sale of the investment properties, the remainder of assets and liabilities are immaterial for the Group. Therefore, SWBI Darmstadt 1 GmbH, SWBI Mainz 1 GmbH, SWBI München 1 GmbH, SWBI Stuttgart 2 GmbH and SWBI Stuttgart 3 GmbH were deconsolidated.

Other changes

In the second quarter 2021, E2E Kreditmanagement GmbH as the transferring company was merged with E2E Service Center Holding GmbH. Due to the merger, E2E Kreditmanagement GmbH was eliminated from the scope of consolidation. E2E Service Center Holding GmbH was then renamed to E2E Services GmbH.

Also in the second quarter 2021, ROMAX Immobilien GmbH was deconsolidated due to immateriality.

In the third quarter 2021, RF 12 BAWAG Leasing Gesellschaft m.b.H. was deconsolidated due to immateriality.

In the fourth quarter 2021, BAWAG P.S.K. Datendienst GmbH as the transferring company was merged with BAWAG Services GmbH as the absorbing company. Due to the merger, BAWAG P.S.K. Datendienst GmbH was eliminated from the scope of consolidation.

Feldspar 2016-1 Mortgage Holding Limited and Feldspar 2016-1 PLC were deconsolidated due to immateriality in the fourth quarter 2021.

39 | Assets pledged as collateral

in € million	31.12.2021	31.12.2020
Receivables and securities assigned to Oesterreichische Kontrollbank AG	127	460
Collateral pledged to the European Investment Bank	103	91
Cover pool for trust savings deposits	118	101
Cover pool for covered bonds	8,733	6,368
Collateral for RMBS	–	273
Collateral for tender facilities	8,252	6,750
Cash collateral for derivatives	126	91
Other collateral	98	183
Assets pledged as collateral	**17,557**	**14,317**

The Group pledges assets for repurchase agreements that are generally conducted under terms that are usual and customary for standard securitized borrowing contracts. In addition, the Group pledges collateral against other borrowing arrangements and for margining purposes on derivative liabilities. Receivables and securities are also pledged to Oesterreichische Kontrollbank AG in connection with export financing.

Pledges for trust savings deposits are conducted in accordance with legal regulations (section 68 BWG).

The cover pool for covered bonds is subject to the law on covered bank bonds (FBSchVG). Additionally, relevant collateral was provided for refinancing through the European Investment Bank.

40 | Total collateralized debt

The collateral listed in the table above corresponded to the following payables of BAWAG Group:

in € million	31.12.2021	31.12.2020
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	127	153
Payables arising due to refinancing by the European Investment Bank	38	54
Trust savings deposits	1	95
Payables secured by the cover pool for covered bonds	5,376	3,931
RMBS	–	174
Tender facilities	6,289	5,772
Negative market values of derivatives	134	81
Other collateral	77	124
Total collateralized debt	**12,042**	**10,384**

41 | Genuine repurchase agreements

in € million	31.12.2021	31.12.2020
Lender – receivables from credit institutions	–	–
Repurchaser – payables to credit institutions	–	97
Repurchase agreements	**–**	**97**

42 | Transferred assets that are not derecognized in their entirety

	Financial assets at amortized cost	
in € million	31.12.2021	31.12.2020
Carrying amount of transferred assets[1)]	–	96
Carrying amount of associated liabilities	–	97

1) All of the transferred assets are bonds.

Transferred assets that are not derecognized in their entirety relate to genuine repurchase agreements. Since BAWAG Group is still the owner of the transferred assets, it remains exposed to market, interest rate, currency and credit risk with regard to these assets. The transferred assets are blocked for sale and are not taken into account in the liquidity calculation.

43 | Subordinated assets

Line items on the assets side of the Statement of Financial Position included the following subordinated assets:

in € million	31.12.2021	31.12.2020
Subordinated assets at amortized cost	–	2
Subordinated assets designated at fair value through profit or loss	27	30
Subordinated assets at fair value through other comprehensive income	20	178
Subordinated assets	**47**	**210**

44 | Offsetting financial assets and financial liabilities

BAWAG Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Under such agreements, the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are generally aggregated into a single net amount that is payable by one party to the other. Under certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Statement of Financial Position. This is because BAWAG Group currently does not have any legally enforceable right to offset recognized amounts because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

Repo and reverse repo transactions are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

The disclosures in the tables below include financial assets and financial liabilities that:

- are offset in BAWAG Group's Statement of Financial Position; or
- are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Statement of Financial Position.

Financial assets

31.12.2021 in € million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral received	
Derivatives (excl. hedging derivatives)	257	–	257	22	167	68
Hedging derivatives	178	–	178	(73)	251	–
Loans to and receivables from customers	221	168	53	–	–	53
Total	**656**	**168**	**488**	**(51)**	**418**	**121**

31.12.2020 in € million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral received	
Derivatives (excl. hedging derivatives)	441	–	441	40	301	100
Hedging derivatives	405	–	405	38	366	1
Loans to and receivables from customers	239	181	58	–	–	58
Total	**1,085**	**181**	**904**	**78**	**667**	**159**

Financial liabilities

31.12.2021 in € million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives (excl. hedging derivatives)	301	–	301	188	82	31
Hedging derivatives	107	–	107	65	39	3
Repo transactions	–	–	–	–	–	–
Customer deposits	168	168	–	–	–	–
Total	**576**	**168**	**408**	**253**	**121**	**34**

31.12.2020 in € million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives (excl. hedging derivatives)	422	–	422	330	62	30
Hedging derivatives	62	–	62	49	13	–
Repo transactions	97	–	97	97	–	–
Customer deposits	181	181	–	–	–	–
Total	**762**	**181**	**581**	**476**	**75**	**30**

The following tables reconcile the net amounts of financial assets and financial liabilities presented in the Statement of Financial Position to the respective line items in the Statement of Financial Position:

Financial assets

31.12.2021 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	257	–	257
Hedging derivatives	Hedging derivatives	178	–	178
Loans to and receivables from customers	Loans to and receivables from customers	34,963	34,910	53
Total		**35,398**	**34,910**	**488**

31.12.2020 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	441	–	441
Hedging derivatives	Hedging derivatives	405	–	405
Loans to and receivables from customers	Loans to and receivables from customers	32,129	32,071	58
Total		**32,975**	**32,071**	**904**

Financial liabilities

31.12.2021 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	301	–	301
Hedging derivatives	Hedging derivatives	107	–	107
Repo transactions	Financial liabilities associated with transferred assets	–	–	–
Customer deposits	Deposits from customers	35,148	35,148	–
Total		**35,556**	**35,148**	**408**

31.12.2020 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	422	–	422
Hedging derivatives	Hedging derivatives	62	–	62
Repo transactions	Financial liabilities associated with transferred assets	97	–	97
Customer deposits	Deposits from customers	32,265	32,265	–
Total		**32,846**	**32,265**	**581**

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

in € million	31.12.2021	31.12.2020
Contingent liabilities	**229**	**339**
Arising from guarantees	229	339
Unused customer credit lines	**9,295**	**8,370**
Thereof terminable at any time and without notice	7,427	6,524
Thereof not terminable at any time	1,868	1,846

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

46 | Foreign currency amounts

BAWAG Group had assets and liabilities in the following foreign currencies:

in € million	31.12.2021	31.12.2020
USD	5,225	3,020
CHF	1,038	1,191
GBP	1,378	1,852
Other	284	358
Foreign currency	**7,925**	**6,421**
EUR	**48,400**	**46,701**
Total assets	**56,325**	**53,122**
USD	361	252
CHF	57	214
GBP	33	379
Other	175	149
Foreign currency	**626**	**994**
EUR	**55,699**	**52,128**
Total liabilities	**56,325**	**53,122**

This table only includes Statement of Financial Position items and does not provide information about open currency positions due to off-balance hedging transactions.

47 | Information about geographical areas – Non-current assets

in € million	31.12.2021	31.12.2020
Austria	819	840
Western Europe	188	259
Total	**1,007**	**1,099**

Non-current assets consist of the balance sheet items Property, plant and equipment, Investment properties, Goodwill, Brand name and customer relationships, Software and other intangible assets, Associates recognized at equity and Other assets with a remaining maturity of more than one year.

48 | Leasing

Finance leasing from the view of BAWAG Group as lessor

Finance lease receivables are included in the balance sheet position Loans and advances to customers.

BAWAG Group leases both movable property and real estate to other parties under finance lease arrangements.

The following table shows the reconciliation between gross investment value and present value, broken down according to maturity for all ongoing leasing contracts (without open items):

31.12.2021 in € million	Up to 1 year	1–5 years	Over 5 years	**Total**
Total outstanding leasing installments (gross investment value)	442	1,251	58	1,751
As yet unrealized financial income	31	66	4	101
Receivables from finance leases (net investment value)	**411**	**1,185**	**54**	**1,650**

31.12.2020 in € million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	426	1,357	59	1,842
As yet unrealized financial income	28	74	3	105
Receivables from finance leases (net investment value)	**398**	**1,283**	**56**	**1,737**

As of 31 December 2021, the non-guaranteed residual value amounts to € 19 million (2020: € 21 million).

Impairments in the amount of € 12.2 million were recognized in respect of irrecoverable minimum lease installments (2020: € 6.2 million).

Operating leasing from the view of BAWAG Group as lessee

BAWAG Group leases office premises, branches, equipment and vehicles under various rental agreements. The lease contracts are concluded under standard terms and conditions and include price adjustment clauses in line with general office rental market conditions. The lease agreements do not include any clauses that impose any restriction on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

As of 31 December 2021, the right-of-use assets amount to € 190.3 million (2020: € 223.7 million). Of this amount, € 188.5 million (2020: € 221.4 million) are presented within property, plant and equipment and € 1.8 million (2020: € 2.3 million) are presented within receivables from customers at amortized cost. The following table presents the development of the right-of-use assets by asset classes:

31.12.2021 in € million	Land and buildings	Office furniture and equipment	Total
Carrying amount 01.01.2021	**222.7**	**1.0**	**223.7**
Additions	7.3	0.8	8.1
Disposals	(0.8)	(0.2)	(1.0)
Reassessments and modifications	(15.2)	0.0	(15.2)
Depreciation	(24.8)	(0.5)	(25.3)
Carrying amount 31.12.2021	**189.2**	**1.1**	**190.3**
thereof property, plant and equipment	187.4	1.1	188.5
thereof lease receivables	1.8	0.0	1.8

31.12.2020 in € million	Land and buildings	Office furniture and equipment	Total
Carrying amount 01.01.2020	**250.1**	**1.2**	**251.3**
Additions	0.0	0.3	0.3
Disposals	(2.7)	0.0	(2.7)
Reassessments and modifications	0.2	0.0	0.2
Depreciation	(24.9)	(0.5)	(25.4)
Carrying amount 31.12.2020	**222.7**	**1.0**	**223.7**
thereof property, plant and equipment	220.4	1.0	221.4
thereof lease receivables	2.3	0.0	2.3

Since 1 January 2021, an addition to the right-of-use assets was recognized in the amount of € 8.1 million (2020: € 0.3 million). This results from new leases of real estate.

As of 31 December 2021, the lease liability amounts to € 208.7 million (2020: € 225.6 million) and is presented within other obligations. The following table presents a maturity analysis of the lease liability:

in € million	31.12.2020	31.12.2020
Up to 1 year	26.8	23.9
1–5 years	79.4	84.8
Over 5 years	102.5	116.9
Total lease liablity	**208.7**	**225.6**

The following table presents the impact of IFRS 16 on profit or loss:

in € million	2021	2020
Depreciation of right-of-use assets	25.3	25.4
Land and buildings	24.8	24.9
Office furniture and equipment	0.5	0.5
Interest expense on lease liabilities	2.5	2.6
Expenses relating to short-term leases	0.3	0.5
Expenses relating to low-value assets	0.2	0.2
Expenses relating to variable lease payments independent from an index or rate	0.0	0.0
Total	**28.3**	**28.7**
Total rental payments for lease agreements	**(29)**	**(29)**
Rental income from subleasing right-of-use assets	4	3

In 2021, interest expenses in the amount of € 2.5 million (2020: € 2.6 million) and depreciation in the amount of € 25.3 million (2020: € 25.4 million) were recorded due to the adoption of IFRS 16. Rental expenses for operating leases in the amount of € 28.3 million (2020: € 27.2 million) were eliminated from other operating expenses and administrative expenses, resulting in an increase of net profit before tax in the amount of € 0.5 million (2020: € 0.8 million).

49 | Derivative financial transactions

Derivative financial transactions as of 31.12.2021

31.12.2021 in € million		Nominal amount/maturity[1] Up to 1 year	1–5 years	Over 5 years	Total	Fair value[1] Positive	Negative
Interest rate related business		**8,293**	**25,459**	**23,992**	**57,744**	**378**	**(178)**
Thereof	interest rate swaps banking book	7,967	25,272	23,487	56,725	363	(139)
	interest rate options banking book	326	187	506	1,019	15	(38)
	interest rate swaps trading book	–	–	–	–	–	–
	interest rate options trading book	–	–	–	–	–	–
Currency related business		**4,394**	**3,586**	**2,870**	**10,851**	**47**	**(217)**
Thereof	currency swaps banking book	667	3,284	2,870	6,822	5	(163)
	foreign currency forward transactions and options banking book	3,727	302	–	4,029	42	(54)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	–	–	–	–	–	–
Securities related business		**35**	**400**	**31**	**466**	**9**	**(13)**
Thereof	securities related business banking book	35	400	31	466	9	(13)
Total		**12,722**	**29,445**	**26,894**	**69,061**	**435**	**(408)**
Thereof	banking book business	12,722	29,445	26,894	69,061	435	(408)
	trading book business	–	–	–	–	–	–

1) Banking book derivatives include fair value hedging, cash flow hedging and net investment hedging instruments.

The table above includes the following figures for fair value hedges, cash flow hedges and net investment hedges:

31.12.2021 in € million		Nominal amount/maturity Up to 1 year	1–5 years	Over 5 years	Total	Fair Value Positive	Negative
Interest rate related business	Fair value hedge – interest rate risk	992	12,155	14,608	27,756	169	(17)
Currency related business	Cash flow hedge – FX risk	670	2,022	2,520	5,212	9	(87)
Currency related business	Net investment hedge – FX risk	139	–	–	139	–	(3)
Total		**1,801**	**14,178**	**17,128**	**33,107**	**178**	**(107)**

Derivative financial transactions as of 31.12.2020

31.12.2020 in € million		Nominal amount/maturity[1] Up to 1 year	1–5 years	Over 5 years	Total	Fair value[1] Positive	Negative
Interest rate related business		**10,152**	**26,037**	**21,184**	**57,372**	**658**	**(315)**
Thereof	interest rate swaps banking book	9,889	25,685	20,490	56,063	632	(267)
	interest rate options banking book	263	352	694	1,309	26	(48)
	interest rate swaps trading book	–	–	–	–	–	–
	interest rate options trading book	–	–	–	–	–	–
Currency related business		**4,229**	**3,135**	**1,503**	**8,868**	**178**	**(163)**
Thereof	currency swaps banking book	1,030	2,891	1,503	5,425	87	(96)
	foreign currency forward transactions and options banking book	3,199	244	–	3,443	91	(67)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	–	–	–	–	–	–
Securities related business		**0**	**13**	**31**	**44**	**10**	**(6)**
Thereof	securities related business banking book	–	13	31	44	10	(6)
Total		**14,381**	**29,185**	**22,718**	**66,284**	**846**	**(484)**
Thereof	banking book business	14,381	29,185	22,718	66,284	846	(484)
	trading book business	–	–	–	–	–	–

1) Banking book derivatives include fair value hedging and cash flow hedging instruments.

The table above includes the following figures for fair value hedges and cash flow hedges:

31.12.2020 in € million		Nominal amount/maturity				Fair Value	
		Up to 1 year	1–5 years	Over 5 years	**Total**	Positive	Negative
Interest rate related business	Fair value hedge – interest rate risk	1,310	11,101	12,038	24,449	308	(45)
Currency related business	Cash flow hedge – FX risk	901	1,921	1,341	4,163	89	(15)
Currency related business	Net investment hedge – FX risk	215	–	–	215	8	(2)
Total		**2,426**	**13,022**	**13,379**	**28,827**	**405**	**(62)**

50 | List of consolidated subsidiaries

	31.12.2021		31.12.2020	
Banks				
BAWAG P.S.K. AG, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
DEPFA ACS BANK DAC, Dublin	F	100.00%	–	–
DEPFA BANK plc, Dublin	F	100.00%	–	–
start:bausparkasse AG, Hamburg	F	100.00%	F	100.00%
start:bausparkasse AG, Vienna	F	100.00%	F	100.00%
Real estate				
Dromalane Mill Limited, Newry[1)]	F	0.00%	–	–
Fairgreen Shopping Centre (Carlow) Limited, Dublin[1)]	F	0.00%	–	–
GEI Newry Ltd, Newry[1)]	F	0.00%	–	–
LSREF3 Tiger Aberdeen S.a.r.l., Luxembourg	–	–	F	100.00%
LSREF3 Tiger Falkirk I S.a.r.l., Luxembourg	–	–	F	100.00%
LSREF3 Tiger Gloucester S.a.r.l., Luxembourg	–	–	F	100.00%
LSREF3 Tiger Romford S.a.r.l., Luxembourg	–	–	F	100.00%
LSREF3 Tiger Southampton S.a.r.l., Luxembourg	–	–	F	100.00%
Promontoria Holding 136 B.V., Amsterdam	F	100.00%	F	100.00%
R & B Leasinggesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
SWBI Darmstadt 1 GmbH, Stuttgart	–	–	F	100.00%
SWBI Mainz 1 GmbH, Stuttgart	–	–	F	100.00%
SWBI München 1 GmbH, Stuttgart	–	–	F	100.00%
SWBI Stuttgart 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 2 GmbH, Stuttgart	–	–	F	100.00%
SWBI Stuttgart 3 GmbH, Stuttgart	–	–	F	100.00%
Leasing				
ACP IT-Finanzierungs GmbH, Vienna	F	75.00%	F	75.00%
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BFL Leasing GmbH, Eschborn	F	97.87%	F	97.44%
CVG Immobilien GmbH, Vienna	F	100.00%	F	100.00%
easyleasing GmbH, Vienna	F	100.00%	F	100.00%
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
KLB Baulandentwicklung GmbH, Vienna	F	100.00%	F	100.00%
Leasing-west GmbH, Kiefersfelden	F	100.00%	F	100.00%
Morgenstern Miet + Leasing GmbH, Eschborn	F	92.98%	F	92.57%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%

Other non-credit institutions				
AUSTWEST ANSTALT GmbH, Triesen	F	100.00%	F	100.00%
BAWAG Education Trust Corp., Wilmington	F	100.00%	F	100.00%
BAWAG Group Germany GmbH, Eschborn	F	100.00%	F	100.00%
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	–	–	F	100.00%
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
Bonnie RE UK 1 B.V., Amsterdam	F	100.00%	F	100.00%
BPI Holding GmbH & Co KG., Vienna	F	100.00%	F	100.00%
BV Vermögensverwaltung GmbH, Vienna	F	100.00%	F	100.00%
BVV Cayman Ltd., George Town	F	100.00%	F	100.00%
E2E Kreditmanagement GmbH, Vienna	–	–	F	100.00%
E2E Services GmbH, Vienna (formerly: E2E Service Center Holding GmbH, Vienna)	F	100.00%	F	100.00%
BAWAG Services GmbH, Vienna (formerly: E2E Transaktionsmanagement GmbH, Vienna)	F	100.00%	F	100.00%
FCT Pearl, Pantin	F	100.00%	F	100.00%
Feldspar 2016-1 Mortgage Holding Limited, London[2)]	–	–	F	0.00%
Feldspar 2016-1 PLC, London[2)]	–	–	F	0.00%
Garrison Earlsfort Investments 2 DAC, Newry[2)]	F	0.00%	–	–
Health Coevo AG, Hamburg	F	100.00%	F	100.00%
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	F	100.00%	F	100.00%
MF BAWAG Blocker LLC, Wilmington	F	100.00%	F	100.00%
PFH Properties Funds Holding GmbH, Vienna	F	100.00%	F	100.00%
PSA Payment Services Austria GmbH, Vienna	E	20.82%	E	20.82%
P.S.K. Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	–	–	F	100.00%
ROMAX Immobilien GmbH, Vienna	–	–	F	100.00%
SWB Immowert GmbH, Stuttgart	F	100.00%	F	100.00%
Tiger Retail UK RE 1 S.a.r.l., Luxembourg	–	–	F	100.00%
Tiger Retail UK RE 2 S.a.r.l., Luxembourg	–	–	F	100.00%
Zahnärztekasse AG, Wädenswil	F	100.00%	F	99.99%

F … Full consolidation, E … Equity method
1) Please refer to Note 38.
2) As these entities are set up for the funding and refinancing of BAWAG P.S.K. and BAWAG P.S.K. determines all contracts and processes, BAWAG P.S.K. was obligated to consolidate these entities according to IFRS 10 in 2020 due to materiality.

Material subsidiaries are fully consolidated on the basis of IFRS 10, whereas material associates are at-equity consolidated according to IAS 28.

Subsidiaries are entities that BAWAG Group controls in accordance with IFRS 10. BAWAG Group controls an entity when it is exposed or has rights to variable returns from its involvement with a subsidiary and has the ability to influence those returns through its power over the subsidiary.

Associates in accordance with IAS 28 are all entities over which BAWAG Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

The classification of whether a subsidiary/associate is material is reviewed once a year.

51 | List of subsidiaries and associates not consolidated due to immateriality

	31.12.2021	31.12.2020
Real estate		
N & M Immobilienentwicklungs GmbH, Vienna	100.00%	100.00%
LSREF3 Tiger Aberdeen S.a.r.l., Luxembourg	100.00%	–
LSREF3 Tiger Falkirk I S.a.r.l., Luxembourg	100.00%	–
LSREF3 Tiger Falkirk II S.a.r.l., Luxembourg	100.00%	100.00%
LSREF3 Tiger Gloucester S.a.r.l., Luxembourg	100.00%	–
LSREF3 Tiger Romford S.a.r.l., Luxembourg	100.00%	–
LSREF3 Tiger Southampton S.a.r.l., Luxembourg	100.00%	–
SWBI Mainz 1 GmbH, Stuttgart	100.00%	–
SWBI Stuttgart 2 GmbH, Stuttgart	100.00%	–
SWBI Stuttgart 3 GmbH, Stuttgart	100.00%	–
Leasing		
BAWAG Leasing & fleet s.r.o., Prague	100.00%	100.00%
BAWAG Leasing s.r.o., Bratislava	100.00%	100.00%
Fides Leasing GmbH, Vienna	50.00%	50.00%
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%	100.00%
HFE alpha Handels-GmbH, Vienna	50.00%	50.00%
Kommunalleasing GmbH, Vienna	100.00%	50.00%
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	100.00%
Other non-credit institutions		
AUSTOST ANSTALT, Balzers	100.00%	100.00%
BAWAG P.S.K. Equity Finance Limited, St. Helier	–	100.00%
BFL Vertriebspartner BeteiligungsgesmbH, Eschborn	73.36%	68.03%
Depfa Ireland Holding Limited, Dublin	100.00%	–
BAWAG Group Advisors GmbH, Vienna (formerly: dd-roadmap Unternehmensberatung GmbH, Vienna)	100.00%	100.00%
BAWAG Group Advisors International GmbH, Eschborn (formerly: GTA Global Transformation Advisors GmbH, Eschborn)	100.00%	100.00%
easy green energy GmbH, Vienna	–	49.00%
easy green energy GmbH & Co KG, Vienna	–	49.00%
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H. i.L., Vienna	–	35.92%
Feldspar 2016-1 Mortgage Holding Limited, London[1)]	0.00%	–
Feldspar 2016-1 PLC, London[1)]	0.00%	–
Fingorilla GmbH in Liqu., Vienna	70.00%	40.00%
Finventum GmbH, Munich	49.00%	49.00%
Finventum IT GmbH, Vienna	49.00%	49.00%
FlexSi Finanz Vermittlungsgesellschaft m.b.H., Hamburg	100.00%	100.00%
Octantos Beteiligungsverwaltungs GmbH, Vienna	100.00%	–
Omnicas Management AG, Wädenswil	100.00%	99.99%
ROMAX Immobilien GmbH, Vienna	100.00%	–
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	100.00%	–

Savity Vermögensverwaltungs GmbH, Vienna	49.00%	49.00%
SPG Software Solutions Limited, Minsk	–	25.03%
SPGR Financial Solutions GmbH, Vienna	–	25.03%
SWB Treuhand Gesellschaft mit beschränkter Haftung i.L., Stuttgart	–	100.00%
Tiger Retail UK RE 1 S.a.r.l., Luxembourg	100.00%	–
Tiger Retail UK RE 2 S.a.r.l., Luxembourg	100.00%	–
Universa Protection Protocol XLII L.P., Miami	100.00%	100.00%
Vertiva Family Office GmbH i.L., Stuttgart	100.00%	100.00%

1) As these entities are set up for the funding and refinancing of BAWAG P.S.K. and BAWAG P.S.K. determines all contracts and processes, BAWAG P.S.K. was obligated to consolidate these entities according to IFRS 10 in 2020 due to materiality.

52 | Associates not accounted for using the equity method due to immateriality

The following table shows key financial indicators for the Bank's unconsolidated associates:

in € million	31.12.2021	31.12.2020
Cumulated assets	50	204
Cumulated equity	2	2
Cumulated net profit	0	0

The amounts presented in the table above are based on the latest available financial statements of the respective companies that have been prepared in accordance with the applicable accounting standards. At the time the annual financial statements of BAWAG Group as of 31 December 2021 were being prepared, financial statements as of 31 December 2020 were available for the majority of the respective entities (prior year: 31 December 2019).

From an economic point of view, we would like to note that the table above does not take the economic share invested into consideration. The average economic share is 49% (2020: 43%).

For further details, please refer to Note 37 Related parties.

53 | Involvement with associated companies

Investments in associates disclosed in this note are accounted for using the equity method. BAWAG Group includes two companies that are accounted for using the equity method: BAWAG P.S.K. Versicherung AG, Vienna, and PSA Payment Services Austria GmbH, Vienna. The table below presents aggregated financial information on the Group's share in associates that are considered to be immaterial compared to the Group's total assets and profit or loss.

in € million	31.12.2021	31.12.2020
Carrying amounts of all associates	42	44
Aggregated amount of the Group's share of profit or loss	3.6	1.1
Aggregated amount of the Group's share of other comprehensive income	(2.5)	0.8
Aggregated amount of the Group's share of total comprehensive income	1.1	1.9

54 | Non-consolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor for determining control over the entity. This is the case, for example, when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following attributes:

- Restricted activities
- A narrow and well-defined objective
- Insufficient equity
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements or other means. The Group's exposure to unconsolidated structured entities comprises leasing companies engaging in special leasing to which BAWAG Group provides the financing.

The Group provides a different measure for the size of structured entities depending on their nature. Regarding other structured entities, the total assets of these entities in the amount of € 80 million (2020: € 83 million) best measure their size. For securitizations, this is the notional of notes in issue in the amount of € 759 million (2020: € 996 million). For other special purpose vehicles, this is the financing amount of € 69 million (2020: € 0 million).

The table below shows an analysis of the carrying amounts of assets and liabilities of unconsolidated structured entities recognized by the Group and income from those structured entities. The maximum exposure to loss is the carrying amount of the assets held.

in € million	2021	2020
Carrying amounts of assets in connection with investments in structured entities	**867**	**1,037**
on the balance sheet shown under At amortized cost	867	1,037
Carrying amounts of liabilities in connection with investments in structured entities	**–**	**–**
Income	**7.5**	**9.7**
Interest income	7.5	9.7
Losses incurred during reporting period	–	–
Maximum exposure to loss	867	1,037

BAWAG Group neither provided any financial or other support to an unconsolidated securitization vehicle during the financial year nor does it have any current intention to do so.

RISK REPORT

BAWAG Group is a retail-focused bank that has built a low-risk, simplified and transparent business model with a consistent strategy over many years. The focus on an efficient and simple delivery of our core lending and savings products occurs through our own networks, strategic partners, and various digital channels. The Corporates, Real Estate & Public Sector segment serves clients primarily with domestic and international lending, deposits and payment services. Across the segment we focus on risk-adjusted returns and maintain disciplined underwriting. Our markets are developed economies with strong banking and legal infrastructures in the DACH/NL-region, Western Europe and the United States. Our liquidity is primarily provided by stable customer deposits. Simplicity and efficiency are the foundation of our operations, in which we aspire to simplify processes from back-end operations to front-end customer touchpoints in order to provide our customers with clarity, ease and value through our products.

Risk management and the active steering of risks are primary components of the Group's business strategy. "Safe and Secure" is a core pillar of our strategy with a high level of commitment across the entire organization to achieve and maintain this low risk profile. We believe our risk management approach and long term discipline is a differentiator in our market and is key to achieving our strategic and financial objectives as well as creating value for our shareholders and protecting our customers.

Safe and Secure is a cornerstone of our Group strategy and our risk policies and governance. It is founded on the following tenets:

- Maintaining strong capital position, stable retail deposits and low risk profile
- Focus on mature, developed and sustainable markets
- Applying conservative and disciplined underwriting in markets we understand with focus on secured lending
- Maintain fortress balance sheet
- Proactively manage and mitigate non-financial risks

2021 summary

- Proactive and prudent management throughout the unprecedented economic shock caused by COVID-19: the portfolio demonstrated resilience due to our risk profile and conservative underwriting, achieving increased fortification (with regards to equity, asset quality, liquidity) of the balance sheet through 2021.

- ECL reserves stand at € 139 million (2020: € 130 million) based on weighted economic scenarios. Management overlays increased by 59% to € 61 million (2020: € 38 million) since year-end 2020 reflecting current uncertainties associated with the pandemic and economic impacts being observed, which are not comparable to the historic data in our models. Model driven ECLs returned to normal based on macro-outlook and strong asset quality also evidenced by stage 2 assets being down near to pre-pandemic levels.

- Declining NPL ratio (without City of Linz) at 1.0% (2020: 1.1%) with stable NPL cash coverage of 46% (2020: 46%).

- Including City of Linz receivable and prudential provisions in regulatory capital, total NPL ratio of 1.4% (2020: 1.5%) with NPL cash coverage of 56% (2020: 62%).

- Portfolio of € 52.4 billion net carrying amount (2020: € 49.6 billion), with continued focus on growth in the DACH/NL-region.

- High asset quality demonstrated by continued shift of assets out of Stage 2 (increased credit risk) to Stage 1 (performing), with 94% of customer book currently Stage 1 (from 92% in 2020). Stage 2 assets reduced to 4% of customer book (from 6% in 2020).

- Highly collateralized Retail & SME portfolio (primarily mortgage) increased to 86% of total exposure versus 85% in 2020.
- Annual risk cost of € 95 million (2020: € 225 million) represent decline of 69% to 23 basis points (2020: 45 basis points) of portfolio without any significant reserve releases.
- Robust liquidity at year-end with LCR of 239% (2020: 231%) and NSFR of 139% (2020: 132%), both ratios well above regulatory requirements.
- Strong resilience of the business model confirmed by the 2021 EBA/SSM stress test results: under the adverse scenario, the 3-years impact on CET1 ratio would be 199 basis points, versus the EBA average of 485 basis points and CET1 ratio would land at 12.0% on the 3rd year versus the EBA average of 10.2%.
- Risk appetite set as foundation for business strategy and portfolio management.
- Exposure to industries with moderate to high ESG risk remains low with a strong ESG Risk Governance. ESG risks are incorporated into risk steering framework, risk strategy and internal capital allocation across risk types and risk management guidelines.

Development of key risk metrics

	Total book		
in € million	**31.12.2021**	31.12.2020	vpY
NPL ratio	1.4%	1.5%	(0.1)pp
NPL cash coverage ratio	56.5%	61.7%	(5.2)pp
NPL coverage ratio	79.2%	94.0%	(14.8)pp
Impairments Stage 1 and 2	139	130	9
Impairments Stage 3	276	271	5
Prudential filter	211	275	(64)
LCR	239%	231%	8pp
NSFR	139%	132%	7pp

Risk statement

BAWAG Group is active in banking activities, focusing primarily on retail banking with a secondary focus on corporate banking in selective markets with adequate risk-adjusted returns. As such, the Bank takes on the typical risks inherent to the banking industry, as well as the economy in general. BAWAG Group closely monitors and manages all such risks within a strict and comprehensive risk framework, with the intent to mitigate such risks as negative impacts may occur and ensure adequate levels of capital and liquidity.

BAWAG Group has established a comprehensive and forward-looking risk management framework, which considers the nature, scale, and complexity of the Group's business activities and the resulting risks. The Group's risk management governance and oversight involves understanding drivers of risks, types of risks and impacts of risks.

BAWAG Group's approach to risk

BAWAG Group's risk management framework is based on the following guiding principles:

- **Risk-conscious culture**: Risk management is a joint effort across business units and risk management divisions. We have established a risk-conscious mindset throughout the Group which ensures a risk-based decision-making.

- **Prudent approach to risk and underwriting**: Our strategic commitment to maintaining a low risk profile is reflected in our focus on developed markets, our conservative underwriting with emphasis on secured business and risk adjusted returns, a strong capital position, a stable retail-based funding model and the proactive mitigation of non-financial risks.

- **Integrated risk management**: We manage relevant risk categories on a Group-wide basis, ensuring a consistent and coherent approach towards our risk management activities throughout the Group.

- **Well-established risk governance**: The governance framework ensures a strict separation of business and risk functions at all organizational levels and contributes to the effective implementation and control of the Group's preferred risk appetite and strategy.

- **Effective risk analysis, management and reporting**: Comprehensive risk reporting together with sophisticated risk measurement and validation techniques covering all material risk types ensure the close monitoring and the early detection of emerging risks. Risk analysis is supplemented by a sound and comprehensive stress testing framework, allowing the targeted stressing of the Group's risk vulnerabilities.

The implemented risk management framework ensures the effective identification, measurement and management of risks across BAWAG Group and forms the basis for making informed, risk-based business decisions. It allows us to react quickly and proactively to market trends or other deteriorating developments as well as support the Bank's sustainable organic and inorganic growth within the overall risk appetite.

Risk appetite

BAWAG Group has implemented a clear risk strategy, which is fully aligned with the Group's overall business strategy. The Management Board defines and approves the overall risk appetite and risk strategy on an annual basis. By defining the risk strategy, the overall risk appetite serves as a constraint and represents the Group's intention to use a defined extent of the available internal capital for risks under consideration of regulatory and economic capital availability, the liquidity position and the profitability expectations. The risk strategy breaks the overall risk appetite down into more detailed business appetite metrics and limits.

Governance framework

The established governance framework ensures the implementation of the Bank's risk strategy with the operational and strategic risk management functions and the relevant committees of BAWAG Group. The Group's approach to risk is founded on a control framework and administered through a strong risk management culture and structure. Governance is maintained through the delegation of authority from the board to individuals by way of the management hierarchy and supported by a committee-based structure to ensure sound decision-making and communications.

The Management Board is continuously and proactively informed on the overall risk situation. The management risk reporting is based on clearly defined risk metrics and encompasses all Pillar I- and Pillar II-relevant topics (whereas Pillar I refers to the minimum regulatory capital requirements and Pillar II to the assessment of internal capital adequacy as defined by the Basel framework for covering all risks the Bank can potentially face beyond the minimum requirements). Quarterly risk reports are submitted to the monitoring and control committees of the Supervisory Board. Risk management policies are regularly and rigorously reviewed to reflect anticipated adjustments to the business strategy, regulatory requirements as well as market conditions. Particular attention is paid to the need for adjustment following BAWAG Group's expansion strategy and environmental and sustainability objectives.

Emerging topics, risks and regulatory developments are proactively studied to assess potential impacts on policies and strategy, providing a separate channel of external inputs which continuously require risk management policies and frameworks to be reshaped.

The Chief Risk Officer (CRO) of BAWAG Group, together with the relevant risk management functions, is responsible for the implementation of and compliance with the defined risk strategy for all types of risk. This forms the independent risk management function.

The following divisions oversee the implementation and execution of risk-related guidelines (as of 31.12.2021):

- Risk Controlling
- Risk Modelling
- Validation
- Commercial Risk Management
- Retail Risk Management
- Group Data Warehouse (joint reporting line to CRO and CFO)

55 | COVID-19 pandemic – impacts on risk management

The year 2021 demonstrated that the impacts of the pandemic would continue to have effects across our economies in unexpected forms which requires agile risk management and prudence. The economic rebound from the depths of the pandemic decline created stresses in supply chains and an increase in inflationary pressures and certain asset and input prices.

Yet, as economies progressed, the uncertainty of the health crisis had not fully abated. After a summer of strong economic recovery to our markets and return to normal business activities, the fourth lockdown in Austria in November/December 2021 dampened economic activities again during the main season for the retailers with a negative impact of 5.25% on GDP based on WIFO calculations (compared to 6% from the second lockdown in November 2020). It is expected that the temporary impact on the economy will subside across our markets, however it highlights the continued need for prudence and maintaining low risk tolerances across our portfolios.

Throughout the pandemic, risk management took proactive steps to address the continued disruptions of the economy and our customers, as well as integrate regulatory measures and programs to provide relief to our communities. Processes were designed to maintain transparency, measure underlying risk development and take action as necessary. The Bank's COVID-19 actions are detailed separately given the prominence of the impacts since the onset of the pandemic. The temporary restrictions on public life resulting from lockdowns and travel restrictions in the course of the COVID-19 pandemic and the associated negative economic effects resulted in impacts on the following aspects of credit risk in 2021.

In the next section the development and measures taken in connection with the COVID-19 pandemic in the following credit risk management processes are described:

- Governance
- Underwriting
- COVID-19-induced moratoria and credit guarantees
- Provisioning
- Forbearance classification and assessment of unlikeliness to pay
- Assessment of significant increases in credit risk and staging
- Macroeconomic scenarios/ Forward-looking information
- Management overlay

Governance
During the last two years of the pandemic, the risk management framework of BAWAG Group has demonstrated that it can seamlessly adapt its risk assessment, measurement and reporting to reflect the unprecedented impacts and fluid nature of the current situation, which is a testament to our robust risk infrastructure (IT, reporting, analytics) and governance framework.

Management took a highly proactive and granular approach to adapting operations. Enhanced governance steps and frequencies were put into place to ensure immediacy of performance in areas of potential stress, unified responses across our operations and data-driven decisions. The following actions and initiatives have been taken or were continued:

- Recurring steering meetings with the Management Board and relevant divisions across the organization to facilitate focused operational reviews, timely decision making and prioritization for seamless operational execution
- Regular monitoring reports of key performance indicators (KPIs) of customer behaviour across the credit risk lifecycle covering new business applications, revolving limit utilization, delinquencies and macro developments
- Dedicated COVID-19 credit risk reporting with reviews of certain corporate sub-portfolios and regular outreach to financial sponsors or management to understand the latest position
- Proactive customer outreach initiatives to raise awareness for various support measures in place depending on customer segment (forbearance options for private individuals, government support schemes for SMEs, case-by-case assessment for corporate exposures)
- Review of the Group-wide payment deferral data that tracks various support measures provided by the Bank (e.g. payment deferrals by moratorium type, working capital facilities leveraging government guarantee schemes) broken down by product type/country and type of moratorium
- Extended risk reporting to provide up-to-date monitoring of the development of particular portfolios, customer groups and products affected by the pandemic
- Ongoing review of IFRS 9 provisions under various macroeconomic scenarios

Underwriting
The Bank follows a conservative underwriting approach with clearly defined underwriting guidelines and a focus on high levels of collateralization, appropriate debt service to income metrics and risk-adjusted returns. Underwriting decisions are

supported by strong risk analytics capabilities, which ensured a targeted review of risk appetite and execution of associated credit actions during the crisis to reflect any adverse macroeconomic environments. The full range of loan products was provided during the pandemic. The underwriting parameters are stressed regularly to ensure cushions to our credit metrics are sustainable.

Our strategy has been to continue to shift our Retail & SME business mix towards asset-based secured products (primarily residential real estate and leasing), which amounts to 86%of the portfolio at year-end 2021 (2020: 85%). The remaining 14% (2020: 15%) of our portfolio is comprised of unsecured Retail & SME lending.

Related to our unsecured Retail & SME lending, we have successfully enhanced our stress resistance in the Retail & SME portfolio as actions taken in early 2020 to ensure Retail & SME customers have significant margins of cushion for payment coverages are already reflected in significantly lower 12-month delinquency rates for the consumer loan portfolio, reducing the risk profile as expected.

COVID-19-induced moratoria and credit guarantees

To mitigate the economic impact of COVID-19 measures in the form of short-term operational or liquidity problems, many of our markets saw the introduction of various moratoria that can essentially be summarized as payment moratoria. Borrowers are granted a temporary deferral of obligations to make principal repayments as well as payments for interest and fees. The payment moratoria are structured differently depending on local legislation or the regulatory guidelines in the respective banking sector. BAWAG Group supported its clients following the legal (set by law and applying to all institutions within a given jurisdiction) or private (private initiatives in the form of industry-wide or sector-wide measures, agreed and documented by institutions through their industry associations in a given jurisdiction) loan moratoria, provided that the resulting payment bottlenecks are due to the COVID-19 pandemic. All public and private moratoria ended in 2020 – except for the Austrian legal moratoria (based on § 2 of the second COVID-19-JuBG) for private individuals and SMEs (up to defined thresholds) valid for loans (excluding leasing) which were extended until January 2021. Hence most deferrals in 2021 were classified as bilateral forbearance measures granted to support clients during the pandemic leading to a Stage 2 reclassification of the affected loan. Overall, the deferrals exhibited very positive development, but included a material portion of loans being on deferral since the first lockdown.

The following table shows the volume and quantity of moratoria provided by BAWAG Group for still active accounts as of 31 December 2021:

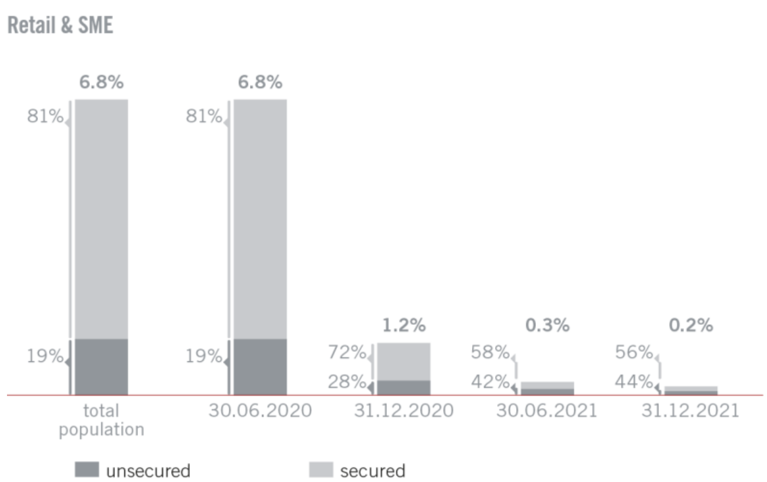
	Active deferrals		Expired deferrals		
in € million	# of loans	Loan amount (€)	# of loans	Loan amount (€)	Paying ratio
Retail & SME	**679**	**37**	**22,249**	**1,015**	**90%**
o/w secured	129	21	12,623	830	91%
o/w unsecured	550	16	9,626	185	83%
Corporates, Real Estate & Public Sector	**7**	**9**	**63**	**46**	**100%**
Total	**686**	**46**	**22,312**	**1,061**	**90%**

The following table shows the volume and quantity of moratoria provided by BAWAG Group as of 31 December 2020:

	Active deferrals		Expired deferrals		
in € million	# of loans	Loan amount (€)	# of loans	Loan amount (€)	Paying ratio
Retail & SME	**3,636**	**229**	**19,673**	**1,019**	**92%**
o/w secured	1,464	164	11,630	839	92%
o/w unsecured	2,172	65	8,043	180	90%
Corporates, Real Estate & Public Sector	**38**	**34**	**56**	**45**	**99%**
Total	**3,674**	**263**	**19,729**	**1,064**	**92%**

Active deferrals refer to those with an expiry date on or after 31 December 2021 (or earlier and not yet billed). Expired deferrals refer to those with an expiry date before 31 December 2021 which have already had at least one billing date after expiry and loans are still active. The paying ratio shows the volume of loans that could pay the last installment in relation to total original expired loan amounts.

Q2 2020 saw a peak of moratoria requests following the first lockdown in Austria accompanied by the first wave of the Austrian and German legal moratorium, seeing many clients being cautious in an unknown environment and not being able to assess the impacts on their financial situation. Given the continued public support measures (short-time work, compensation payment to affected companies), new applications for deferrals as well as extensions of existing ones flattened down to the current level. The following chart shows the development of retail deferrals in relation to the loan book on a quarterly basis.



COVID-19-induced moratoria were mainly used by private individuals. The majority of the remaining active moratoria will expire by the end of January 2022 but given the Omicron mutation of the virus we expect further extensions of deferrals.

- The **unsecured volumes** of € 16 million consist solely of consumer loans**.** 86% of clients with active deferrals also have their salary account at BAWAG Group – allowing for detailed analysis of their income development, payment behavior and probability of continuing to pay after expiry of the deferrals.

- The **secured volumes** of € 21 million are mostly backed by mortgages with an average LTV below 82%.

All active deferrals are flagged as forborne and allocated at least to Stage 2, 60% of the non-paying population is already classified as in default and subject to the collection process and IFRS 9 LLP calculation.

Moreover, to counter the economic downturn caused by the COVID-19 pandemic, many countries adopted various forms of direct financial support for individuals, households and businesses, as well as bridge loans extended by banks and guaranteed by governments to ensure that companies have sufficient liquidity during the COVID-19 pandemic.

The following table shows the volume of loans provided by BAWAG Group with public guarantees:

31.12.2021 in € million	# of loans	Loan amount (€)	Amount drawn	Public guarantee
Retail & SME	580	37	36	97%
Corporates, Real Estate & Public Sector	12	28	24	91%
Total	592	65	59	94%

31.12.2020 in € million	# of loans	Loan amount (€)	Amount drawn	Public guarantee
Retail & SME	707	56	52	94%
Corporates, Real Estate & Public Sector	13	14	11	94%
Total	720	70	63	94%

Provisioning

BAWAG Group has taken measures to address the current inherent uncertainty as a result of the COVID-19 pandemic and economic recovery to ensure the appropriate and timely identification of distressed debtors and adequate levels of provisioning across all stages of credit risk.

The Bank has established a comprehensive framework to determine IFRS 9 expected credit loss (ECL), which provides for future losses which have not yet occurred by identifying macro forecast influences, customers with higher risk profiles and ultimately customers with increased likelihood of payment defaults. It was ensured that the core concepts for the assessment of a significant increase of credit risk were maintained and improved in 2021 with the fullest diligence. BAWAG Group believes that the impacts and the economic uncertainty created by the COVID-19 pandemic cannot be fully accurately reflected in the historic data of the models. Therefore, the Bank has applied management overlays. For the segment Corporates, Real Estate & Public Sector single Stage 2 names from the watchlist and/or deteriorated rating in specific industries (such as automotive, tourism) were individually assessed. In Retail & SME overlays for Stage 2 exposures (mainly consumer loans) were derived by looking into active deferrals, paying ratios of expired deferrals as well as stress test scenarios to ensure an adequate level of provisioning. As of 31 December 2021, BAWAG Group had ECL provisions of € 139 million, of which € 61 million was the result of a management overlay in excess of modeled ECL to ensure adequate provisioning in light of the economic uncertainty.

Forbearance classification and assessment of unlikeliness to pay

The Bank has granted to its customers, primarily in the Retail & SME segment, different types of payment moratoria based on public or private initiatives. Payment deferrals that fulfill the conditions as defined by the European Banking Authority (EBA), most recently updated in December 2020, were not classified as forborne and thus triggered no automatic transfer from Stage 1 (one-year expected credit loss) to Stage 2 (lifetime expected credit loss) in 2020. As public and private moratoria has ended at least in the first quarter 2021 also the forbearance classification also reverted to the normal process and all existing deferrals are bilateral agreements down to near normalized levels.

The Bank maintains close monitoring of customers subject to a payment deferral if any other circumstances indicate a deterioration in credit quality. Significant enhancements to the operational process, controls, tracking and monitoring capabilities were proactively implemented to assist borrowers in potential financial distress. Clearly defined communication and engagement plans with customers nearing the end of moratoria were set up to inform them of further support options available to them. Furthermore, we leveraged our robust analytics infrastructure to analyze granular transactional data to determine customers' distress levels along with a targeted collections contact strategy and outreach program to support customers facing payment difficulties at the end of moratoria.

For corporate exposures, portfolio monitoring and management efforts have been further enhanced in terms of frequency and proactivity with the borrower. A monthly watch loan committee meeting is part of the Bank's early warning system. Clients on the watch list are monitored and reviewed on a more frequent basis, which was instituted weekly since the beginning of the pandemic to ensure a detailed understanding of credit conditions and developments to form a risk management strategy on an asset-by-asset basis. Weekly calls with the Management Board on a comprehensive watch list tiered based on levels of risk of default were established. In addition, dedicated reviews of certain sub-portfolios with larger exposures are continually carried out and updated periodically as part of the weekly meetings. Unlikeliness to pay (UTP) assessment is a critical part of these watch list and review processes.

Assessment of significant increases in credit risk and staging

Credit risk assessment and stage allocation is generally conducted on the individual customer level. Industry impacts are assessed on a Group basis and included in potential watchlist assessments. Within the established IFRS 9 ECL framework, all quantitative and qualitative criteria that indicate a significant increase in credit risk, such as an increase in probability of default (PD) as a result of deteriorating macroeconomic forecasts including a backstop criterion relative to stage transfer thresholds, 30 days past due backstop triggers, forbearance measures etc., remain fully applicable and were not amended or relaxed due to COVID-19.

Macroeconomic scenarios/Forward-looking information

To determine stage allocation and expected credit loss, credit risk parameters are re-assessed applying forward-looking information derived from macroeconomic scenarios. In 2020, BAWAG Group applied a balanced distribution of alternative scenarios which were centered around the baseline scenario anchored in the European staff macroeconomic projections provided by the ECB (published on 4 December 2020). In 2021 BAWAG Group introduced an internal macroeconomic scenario committee, which analyzes and approves the macroeconomic forecast combining expert opinions, scenario analyses and economic forecasts

Eurozone macroeconomic forecast considered for ECL

GDP growth 31.12.2021 in %	2021	2022	2023	2024
Optimistic (30% weight)	5.0	5.6	3.5	1.9
Baseline (40% weight)	5.0	3.8	2.7	2.1
Pessimistic (30% weight)	5.0	(0.4)	1.4	2.9

The pessimistic scenario indicates a GDP drop in 2022 which induces a higher recovery in 2024, but average GDP growth remains the lowest in the pessimistic scenario.

GDP growth 31.12.2020 in %	2020	2021	2022	2023
Optimistic (30% weight)	(7.1)	6.6	4.0	3.0
Baseline (40% weight)	(7.1)	3.9	4.1	3.3
Pessimistic (30% weight)	(7.1)	(0.3)	4.0	3.6

Management overlay

Significant progress has been made in combating the COVID-19 pandemic, including phasing out lockdown measures and continued efforts by health authorities in our core markets to rapidly increase vaccination rates. The fluid nature of this crisis and the continuously changing conditions, however, result in a continued degree of uncertainty regarding the successful long-term containment of the pandemic and sustainable macroeconomic recovery. The economic return of the economy also faces significant stresses in the form of supply issues and areas of inflation that are impacting customers. BAWAG Group has addressed the uncertainty by considering a portfolio ECL management overlay. Since the outbreak of the COVID-19 pandemic, BAWAG Group has ensured that an adequate level of provisions for expected credit losses are held. BAWAG Group has not released significant ECL leading to a continued substantial management overlay of € 61 million (FY 2020: € 38 million) for Stage 2 exposures.

Overlays are short term post-model adjustments (PMA) to the ECL balance as part of the year-end reporting process to reflect late updates to known model deficiencies and expert credit judgment. The Group has internal governance frameworks and controls in place to assess the appropriateness of all PMAs. The aim of the Group is to incorporate these PMAs into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures. The disclosure of PMAs is not explicitly required by IFRS Standards. However, BAWAG Group has concluded that disclosure of this information is helpful to enable users of its financial statements to understand the estimation techniques that the Group has used to measure ECL.

Impact of management overlays on ECL

31.12.2021 in € million	Expected credit loss	Management overlay	Total
Impairments Stage 1	37	0	37
Impairments Stage 2	41	61	102
Total	**78**	**61**	**139**

31.12.2020 in € million	Expected credit loss	Management overlay	Total
Impairments Stage 1	51	15	66
Impairments Stage 2	41	23	64
Total	**92**	**38**	**130**

BAWAG Group is closely monitoring the further macroeconomic development in the markets we operate in. The release of the management overlay will be assessed when the volatility and uncertainty of the macroeconomic environment have dissipated.

56 | Risk and capital management

The Internal Capital Adequacy Assessment Process (ICAAP) is the central procedure of BAWAG Group’s risk management and comprises business, finance and risk processes that together aim to assess and ensure at all times that BAWAG Group is adequately capitalized, considering the risk profile of the Group and the quality of the Group risk management and control environment. In line with the ECB ICAAP Guides, BAWAG Group has implemented two ICAAP perspectives, normative and economic, in order to assess capital adequacy over the long term according to regulatory requirements as well as in the short-term for all risks faced by BAWAG Group risks, assuming the same baseline and adverse scenarios in both perspectives. In particular, the objectives of BAWAG Group's ICAAP encompass all processes and actions that assure:

- the appropriate identification, measurement, evaluation and management of risks
- appropriate internal capital proportional to the risk profile
- appropriate liquidity situation
- internal capital adequacy
- the use and further development of suitable risk management systems

The framework is designed to support the Group management in managing the risk profile and capital adequacy of BAWAG Group.

The Group-wide ICAAP processes run in conjunction with the planning and budgeting processes. Close monitoring of their development is therefore imperative and is integrated into the proactive risk management of BAWAG Group.

The starting point of the ICAAP yearly review process is the risk self-assessment process (RSA), which provides an overview of the Group’s risk situation using quantitative and qualitative evaluation methods, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, materiality and their impact on BAWAG Group. In order to ensure this contribution to its continuity, the Group has implemented two perspectives by which risks are identified and measured: the normative and the economic perspective.

Normative perspective

The normative perspective is a multi-year assessment of the institution’s ability to fulfill all of its quantitative regulatory and supervisory requirements and demands, and to cope with other external financial constraints, under different macroeconomic scenarios, including severe economic downturns.

In connection with the normative perspective, Pillar I risks (credit risk, market risk, operational risk) as well as all material risks are quantified, projected and subsequently considered in the respective capital (RWA) and P&L views over a medium-term horizon. The following risk types are considered and quantified:

- Credit risk: The quantification of credit risk is based on the regulatory approach (Standardized, Advanced and Foundation IRB) and is considered under the capital view (RWA). Credit risk losses are also accounted for in the P&L view in the form of expected credit losses.

- Market risk: The quantification of market risk for the trading book is based on the regulatory approach and is considered under the capital view (RWA). Currently, the Bank holds no positions in the trading book. BAWAG Group has identified interest rate risk in the banking book and credit spread risk as the material market risks and as such they are considered in the P&L under net interest income, gains and losses and other comprehensive income.

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

Economic perspective

BAWAG Group's economic perspective compares all the material and non-material risks with the internal capital. Limits are defined for all risk categories and portfolios as part of the risk strategy in accordance with the annual budget and strategic planning. Compliance with the limits is monitored on a monthly basis according to the actual utilization.

In addition to risks considered in the normative perspective, the following risk types are considered and quantified differently in the economic perspective:

- Credit risk: The quantification of credit risk is based on the statistical models applying IFRS 9 point in time risk parameters (PD and LGD) for all main portfolio segments. Additional capital surcharges are applied for single name concentration risk and for the FX-induced credit risk.

- Market risk: The quantification of interest rate risk in the banking book and credit spread risk in the economic perspective are based on value-at-risk models, also considering correlation effects between the two market risks. Other market risks, such as funds risk or foreign currency risk in the banking book, are quantified with similar value-at-risk valuation models.

- Liquidity risk: Structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of own funding costs. Quantification methods based on historical worst-case analyses are used for market liquidity risk in the banking book and basis spread risk.

- Operational risk: The main sources of operational risk relate to legal risk, compliance risk, model risk, fraud risk, conduct risk, ESG risk as well as third-party risk, outsourcing risk and information and communication risk. The quantification of operational risk in the economic perspective is based on two components: business indicator component (simple financial statement proxy of exposure to operational risk, common to all institutions) and internal loss multiplier (component with Bank-specific operational loss data); the two components are multiplied in order to obtain the operational risk capital requirement (Standardized Measurement Approach as prescribed by Basel IV).

- Other risks: This risk category includes reputation risk, participation risk, real estate risk, business risk and pension risk. In general, for all other risks the required economic capital is quantified using a simplified value-at-risk (VaR) model with 99.9% confidence level, based on the historical yearly observations, expected risk impacts for the year and their expected fluctuation, for reputation risk the simplified VaR model used for the asset side is combined with a simulation of outflow of resources and expensive re-financing for the liability side.

- ESG risks: These risks were already considered in the risk self-assessment for year 2021 without a separate quantification. During the risk self-assessment for year 2022 an expert-based analysis of the processes and related risk categories was conducted to derive the ESG-related loss potential. Explicit internal capital limits were allocated to ESG risk stemming from credit, market and operational risk. Overall ESG risk is low given small exposures to restricted and prohibited industries.

Stress-Testing

Stress testing is a critical risk management tool that provides valuable input for the strategic assessment of the business as well as operational risk management such as risk identification, risk appetite and limit setting.

Stress testing identifies sources of potential vulnerability and assesses whether capital is adequate to cover the risks that the business faces. It ensures that our business planning accounts not only for the base case of our economic projections, but also accounts for more severe economic stresses and potential outcomes. Critically, the levels of capital and liquidity under such stresses are observed and provide guidance in optimizing results and limiting downsides while ensuring capital adequacy.

Regular stress tests supplement the overall risk management framework and are fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

The methodology and results of both ICAAP perspectives as well as of the stress test exercises are discussed on a quarterly basis in the ICAAP & Stress Testing Committee (ISTC) and reported to the ERM. The ERM oversees the assessment of the results of the exercises and defines any corrective action for the risk appetite or business strategy, where necessary. The design and approval of macroeconomic scenarios for internal stress test exercise are delegated to a dedicated Macroeconomic Scenario Committee (MSC) that is held on a quarterly basis before the ICAAP & Stress Testing Committee meeting.

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

The capital ratios defined within the capital planning process and monitored on a monthly basis by the Capital Management Meeting are used as a benchmark for the normative perspective and for stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the normative perspective and stress test exercises, senior management reviews whether the stressed capital ratios remain above the recovery levels. In the event that the recovery levels are breached, measures must be taken to improve the capital position sufficiently in order to keep the capital ratios above the recovery levels even under a stressed scenario.

2021 ECB Stress Test Results

In addition to the regular internal stress test, BAWAG Group took part in the 2021 ECB Stress Test exercise, which took place in the 1st half of 2021. The exercise involved 50 significant institutions under EBA coordination (thereof 38 banks within SSM jurisdiction) as well as approximately 50 other SSM significant institutions under ECB coordination. Banks were required to report bottoms-up projections on a common baseline and adverse scenario for the period 2021–2023 based on year-end 2020 data. In particular, the adverse scenario proved to be the most severe compared to previous regulatory Stress Test exercises and it incorporated the concerns on the evolution of the COVID-19 pandemic coupled with a strong drop in confidence, leading to a prolongation of the worldwide economic contraction.

BAWAG Group's results in the Stress Test exercise can be summarized as follows: under the adverse scenario, the 3-year impact on the CET1 ratio amounts to 198 basis points, versus the EBA average of 485 basis points and the CET1 ratio lands at 12.0% in the 3rd year versus the EBA average of 10.2%. This includes the assumption that dividend payments continue as per our dividend policy in the adverse case as profits were forecast in years 2 and 3 and capital well in excess of the minimum requirements.

The main drivers of the positive results are BAWAG Group’s high asset quality with focus on secured exposures in stable jurisdictions and the strong operating profitability from stable sources of income (Net Interest Income and Net Commission Income) as well as a low cost base, which ensures capacity to absorb significant levels of stress without deteriorating the strong capital position.

The stress test enables a standardized comparison across banks of exposures and resiliency, and in this case continues to confirm the relative high performance driven by BAWAG Group’s sustainable, low-risk and profitable business model.

In general, the positive financial results under stress confirm BAWAG Group’s sustainable, low risk and profitable business model.

57 | Credit risk

Credit risk is defined as the risk of loss due to a party in a financial transaction failing to pay its obligation to the other party.

Governance: The operational credit risk divisions are specifically set up to ensure functional risk management expertise for commercial and institutional (Commercial Risk Management) and retail and small business (Retail Risk Management) customers. The Credit Approval Committee (CAC), a specific committee at the Management Board level, is responsible for the approval of loan applications within the authorities defined in the Competence and Power Regulation. The Risk Controlling division is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

Risk mitigation: Core objectives of credit risk management are to

- Steer conservative credit risk taking in line with approved risk appetite
- Maintain a governance and control framework to oversee credit risks across the lifecycle
- Identify, assess and measure credit risk in a timely and accurate manner

In operative terms, these objectives translate into the following key credit risk principles:

- Disciplined underwriting in well-established markets predominantly focused on secured or prime rated clients, based on a through-the-cycle lens view of performance.
- Clearly defined organizational units and approach to manage credit risk based on type. Corporate exposures are managed on a case-by-case basis by experts with deep expertise in the relevant segment and retail exposures are managed at the segment level leveraging best-in-class data, analytics and rating infrastructure.
- Robust early warning, collections and workout framework in place to ensure credit risk at the single obligor level is identified at its earliest stage and appropriate mitigating actions are taken to ensure good outcomes for our clients and for the Group.

Assessing creditworthiness

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

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

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

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

Due to the centralized structure and coordination of risk management processes across BAWAG Group, new risk regulations or changing market situations are considered and adapted in a timely manner within the risk management strategies.

Measuring credit risk

BAWAG Group is a banking group that applies the internal rating-based (IRB) approach and therefore sets high standards with regard to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to risk quantification methods. Specific standards are in place for all sub-portfolios that are modeled, monitored, statistically calibrated and validated on a regular basis.

The following sections provide an overview of the structure and the portfolio quality in the individual segments.

31.12.2021 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total portfolio
At amortized cost	20,672	14,348	13,029	399	48,448
Financial assets FVPL/FVOCI	155	456	3,291	–	3,902
On-balance business	***20,827***	***14,804***	***16,320***	***399***	***52,350***
Off-balance business	3,929	1,330	1,267	1,196	7,722
Total	**24,756**	**16,134**	**17,587**	**1,595**	**60,072**
thereof collateralized	16,761	5,947	667	385	23,760
thereof NPL (gross view)	476	132	–	254	862
Impairments Stage 1	24	11	1	0	37
Impairments Stage 2	54	47	0	–	102
Impairments Stage 3	230	44	–	2	276
Total impairments	**308**	**104**	**1**	**2**	**415**
Prudential filter	3	5	–	203	211

31.12.2020 in € million	Retail & SME	Corporates, Real Estate & Public Sector	Treasury	Corporate Center	Total portfolio
At amortized cost	18,765	13,252	12,408	334	44,759
Financial assets FVPL/FVOCI	214	556	4,129	37	4,936
On-balance business	***18,979***	***13,808***	***16,537***	***371***	***49,695***
Off-balance business	4,152	1,626	959	1,339	8,077
Total	**23,132**	**15,434**	**17,496**	**1,710**	**57,772**
thereof collateralized	14,340	4,297	–	739	19,376
thereof NPL (gross view)	449	182	–	255	886
Impairments Stage 1	42	20	5	0	67
Impairments Stage 2	33	30	0	–	64
Impairments Stage 3	207	65	–	–	271
Total impairments	**281**	**115**	**5**	**0**	**402**
Prudential filter	1	19	–	255	275

Regulatory view under CRR consolidation

31.12.2021 in € million	Total book[1] Gross carrying amount	Impairments	Net carrying amount[2]
Total	**41,165**	**(401)**	**40,607**
At amortized cost	**37,612**	**(400)**	**37,211**
Stage 1	35,417	(30)	35,387
Stage 2	1,278	(87)	1,191
Stage 3	917	(283)	634
Financial assets at fair value through other comprehensive income	**3,293**	**(1)**	**3,395**
Stage 1	3,293	(1)	3,395
Stage 2	–	–	–
Stage 3	–	–	–
Financial assets at fair value through profit or loss	**261**	**–**	**261**

[1]This table does not include equity instruments (regulatory definition).
[2]The net carrying amount includes in the FVOCI Position the fair value measurement .

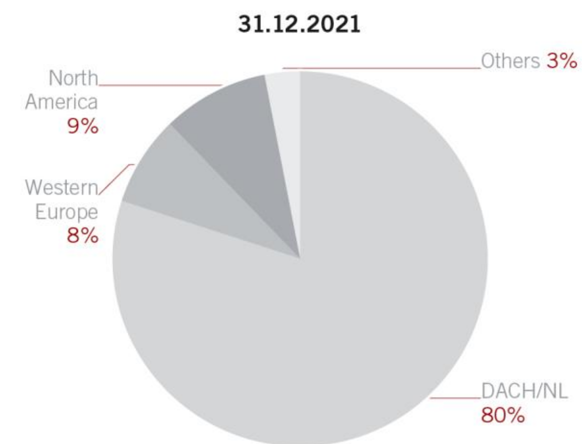
31.12.2020 in € million	Gross carrying amount	Impairments	Total book Net carrying amount
Total	**39,441**	**(372)**	**38,728**
At amortized cost	**34,971**	**(367)**	**34,604**
Stage 1	31,863	(48)	31,815
Stage 2	2,196	(59)	2,137
Stage 3	911	(260)	652
Financial assets at fair value through other comprehensive income	**4,130**	**(5)**	**4,124**
Stage 1	4,130	(5)	4,124
Stage 2	–	–	–
Stage 3	–	–	–
Financial assets at fair value through profit or loss	**341**	**–**	**341**

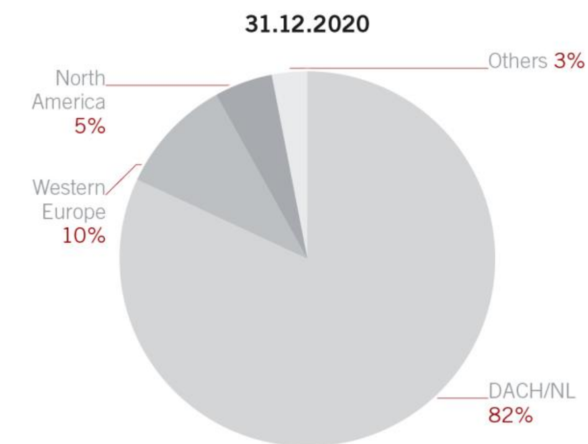
Geographical distribution of the lending and securities portfolio

The geographic distribution of the lending portfolio is in line with BAWAG Group's strategy of focusing on stable economies and currencies. A total of 97% (2020: 97%) of the lending portfolio[1)] and 93% (2020: 91%) of the securities portfolio[2)] is located in Western Europe and North America, with 93% (2020: 92%) in AAA or AA or sovereign jurisdictions.

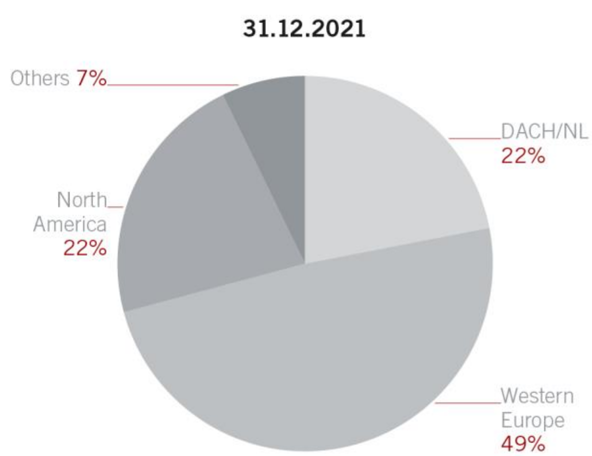
1) The major share of the lending portfolio is allocated to Austria with 62% (Dec 2020: 62%), Germany with 10% (Dec 2020: 14%), United States with 9% (Dec 2020: 4%), the Netherlands with 8% (Dec 2020: 5%) and the United Kingdom with 3% (Dec 2020: 4%).
2) The major share of the securities portfolio is allocated to the United States with 22% (Dec 2020: 20%), Ireland with 14% (Dec 2020: 9%), the United Kingdom with 13% (Dec 2020: 15%), France with 9% (Dec 2020: 10%) and Austria with 8% (Dec 2020: 6%).

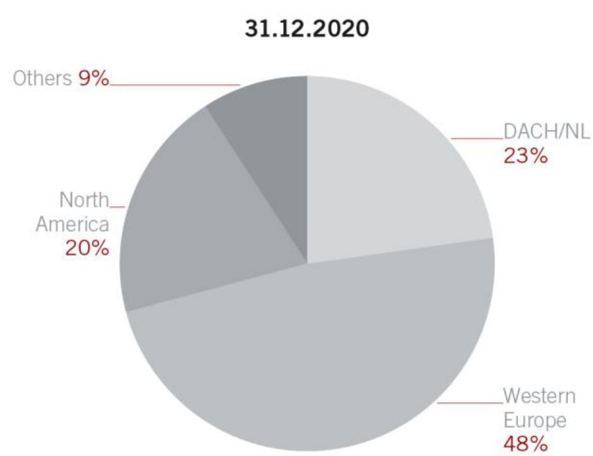
Geographical distribution of the lending portfolio





Geographical distribution of securities





Lending and securities portfolio by currencies

Consistent with BAWAG Group's overall positioning, the major share of financing is denominated in EUR. The following table depicts the currency distribution of the lending and securities portfolio.

	Book value		in %	
in € million	**31.12.2021**	31.12.2020	**31.12.2021**	31.12.2020
EUR	44,615	43,714	85.2%	87.9%
USD	5,104	2,968	9.8%	6.0%
GBP	1,320	1,611	2.5%	3.3%
CHF	1,027	1,045	2.0%	2.1%
Others	284	357	0.5%	0.7%
Total	**52,350**	**49,695**	**100.0%**	**100.0%**

Credit quality overview: Lending, provisions, delinquencies and collateral

The following table shows the NPL ratio and provisioning of the lending portfolio. The low risk profile is reflected by the low NPL ratio, low delinquency of loan volumes and good provisioning level and collateral coverage across the portfolios. More than 83% (2020: 80%) of the total exposure can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

	Book value		in %	
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020
At amortized cost (gross)	**48,847**	**45,133**	**100.0%**	**100.0%**
Provisions	399	374	0.8%	0.8%
thereof Stage 1	30	48	0.0%	0.1%
thereof Stage 2	100	60	0.2%	0.1%
thereof Stage 3	269	266	0.6%	0.6%
At amortized cost (net)	48,448	44,759	99.2%	99.2%
NPL ratio	–	–	1.4%	1.5%
NPL cash coverage ratio	–	–	56.5%	61.7%
NPL coverage ratio	–	–	79.2%	90.2%

The following table shows the NPL ratio for the segments Retail & SME and Corporates, Real Estate & Public Sector.

	Retail & SME		Corporates, Real Estate & Public Sector	
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Total	**20,827**	**18,980**	**14,804**	**13,808**
NPL ratio	1.9%	1.9%	0.8%	1.2%
NPL cash coverage ratio	48.8%	46.3%	37.7%	46.0%
NPL coverage ratio	77.7%	83.0%	81.7%	94.1%

The following table shows the distribution by ratings for the performing portfolio. The risk profile is stable.

		Total portfolio		Retail & SME		Corporates, Real Estate & Public Sector	
in %	Moody's rating equivalent	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Rating class 1	Aaa–Aa2	30.7%	33.1%	0.3%	0.4%	18.1%	20.9%
Rating class 2	Aa3–A1	11.2%	9.9%	10.5%	7.6%	13.8%	13.3%
Rating class 3	A2–A3	9.1%	8.8%	15.5%	14.3%	4.3%	4.6%
Rating class 4	Baa1–Baa3	34.5%	28.9%	50.1%	44.1%	46.5%	38.2%
Rating class 5	Ba1–B1	12.1%	15.9%	19.6%	26.6%	14.9%	20.2%
Rating class 6	B2–Caa2	1.7%	2.0%	2.6%	3.7%	2.1%	2.1%
Rating class 7	Caa3	0.7%	1.4%	1.4%	3.2%	0.3%	0.7%

Collateral

BAWAG Group's strategy is to hold collateral and other credit enhancements against credit exposures, whenever possible. Collateral serves as essential support for the lending business and reducing loss in the event of default of the debtor. However, the focus during the decision-making process is on the affordability of the borrower.

All acceptable collateral types are recorded in the Group Collateral Catalogue, where the principles for the valuation and revaluation of collateral are also defined. The catalogue defines which combinations of goods (characteristics of the economic good/asset) and collateral (to which BAWAG Group has title) are deemed acceptable and which value (market value, nominal value, etc.) has to be applied. The Enterprise Risk Management Committee decides if a type of collateral is accepted for credit risk mitigation taking the corresponding haircuts into consideration.

The following types of collateral are accepted:

- Real estate properties: residential real estate and commercial real estate
- Other collateral: vehicles and other physical collateral (not used for capital mitigation at the moment), pledging or assignment of life insurance policies
- Financial guarantees: financial collateral, securities, cash deposits at own bank
- Credit enhancements: guarantees and co-obligations

In order to be used as a credit risk mitigation technique, collateral must meet the general legal and regulatory requirements and internal requirements defined in Group-wide internal policies. The collateral policies implemented in the subsidiaries are based on the Group-wide internal policies and include country-specific features. These policies are revised at least once a year. Any exceptions from internal rules must be well-founded, separately requested and explicitly approved.

Real estate valuation is centralized as far as possible to ensure a standard valuation approach. Only appraisers who are not involved in the credit decision process are permitted to conduct real estate valuations. IT-supported automated valuation for residential real estate is confirmed by independent internal appraisers. Commercial real estate is assessed by independent experts.

The basis for the collateral overview table below is the market value of all available collateral, reduced by internal haircuts. Furthermore, real estate properties are reduced by senior liens and the value is capped at the mortgage value.

The following table contains the split of collateral by categories.

in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Real estate	18,850	16,319	75.6%	75.4%
thereof residential	14,516	12,419	77.0%	76.1%
thereof commercial	4,334	3,900	23.0%	23.9%
Guarantees	4,273	3,402	17.2%	15.7%
Other collateral	1,218	1,447	4.9%	6.7%
Financial collateral	567	486	2.3%	2.2%
Total	**24,908**	**21,654**	**100.0%**	**100.0%**

Received collateral for the NPL portfolio

The figures below refer to gross NPL (stage 3) exposure.

31.12.2021 in € million	NPL exposure	Real estate collateral	Other collateral	Financial guarantees	Credit enhancements
Lending portfolio	850	212	30	16	25
Securities	–	–	–	–	–
Off-balance business	12	1	7	0	0
Total	**862**	**213**	**37**	**16**	**25**

The values shown are market values.

31.12.2020 in € million	NPL exposure	Real estate collateral	Other collateral	Financial guarantees	Credit enhancements
Lending portfolio	871	286	44	18	25
Securities	–	–	–	–	–
Off-balance business	15	8	2	0	0
Total	**886**	**294**	**46**	**18**	**25**

The values shown are market values.

Impairment

IFRS 9 requires a bank to determine the expected credit loss (ECL) as the difference between the contractual cash flows of a financial instrument and the cash flows that a bank expects to receive, which are probability-weighted future outcomes across several scenarios.

The main drivers in the ECL calculation are the stage allocation and lifetime risk parameters, which represent the Bank's expectation. With lifetime denoting the remaining maturity terms of a financial asset, lifetime risk parameters are, namely, probability of default (PD), the lifetime loss given default (LGD) and the lifetime exposure at default (EAD), which are estimated with an internally developed model. The ECL models in BAWAG Group apply to

- Financial assets that are recorded at amortized cost or at fair value through other comprehensive income
- Lease receivables
- Loan commitments and financial guarantees that are not measured at fair value through profit or loss
- Contract assets according to IFRS 15

Lifetime risk parameters

The IFRS 9 lifetime risk parameters consist of a through-the-cycle and a point-in-time component. The through-the-cycle component captures idiosyncratic risks of the financial instruments that are stable over time and are measured by the long-term average of risk parameters. Point-in-time components gauge the systematic risks, typically represented by macroeconomic forecasts and the portfolio credit risk cycle.

Apart from satisfying the IFRS 9 requirements, the BAWAG Group IFRS 9 risk parameters ensure internal consistency in the following points.

Firstly, internal rating-based (IRB) risk models, which are conceptually through-the-cycle, are the starting point for IFRS 9 risk parameter estimation. Further necessary adjustments are made to ensure compliance with the IFRS 9 guideline: increase the forecast horizon from 1 year to lifetime; adjust the through-the-cycle parameters to the point-in-time to reflect recent trends; factor in forward-looking information in the ECL estimation as IFRS 9 requires. Separate models are developed to estimate the lifetime risk parameters across the portfolios with different underlying risks. The accuracy of the models is continuously and rigorously confirmed by the annual internal model validation. Secondly, BAWAG Group applies the default definition according to Article 178 of Regulation (EU) No 575/2013 (Capital Requirement Regulation – CRR), which refers to 90 days past due and to unlikeliness-to-pay criteria, consistent for all asset classes and risk models: IFRS 9 lifetime risk parameters are estimated and calibrated accordingly.

Probability of default (PD)
Lifetime probability of default is the probability of clients' insolvency over the financial instrument's lifetime. The through-the-cycle component of PD is derived by the long-term average migration matrix defined across ratings, where ratings are determined by the IRB risk models. Point-in-time components are captured by shifting through-the-cycle PD, where the shifts are determined by a divergence of the forecasted future portfolio default rate and long-term average default rate of the portfolio. Future default rates are estimated with macroeconomic forecasts and other forward-looking information available to the Bank.

Loss given default (LGD)
Lifetime loss given default represents the Bank's expected loss in case the financial assets are in default. Like PD, the LGD's through-the-cycle and point-in-time components are modelled separately. Through-the-cycle LGDs reflect historically observed collateral, cash payment and other sources of recovery. For the incorporation of forward-looking information, the through-the-cycle LGD are shifted consistently with macroeconomic forecasts and information available to the Bank at the time of estimation.

Exposure at default (EAD)
Lifetime exposure at default measures the expected exposure amount at the time of default. For loans, the amount is estimated as a sum of discounted future cash flows the Bank expects to receive. For revolving products, EAD is a sum of the expected drawn commitments at the time of default. The expected drawn amounts are approximated by the credit conversion factor (CCF), which is modelled based on the historically observed consumed commitments.

Staging criteria and significant increase in credit risk (SICR)

A key feature of ECL estimation under IFRS 9 is the stage allocation of assets. If a financial asset shows a significant increase in credit risk (SICR) or is recognized as credit-impaired, the ECL estimate of the asset is the lifetime expected credit loss (Stage 2 or Stage 3), and the 12-month expected credit loss otherwise (Stage 1).

Stage 1: 12-month ECLs

The 12-month calculation applies to all financial instruments at initial recognition (with a few exceptions, e.g. for purchased or originated financial assets that are credit-impaired on initial recognition "POCI") and those which do not show a significant increase in credit risk since initial recognition (in the case of POCI, only the cumulative changes in lifetime expected losses since initial recognition are recognized).

Stages 2 and 3: Lifetime ECLs

When a financial instrument has been in Stage 1, but a significant increase of credit risk since the initial recognition is observed, the instrument is transferred to Stage 2. If the instrument's credit risk increases further to the point that it is credit-impaired, the instrument is then transferred to Stage 3. The measurement of the risk provisions for Stage 2 and Stage 3 are lifetime expected credit loss, estimated by lifetime risk parameters.

BAWAG Group examines the stage allocation of assets at each reporting date. The transfer criteria from Stage 1 to Stage 2 are in three pillars:

- quantitative criteria
- qualitative criteria
- backstop criterion

The quantitative criteria examine the worsening of lifetime PDs since the initial recognition, while the qualitative criteria gather additional information about the assets to assess the SICR. As an additional backstop criterion, payment in arrears is considered in BAWAG Group. If one of the criteria is satisfied, a financial instrument is transferred from Stage 1 to Stage 2. Hence, if none of the transfer criteria is active, the asset is kept in or reassigned to stage 1.

Quantitative criteria
A quantitative criterion examines the financial asset's credit risk profile based on two aspects:

- the relative PD change
- the absolute PD change

If both indicators surpass the pre-determined thresholds and indicate a significant increase in credit risk, then the asset is transferred to Stage 2.

Qualitative criteria
Qualitative staging criteria factors selected by BAWAG Group are:

- Entry in watch list (non-retail customers)
- Entry in warning list (retail customers)
- Forbearance flag

If one of these factors is flagged as active, a financial asset is transferred to Stage 2.

Backstop criterion
As a backstop criterion, BAWAG Group employs payment in arrears for more than 30 days. All financial instruments that are more than 30 days past due would be transferred to Stage 2, if not yet in Stage 3.

In cases where no staging factor is active, the exposure is automatically reassigned to Stage 1. Defaulted exposures that are not impaired and with no arrears at either the customer or account level on the reporting date are deemed as cured from default and are assigned to Stage 2 considering the lowest internal risk class for the purpose of the ECL calculation.

Stage 3: Lifetime ECLs

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or group of financial assets is impaired, and impairment losses are incurred if:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date ("a loss event");
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- a reliable estimate of the loss amount can be made.

To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counterparty risks is based on expected future recoveries in accordance with the risk analysts' estimates. For counterparty risks that are not individually significant, the Group applies loss rate estimates for Retail and SME portfolios that are based on historically observed default and recovery information, customer time in default and LTV information (for mortgage loan exposures) to calculate the applicable level of loan loss provision.

The new default definition aligned with the latest EBA requirements (EBA/GL/2016/07) is fully implemented in BAWAG Group, with limited impact on the overall level of expected credit loss. The new default definition requires adaptions of the Bank's IRB credit risk models, which are subject to approval by the supervisory authorities before implementation (Delegated Regulation EU 529/2014). This process is currently ongoing.

Furthermore, BAWAG Group is fully compliant with the ECB's "Guidance to banks on non-performing loans supervisory expectations for prudential provisioning of non-performing exposures" and Regulation (EU) 2019/630 amending CRR Regulation (EU) No 575/2013.

The approval procedures for impairments and debt waivers are described in the handbook on competencies and authorizations. Receivables are written off in coordination with the respective divisions when all attempts to collect the debt have failed or when there is no intention to actively continue the collection process.

The following table provides an overview of the development of IFRS book values (net of impairments) across stages.

Reconciliation of book values by stage

31.12.2021 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Closing balance
Book values for impairments in Stage 1 (without POCI)	**44,230**	**9,264**	**(4,823)**	**338**	**49,009**
Lending portfolio	37,313	8,039	(3,554)	1,483	43,281
Securities	6,917	1,225	(1,269)	(1,145)	5,728
Book values for impairments in Stage 2 (without POCI)	**2,128**	**187**	**(663)**	**(318)**	**1,334**
Lending portfolio	2,127	187	(663)	(317)	1,334
Securities	1	–	–	(1)	0
Book values for impairments in Stage 3 (without POCI)	**618**	**173**	**(164)**	**(49)**	**578**
Lending portfolio	618	173	(164)	(49)	578
Securities	–	–	–	–	–
Total POCI	**2**	**–**	**0**	**2**	**4**
Lending portfolio	2	–	0	2	4
Securities	–	–	–	–	–
Total	**46,977**	**9,625**	**(5,649)**	**(27)**	**50,925**

Only IFRS 9 ECL-relevant book values are shown.

Reconciliation of impairments per stage

31.12.2021 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes on existing assets	Closing balance
Impairments Stage 1 (without POCI)	**66**	**10**	**(12)**	**(27)**	**37**
Lending portfolio	48	8	(8)	(18)	30
Securities	5	0	(2)	(2)	1
Off-balance business	13	2	(2)	(7)	6
Impairments Stage 2 (without POCI)	**64**	**18**	**(19)**	**39**	**102**
Lending portfolio	60	17	(18)	41	100
Securities	–	–	–	–	–
Off-balance business	4	0	(0)	(2)	2
Impairments Stage 3 (without POCI)	**272**	**110**	**(61)**	**(54)**	**267**
Lending portfolio	266	110	(60)	(55)	261
Securities	–	–	–	–	–
Off-balance business	6	0	(1)	1	6
Total POCI	**–**	**–**	**–**	**2**	**2**
Lending portfolio	–	–	–	2	2
Securities	–	–	–	–	–
Off-balance business	–	–	–	–	–
Total	**402**	**137**	**(91)**	**(40)**	**408**

Transition of impairments by financial instruments

31.12.2021 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	19	(1)	(15)	(13)	0	11
Securities	–	–	–	–	–	–
Off-balance business	0	(0)	(1)	(0)	0	0
Total	**19**	**(1)**	**(16)**	**(13)**	**0**	**11**

31.12.2020 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	29	60	1	30	0	1
Securities	–	–	0	–	–	–
Off-balance business	2	–	0	–	0	0
Total	**31**	**60**	**1**	**30**	**0**	**1**

Distribution of book values by impairment stage and rating

The numbers below refer to IFRS book values (net of stage 1 to 3 provisions).

31.12.2021 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**15,447**	**5,703**	**4,507**	**17,234**	**5,652**	**425**	**41**	**–**	**49,009**
Lending portfolio	13,132	4,006	3,566	16,502	5,609	425	41	–	43,281
Securities	2,315	1,697	941	732	43	–	–	–	5,728
Book values for impairments in Stage 2 (without POCI)	**3**	**6**	**13**	**79**	**498**	**429**	**306**	**–**	**1,334**
Lending portfolio	3	6	13	79	498	429	306	–	1,334
Securities	–	–	–	–	–	0	–	–	0
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**578**	**578**
Lending portfolio	–	–	–	–	–	–	–	578	578
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Lending portfolio	–	–	–	–	–	–	–	4	4
Securities	–	–	–	–	–	–	–	–	–
Total	**15,450**	**5,709**	**4,520**	**17,313**	**6,150**	**854**	**347**	**582**	**50,925**

Only IFRS 9-ECL relevant book values are shown.

31.12.2020 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**14,482**	**4,656**	**4,220**	**13,665**	**6,521**	**555**	**131**	**–**	**44,230**
Lending portfolio	10,958	3,181	3,229	12,784	6,475	555	131	–	37,313
Securities	3,524	1,475	991	881	46	–	–	–	6,917
Book values for impairments in Stage 2 (without POCI)	**1**	**5**	**10**	**102**	**1,090**	**427**	**493**	**–**	**2,128**
Lending portfolio	1	5	10	102	1,090	426	493	–	2,127
Securities	–	–	–	–	–	1	–	–	1
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**618**	**618**
Lending portfolio	–	–	–	–	–	–	–	618	618
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Lending portfolio	–	–	–	–	–	–	–	2	2
Securities	–	–	–	–	–	–	–	–	–
Total	**14,482**	**4,661**	**4,230**	**13,767**	**7,611**	**982**	**625**	**620**	**46,978**

Only IFRS 9-ECL relevant book values are shown.

Expected credit loss

Expected credit losses of BAWAG Group are based on a probability-weighted expected outcome as IFRS 9 stipulates: the ECL estimates under three different scenarios are aggregated with scenario weights to constitute a final ECL estimate. The macroeconomic scenario is comprised of forecasts of major macroeconomic variables: among all variables, BAWAG Group uses the GDP growth as a main source of forward-looking information to consider in ECL estimates, with additional variables such as inflation, unemployment rate or housing prices in a complementary role.

The distribution among three scenarios (baseline 40%, optimistic 30% and pessimistic 30%) allows the Bank to cover the broad range of future expectations and has been chosen as the most appropriate within the industry standards. The following table provides an overview of GDP growth assumptions and scenario weights applied to determine ECL.

Eurozone GDP growth assumptions by scenario

GDP growth 31.12.2021 in %	2021	2022	2023	2024
Optimistic (30% weight)	5.0	5.6	3.5	1.9
Baseline (40% weight)	5.0	3.8	2.7	2.1
Pessimistic (30% weight)	5.0	(0.4)	1.4	2.9

The pessimistic scenario indicates a GDP drop in 2022 which induces a higher recovery in 2024, but average GDP growth remains the lowest in the pessimistic scenario.

GDP growth 31.12.2020 in %	2020	2021	2022	2023
Optimistic (30% weight)	(7.1)	6.6	4.0	3.0
Baseline (40% weight)	(7.1)	3.9	4.1	3.3
Pessimistic (30% weight)	(7.1)	(0.3)	4.0	3.6

Sensitivity analysis

The following table illustrates the weighted impairment allowance as well as the results of the sensitivity analysis where ECLs are measured under each scenario with 100% weight. The sensitivity analysis is based on the baseline ECL excluding the applied management overlay as described in the COVID-19 section of the Risk Report. As of year-end 2021, an additional ECL management overlay of € 61 million (2020: € 38 million) is held to address the uncertainties of further development of the COVID-19 pandemic. This overlay would fully cover the additional provisioning requirements in the event that the pessimistic scenario does materialize.

31.12.2021			ECL scenario change		
in € million	ECL incl. management overlay	ECL excl. management overlay	100% optimistic	100% baseline	100% pessimistic
Stage 1 & Stage 2 impairments	139	78	(8)	2	5

31.12.2020			ECL scenario change		
in € million	ECL incl. management overlay	ECL excl. management overlay	100% optimistic	100% baseline	100% pessimistic
Stage 1 & Stage 2 impairments	130	92	(11)	(2)	17

Forborne loans and forbearance measures

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

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

By implementing forbearance measures that are appropriate in terms of time and scope, BAWAG Group supports clients in maintaining financial stability. If the supporting measures are not successful, exposures will be recognized as non-performing and impaired according to regulatory and accounting standards.

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

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

Collateral and valuation of residential and commercial real estate

The centralized Residential Real Estate Appraisal team determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. Valuation of real estate properties in other countries is also done by independent experts according to international standards. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich)* for Austrian residential properties, on the Halifax House Price Index for residential properties in Great Britain and by MAC (MeilleursAgents.com) for French residential properties. The values of the properties in the Netherlands are periodically updated based on the CBS index (Centraal Bureau voor de Statistiek) and the real estate properties situated in Germany are periodically checked with the help of the market volatility concept.

The values of commercial properties are appraised individually by experts in the centralized Commercial Real Estate Appraisal team, by selected external appraisers commissioned by BAWAG Group or by a syndicate partner after an inspection of the property and completion of a full appraisal report.

All types of acceptable collateral are listed in the BAWAG Group Collateral Catalogue and collateral handbooks in subsidiaries. Adequate haircuts are defined for each type of collateral.

Workout departments

The workout and collection departments (retail/non-retail) are responsible for the processing, administration and restructuring or collection of troubled and defaulted loan commitments. The primary objective is to minimize losses and to maximize recoveries.

Early recognition of troubled assets

Customers that trigger defined early-warning signals for various reasons (e.g. general deterioration of creditworthiness, significant decline in the stock price, rise in CDS spreads, negative press reports/ad-hoc publicity, unusual risk concentrations, etc.) are placed on the watch list and discussed in the Watch Loan Committee, which is made up of members of the relevant business and risk units. This committee develops and elaborates on risk mitigation actions for single exposures and oversees consistent monitoring of all cases with an elevated probability of default.

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

Retail & SME

The Retail & SME portfolio is comprised of 75% housing loans (2020: 75%) and 25% consumer and SME (2020: 25%). The segment comprises assets across the DACH/NL region as well as international portfolios.

The mortgage portfolio is characterized by strong collateral coverage and shows low LTVs. As specified in the retail strategy, new business volumes were originated primarily in the mortgage segment.

BAWAG Group applies the following principles for credit assessment of retail customers. These principles are clearly reflected in the underwriting guidelines taking into account approved risk appetite.

- Capacity or affordability measures a borrower's ability to repay a loan by comparing income against recurring expenses and credit commitments. In addition, we apply backstop rules based on debt service to income ratio (DSTI) to limit borrower leverage.
- Creditworthiness refers to a borrower's reputation or track record of servicing debt as evidenced by previous payment history internally and externally. As an IRB institution, we apply robust statistical scorecards to rate customers at the point of lending and on an ongoing basis. Scorecard cut-offs are set based on risk/reward assessment within the approved risk appetite.
- Conditions refer to how the borrower intends to use the credit and it needs to be aligned to the credit facility's purpose and terms and condition. We have a clearly defined product construct defining loan amount thresholds, duration and purpose.
- Collateral refers to the ability to recover via enforcement of the collateral in the event of borrower default. Clearly defined eligibility criteria for collateral are in place and have been appraised by a panel of internal and external experts.
- Commitment or capital considers the borrower's personal financial contribution to the purpose of the facility. Clearly defined minimum borrower contribution and/or loan to value (LTV) thresholds are applied.

Lending portfolio by products

	Book value		NPL ratio	NPL coverage ratio
in € million	**31.12.2021**	31.12.2020	**31.12.2021**	**31.12.2021**
Consumer & SME	5,134	4,740	3.4%	67.1%
Housing loans	15,693	14,240	1.1%	93.9%
Total	**20,827**	**18,980**	**1.9%**	**77.7%**

The housing loan portfolio is characterized by standard LTVs, a low NPL ratio, a high coverage ratio and good geographic diversification. The weighted average tenor of the housing loan portfolio is less than 22 years (2020: 22 years).

The Consumer & SME lending portfolio consists of unsecured private loans, overdrafts and credit cards across different sales channels of the Group. It includes leasing activities, which are characterized by a mix of leasing assets (car leasing, IT, equipment and real estate leasing).

For the Retail & SME segment, the overall NPL and coverage ratios reflect a stable and low-risk, highly collateralized portfolio. BAWAG Group has continued to apply the strategy of rigorous management of non-performing loans in order to achieve low NPL volumes and to concentrate on the main business focus. In addition, the early detection, collection and recovery processes were further improved with a view to successfully repaying loans from a technical and risk perspective.

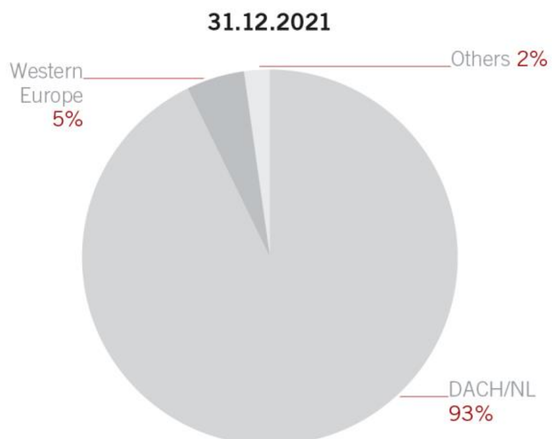
The NPL ratio of the Retail & SME portfolio is 1.9% (2020: 1.9%). The NPL coverage ratio is 77.7% (2020: 83.0%) which is supportive of the risk profile of this portfolio.

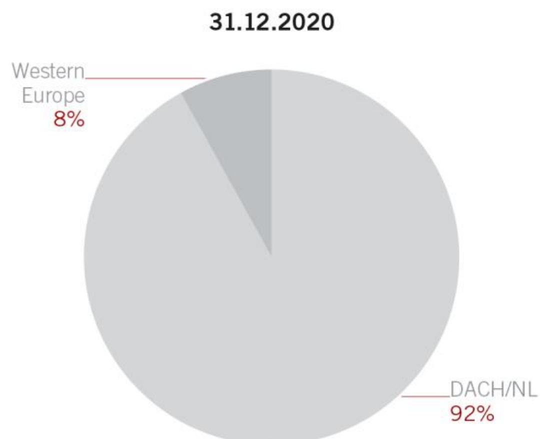
Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020
EUR	18,778	16,975	90.1%	89.5%
CHF	857	996	4.1%	5.2%
GBP	721	825	3.5%	4.3%
USD	456	163	2.2%	0.9%
JPY	15	21	0.1%	0.1%
Others	0	0	0.0%	0.0%
Total	**20,827**	**18,980**	**100.0%**	**100.0%**

Retail assets – regional distribution

Geographical distribution of the lending portfolio





Forbearance by products

	Consumer & SME		Housing loans		Total	
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Forborne assets	**97**	**46**	**164**	**92**	**261**	**138**
Impairments	20	5	5	7	25	12
Collateral	14	6	152	133	166	139

Days past due

The product portfolio is monitored by days past due (i.e. delinquency buckets) on an ongoing basis. The aim is to ensure early identification of negative credit developments within the portfolio and to work with customers on a proactive basis to ensure the full repayment of loans.

The Retail & SME portfolio is 97.8% (2020: 94.4%) current (i.e. no days past due). Overall, the low days past due volumes, the stable vintages and the product-specific scorecard results reflect the strong credit quality of the portfolio.

	Consumer & SME		Housing Loans		Total	
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Total	**5,134**	**4,740**	**15,693**	**14,240**	**20,827**	**18,980**
1–30 days	2.7%	3.8%	0.5%	1.1%	1.0%	1.7%
31–60 days	0.3%	0.5%	0.2%	0.2%	0.2%	0.3%
61–90 days	0.2%	0.6%	0.0%	0.0%	0.1%	0.2%

The days past due counter was adjusted in 2020 based on EBA/GL/2016/07 and Regulation (EU) 2018/1845 to capture the groupwide amount in arrears compared to the Group-wide on-balance exposure taking into account the new materiality thresholds.

Corporates, Real Estate & Public Sector

	Book value		NPL ratio	NPL coverage ratio	Investment grade
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2021	31.12.2021
Corporates	4,086	3,993	1.7%	89.6%	70.3%
Real Estate	5,707	4,916	0.9%	70.6%	75.7%
Public Sector	5,011	4,899	0.0%	–	99.3%
Total	**14,804**	**13,808**	**0.8%**	**81.7%**	**82.2%**

The Corporates and Real Estate portfolios include DACH and international assets from stable markets (primarily the US, the UK and Western Europe). This business is based upon a conservative underwriting approach, proactive risk management and disciplined growth in stable and mature developed economies. Throughout the business cycle, we maintain a highly disciplined approach to risk-adjusted pricing. The foundation is based on conservative underwriting over the years with a clear focus on cash flow generating companies, high-quality collateral, and solid capital structures with strong lender protection features. The underwriting qualifications rarely change with market conditions and can affect our ability to generate new business, which requires greater patience and rigor.

Corporates: The Corporates portfolio is composed primarily of loans directly issued to companies. The segment is characterized by moderate (net) debt/EBITDA ratios of <4.0x and strong cash flow profiles. In addition, the portfolio is predominantly senior in structure, reflecting the conservative positioning in the capital structure. The relatively low NPL ratio of 1.7% (2020: 2.2%) in the Corporates segment is reflective of the selective underwriting and resilient portfolio.

Corporates industries

	Total	Total	in %	in %
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Services	754	706	18%	15%
Food & Beverages	694	680	17%	16%
Lender Financing	566	319	14%	8%
Pharmaceuticals	459	394	11%	5%
B-2-C Products	272	295	7%	6%
Engineering and B-2-B	262	280	7%	7%
Telecommunication	216	186	5%	4%
Health Care	177	366	4%	6%
Other	686	767	17%	34%
Total	**4,086**	**3,993**	**100%**	**100%**

Real Estate: Real Estate transactions include direct lending against Real Estate assets or against portfolios backed by Real Estate assets. The lending portfolio consists predominantly of senior secured structures with a LTV/C of <60% on average. The portfolio financings contains strong lender protection features such as cash flow sweeps, interest coverage accounts and covenant tests. The industry segments of our Real Estate portfolio are well diversified with a limited direct exposure to hotel and retail of ~8% of the total Real Estate book value. The category "Mixed" includes a share of 6% residential asset volume.

Real estate underlying assets

in € million	Total 31.12.2021	Total 31.12.2020	in % 31.12.2021	in % 31.12.2020
Residential	1,858	1,633	32%	36%
Mixed	1,076	1,087	19%	24%
Office	1,050	1,208	18%	22%
Industrial / Logistics	716	344	12%	6%
Shopping / Retail	148	328	3%	7%
Other	859	316	15%	5%
Total	**5,707**	**4,916**	**100%**	**100%**

Public Sector: The Public Sector portfolio primarily consists of loans and limits directly to Public Sector entities such as sovereigns, federal states or municipalities or to agencies owned by such public sector entities. It is customary for a guarantee to be in place provided by the public sector entity. The main focus of the portfolio is Austria, with secondary exposure in Germany. Overall, this portfolio is characterized by low risk and sovereign, state or municipality guarantees. Historically, there is not a significant default history for Public Sector entities and support can strongly be assumed for publicly owned entities and agencies, which usually fulfill a public task and are therefore systemically important. There are no NPLs in this category, and regulatory-required risk-weighed assets are low.

Material credit decisions are made by the Credit Approval Committee (CAC), a special body at the Management Board level. Every credit decision is strictly reviewed, discussed and coordinated in accordance with BAWAG Group's guidelines. BAWAG Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international business. For loan applications below a certain threshold, risk managers are granted authority to approve credit applications.

Corporates & Public Sector – Forbearance

in € million	31.12.2021	31.12.2020
Forborne assets	155	144
Impairments	33	28
Collateral	70	84

Particular risk concentrations in the lending portfolio

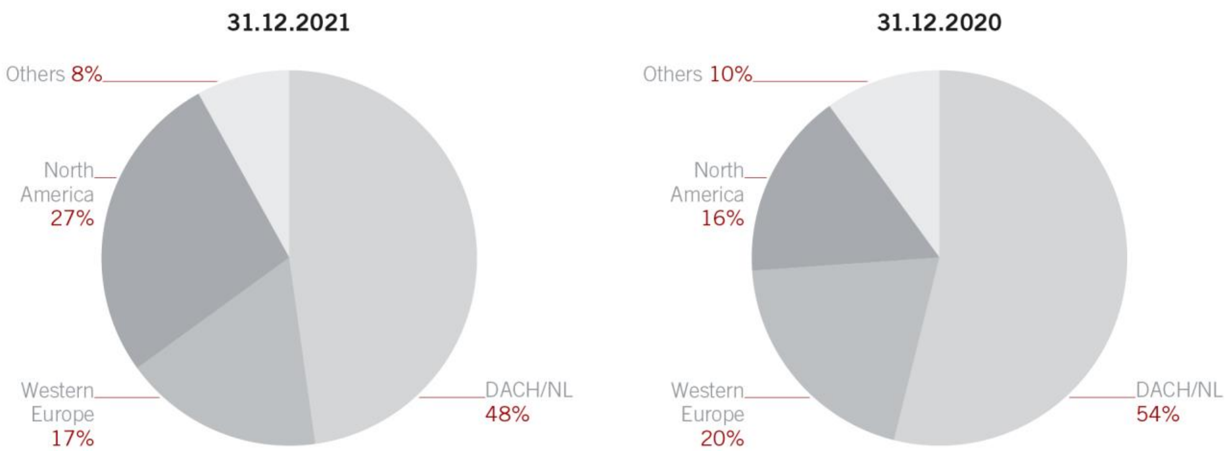
A major focus of risk management in the Corporates & Public Sector segment is centered on managing concentration risk. Concentration risk arises from large exposures in individual customer segments or from large industry/country/foreign currency exposures.

Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	**31.12.2021**	31.12.2020	**31.12.2021**	31.12.2020
EUR	10,152	10,695	68.6%	77.5%
USD	3,816	1,984	25.8%	14.4%
GBP	465	675	3.1%	4.9%
SEK	166	298	1.1%	2.2%
CHF	147	135	1.0%	1.0%
Others	58	21	0.4%	0.2%
Total	**14,804**	**13,808**	**100.0%**	**100.0%**

Corporates & Public Sector assets – Regional distribution

Geographical distribution of the lending portfolio



Risk concentrations by industry segmentation

Corporates, Real Estate & Public Sector	Book value		in %	
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Real Estate	5,814	4,705	39.3%	34.1%
Public Sector	5,011	4,022	33.9%	29.1%
Services	754	723	5.1%	5.2%
Food & Beverages	694	693	4.7%	5.0%
Lender Financing	566	589	3.8%	4.3%
Pharmaceuticals	459	399	3.1%	2.9%
B-2-C Products	272	274	1.8%	2.0%
Engineering and B-2-B	262	289	1.8%	2.1%
Telecommunication	216	188	1.5%	1.4%
Health Care	177	510	1.2%	3.7%
Other	579	1,415	3.9%	10.2%
Total	**14,804**	**13,808**	**100.0%**	**100.0%**

Using internal industry segmentation.

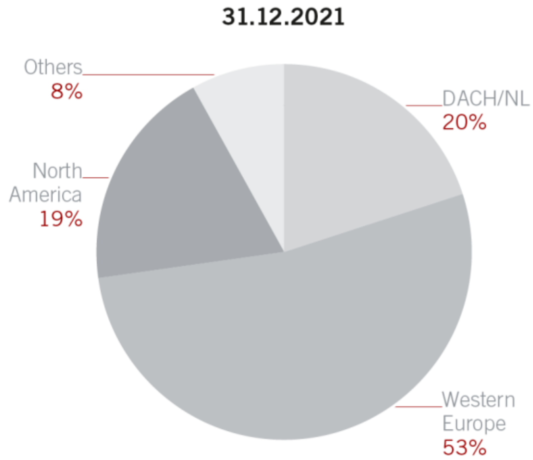
Treasury

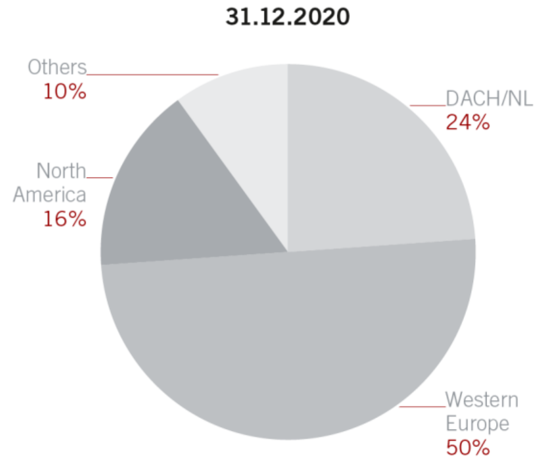
	Book value		Investment grade	
in € million	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Banks	4,145	5,420	98.8%	99.3%
Sovereigns	10,778	9,550	100.0%	100.0%
CLOs	759	996	100.0%	100.0%
Others	638	572	98.3%	93.0%
Total	**16,320**	**16,537**	**99.6%**	**99.6%**

Treasury acts as a service center for BAWAG Group's customers, subsidiaries and partners through treasury activities and selected investment activities. The investment strategy continues to focus on investment grade securities predominantly representing secured and unsecured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures. In addition, the Bank also selectively invests in structured credit (CLOs) with high credit quality (AAA and AA) and which show a high degree of diversification with respect to countries and industries.

The bond investment portfolio of the Treasury segment amounts to 31% of the total book value and is comprised 99% of investment grade rated securities (2020: 96.0%), of which 72% were rated in the single A category or higher (2020: 75%). As of 31 December 2020, the portfolio had no direct exposure to China, Russia, Hungary, or South-Eastern Europe. Direct exposure to the UK focuses on internationally diversified issuers with solid credit quality. Exposure to Southern Europe continues to be moderate and comprises liquid bonds of well-known issuers. The overall composition of the investment portfolio reflects the strategy of maintaining high credit quality, shorter durations, and strong liquidity in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Geographical distribution of the securities portfolio[1)]





Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	**31.12.2021**	31.12.2020	**31.12.2021**	31.12.2020
EUR	15,329	15,507	93.9%	93.7%
USD	824	883	5.1%	5.4%
Others	167	147	1.0%	0.9%
Total	**16,320**	**16,537**	**100.0%**	**100.0%**

Corporate Center

The Corporate Center includes unallocated items related to support functions for the entire Group, accounting positions (e.g. market values of derivatives) and select results related to subsidiary and participation holdings. Regulatory charges (except for deposit guarantee scheme contributions) and corporate taxes are assigned to the Corporate Center as well. The focus of the Corporate Center is set on non-business-related positions.

58 | Market risk

Market risk is defined as the risk of losses caused by open risk positions in the market and the adverse development of market risk factors (interest rates, foreign exchange rates, equity prices, volatilities, credit spreads). Market risk can arise in conjunction with trading and non-trading activities.

BAWAG Group has a clearly defined market risk appetite. All related risks (from an economic perspective as well as regarding IFRS fair value and OCI risks) are strategically managed at the Group level. All subsidiaries of the Group basically run no open market risk positions, as the customer business (e.g. loans and deposits), investment books and own issues are fully hedged according to the ALM hedging policy. All outright risk positions are subject to approval by the Strategic Asset Liability Committee and are measured and reported separately.

1) Investment book only. These regions include the United States with 18% (Dec 2020: 15%), the Ireland with 17% (Dec 2020: 14%), United Kingdom with 15% (Dec 2020: 17%), France with 10% (Dec 2020: 10%) and Austria with 7% (Dec 2020: 5%).

The primary market risk components for BAWAG Group are interest rate and credit spread risk. Both risk categories are measured and monitored via sensitivity, value-at-risk (VaR) and scenario-based approaches. In addition, the financial treatment of the positions is considered in the risk reporting.

The primary body for dealing with market risks is the Strategic Asset Liability Committee (S-ALCO). In the monthly S-ALCO, all strategic interest, FX- and liquidity-risk-related business opportunities along with their impact on risk, earnings and balance sheet targets are discussed and the desired balance sheet and risk structure is generally specified, thereby taking into consideration interest rate, FX and liquidity limits for the banking book.

Market risk in the trading book

BAWAG Group runs no active trading book. No trading activities are currently planned for the entire Group.

Market risk in the banking book

The primary components of market risk for BAWAG Group are interest rate risk and credit spread risk.

Interest rate risk in the banking book

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

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

The target interest rate risk structure defined by the S-ALCO is implemented by the Treasury & Markets division.
BAWAG Group uses interest rate derivatives:

- to implement the interest risk strategy within the requirements and limits defined by the S-ALCO
- to manage the sensitivity of the valuation result and the revaluation reserve
- to hedge the economic risk position, thereby taking the accounting treatment into consideration

BAWAG Group uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to mitigate market risks:

Micro fair value hedge
Hedging of financial assets or financial liabilities against changes in their fair value. The decision on instruments to be assigned to micro hedge accounting is made in the context of the overall interest rate risk position.

Portfolio fair value hedge (“EU carve-out”):
BAWAG Group has identified sight deposits in euros as a portfolio that is to be protected against interest rate risks. These deposits are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG Group determines an amount of liabilities from the identified portfolio that corresponds to the amount to be hedged as the underlying for the portfolio fair value hedge using a bottom layer approach. At the end of 2021, approximately 29% (2020: 28%) of the total volume of sight deposits was allocated to a portfolio fair value hedge.

In addition, contractually agreed interest rate caps and/or floors embedded in financial assets (e.g. loan receivables or securities) or liabilities (e.g. savings deposits) are designated to portfolio fair value hedge accounting in order to mitigate changes in the fair value of these instruments resulting from changes in interest rates. The decision on the amount to be designated to portfolio fair value hedge accounting is determined using a bottom layer approach and made in the context of the overall interest rate risk position and limit framework.

Interest rate risk is measured using sensitivities based on the present value of a basis point (PVBP) concept. The PVBP, which is derived from the duration of interest-bearing financial instruments, reflects the impact on net asset value resulting from an upward parallel shift of the yield curves by one basis point (0.01%). The following table depicts BAWAG Group's interest rate risk sensitivities as of 31 December 2021 on the basis of the PVBP concept:

Interest rate sensitivity - total economic risk position

31.12.2021 in € thousand	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
EUR	(173)	(27)	(89)	(56)	517	(198)	(26)
USD	23	(29)	(23)	(9)	24	(8)	(22)
CHF	(3)	4	(2)	1	(5)	0	(4)
GBP	15	14	0	(1)	0	7	36
Other currencies	(4)	(5)	0	0	0	0	(10)
Total	**(141)**	**(43)**	**(114)**	**(66)**	**535**	**(198)**	**(27)**

31.12.2020 in € thousand	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
EUR	8	(271)	(289)	32	832	394	705
USD	(7)	(76)	(31)	(11)	28	0	(98)
CHF	4	2	(1)	(5)	(9)	(7)	(15)
GBP	13	(8)	(5)	(2)	0	0	(3)
Other currencies	(5)	(17)	(6)	0	0	0	(28)
Total	**13**	**(370)**	**(331)**	**13**	**851**	**387**	**561**

The impact upon the Profit or Loss Statement and Other Comprehensive Income of fair value changes arising from interest rate changes is calculated and monitored separately. The sensitivity of financial assets designated at fair value through profit or loss amounted to plus € 68 thousand on 31 December 2021 (average 2021: plus € 44 thousand, 31 December 2020: minus € 115 thousand). For the fair value through other comprehensive income assets, the sensitivity amounted to minus € 209 thousand (31 December 2020: minus € 217 thousand).

Furthermore, a value-at-risk calculation for BAWAG Group is conducted within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) on a monthly basis.

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by BAWAG Group to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The basis point value reflects the impact on net asset value resulting from an upward parallel shift of the credit spreads by one basis point (0.01%). The following table shows the total credit spread sensitivity of BAWAG Group along with the breakdown by accounting categories impacting the Profit or Loss Statement and other comprehensive income:

Credit spread sensitivity

in € thousand	31.12.2021	31.12.2020
Total portfolio	(2,541)	(3,072)
Financial assets at fair value through profit or loss	(3)	(144)
Financial assets at fair value through other comprehensive income	(1,380)	(1,895)
Financial assets at amortized cost	(1,159)	(1,033)

The risk indicators "value-at-risk" and "expected shortfall" are also calculated and scenario calculations are run, both on a monthly basis.

Credit spread risk is also taken into account and limited for BAWAG Group as a whole in the ICAAP and is part of the Bank-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and by back testing.

FX risk in the banking book

The extent of open foreign exchange positions in BAWAG Group's banking book is managed by conservative limits in order to ensure that only marginal FX risks are carried in the banking book. Compliance with these limits is observed on a daily basis.

The following table shows sensitivities of foreign currencies due to the open currency positions. None of the currencies poses a significant valuation risk.

in € thousand	USD		GBP		CHF		Other FX	
FX change (in %)	(10)	10	(10)	10	(10)	10	(10)	10
Impact	140	(140)	(222)	222	754	(754)	(1680)	1680

For managing FX risks, BAWAG Group also applies hedge accounting pursuant to IAS 39.

Cash flow hedge
FX risk from the future credit spread income of BAWAG Group's foreign currency portfolios is mitigated by the implementation of a cash flow hedge for FX margins. BAWAG Group applies a bottom layer approach designating defined amounts of cash flows for a defined period of time as the hedged item. Currently, cash flows resulting from margin income denominated in GBP, USD and CHF are hedged via FX forwards. The following target hedge ratios for future FX credit spread income apply:

- USD: 70% of USD credit spread income for next 36 months
- GBP: 70% of GBP credit spread income for next 36 months
- CHF: 70% of CHF credit spread income for next 36 months

BAWAG Group also applies the cash flow hedge for cross currency basis risk. The hedged risk is the FX risk of future cash flows of notional and indicator-based payments ("reference rate" – e.g. cash flows based on LIBOR rates) including FX-related lending spreads of BAWAG Group's foreign currency portfolios. BAWAG Group has implemented a bottom layer approach in regard to the notional/tenor of the hedged item. Therefore, the amounts of hedged risk and hedging instruments (cross currency swaps) have to be adjusted and rolled over continuously in regard to replaced/new business up to the dedicated bottom layers in order to meet the Bank's hedging requirements. At the end of 2021, approximately 70% and 83% (2020: 84% and 66%) of the total notional available have been designated to cash flow hedge accounting for USD and GBP, respectively.

Net investment hedge

A foreign currency exposure also arises from the Group's net investment in a subsidiary that has CHF as its functional currency and in a subsidiary that has USD as its functional currency. The risk arises from the fluctuation in spot exchange rates between the CHF and the EUR and between the USD and the EUR, which causes the amount of the net investment to vary.

The hedged risk in the net investment hedge is the risk of a weakening CHF against the EUR or the USD against the EUR that will result in a reduction in the carrying amount of the Group's net investment in the CHF functional currency subsidiary or in the USD functional currency subsidiary, respectively.

The full amount of the Group's net investment in its CHF functional currency subsidiary is hedged by a foreign exchange swap between EUR and CHF (notional amount: CHF 55 million; 2020: CHF 55 million), which mitigates the foreign currency risk arising from the subsidiary's net assets. Part of the Group's net investment in its USD functional currency subsidiary is hedged by a foreign exchange swap between EUR and USD (notional amount USD 97 million; 2020: USD 177 million), which mitigates the foreign currency risk arising from the subsidiary's net assets. The foreign exchange swaps are designated as hedging instruments for the changes in the value of the net investment that is attributable to changes in the EUR/CHF and EUR/USD spot rates.

The Group's policy is to hedge the net investment up to 100% of the net investment amount.

Concentration risk

All essential risk factors are incorporated within VaR models/scenario analyses and stress test calculations, which are applied to all trading and bank book positions. Instabilities of correlations which could result in an overestimation of diversification are taken into consideration by the fact that only correlations within a specific risk factor (interest, FX, volatilities) and (after a comprehensive analysis of empirical coefficients) between interest rate risk in the banking book and credit spread risk are employed, whereas no diversification beyond these is assumed. Stress test results are also broken down, calculated, reported and limited by risk factor category in order to identify any correlations within a single risk factor.

59 | Liquidity risk

Liquidity risk is the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk) or only being able to meet these obligations at higher refinancing costs (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold or that doing so is only achievable at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The objective of BAWAG Group's liquidity risk management framework is to ensure that BAWAG Group can fulfill its obligations at all times and to manage liquidity risk within the risk appetite.

Liquidity risk management framework

In accordance with the ECB's Supervisory Review and Evaluation Process (SREP), BAWAG Group has implemented an annual Internal Liquidity Adequacy Assessment Process (ILAAP), which forms the basis for the Group-wide assessment, management and monitoring of liquidity risks.

The Management Board defines the liquidity and funding risk strategy as well as the overall liquidity risk appetite. At least once per year, the Management Board reviews the ILAAP and approves the Group-wide limit framework and funding plans.

The main decision-making body for liquidity risk is the Strategic Asset Liability Committee (S-ALCO), in which all board members are represented. The S-ALCO is informed at least once a month about the performance compared to the risk metrics.

Treasury is responsible for managing the overall liquidity and funding position. Risk Controlling acts as an independent risk control function and is responsible for reviewing the ILAAP framework.

Liquidity strategy

BAWAG Group's overall strategy has an explicit commitment to a deposit-based funding strategy. Retail and corporate savings products have been the core part of the funding strategy over the years and will continue to be the dominant source of funding for the balance sheet. The deposit base is supplemented with a diversified strategy of wholesale funding.

Liquidity management

Liquidity management is performed on a Group-wide basis.

For managing short-term liquidity, a 30-day liquidity forecast is prepared daily, which allows for the close tracking and management of the short-term liquidity position.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared and reported monthly to the S-ALCO. As part of the forecast process, which takes scenario analyses for planned measures and assumptions about customer behavior into account, the development of all major liquidity risk metrics is projected based on the underlying business plans to ensure compliance with the overall risk appetite.

Long-term liquidity management is conducted as part of the annual planning process for the coming five years. Strategic measures are also analyzed during the course of the year.

Liquidity stress testing

Liquidity stress testing and scenario analyses are applied to evaluate BAWAG Group's liquidity position, determine the limit framework and calibrate the liquidity buffers. They complement the operational liquidity management and the mid- to long-term liquidity strategy.

Stress testing is conducted at the BAWAG Group level and the subsidiaries level and covers scenarios that differ in length and severity (systemic stress, idiosyncratic stress, combined stress). The results of the stress tests are reported to the S-ALCO monthly.

Liquidity buffer

BAWAG Group maintains a liquidity buffer to cover unexpected liquidity outflows in a stress scenario. The liquidity buffer is kept as a preventive measure against liquidity risk. The liquidity buffer consists of a portfolio of liquid assets which can be used to generate cash in a stress situation in order to prevent the illiquidity of the Bank. BAWAG Group's liquidity buffer only includes assets that can be liquidated with minimal execution risk within 30 days. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the liquidity buffer composition based on the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in € million	31.12.2021	31.12.2020
Balances at central banks	12,000	9,756
Securities eligible for Eurosystem operations	371	518
Other assets eligible for Eurosystem operations	53	63
Short-term liquidity buffer	**12,424**	**10,337**
Other marketable securities	2,867	3,315
Total	**15,291**	**13,652**

Maturity analysis of contractual undiscounted cash flows of financial liabilities

31.12.2021 in € million	Contractual cash flows	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(7,436)	(218)	(14)	(52)	(6,496)	(656)
Deposits from customers	(35,202)	(32,586)	(277)	(549)	(1,264)	(526)
Debt securities issued	(8,223)	(50)	(528)	(67)	(1,960)	(5,619)
Subtotal	**(50,861)**	**(32,853)**	**(818)**	**(669)**	**(9,721)**	**(6,800)**
Derivative liabilities	(919)	(281)	(25)	(37)	(81)	(495)
Other off-balance-sheet financial obligations	(2,097)	(2,097)	0	0	0	0
Total	**(53,877)**	**(35,231)**	**(843)**	**(706)**	**(9,802)**	**(7,295)**

31.12.2020 in € million	Contractual cash flows	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(7,674)	(582)	(288)	(68)	(6,070)	(666)
Deposits from customers	(32,727)	(29,661)	(163)	(779)	(1,458)	(665)
Debt securities issued	(7,034)	(16)	(174)	(402)	(2,303)	(4,140)
Subtotal	**(47,436)**	**(30,260)**	**(625)**	**(1,249)**	**(9,831)**	**(5,471)**
Derivative liabilities	(775)	(105)	(30)	(94)	(109)	(437)
Other off-balance-sheet financial obligations	(2,184)	(2,184)	0	0	0	0
Total	**(50,394)**	**(32,549)**	**(655)**	**(1,343)**	**(9,940)**	**(5,908)**

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial liabilities. They are assigned to time buckets on the basis of their contractual maturities. Deposits with non-defined maturity profiles are presented in the shortest time bucket. In the case of call or put options, the end of the term equals the next day on which the option can be exercised.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in a strong liquidity coverage ratio (LCR) of 239% at the end of 2021. This improvement compared to 231% at year-end 2020 is mainly a result of the overall improved liquidity position and the participation in the TLTRO III provided by the ECB. BAWAG Group thereby significantly exceeds the regulatory LCR requirement.

The year 2021 was characterized by a solid liquidity position with stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Considering the stability of retail deposits that was proved during the COVID-19 pandemic, the funding strategy continues to be focused on this funding source. The Bank's risk-conscious strategy in recent years of only granting committed credit facilities to a limited extent has meant that no increased drawing on credit lines has been observed.

In order to further optimize its liquidity position and provide liquidity to the real economy, BAWAG Group has increased its participation in the ECB's TLTRO III to the amount of € 6.4 billion. In addition to the stable deposit base, in the course of 2021 the Bank successfully placed € 1,500 million in mortgage covered bonds (March: € 500 million; May: € 500 million; September: € 500 million), which again proved BAWAG Group’s good capital markets access and the positive perception among investors.

60 | Operational risk

Operational risk is present in virtually all of the company’s transactions and activities and is defined as the risk of loss resulting from inadequacy or failure of internal processes, people, systems or external events. The definition of operational risk explicitly includes legal risk, compliance risk, model risk, fraud risk, conduct risk, ESG risk as well as third-party risk, outsourcing risk and information and communication risk. Information/cyber security and the protection including the appropriate use of customer data remain important factors in retaining customer trust. As IT systems, IT networks and the sharing of data become increasingly important to both banks and customers, there is a growing focus on how this is safeguarded.

Governance:
A clear organizational structure and authorization levels form the basis of operational risk governance. Operational risks are managed by established Group-wide processes for loss data collection via OpRisk Monitor (ORM), a yearly risk assessment process for all divisions and subsidiaries, uniform materiality and risk assessment of outsourcing activities, a sound product implementation process (PIP) incl. an ESG statement as well as monthly key risk indicators. By exceedance of defined thresholds, e.g. red KRI, high risks identified, mandatory measures for risk mitigation are agreed and monitored. In addition, BAWAG Group works continuously to bolster its defenses against cyberattacks. The selected security approach is based on regulatory requirements and the security policy set. A consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) as well as a security control set including a variety of organizational and technological measures are in place to manage and mitigate BAWAG Group’s operational risk. Aligned teams in the first and second line of defense ensure the implementation and effectiveness of these measures.

Risk identification, assessment and mitigation:
The losses resulting from operational risk are collected in a centrally administrated, web-based database within clearly defined regulations and processes. The collected data are analyzed to identify patterns/clusters and faulty processes.

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

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

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

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

BAWAG Group continues to invest in the awareness of staff and resilience and security of systems, ensuring that customer data remains safe despite the significant pace of change in technological trends. In addition, the Group also focuses on supporting suppliers in meeting the respective requirements for cybersecurity in our supply chain. To ensure collaboration when it comes to security, BAWAG Group is an active member of the Austrian Trust Circle – Finance and focuses on close exchange with other banks as well.

The Management Board receives regular reports about current OpRisk developments, as well as activities to protect and assess the cybersecurity in the Non-Financial Risk and ESG Committee (NFR & ESGC).

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

For the purpose of ICAAP, a standardized approach is used to calculate the normative and economic perspective for OpRisk. The quantification in the economic perspective is based on the standardized approach for OpRisk (SMA) as defined in Basel III Finalizing post-crisis reforms. The SMA is calculated based on the business indicator, business indicator component and internal loss multiplier. The method of calculation used is based exactly on the guidelines and covers the expected und unexpected loss.

The normative perspective is based on the P&L impact and qualitative scenarios based on the historic OpRisk losses and the consideration of the business strategy. The quantification in the economic perspective is based on the standardized approach for OpRisk (SMA) as defined in Basel III Finalizing post-crisis reforms.

Governance and risk mitigation concerning COVID-19:
BAWAG Group has responded to the current situation regarding the COVID-19 virus with an integrated action plan.

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

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

- Distribution of respiratory masks, disinfectant to the headquarters and branches, as well as spacers for all branches
- Implementation of rules of conduct concerning COVID-19

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

61 | Other risks

ESG Risk

The interaction of ESG risks and other material risk types is evaluated as part of the overarching risk self-assessment (RSA). Within BAWAG Group's portfolio steering framework, both high ESG-risk sectors and countries are limited accordingly maintaining a very low exposure to high-risk ESG industries and de minimis oil and gas exposure. Due to the currently low exposures to high ESG risks the impact on the full year 2021 results is not significant.

In particular, the management of restricted and prohibited sectors as part of the underwriting and loan origination process is essential in this regard. As part of our robust governance framework, ESG risk management is embedded in our key policies and processes, ensuring an appropriate consideration of ESG risks within outsourcing management, product introductions, etc. Numerous awareness initiatives such as townhall events, newsletters, self-learning programs and many more ensure that the strategy for managing ESG risks is recognized and practiced across the organization.

In recent months, numerous requirements have developed in connection with ESG. The regulatory environment related to ESG is extensive and expects to meet the comprehensive regulatory requirements. BAWAG Group is committed not just to keeping the negative impacts of our business activities as low as possible, but also to contributing in a positive way. Whereas ESG underpins BAWAG Group's strategy driving responsible, sustainable, and profitable growth, there are certain key deliverables regarding the overarching framework with the biggest challenge being the data availability. The current ESG position can be described as follows:

- ESG integrated in organization: A defined organizational unit responsible for ESG risk is supported by nominated ESG SPoCs in relevant divisions and all subsidiaries. Committee structures on the Supervisory and Management board level as well as on operative working level were implemented and started in 2021. As part of our robust governance framework, ESG risk management is embedded in our key policies and processes, ensuring an appropriate consideration of ESG risks within outsourcing management, product introductions, etc. BAWAG Group took measure to ensure it has the right skills and governance in place.
- Awareness and training: Numerous awareness initiatives such as townhall events, newsletters, self-learning programs and many more ensure that the strategy for managing ESG risks is recognized and practiced across the organization.
- General ESG strategy defined with specific 2025 targets: ESG targets were integrated into the business and risk strategy. A separate ESG framework and policy was introduced and ESG related considerations were part of business planning. An enhanced ESG strategy will be defined during 2022.
- Internal reporting: The data collection capabilities and infrastructure were set up in 2021. Dedicated ESG reports are regular part of the Non-Financial Risk & ESG committee, and the risk report will also be enhanced with ESG information.
- Risk measurement: The interaction of ESG risks and other material risk types is evaluated as part of the overarching risk self-assessment (RSA). Internal capital is allocated for ESG risk in the ICAAP assessment and part of regular reporting. Within BAWAG Group's portfolio steering framework, both high ESG-risk sectors and countries are limited accordingly maintaining a very low exposure to high-risk ESG industries and de minimis oil and gas exposure.

- **Corporates, Real Estate & Public Sector**: Industry-related ESG risk mainly driven by transition risk, e.g., industries facing challenges adapting to the zero emission targets. Overall, the ESG industry risk is low to moderate with no high risk exposures. Restricted and prohibited exposures are very low with a decreasing trend. In particular, the management of restricted and prohibited sectors as part of the underwriting and loan origination process is essential in this regard.

Activity	P/R	Exposure	
		m€	%
Mining of oil/tar sands	R	161	<0.3%
Animal testing (non-medical)	R	23	<0.1%
Gambling	R	12	<0.1%
Others	P/R	0	0,0%
Total		**196**	**<0.4%**

- **Retail & SME:** Operating in developed markets with high legal and environmental standards BAWAG Group could originate green mortgages in 2021 and issued its inaugural Green Bond Benchmark. The use of proceeds is dedicated to financing energy-efficient residential housing according to standards defined by the EU taxonomy delegated act.

Reputation risk

Reputation risk is defined as the potential damage or harm to the Bank's image in the eyes of the interested public (capital investors/lenders, employees, customers, the press, etc.) regarding competence, integrity and reliability. For the quantification of the reputation risk, the Group follows a combined approach – in a first step, for the calculation of a potential risk on the asset side a simplified VaR model is applied. In a second step, in order to cover the potential overall risk stemming from reputational risk, an outflow of savings deposits and an associated higher refinancing requirement and consequently increasing refinancing costs are taken into account (liability side). As the Group believes that the liability side reacts much more sensitively to reputation risk, a corresponding weighting of the quantification results was carried out.

The Group actively avoids occurrence of reputation risks with a sound risk management culture, ongoing improvement of risk management and compliance with internal and external regulations. Furthermore, the Group has established a sound complaint management system, and closely follows potential fraud and other operational risk events which might affect the public appreciation.

Participation risk

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

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

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

Business risk

Business risk refers to the risk that the Bank’s business strategy does not adequately reflect trends in external factors, is not effectively executed or fails to respond in a timely manner to external environments or changes in stakeholder behaviors and expectations. The Group faces significant risks due to the changing regulatory and competitive environments in the financial services sector. The Bank strives to play an active role in the current transformation of the European banking industry. Austria as our core market builds the basis for further organic and inorganic growth in the DACH/NL region and the United States. The multi-brand and multi-channel distribution approach together with targeted use of analytics ensures the capability to adapt product offerings to changes in customer behavior and needs at an early stage. The Group assesses and monitors the impact of the business risk implications of new business, product entries and other business initiatives as part of the business planning processes and stress testing scenarios.

Real estate risk

Real estate risk results from a negative change in value and/or proceeds from proprietary real estate for BAWAG Group. With regard to the Risk Self-Assessment Process, the Group's real estate portfolio is analyzed in detail regarding its assets as well as investment properties and discussed with the responsible risk managers if any losses are expected within the upcoming year.

Pension risk

Pension risk refers to the risk that the provisions for pensions are not sufficiently high to cover potential losses arising from differences between actual pensions and a specific target, which could be related to a specific replacement rate, pension pay or life expectancy. Pension provisions of the Group are calculated by an external actuary according to the projected unit credit method. All actuarial assumptions used are based on past experience and are adjusted for expected changes.

The discount factor is based on current interest rates. Risks related to movements in the discount factor are considered in the calculation of market risk.

Main risks for the Group relating to pension obligations except interest rate risk include higher than expected salary increases and changes in demographical assumptions.

The majority of new pension plans are defined contribution plans where the final risk is with a pension fund. Obligations from defined benefit plans relate primarily to pension plans implemented in the past and the majority of beneficiaries is already in retirement. As such, there is limited risk that salary increases for active employees will have an impact on the provision.

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

62 | Fiduciary assets

in € million	31.12.2021	31.12.2020
Fiduciary assets	**173**	**168**
Receivables from credit institutions	–	1
Receivables from customers	173	167
Fiduciary liabilities	**173**	**168**
Deposits from credit institutions	2	7
Deposits from customers	171	161

63 | Breakdown of securities pursuant to the Austrian Banking Act (BWG)

The following table breaks down securities in accordance with section 64 paragraph 1 line 10 and line 11 BWG as of 31 December 2021 (IFRS figures):

		Listed			
in € million	Not listed	Total	At amortized cost	Other measurements	BAWAG Group Total 2021
Bonds and other fixed income securities	1,818	3,972	1,320	2,652	5,790
Shares and other variable income securities	275	196	–	196	471
Shares in associates and other shares	216	–	–	–	216
Shares in non-consolidated subsidiaries	23	–	–	–	23
Total securities	**2,332**	**4,168**	**1,320**	**2,848**	**6,500**

The securities shown in the table are mainly non-current assets.

The difference between carrying amounts and lower repayment amounts for the purposes of section 56 paragraph 2 BWG amounted to € 36 million (2020: € 43 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG amounted to € 20 million (2020: € 27 million). The difference between carrying amounts and higher market values for the purposes of section 56 paragraph 4 BWG amounted to € 0 million (2020: € 1 million).

Own issues amounting to a repayment amount of € 526 million and bonds and other fixed-income securities amounting to a repayment amount of € 319 million will come due in 2022 under the corresponding contracts.

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are bullet bonds and some include issuer call options. Supplementary and subordinated capital bonds are primarily sold to major domestic and international investors. In the past, there have also been placements to private investors.

As of 31 December 2021, the average weighted nominal interest rate on supplementary and subordinated capital bonds issued by BAWAG P.S.K. AG was 4.37% (2020: 7.53%), and the average remaining term to maturity was 5.4 years (2020: 2.9 years). One supplementary capital bond (Tier II) issued by BAWAG Group AG has a fixed coupon of 2.375% and matures in 2029. The other supplementary capital bond (Tier II) issued by BAWAG Group AG has a fixed coupon of 1.875% and matures in 2030.

64 | Collateral received

Different types of collateral have been pledged to BAWAG Group as part of its business transactions. To reduce credit risk for derivative instruments, the Bank received consideration (collateral deals) in the amount of € 423 million (2020: € 725 million) and paid consideration (collateral deals) in the amount of € 126 million (2020: € 91 million). The table below does not include collateral for derivative instruments.

in € million	Collateralized on-balance-sheet claims	Collateralized off-balance-sheet claims	**Total**
Financial collateral			
Stocks	88	–	88
Cash deposits	179	14	193
Bonds	2	–	2
Real estate			
Commercial properties	463	25	488
Private properties	10,926	193	11,119
Personal collateral			
Guarantees	3,978	32	4,010
Credit derivatives	421	–	421
Other forms of collateral			
Assignation of claims	–	1	1
Life insurance policies	11	–	11
Collateral received	**16,068**	**265**	**16,333**

65 | Human resources

Headcount – salaried employees

	31.12.2021	31.12.2020
Number of employees on reporting date	3,716	4,071
Average number of employees	3,764	4,201

Full-time equivalents – salaried employees

	31.12.2021	31.12.2020
Number of employees on reporting date	3,207	3,485
Average number of employees	3,227	3,580
Active employees[1)]	2,800	3,118

1) Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme.

66 | Branches

in € million	31.12.2021	31.12.2020
Name of branch	BAWAG P.S.K. International	BAWAG P.S.K. International
Business segment	Corporates, Real Estate & Public Sector	Corporates, Real Estate & Public Sector
Country of residence	Great Britain	Great Britain
Net interest income	0.0	0.0
Operating revenue[1]	57.6	52.0
Number of full-time employees	24.0	31.0
Profit/Loss before tax[1]	21.9	19.5
Income tax accrued	2.8	3.7
Government aid received	0.0	0.0

1) BAWAG P.S.K. International: Income is based on internal funds transfer pricing.

Due to the size of the UK branch of BAWAG P.S.K. and the fact that business activities in the UK are carried out by the branch as an agent for BAWAG P.S.K., the effects of Brexit caused only a minor organizational impact.

in € million	31.12.2021	31.12.2020
Name of branch	Südwestbank – BAWAG AG Niederlassung Deutschland	Südwestbank – BAWAG AG Niederlassung Deutschland
Business segment	Corporates, Real Estate & Public Sector; Retail & SME	Corporates, Real Estate & Public Sector; Retail & SME
Country of residence	Germany	Germany
Net interest income	52.1	–
Operating revenue	161.1	–
Number of full-time employees	219.0	–
Profit/Loss before tax	110.2	–
Income tax accrued	23.2	–
Government aid received	–	–

67 | Trading book

in € million	31.12.2021	31.12.2020
Derivative financial instruments in the trading book (nominal value)	–	–
Trading book by volume	**–**	**–**

68 | Geographical regions

Gross income of BAWAG Group relates to the following geographical regions according to IFRS 8:

in € million	Austria	Western Europe[1)]	North America	Rest of the world	**Total**
Interest and similar income	594.7	346.5	131.8	55.0	1,128.0
Income from securities and equity interests	3.5	1.4	12.8	0.0	17.7
Fee and commission income	302.5	48.9	0.1	1.5	353.0
Gains and losses on financial instruments	(41.3)	48.4	4.2	0.0	11.3
Other operating income	113.0	85.3	0.0	0.0	198.3

1) Includes Germany.

69 | Other disclosures required by BWG and Austrian GAAP (UGB)

The Statement of Financial Position entry for Land and buildings includes land with a carrying amount of € 4 million (2020: € 35 million).

The Statement of Financial Position as of 31 December 2021 contains accrued interest on supplementary capital bonds in the amount of € 8 million (2020: € 8 million).

Expenses for subordinated liabilities amounted to € 37.9 million (2020: € 33.6 million).

Expenses for BAWAG Group's group auditor in the current financial year amount to € 1.8 million (2020: € 2.2 million) and comprise audit fees in the amount of € 1.5 million (2020: € 1.7 million), tax advisory fees of € 0.1 million (2020: € 0.1 million) as well as other advisory fees in the amount of € 0.2 million (2020: € 0.4 million).

As of 31 December 2021, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 0.85% (2020: 0.54%).

BAWAG Group uses the Internet as the medium for publishing disclosures under section 65 BWG and the Disclosure Regulation. Details are available on the website of BAWAG Group at https://www.bawaggroup.com/financial-results.

70 | Date of release for publication

The Group financial statements were approved by the Management Board for submission to the Supervisory Board on 23 February 2022. The Supervisory Board is responsible for reviewing and acknowledging the Group financial statements.

71 | Events after the reporting date

Representative office in California, United States

In January 2022, BAWAG Group received the regulatory approval for its United States representative office in California, United States. The representative office will act as a liaison with clients and prospective clients of BAWAG Group in the United States.

Acquisition of Peak Bancorp, Inc.

On 2 February 2022, BAWAG Group signed a transaction to acquire 100% of the shares of Peak Bancorp, Inc., the holding company for Idaho First Bank, a state-chartered community bank in McCall, Idaho. The transaction has been approved by Peak Bancorp's board of directors and is subject to its shareholders' vote. The acquisition enables BAWAG Group to expand its footprint in the United States and better position it for future growth in one of the Bank's core markets. The transaction is subject to customary closing conditions including the approval of United States regulators.

Golden Tree Asset Management LP.

In January 2022, Golden Tree Asset Management LP reduced its holdings in BAWAG Group AG to 4.6%.

Corporate income tax rate reduction in Austria

At the beginning of 2022, the legislator decided to gradually reduce the corporate income tax rate in Austria from 25% to 23%. This gradual reduction will take place with one percentage point from 1 January 2023 and with one additional percentage point from 1 January 2024. The impact on deferred taxes recognized as of 31 December 2021 is currently being analyzed by the Group. The Group recognizes an overall deferred tax liability for Austria, which will be slightly reduced due to the change in the tax rate. Overall, however, the BAWAG Group does not expect any material impact due to the remeasurement of deferred taxes existing as of the balance sheet date.

23 February 2022

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Management Board

Sat Shah
Member of the Management Board

David O'Leary
Member of the Management Board

Andrew Wise
Member of the Management Board

Guido Jestädt
Member of the Management Board

STATEMENT OF ALL LEGAL REPRESENTATIVES

"We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces."

23 February 2022

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Management Board

Sat Shah
Member of the Management Board

David O'Leary
Member of the Management Board

Andrew Wise
Member of the Management Board

Guido Jestädt
Member of the Management Board

BOARDS AND OFFICERS OF BAWAG GROUP AG

MANAGEMENT BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2021

Anas ABUZAAKOUK
Chairperson of the Management Board of BAWAG Group AG from 19 August 2017

David O'LEARY
Member of the Management Board of BAWAG Group AG from 19 August 2017

Sat SHAH
Member of the Management Board of BAWAG Group AG from 19 August 2017

Enver SIRUCIC
Member of the Management Board of BAWAG Group AG from 19 August 2017

Andrew WISE
Member of the Management Board of BAWAG Group AG from 19 August 2017

Guido JESTÄDT
Member of the Management Board of BAWAG Group AG from 1 July 2021

SUPERVISORY BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2021

Chairperson

Egbert FLEISCHER

(from 12 December 2019,
Deputy Chairperson of the Supervisory Board of BAWAG Group AG from 15 September 2017 until 12 December 2019,
Member from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Deputy Chairperson

Kim FENNEBRESQUE

(from 12 December 2019,
Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Members

Frederick HADDAD

(Member of the Supervisory Board of BAWAG Group AG from 19 August 2017 until revoked)

Adam ROSMARIN

(Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Tamara KAPELLER

(Member of the Supervisory Board of BAWAG Group AG from 14 September 2021 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Gerrit SCHNEIDER

(Member of the Supervisory Board of BAWAG Group AG from 14 September 2021 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2025)

Works Council Delegates

Verena SPITZ

(from 25 October 2017)

Konstantin LATSUNAS

(from 1 March 2021)

Beatrix PRÖLL

(from 14 September 2021)

Further Members delegated by the Works Council

Ingrid STREIBEL-ZARFL
(from 25 October 2017 until 28 February 2021)

COMMITTEES OF BAWAG GROUP AG AS OF 31 DECEMBER 2021

Risk and Credit Committee

Frederick HADDAD
Chairperson

Kim FENNEBRESQUE

Tamara KAPELLER

Adam ROSMARIN

Verena SPITZ
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

Audit and Compliance Committee

Gerrit SCHNEIDER
Chairperson

Egbert FLEISCHER

Frederick HADDAD

Adam ROSMARIN

Verena SPITZ
Works Council Delegate

Konstantin LATSUNAS
Works Council Delegate

Nomination and Remuneration Committee

Egbert FLEISCHER
Chairperson

Kim FENNEBRESQUE

Frederick HADDAD

Adam ROSMARIN

Verena SPITZ
Works Council Delegate

Konstantin LATSUNAS
Works Council Delegate

ESG Committee

Tamara KAPELLER
Chairperson

Egbert FLEISCHER

Gerrit SCHNEIDER

Verena SPITZ
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

AUDITOR'S OPINION

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated financial statements of **BAWAG Group AG, Vienna, Austria** and its subsidiaries ("the Group"), which comprise the consolidated Statement of Financial Position as at 31 December 2021, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements comply with the legal requirements and present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the Austrian commercial and banking law as well as the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB and Section 59a BWG.

Basis for our Opinion

We conducted our audit in accordance with Regulation (EU) 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group, in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Recoverabilty of Receivables from Customers Measured at Amortized Cost

The Management Board explains the procedure for recognizing loan loss provisions in the notes to the consolidated financial statements in the risk report.

Risk to the Consolidated Financial Statements

Receivables from customers at amortised cost ("receivables from customers") amount to EUR 35 bn in the consolidated statement of financial position and relate mainly to the segments "Retail & SME" and "Corporates & Public".

As part of credit risk management, the Group evaluates whether loan loss provisions need to be recognized. This includes evaluating whether customers are able to meet the contractual repayment obligation in full.

The calculation of loan loss provisions for individually significant defaulted receivables from customers is based on an analysis of the expected and scenario weighted future repayments. This analysis is subject to the assessment of the economic condition and performance of the respective customer, the evaluation of collateral and an estimate of the amount and timing of the repayments derived therefrom.

For defaulted receivables from customers not individually significant, the calculation of the loan loss provisions is based on statistically determined common risk attributes. These loan loss provisions are calculated based on the default days or the occurrence of a legal case using statistical loss given default rates.

For non-defaulted receivables from customers, a loan loss provision is recognized for the expected credit loss ("ECL"). The loan loss provision is generally based on the 12-month ECL (stage 1). In case the credit risk has increased significantly (stage 2), ECL is calculated based on lifetime expected credit loss. The determination of ECL requires extensive estimation and assumptions. These comprise rating-based probabilities of default and loss given default, which take information about current conditions and forecasts of future economic conditions as well as transfer between stages into account. In order to adequately take the COVID-19 crisis into account, the Group increased the loan loss provisions determined using the ECL model ("management overlay") in 2020 for the first time and adjusted this increase in 2021.

This results in the risk for the consolidated financial statements that the calculation of loan loss provisions taking the management overlay into account, is subject to significant estimation and assumptions, resulting in room for discretion as well as estimation uncertainty in respect of the amount of the loan loss provisions.

Our Audit Approach

In testing the recoverability of receivables from customers we performed the following significant procedures:

— We analysed the existing documentation for monitoring and recognition of loan loss provisions for receivables from customers and assessed whether these are suitable to identify events of default and to adequately determine the recoverability of these receivables from customers. Additionally. we compiled the relevant key controls relevant to our audit of the consolidated financial statements, assessed their design and implementation, and tested their effectiveness on a sample basis.

— Based on a sample of receivables from customers, we examined whether indicators of default exist. Sampling was performed both random and risk-oriented, taking in particular rating levels and industries with an increased risk of default into account. Potential effects of COVID-19 were also considered.

— In case of default of individually significant receivables from customers, we assessed the Group's assumptions for conclusiveness, consistency as well as timing and amount of the expected repayments on a sample basis.

— For individually non-significant defaulted and non-defaulted receivables from customers for which the loan loss provision was determined statistically, we analysed the documentation of the applied method for consistency with the requirements of IFRS 9. Additionally, we evaluated, based on the internal validation, the models and their mathematical functionalities as well as the parameters used therein as to whether they are suitable to determine loan loss provisions in adequate amounts.

— In particular, we assessed the effects of the COVID-19 pandemic on the method used to determine the default probabilities. Additionally, we analysed the selection and measurement of estimates and scenarios concerning the future and verified their use in the estimation of parameters. We evaluated the derivation of and rationale for the management overlay, as well as the underlying assumptions regarding their appropriateness.

— We verified the mathematical accuracy and completeness of the loan loss provisions by means of approximation of the statistically determined loan loss provisions. For this purpose, we involved our financial risk management specialists.

Valuation of claims and provisions from litigation with City of Linz

Management discloses the development to date of the litigation related to the Swiss Franc swap with the City of Linz and the related estimation uncertainty in "Accounting policies - Latitude of Judgment and Uncertainty of Estimates – City of Linz" in the notes to the consolidated financial statements.

Risk to the Consolidated Financial Statements

Since November 2011, BAWAG P.S.K. has been engaged in a lawsuit with the City of Linz in connection with this Swiss Franc swap. The city of Linz filed a lawsuit with the Commercial Court of Vienna (Handelsgericht Wien) against BAWAG P.S.K. claiming payment of CHF 31 million. BAWAG P.S.K. filed a (counter)suit against the City of Linz to enforce its contractual righs in the amount of EUR 418 million.

The claim against the City of Linz is presented in receivables from customers and amounts to the fair value of the swap at the date of early termination taking into account current value adjustments for risks related to this transaction, for which Management estimates the amount. These estimates comprise the duration and cost of the legal proceedings as well as its outcome, in particular with regard to negligent actions by one of the parties and the amount of potential damages. Management based its assessment of the amount of the receivables and the related uncertainties on legal opinions from external legal counsels, who have been engaged to legally represent the Group, as well as opinions of the internal legal department and the analysis of the legal opinions of the appointed court experts.

The risk to the consolidated financial statements results from the assessment of the abovementioned factors, especially the probability of success in the ongoing litigation and the amount and timing of cash flows arising from the lawsuit. Moreover, the lawsuit has gained increased public and political interest. The trial court lawsuit has already been ongoing for several years. In January 2020, the court issued a non-final interim ruling in which it held that the swap agreement is void. A decision on the mutual payment claims has not yet been made. Thus, the valuation of the claims and provisions from the lawsuit against the City of Linz are subject to estimation uncertainties.

Our Audit approach

— We assessed whether the valuation of the claims against the City of Linz as well as provisions related to the lawsuit have been determined adequately and whether the estimates regarding this litigation are appropriate.

— We critically assessed the assumptions of management and the Group's internal and external legal experts. We obtained and analysed statements of the involved law firms addressing the state of the lawsuit. We analysed whether the amount of the claim is consistent with the contractual terms and the market parameters at the closure date as well as whether the assumptions for the valuation of the claim on the reporting date are consistent with the current assessment of the status of the case. We consulted with our legal experts to analyse the Group's internal and external experts' statements.

Initial Recognition of Assets and Liabilities in the Course of Business Combinations

On November 19, 2021 (acquisition date), the Group acquired 100 % of the shares in DEPFA BANK plc, Ireland, for a purchase price of EUR 419 million and on December 1, 2021 (acquisition date), the business operations of Hello bank! Austria for a purchase price of EUR 23 million as part of an asset deal. The Group describes these transactions in Note 38 "Significant changes in the investment portfolio" of the notes to the consolidated financial statements. In addition, the procedure for determining fair values is described in Note 1 "Accounting policies", section "Use of judgment and estimation uncertainties".

Risk to the Consolidated Financial Statements

Acquired assets, assumed liabilities and contingent liabilities identified in the purchase price allocations are to be recognized at fair value as at the acquisition date. The calculation of fair values is based on planning parameters and assumptions made by management unless external information is available in this regard. The calculation is based on specific valuation methods. The estimates and judgments made by management include the parameters used for the measurement of receivables from and payables to customers and banks.

The risk for the consolidated financial statements lies in the complete identification of the acquired assets, assumed liabilities and contingent liabilities as part of the purchase price allocation, as well as in the correct determination and assessment of any badwill. In addition, the valuation of these transactions is subject to a high degree of risk, as it is also based on estimates and discretionary ranges.

Our Audit Approach

In our audit of the initial recognition of assets and liabilities in the course of these business combinations, we performed the following significant procedures:

— By analysing the purchase agreements, we assessed whether the criteria for control of the acquired businesses were met at the acquisition date and, as such, whether a merger had taken place.

— We involved our valuation specialists in assessing the planning assumptions made by the Group as well as valuation methods and models used to determine the fair values of the individual items with the involvement of. In this context, we analysed whether the planning figures and the underlying assumptions were consistent and coherent, whether they corresponded to the assumptions of market participants and whether the discount rates used were within an appropriate range compared with publicly available information and market data. Furthermore, we tested the mathematical functionalities of the models used to value the acquired businesses for appropriateness and verified the mathematical accuracy of the calculated fair values on a sample basis.

— We obtained the Group's assessment of badwill and reviewed it for conclusiveness and plausibility.

Other information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements pursuant to Section 245a UGB and Section 59a BWG and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance but provides no guarantee that an audit conducted in accordance with AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

— We identify and assess the risks of material misstatements in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

— We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

— We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

— We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.

— We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.

— From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

Group Management Report

In accordance with Austrian company law, the management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the group management report.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 30 October 2020 and were appointed by the supervisory board on 17 November 2020 to audit the consolidated financial statements of Company for the financial year ending 31 December 2021.

In addition, during the Annual General Meeting on 27 August 2021, we have been elected as auditors for the financial year ending 31 December 2022 and appointed by the supervisory board on 29 September 2021.

We have been auditors of the Company, without interruption, since the financial statements at 31 December 2015.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

Engagement Partner

The engagement partner is Mr Bernhard Mechtler.

Vienna, 23 February 2022

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

CORPORATE GOVERNANCE

BAWAG GROUP'S DECLARATION OF COMMITMENT

In 2006, BAWAG P.S.K. made a (voluntary) commitment to apply the applicable provisions of the Austrian Code of Corporate Governance ("Code", accessible under http://www.corporate-governance.at). Following the listing of BAWAG Group in 2017, BAWAG Group declared its commitment to comply with the rules of the Code.

This is the (consolidated) Corporate Governance Report prepared in accordance with sections 243c and 267b of the Austrian Commercial Code (UGB).

Generally speaking, the Code is a set of self-regulation rules for listed Austrian companies and it contains rules based on compulsory legal requirements (L rules); rules that should be complied with, where deviations must be explained and justified in order for the company's conduct to conform with the Code (C rules, comply or explain); and rules that are recommendations, where non-compliance must not be disclosed or justified (R rules).

DEVIATIONS

Since issuance of its commitment to comply with the rules, BAWAG Group has complied with all L rules and all C rules. The deviation from one C rule is explained as follows:

Rule 2 ("one share one vote" principle): One shareholder has been granted the right to delegate a member of BAWAG Group AG's Supervisory Board for as long as such shareholder holds at least one share in the BAWAG Group AG. This delegation right shall be repealed once the shareholding of the GoldenTree shareholders (jointly) falls below 20% for at least four consecutive weeks.

Since the aggregated participation of GoldenTree fell below 20% of BAWAG Group AG's share capital, BAWAG Group AG will propose to the next Annual General Meeting to abolish the delegation right of the respective GoldenTree shareholder which is currently provided for in BAWAG Group AG's articles of association.

MANAGEMENT BOARD

Management BOARD MEMBERS AND ALLOCATION OF RESPONSIBILITIES

As of the date hereof, the Management Board of BAWAG Group and BAWAG P.S.K. was composed of the following members:

MANAGEMENT BOARD of BAWAG Group and BAWAG P.S.K. per 31 December 2021

Name	Function	Year of birth	Date of first appointment[1)]	End of current tenure
Anas ABUZAAKOUK	Chairperson	1977	19.08.2017	31.03.2026
Guido JESTÄDT	Member	1975	01.07.2021	31.03.2026
David O'LEARY	Member	1975	19.08.2017	31.03.2026
Enver SIRUCIC	Member	1982	19.08.2017	31.03.2026
Sat SHAH	Member	1978	19.08.2017	31.03.2026
Andrew WISE	Member	1971	19.08.2017	31.03.2026

1) Regarding BAWAG Group AG.

As of the date hereof, responsibilities among the Management Board members were allocated as follows:

Name	Responsibilities
Anas ABUZAAKOUK (CEO)	Technology Operations, HR & Corporate Affairs, Procurement, Real Estate & Facilities
Sat SHAH (Retail & SME, Deputy CEO)	DACH branch sales, specialty finance & SME lending, mortgages & consumer loans, payment solutions, retail operations, digital sales
Enver SIRUCIC (CFO, Deputy CEO)	Finance, Treasury, M&A, Austrian Corporates & Public Sector, Group Data Warehouse, ESG, Investor Relations, Regulatory Affairs
Andrew WISE (CIO)	International Corporate lending, Real Estate lending, US market
David O'LEARY (CRO)	Commercial & Retail Risk Management, Risk Controlling, Risk Modelling, Validation, Group Data Warehouse, ESG risk
Guido JESTÄDT (CAO)	Group Legal, Corporate Structure, Participations & Taxes, Regulatory Affairs, Legal HR & Corporate Affairs
Entire Management Board	Internal Audit, Compliance, KYC & AML Office, Ethics

The following describes the Supervisory Board mandates and comparable functions of Management Board members as of the date hereof at other Austrian or foreign stock corporations, which are not fully consolidated in the consolidated financial statements. Members not listed in the following do not have any comparable functions:

Enver SIRUCIC

Name of the company	Function
BAWAG P.S.K. Versicherung AG	Chairperson of the Supervisory Board

MANAGEMENT BOARD MEETINGS AND COMMITTEES

Management Board Meetings / Extended Management Board Meetings

The Management Board of BAWAG meets on a weekly basis. BAWAG has also introduced Extended Management Board Meetings which are held approximately 8 times per year. In these all-day sessions, the Management Board and executive leaders of BAWAG discuss a variety of topics such as BAWAG's group strategy, the organizational design, M&A and integration, financial updates, technology developments, retail partnerships, the platform business, ESG-related topics, talent assessment and development, regulatory developments, and key risk topics amongst other things.

The following committees exist at the level of BAWAG's Management Board:

- Strategic Asset Liability Committee (S-ALCO)
- Enterprise Risk Meeting (ERM)
- Credit Approval Committee (CAC)
- Non-Financial Risk and ESG Committee (NFR & ESGC)

The Management Board committees consist of all members of the Management Board and further voting and non-voting members of BAWAG's senior leadership team (e.g. BAWAG's ESG Officers). They are chaired by the CEO or the CRO. The following section describes the main responsibilities of these Management Board committees.

Strategic Asset Liability Committee (S-ALCO)

The Strategic Asset Liability Committee (S-ALCO) is in charge of strategic capital and liquidity planning as well as operational aspects of asset and liability management. In this capacity the S-ALCO approves interest and FX/ limit for trading and managed bank books. With respect to liquidity, capital and interest, the S-ALCO approves liquidity costs, capital costs and internal reference rates. It further determines parameters for measuring interest risk, liquidity risk and foreign exchange risk and monitors risk metrics by way of regular reports. The S-ALCO is chaired by the CEO and meets on a monthly basis.

Enterprise Risk Meeting

The main duties of the Enterprise Risk Committee (ERM) are risk limit setting for the overall bank, approval of the risk strategy and determination of the risk appetite, approval of capital allocation within the ICAAP framework. The Committee is further responsible for credit guidelines, strategies and reviews and approves policies, procedures and underwriting guidelines/models. The ERM is chaired by the CEO and meets on a monthly basis.

Credit Approval Committee

The Credit Approval Committee (CAC) decides on financing transactions above a certain threshold and on the approval of loan applications within the authorities defined in the Competence and Power Regulation. The committee is chaired by the CRO and meets weekly.

Non-Financial Risk and ESG Committee (NFR & ESGC)

The Non-Financial Risk and ESG Committee (NFR & ESGC) is in charge of non-financial risk and ESG related topics. In particular, it discusses the bank-wide non-financial risk assessment (as part of the Group Risk Strategy), significant outcomes of sub risk self-assessments, large-scale marketing campaigns, changes in regulatory requirements and topics with regards to cybersecurity and data privacy. Furthermore, the NFR & ESGC reviews and acknowledges reports on inter alia, operational risk, conducted product implementation processes, complaint management reports and regular reports on cybersecurity and data privacy matters. It also receives regular updates from BAWAG's ESG Officers on ESG related topics and discusses the groupwide ESG strategy. ESG-related topics discussed in the NFR & ESGC at Management Board level are subsequently presented to and reviewed by the ESG Committee which is established at Supervisory Board level. The NFR & ESGC is chaired by the CRO and meets on a quarterly basis.

COMPLIANCE

As a listed company, BAWAG Group AG is obliged to ensure the highest compliance standards.

The Compliance Office reports directly to the entire Management Board and the Audit and Compliance Committee. The key responsibilities of the Compliance Office are prevention of insider dealing and market manipulation and managing of conflicts of interest. The Compliance Policy ensures observation of legal and proper conduct obligations, as well as the identification and prevention of conflicts of interest.

In accordance with the Austrian Stock Exchange Act, personal trades in shares of BAWAG Group AG by members of the Management Board and Supervisory Board as well as their related persons are published on BAWAG Group's website.

SUPERVISORY BOARD

SUPERVISORY BOARD MEMBERS

Per 31 December 2021, the Supervisory Board was composed of the following members:

SUPERVISORY BOARD of BAWAG Group per 31 December 2021

Name	Function	Year of Birth	Date of first appointment	End of current tenure
Egbert FLEISCHER	Chairperson	1957	15.09.2017	2)
Kim FENNEBRESQUE	Deputy Chairperson	1950	15.09.2017	2)
Frederick S. HADDAD	Member	1948	15.09.2017	1)
Tamara KAPELLER	Member	1978	14.09.2021	2)
Adam ROSMARIN	Member	1963	15.09.2017	2)
Gerrit SCHNEIDER	Member	1973	14.09.2021	2)
Verena SPITZ	Delegated by the Works Council	1970	25.10.2017	
Konstantin LATSUNAS	Delegated by the Works Council	1963	01.03.2021	
Beatrix PRÖLL	Delegated by the Works Council	1958	14.09.2021	

1) Until revoked.
2) Until the end of the Annual General Meeting in 2025

Members who left the Supervisory Board in 2021

Name	Function	End of tenure
Ingrid STREIBEL-ZARFL	Delegated by the Works Council	28.02.2021

Independence of Supervisory Board Members

According Independence of Supervisory Board Members

According to the company's "Independency criteria for members of the Supervisory Board of BAWAG Group AG", a member of the Supervisory Board shall be deemed independent if said member does not have any business or personal relations to the company or its Management Board that constitute a material conflict of interests and are therefore suited to influence the behavior of the member. The Supervisory Board shall also follow the guidelines below when defining the criteria for the assessment of the independence of a member of the Supervisory Board:

- The Supervisory Board member has not been a member of the Management Board or Managing Director or a management-level staff of the company or a subsidiary in the two years prior to the appointment.
- The Supervisory Board member does not maintain or has not maintained in the past year any business relations with the company or one of its subsidiaries to an extent of significance for the member of the Supervisory Board. This shall also apply to relationships with companies in which a member of the Supervisory Board has a considerable economic interest, but not for exercising functions in the bodies of the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 does not automatically mean the person is qualified as not independent.
- The Supervisory Board member has not acted as auditor of the company or has owned a share in the auditing company or has worked there as an employee in the past three years.
- The Supervisory Board member is not a member of the Management Board of another company in which a member of the Management Board of the company is a Supervisory Board member.
- The Supervisory Board member has not belonged to the Supervisory Board of the company for more than 15 years. This shall not apply to Supervisory Board members who are shareholders with an entrepreneurial investment in the company or who represent the interests of such a shareholder.

- The Supervisory Board member is not a close family member (direct descendants, spouses, companions, parents, uncles, aunts, siblings, nieces, nephews) of a member of the Management Board of the company or of persons who are in a position described in the points above.

The following members are regarded as independent pursuant to C Rule 53:

Independence of Supervisory Board members

Name	Independent
Egbert FLEISCHER	YES
Kim FENNEBRESQUE	YES
Frederick S. HADDAD	YES
Tamara KAPELLER	NO
Adam ROSMARIN	YES
Gerrit SCHNEIDER	YES

Supervisory Board Mandates and Comparable Functions at Listed Companies

The following describes the Supervisory Board mandates and comparable functions of Supervisory Board members at listed companies in Austria and abroad as at the date hereof.

Members not listed in the following do not have any functions at listed companies.

Kim FENNEBRESQUE

Name of listed company	Function
Ally Financial	Member
BlueLinx Holdings	Chairperson

Attendance of meetings of the Supervisory Board and its committees

The Supervisory Board members attended all of the meetings of the Supervisory Board and its committees (attendance rate of 100%).

Supervisory Board Activity Report

In 2021 the Supervisory Board convened for five virtual meetings and adopted five resolutions via circulars. With respect to the activities of the Supervisory Board reference is made to the respective paragraph in the report of the Chairperson included in this report.

The Supervisory Board has the following committees:

- Audit and Compliance Committee
- Risk and Credit Committee
- Nomination and Remuneration Committee
- ESG Committee

Audit and Compliance Committee

Name	Function
Gerrit SCHNEIDER	Chairperson
Egbert FLEISCHER	Member
Frederick S. HADDAD	Member
Adam ROSMARIN	Member
Verena SPITZ	Delegated by the Works Council
Konstantin LATSUNAS	Delegated by the Works Council

Decision Making Powers and Activity Report

The Audit and Compliance Committee reviews the company's accounts and the annual financial statements and monitors the company's internal control system as well as the independence and work of the external auditor. The Audit and Compliance Committee prepares the auditor selection process, receives regular reports on compliance/AML/cybersecurity/ethics and data security and data privacy topics and approves the annual audit plans of Internal Audit and the Compliance Office. The Head of Internal Audit, the Compliance Officer and the external auditor have direct access to the Chairperson and members of the Audit and Compliance Committee and, once a year, the external auditor holds a private session with the members of the Audit and Compliance Committee.

The Audit and Compliance Committee held four meetings. With respect to the activities of the Audit and Compliance Committee reference is made to the respective paragraph in the report of the Chairperson included in this report.

Risk and Credit Committee

Name	Function
Frederick S. HADDAD	Chairperson
Kim FENNEBRESQUE	Member
Adam ROSMARIN	Member
Tamara KAPELLER	Member
Verena SPITZ	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

Decision Making Powers and Activity Report

The committee advises the Supervisory Board on the current and future risk-bearing ability of the Group and monitors the effectiveness and efficiency of the risk management systems and compliance with the legal provisions and regulatory requirements. It receives quarterly risk reports (including reports on credit, market, liquidity and operational risks and complaint management) and prepares, on an annual basis, the risk planning guidelines and the risk strategy which are subsequently approved by the entire Supervisory Board.

The Risk and Credit Committee held four meetings. With respect to the activities of the Risk and Credit Committee reference is made to the respective paragraph in the report of the Chairperson included in this report.

Nomination and Remuneration Committee

Name	Function
Egbert FLEISCHER	Chairperson
Kim FENNEBRESQUE	Member
Frederick S. HADDAD	Member
Adam ROSMARIN	Member
Verena SPITZ	Delegated by the Works Council
Konstantin LATSUNAS	Delegated by the Works Council

Decision Making Powers and Activity Report
The Nomination and Remuneration Committee deals with Management Board succession planning and the regular Fit & Proper evaluation of Management Board and Supervisory Board members. The committee further deals with the general principles of the company's remuneration policy. It also monitors the remuneration policy pursuant to the Austrian Banking Act, remuneration practices and remuneration-based incentive structures pursuant to section 39c of the Austrian Banking Act. It also supports the Supervisory Board in preparing recommendations to the General Meeting with respect to new Supervisory Board candidates and the remuneration policies/reports pursuant to the Austrian Stock Corporation Act. It further discusses succession planning topics which are reported to the entire Supervisory Board.

The Nomination and Remuneration Committee held two meetings. With respect to the activities of the Nomination and Remuneration Committee reference is made to the respective paragraph in the report of the Chairperson included in this report.

ESG Committee

Name	Function
Tamara KAPELLER	Chairperson
Egbert FLEISCHER	Member
Gerrit SCHNEIDER	Member
Verena SPITZ	Delegated by the Works Council
Beatrix PRÖLL	Delegated by the Works Council

Decision Making Powers and Activity Report
The ESG Committee, which was established in the second half of 2021, deals with the review of the group-wide ESG strategy and ESG targets and monitoring of their implementation and reviews regular updates on ESG-related topics. Furthermore, the committee advises the Supervisory Board regarding the current and future risk appetite and risk strategy relating to ESG-risks. It also monitors the effectiveness and the efficiency of the management of ESG risks (including risk control, risk policies, management reporting on ESG-risks) as well as the compliance with legal and regulatory requirements with regards to ESG topics.

The ESG Committee held one meeting. With respect to the activities of the ESG Committee reference is made to the respective paragraph in the report of the Chairperson included in this report.

REPORT ON EXTERNAL EVALUATION

The result of the evaluation revealed that, with the exception of the following, no matters became known that do not accurately reflect the implementation of and compliance with the relevant rules of the Austrian Code of Corporate Governance in the Declaration of Conformity in the Corporate Governance Report.

Rule2/ Question 1: The principle of "one share one vote" does not apply because a shareholder was granted the right to appoint a member of the Supervisory Board of BAWAG Group AG as long as the shareholder held a direct interest of at least one share in the Company.

REPORT FROM THE CHAIRPERSON OF THE SUPERVISORY BOARD

The Supervisory Board of BAWAG Group AG properly fulfilled all duties incumbent upon it by law, its Articles of Association and its Rules of Procedure. The Management Board informed the Supervisory Board of all material issues in a timely and comprehensive manner either in writing or verbally. In addition to periodic meetings, the Chairpersons of the Supervisory Board and the committees of the Supervisory Board discussed current business matters with the Management Board members. Further details regarding the composition of the Supervisory Board and its committees as well as their working procedures are disclosed further below.

SUPERVISORY BOARD

As of 31 December 2021, the Supervisory Board consisted of four female and five male members, resulting in a 44.4 % quota in terms of female representation at the Supervisory Board. The Supervisory Board focused on the annual financial statements and the consolidated financial statements for 2020 and discussed the appointment of the external auditor for 2022.

Other material topics which the Supervisory Board dealt with were BAWAG Group's strategy and budget, the ECB questionnaires on climate-related and environmental risks, the risk strategy and the mid-term plan and topics related to the board's self-evaluation and succession planning. The Supervisory Board also dealt with the acquisitions of DEPFA and Hello bank! Austria, which were closed in November and December respectively as well as with the integration of these acquisitions. Furthermore, the Supervisory Board was regularly updated about all relevant developments and measures in connection with the COVID-19 pandemic. It also received updates on BAWAG's multi-branded strategy in the international Retail & SME segment, priorities within the technology group (simplification and modernization) and the SREP process.

SUPERVISORY BOARD COMMITTEE MEETINGS

Audit and Compliance Committee

The Audit and Compliance Committee discussed the quarterly reports by Internal Audit and the Compliance Office as well as the 2022 audit plans of Internal Audit and of Compliance. The annual audit process for 2021 was also presented. Furthermore, regular updates on compliance/conduct (including ethics) and AML topics were given, including updates on cybersecurity, data security and data privacy. The external auditor as well as the Head of Internal Audit attended all meetings.

Risk and Credit Committee

The Risk and Credit Committee discussed the Group Risk Report, which includes the calculation of the risk-bearing capacity and reports on credit, market and operational risk. In addition, regulatory updates (including reports on credit, market, liquidity and operational risk and complaint management) and credit risk updates in light of the COVID-19 pandemic as well as the risk planning guidelines were presented to the committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee approved amendments of the remuneration policy pursuant to the Austrian Banking Act and also prepared the remuneration report for the Supervisory Board and the Management Board which was presented and ultimately approved by the General Meeting. . In addition, the annual Fit & Proper assessment of the Supervisory Board and the Management Board members was performed. The Committee also dealt with BAWAG's organizational structure, gender diversity and succession planning topics. It was also involved in the appointment process of new (female) members to the Supervisory Board as well as the creation of the Chief Administrative Officer role at Management Board level and the appointment of a new member into such role.

ESG Committee

The ESG Committee which was established in 2021 discussed broad ESG updates which also included details on BAWAG's ESG organization, its ESG framework. The ESG Committee also reviewed BAWAG's ESG roadmap which sets forth the path to achieving the ESG targets until 2025.

All committees also reported their discussions and decisions to the entire Supervisory Board.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements and the consolidated annual financial statements for 2021 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungs-gesellschaft headquartered in Vienna. The audit revealed no reason for objections. The legal regulations were complied with in full, and an unqualified auditor's opinion was issued. After an in-depth discussion, the Supervisory Board approved and adopted the annual financial statements in accordance with Section 96 Para 4 Stock Corporation Act. In addition, the Supervisory Board reviewed the separate consolidated non-financial report. The consolidated financial statements were noted by the Supervisory Board.

In conclusion, I would like to express my sincere thanks to the Management Board as well as all employees within BAWAG Group on behalf of the entire Supervisory Board for their performance and sustained commitment in 2021.

February 2022

Egbert Fleischer
Chairperson of the Supervisory Board of BAWAG Group AG

(Consolidated) Non-Financial Report

(CONSOLIDATED) NON-FINANCIAL REPORT

GENERAL INFORMATION AND REPORTING BOUNDARIES

102-46
102-48
102-49
102-50
102-54

With the NaDiVeG (Sustainability and Diversity Improvement Act), the reporting obligations regarding non-financial information (environmental, social and employee issues, respect for human rights and the fight against corruption) in the management report was expanded and specified as of the 2017 financial year in implementation of EU Directive 2014/95/EU.

To meet the statutory requirement of disclosing non-financial information, BAWAG Group has decided to include the (consolidated) non-financial report in its annual report, thus fulfilling its obligations under sections 243b and 267a of the Austrian Commercial Code (UGB). BAWAG Group has drawn up this non-financial report in conformity with the Global Reporting Initiative (GRI standard: core option), including industry-specific indicator sets for financial services – the report was prepared in accordance with the principles of accuracy, balance, clarity, comparibility, reliability and timeliness. The CSR Report is accompanied by the GRI Index (starting on page 334) and the UN Global Compact progress reports (page 343). In addition the requirements of disclosing information in accordance with the EU Taxonomy Regulation (Article 8) are fulfilled.

This report describes our concepts, non-financial risks and opportunities and (ongoing) measures, as well as the performance indicators used to manage and steer our key areas of action. In this context, we also explain the innovations and progress in the area of sustainability in 2021 and follow up on the CSR Report 2020.

Unless indicated otherwise, this report covers all operating entities of BAWAG Group as well as their brands. Since the acquisitions of DEPFA BANK plc and Hello bank! Austria only closed recently, respective data is not covered in this report - for Hello bank! Austria, HR related data is included.

Disclaimer:
We have taken the greatest care in collecting and processing all data and information provided in this report. Nevertheless, errors cannot be completely ruled out. If this report contains statements on future developments or expectations, these assumptions were made on the basis of the data and information available at the time of writing. Due to currently unforeseeable events, the statements made may therefore differ from actual events. We use gender-neutral terms such as “customers” and “employees” to refer to both women and men.

SUSTAINABILITY STRATEGY & GOVERNANCE

We strive to be good stewards of capital. We take great pride in our work, doing what is right for our customers and employees, and being good stewards of our shareholders' capital. We are disciplined in our lending, we focus on risk adjusted returns and we believe that ESG underpins sustainable, longterm profitability and capital growth as we look to grow organically in our core markets as well as through M&A.

ESG TARGETS

We do not look at ESG as a silo in our organization, as we believe that ESG responsibilities underpin sustainable long term profitability, and is a critical part of managing our risk. We have historically considered environmental and societal impact in our credit decisions, as they will impact our potential borrowers' repayment of loans over time. This supports our continued focus on ESG risk as a strengthening of our current business model.

ESG is a thread that runs through our business strategy and a key part of any prudent risk management framework. Therefore, we have committed ourselves to tangible ESG targets, which we are embedding into our operating plans:

- We are targeting a **reduction of our own scope 1 and 2 CO2 emissions of >50% by 2025** from a baseline of approximately 3,200 tonnes in 2020.
- In terms of diversity, we have established a **female gender quota of 33%**, for both the Supervisory Board as well as the Senior Leadership Team, by 2025.
- To further promote the environmental transition, we are targeting annual new green lending business of over € 1.6 billion, doubling 2020's volume, by 2025.

SUSTAINABILITY GOVERNANCE

102-20
102-46

To us, it is important that sustainability and ESG-related topics are embedded throughout our organization and to have each employee contributing within his or her own responsibilities. The internal organizational structure was expanded during the recent years to manage and monitor progress in the area of sustainability and ESG. We monitor relevant parameters and initiatives in the Non-Financial Risk and ESG Committee, which is chaired by the CRO and attended by all other Management Board members and selected BAWAG senior staff (including BAWAG's ESG Officers) as well. The Non-Financial Risk & ESG Committee is responsible for the operational implementation of BAWAG Group's sustainability programme and Group-wide ESG stratgegy and meets on a quarterly basis. The Non-Financial Risk & ESG Committee works with experts in various areas and departments to continuously advance BAWAG Group's commitment to sustainability. We have also established other platforms where ESG Officers and specific working groups discuss strategic priorities with respresenatives of the organization's divisions who also embed the topics within their teams. Due to the emerging importance of sustainability and ESG topics, our Supervisory Board has decided to establish a dedicated ESG Committee at the Supervisory Board level. The ESG Committee will work closely with the Management Board and the ESG Officers to ensure that we continue to drive responsible, sustainable and profitable growth.

STAKEHOLDER ENGAGEMENT AND MATERIALITY PROCESS

Stakeholder groups

During the materiality process 2018, we classified our relevant stakeholders in 10 groups (see CSR Report 2018, p. 9). We are in regular contact with all of these stakeholders via different means of communication. Our stakeholders include various groups of our society. Engaging in dialogue with our stakeholders and receiving their feedback enables us to understand the importance and impact of our actions on our stakeholder groups. For our stakeholders, there are various ways of entering into a dialogue with us: They may visit us at our physical branches or provide feedback via phone or e-mail towards our investor relations department, our press office, our call center or during General Meetings.

102-21
102-40
102-42
102-43
102-44

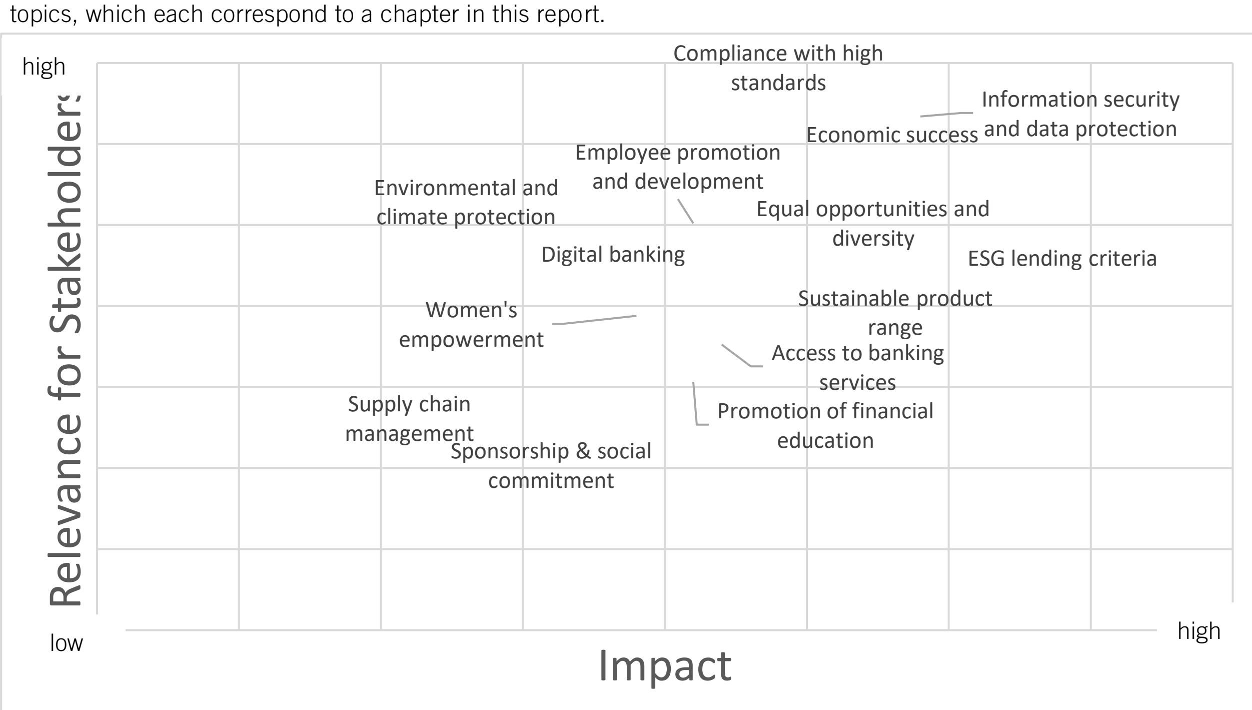
2021: Online stakeholder survey executed

During 2021, our bank conducted an online stakeholder survey. The goal was to evaluate the importance of various sustainability topics of BAWAG Group from the perspective of representatives of our internal and external stakeholders. Stakeholders of the entire BAWAG Group were invited to participate in the online survey. With respect to BAWAG's employee base, the CEO invited all employees during an internal town hall, and employees were given access to the stakeholder survey via respective internal platforms (e.g. intranet). The results show that all stakeholders rank the topics "Information security and data protection", "Compliance with legal and ethical standards" and "Economic success" as the most relevant topics. Regarding the three most important topics, no stakeholder-specific preferences or significant deviations could be identified. We consider the 2021 online stakeholder survey to be representative for evaluating and assessing our material issues for the entire BAWAG Group and for developing future sustainability initiatives.

Materiality matrix

The results of the 2021 stakeholder survey were subsequently presented and reviewed at an internal workshop with the CFO, the members of the Non-Financial Risk & ESG Committee and other sustainability experts of BAWAG. The 2021 materiality process served as a basis for prioritizing individual sustainability measures and identifying potential for improvement in existing initiatives. The 14 topics that can be seen in the graph below were clustered to seven materiality topics, which each correspond to a chapter in this report.

102-46
102-47



SUSTAINABILITY PROGRAM

MATERIAL TOPICS AND KEY FIELDS OF ACTION

102-16 102-47 103-1 103-2 103-3 BAWAG Group's seven material topics lay the foundation for its CSR strategy and sustainability reporting: "Economic success", "Ethics & integrity", "Responsibility towards customers", "Sustainability in core business", "Social responsibility and personal commitment", "Employee promotion and development, diversity and equal opportunities" and "Environmental & climate protection" (see Annex, p. 332 for a detailed overview). The fields of action and BAWAG Group's sustainability programme have been derived from them and are also closely linked to external frameworks such as the GRI, the UN SDGs, the principles and goals of the UN Global Compact and the principles of the UN Global Compact Women's Empowerment Program as well as the concerns according to NaDiVeg. The following table shows main topics and the corresponding aspects such as significance, management approach, impact, opportunities, risks and due diligence. Furthermore, GRI codes, SDG, COP and WFP references have been included alongside the text of the CSR chapter to provide better orientation on the various topics. The following table shows a high level overview of key actions that are currently being addressed throughout the organization and the current status of each initiative.

Area of action	Measure	Current status[1)]
ESG strategy	**Goal: Strengthening ESG/CSR activities and awareness**	
	… Evaluation of the existing materiality analysis with BAWAG Group subsidiaries in Germany and Switzerland	Done
	… Redefinition of the internal CSR organization and broadening of responsibilities within the Group	Done
	… Improvement in sustainability rating agency rankings	Ongoing
Ethics & Integrity	**Goal: Ensuring compliance with all guidelines and policies**	
	… Extension of the whistleblowing tool to German subsidiaries	Done
	… Expansion of the training program for employees on the subject of information security	Ongoing
	… Launch of revised, mandatory anti-corruption self-learning program for employees	Ongoing
	… Conducting annual risk analyses and audits and, based on these, defining Group-wide control priorities	Ongoing
	… Integration of the assessment of potential sustainability risks into the annual risk control self-assessment process for divisions and subsidiaries	Ongoing
	… Establishment of a clear governance to address climate risks, to address supervisory expectations and regulations	Ongoing
Responsibility towards customers	**Goal: Appropriate products and services for every life circumstance and every stage of life**	
	… Evaluation and implementation of measures to simplify processes for investment products	Ongoing
	… Process evaluations and screenings to support our customers in the shift to digital and the use of digital services	Ongoing
Sustainability in our core business	**Goal: Being a reliable financial partner for retail and commercial customers and for the regional economy**	
	… Introducing ESG-related lending/exclusion criteria for specific industries	Done
	… Issuance of a green bond (subject to market conditions)	Done
	… Expansion of the sustainable offerings in BAWAG's residential and consumer lending business	Ongoing
	… Continuation of the "New Chance" account for the financial inclusion of disadvantaged population groups	Ongoing
	… Expansion of the range of ESG-related products	Ongoing
	… Expansion of the range of paperless, purely digital product application processes for customers	Ongoing

Social responsibility and personal committment	**Goal: Further focus on volunteer days, crowdfunding.at and measures to improve financial education and digital literacy**	
	… Continuation of commitment to financial education and continuation of measures to increase digital competence among different age/social groups	Ongoing
	… Expanding awareness of volunteering among BAWAG Group employees	Ongoing
	… Development and publication of a Group-wide Social Engagement Strategy	Ongoing
	… Support for financing of regional social projects on crowdfunding.at	Ongoing
Human Resources: Employee promotion and development, diversity and equal opportunity	**Goal: Appreciation and advancement of employees**	
	… Extension of the feedback process to employees of Südwestbank	Ongoing
	… Increase in the proportion of women in management positions	Ongoing
	… Simplification of application processes through the use of innovative recruiting technologies	Ongoing
	… Expansion of employee offerings for individualized learning through new online platforms	Ongoing
	… Harmonization of employee benefits for all subsidiaries	Ongoing
Environmental and climate protection	**Goal: Reducing our environmental impact so as not to endanger the basis of life for future generations**	
	… Switch to green energy suppliers at all BAWAG Group locations	Done
	… Implementation of measures to optimize energy consumption during branch conversions in Austria (for example, replacement of lighting with LED lamps and replacement of air conditioning and heating systems)	Ongoing
	… Acquisition of electric cars for internal logistics	Ongoing
	… Digitalization measures to reduce paper use	Ongoing
	… Continuation of the replacement of existing IT equipment with equipment with energy efficiency certification	Ongoing
	… Reduction of Scope 1 and Scope 2 CO2 emissions	Ongoing

1) Explanation of current status:

- Ongoing = measure has been decided and will be updated on a regular basis
- Done = measure has been finalized and successfully executed in 2021

ECONOMIC SUCCESS

201-1 Creating value for various stakeholders of BAWAG Group is a top priority. Economic success enables us to take into account stakeholder interests, such as those of customers, employees, shareholders, the public sector and society in general. It also increases the stability of the economy and the financial sector in particular. Various stakeholders benefit from economic success, such as shareholders through an increase in the value of the company and capital distributions. Employees can be paid in line with the market conditions. Customers benefit from a comprehensive range of products and services, while business partners and suppliers receive orders and the public authorities receive taxes.

Furthermore, our financial stability as a bank positively influences our lending capacity, which contributes to the building and renovation of homes and the implementation of sustainable infrastructure projects, as well as to corporate financing. This contributes to the distribution of wealth and stimulation of the economy.

Economic success requires responsible, qualified and transparent management and control geared to long-term value enhancement. The Accounting and Financial Planning & Analysis units perform key tasks in this area. Established processes in Accounting ensure the implementation of changes to Austrian GAAP, IFRS and regulatory guidelines and rules, and the division is thus the point of contact for auditors.

The Financial Planning & Analysis (FP&A) unit runs the processes for reporting requirements in conjunction with the traditional methodological controlling tasks (PCR, FTP, KPI definition, etc.) for the entire BAWAG Group. The controlling units manage the Bank at the individual and Group level through regular reporting. These reports form the core element of the management information system (MIS). The regulatory reporting team prepares and implements existing and new reporting requirements. As in all business areas and key issues, BAWAG Group is committed to openness and transparency here. Extensive information is presented and continuously updated by our Investor Relations department on the website, such as annual and interim reports, investor relations releases, share price data, corporate presentations, ad hoc announcements and press releases to provide transparent information to shareholders and the interested public.

Table: Direct economic value generated and distributed

in € million	2021	2020[2)]
Direct economic value generated		
Interest income	1,128.0	1,113.7
Dividend income	17.7	2.8
Fee and commission income	353.0	329.1
Gains and losses on financial assets and liabilities	11.3	-26.7
Other operating income	168.1	127.7
Share of the profit or loss of associates accounted for using the equity method	3.8	1.1
Total direct economic value generated	1,681.9	1,547.7
Economic value distributed		
Operating costs	578.4	677.7
Fee and commission expenses	70.9	74.3
Other operating expenses	218,0	152.5
Operating expenses excl. employee excl. community investment	194.5	226.3
Risk costs	95.0	224.6
Employee wages and benefits	295.4	297.4
Staff costs	295.4	297.4
Payments to providers of capital	691.9	215.2
Interest expense	207.4	201.1
AT1 coupon	24.5	15.0
Dividends [1)]	460.0	0.0
Payments to government by country	46.1	35.0
Income taxes paid	46.1	35.0
Community investments	0.2	0.3
Total economic value distributed	1,612.0	1,225.6
Economic value retained	**69.9**	**322.1**

1) refers to cash actual dividends paid

2) restated

RATINGS

	2021
BAWAG	
Long-term Senior Unsecured / Issuer Rating	A2 (stable outlook)
Long-term Bank Deposits Rating	A2 (stable outlook)
Short-term Issuer / Bank Deposits Rating	P-1

Our sustainability performance is assessed by ESG rating providers on a regular basis. In 2021, we continued to see an improvement of our ESG ratings and we use their outcomes to identify further areas of improvement. In order to update our stakeholders on the progress of our ESG initiatives on a regular basis, we integrated ESG as an integral part of our communication and also provide updates on our ESG website.on bawaggroup.com.

ETHICS AND INTEGRITY

RISK CULTURE AND COMPLIANCE

We operate in a highly regulated environment and are directly supervised by the European Central Bank (ECB) under the Single Supervisory Mechanism (SSM). We are thus subject to and compliant with the regulatory framework which applies to the governance of significant credit institutions. On top of this, we have adopted internal policies which go beyond the regulatory framework and shall ensure that we stay committed to the highest standards with respect to our risk culture and compliance. **102-11** **102-16**

We believe that effective compliance and risk management is a crucial aspect of a bank's success. In addition to the conventional risk types, we appreciate that the management of non-financial risks is becoming increasingly important. Group-wide compliance and non-financial risk management sets the framework under which laws, requirements and standards are observed and aims to provide comprehensive protection for investors, customers and the company. In addition to the management of operational risks, the tasks include the prevention of money laundering, combating terrorist financing, monitoring compliance with sanctions, fraud prevention, data protection, information security, securities compliance and the prevention of insider trading, market abuse and conflicts of interest. The term "compliance" refers to the sum of all measures that obligate a company, its management and employees to adhere to applicable regulatory and legal requirements. Beyond this, the aim is also to ensure that business conduct complies with all social guidelines and values. A modern compliance structure pays attention to suspicious circumstances, takes them seriously, reacts, acts and implements preventive measures through the sound preparation of risk analysis and intensive training of all employees.

All risk units in BAWAG Group report to the Chief Risk Officer. The separation between risk origination and risk management functions is strictly adhered to. The entire Management Board is informed proactively and at least monthly about the relevant risk KPIs. In 2021, BAWAG Group has consolidated and functionally centralized compliance themes under the lead of a designated Management Board Member to foster independence, awareness and support businesses and stakeholders. All compliance units are under joint management responsibility and report to the Chief Administration Officer (CAO). Non-financial risks are discussed in the Non-Financial Risk & ESG Committee and assessed as part of the mandatory product implementation processes. Quarterly risk and compliance reports are submitted to the respective committees of the Supervisory Board. The risk policy guidelines are continuously reviewed with regard to adjustments to the business strategy, changes in regulatory requirements and changing market conditions. Violations of legal requirements and internal rules of conduct can lead to reputational risks and serious consequences such as penalties, fines and negative impacts for BAWAG Group. Individual employees involved in such violations face fines or imprisonment as well as disciplinary measures under labor law, up to and including dismissal. Any attempt to commit a financial crime is considered a serious violation of BAWAG Group's business principles and integrity and is investigated accordingly. BAWAG Group applies a zero tolerance policy with respect to such matters.

Risk control self-assessments

Other non-financial risks associated with effects from business activities or business relationships (as defined in Section 267a [3] UGB) are identified annually in the specialist areas as part of the risk control self-assessments (RCSAs). All divisions and subsidiaries are involved in the process. Operational risk includes various subcategories, such as violation of health and safety regulations, discrimination, violation of guidelines and violation of privacy. All organizational units are asked to identify and assess their respective risk, as well as the effectiveness of controls and measures which are put in place.

In 2021, the assessment was extended to potential sustainability risks. For the first time in the reporting year, all divisions and subsidiaries were required to assess whether potential risks could arise from social change or climate change in their areas of activity and business. In terms of environmental topics, a distinction was made between physical risks (arising directly from the consequences of climate change) and transition risks (arising from the transition to a low-carbon economy). Physical risks included climate change/weather extremes/natural disasters and resource scarcity. Transition risks were differentiated into supply chain changes/disruptions, potential carbon taxation/levies, impact on existing business lines and development of new business lines/industries. With respect to social factors, pandemic/health crisis, aging society, widening gap between rich and poor, lack of access to banking infrastructure/products, lack of skilled labor, high turnover and new work models and discrimination in terms of gender, age and/or other factors were taken into consideration.

Another key area in this year's RCSA questionnaire related to information security: potential security incidents (phishing/hacking attempts etc.) as well as potential effects on data and systems assessed. In the course of 2021, divisions of BAWAG and subsidiaries across Austria, Germany and Switzerland were asked to provide their feedback on CSR issues – in particular, how potential risks related to ecological developments (climate change and renewable energy transition) and socio-economic developments (demographic change or social issues) could potentially affect their area. Regarding ecological developments, extreme weather conditions and natural disasters were considered to be the biggest risks which could have an impact on existing business areas. Regarding social issues, high fluctuation and an extension of the pandemic/health crisis were considered as the biggest risks. The collected risk assessments were reported to the Management Board as part of the RCSA process.

Self-learning programs

Regular and comprehensive training and communication of legal requirements and internal guidelines is key to ensuring that employees are up-to-date with requirements applicable to their area of responsibility. As a part of the onboarding process, all new employees are obliged to successfully complete the key topics through self-learning programs within 30 days as of the start of their employment. These initial self-learning programs are linked to compliance, AML, operational risk, security/data protection and anti-corruption. Other training courses are conducted throughout the year as part of BAWAG's ongoing training programs.

Code of Conduct

BAWAG Group's Code of Conduct sets forth the understanding of banking and conduct ethics that BAWAG Group applies. It is important that employees internalize these rules and values. Therefore, corresponding training on this matter is conducted (bi-)annually. As part of this training, employees are familiarized with aspects of business ethics and anti-corruption rules, all aspects of compliance and the general principles of conduct that apply in day-to-day business. The Code of Conduct also applies to members of the Management Board and the Supervisory Board. In November 2021, a specific self-learning program regarding "Conduct & Securities Compliance" was launched. 95% of employees successfully completed the program. Our Code of Conduct is regularly reviewed to determine any need for revision and is published on the BAWAG Group website in German and English.

COP 1
COP 2
COP 6

Supplier Code of Conduct

102-9
205-2

While the Code of Conduct (described above) represents the values BAWAG Group stands for, the Supplier Code of Conduct defines our expectations towards business partners. These expectations cover, in particular, ethically correct and legally compliant behavior, environmental protection and human rights. Counterparties undertake, amongst others, that they:

- comply with applicable laws of the respective jurisdiction;.
- refrain from actions that could unlawfully influence the decisions of government representatives and public bodies or authorities;
- prohibit the acceptance of gifts and gratuities from employees in connection with their work and duties in excess of customary gifts or other benefits;
- respect fundamental rights, health and safety of employees; and
- respect environmental protection by complying with applicable laws, regulations and international standards

SDG 8
SDG 13
SDG 16
COP 1
COP 2
COP 4
COP 5
COP 6
COP 10

Each supplier is obliged to commit to these principles before entering into a business relationship with BAWAG Group. The requirement to sign the Supplier Code of Conduct is stipulated in the Group-wide Corporate Procurement Policy and accordingly applies to all entities of BAWAG Group.

204-1
COP 4

Table: Expenditures to local suppliers[1)]

	2021	2020
Expenditures to local suppliers	74%	74%

1) Suppliers with their main location in Austria, Germany or Switzerland are considered "local". International companies whose branches are located in the aforementioned countries and act as billers to BAWAG Group are also classified as "local" in the presentation. Due to the data situation, it was only possible to report the expenses of BAWAG P.S.K. (incl. easybank, SÜDWESTBANK). An expansion of the presentation to include other subsidiaries is planned.

Prevention of money laundering and terrorism financing (AML / CTF)

BAWAG Group's focus is on low-risk business in its core markets Austria, Germany, Switzerland, Netherlands (DACH/NL region), Western Europe and United States. BAWAG Group is committed to combating financial crime and ensuring that accounts held at its organization are not misused for illegal activities like money laundering or terrorism financing. Accordingly, BAWAG Group has implemented Group-wide policies, processes and controls with respect to anti-money laundering ("AML") and counter terrorism financing ("CTF") which, combined with other comprehensive measures and procedures, aim at applying a risk-based approach. These policies implemented the applicable legal framework, such as the Austrian Financial Market Money Laundering Act (FM-GwG) and applicable EU regulations. In terms of AML and CTF, the following principles apply:

- BAWAG Group's AML/CTF strategy is closely aligned with the defined ESG risk appetite of BAWAG Group and aims for customers with a low AML/CTF risk profile. Accordingly, prohibited and restricted countries, customers, industries and products have been defined.
- BAWAG's AML/CTF Group strategy defines minimum standards in respect of know your customer ("KYC"), customer due diligence ("CDD") and enhanced due diligence ("EDD") requirements. The defined KYC processes ask for proof of origin, usage, domicile and residence, and industry risk and define regular risk-based customer updates. The onboarding processes of new customers demand the identification and verification of private customers, corporates, trustees and trustors, and their ultimate beneficial owner before account opening or executing a single transaction outside a permanent business relationship in a risk-based manner and following defined CDD or EDD requirements.
- AML/CTF prevention is technically supported by various applications which ensure risk classification and customer as well as transaction screening. During the onboarding process, customer screening is performed on a regular basis to identify PEPs (weekly), sanctioned persons and terrorists (daily). This is supported by an automated monitoring system which screens customers against internationally recognized lists. Transactions are monitored in real-time (sanctions and CTF) and ex post via specific AML/CTF scenarios and defined thresholds depending on the risk class of customers.
- Additionally, BAWAG Group has defined, implemented and documented internal control systems ("ICS") in line with applicable laws. The ICS shall ensure efficient and high-quality processes. Findings are reported on a regular basis, with out-of-the-ordinary findings being reported immediately. The ICS comprises, among others, KYC onboarding processes, transaction screenings and various business field reviews. They are continuously updated, especially in case of implementation of new products, sales channels, lines of business or business sectors.
- BAWAG Group reports to and supports international and national authorities in combating illicit activities (including terrorism financing, tax fraud and other illegal activities).
- BAWAG's AML/CTF Group policies have clear guidance for its employees and define mandatory, designated AML/CTF training sessions (AML/CTF module, KYC module, Ultimate beneficial ownership module, Cash module) for all employees which are conducted via computer-based self-learning programs and via face-to-face training by Compliance Officers or external firms. These trainings must be completed at the beginning of the employment by every employee regardless of position or area. Mandatory follow-up trainings are provided at least every 18 months.

Further details on BAWAG Group's approach towards AML and CTF can be found in the Anti-Money Laundering Policy, which is published on our ESG website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG).

Securities compliance

Group-wide guidelines govern employees' personal securities transactions as well as the handling of compliance-relevant information and the avoidance of conflicts of interest. Employee training on securities compliance is conducted annually, based on an assessment of the individual risk associated with relevant employees. The mandatory "Securities Compliance" self-learning program covers aspects of the *Compliance Policy* and the *Conflicts of Interest Policy*. Adherence to the guidelines is reviewed by the Compliance Office in so-called compliance reviews, which are conducted in line with an annual plan as signed off by the Audit and Compliance Committee of the Supervisory Board. This also includes reviews at selected subsidiaries of BAWAG Group.

Anti-corruption and ethics

205-2
SDG 16
COP 10

BAWAG Group does not tolerate any financial crime and applies a zero tolerance policy in this respect. Any abuse of power, position or resources to gain a personal advantage or an advantage for third parties and to influence the behavior of the recipient in a certain way is prohibited. We therefore expressly prohibit any form of bribery or corruption. Any attempt to bribe or gain other unlawful advantages must be rejected and reported immediately to the Compliance Office, and the relevant department must be informed. We take decisive action against attempts at corruption in all our business areas. The Anti-Corruption Policy defines the terms benefits/gratuities, corruption and public officials and regulates the handling of gifts. The Anti-Corruption Guideline provides for a broad definition of benefits to cover all types of gratuities. The policy is available in German and English to all employees in addition to a compact guide that summarizes employees' key anti-corruption obligations in an easy-to-understand manner. The policy provides for levels of specific benefits that can be accepted up to certain thresholds and are subject to documentation/approval requirements, while at the same time defining benefits that are prohibited under all circumstances (e.g. benefits that violate applicable law, ethical principles and/or are discriminatory in nature). All business areas of BAWAG Group are monitored within a very narrow framework as part of a risk assessment. The monitoring processes take place on a regular, individual basis and are structured according to the size of a business unit, its tasks, its relationship with external parties, its self-assessment of operational risks and, if applicable, previous incidents. Depending on the individual classification, certain preventive measures are implemented. These measures include a higher frequency of training and compliance audits for high-risk units.

All employees (including part-time) of BAWAG Group receive training on ethics and anti-corruption. For training purposes, a mandatory e-self-learning program has been established that covers all topics related to the Code of Conduct and the Anti-Corruption Policy. New employees must complete such self-learning program at the beginning of their employment. The program is constantly updated in line with evolving legal requirements and current incidents and is rolled out to all employees on a regular basis, at least every two years (most recently in fall 2021). Each training session ends with a mandatory test in which a minimum score must be achieved in order to complete the training. In addition to these regular training initiatives, ad hoc training measures are also conducted following specific incidents and the results of the regular anti-corruption risk assessment. These ad hoc training measures can take the form of specific training for individual employees, training for specific departments or information for the entire organization via an article on the company's intranet.

Departments that are particularly at risk are regularly informed of obligations during compliance audits. In addition, compliance SPOCs (Single Point of Contacts) across the organization help to raise awareness of the need to handle benefits in accordance with the rules. Based on the training that every employee receives, BAWAG Group expects its employees to act responsibly with regard to anti-corruption and bribery. For this purpose, a self-assessment is carried out by the respective employee in the first control level. In addition to the self-assessment, a control and, if necessary, approval process takes place for the receipt and granting of benefits, which essentially depends on the type and value of the benefit. All benefits are recorded in a gift register to enable retrospective review. The Compliance Office reviews the gift register annually and evaluates individual cases as part of the grant approval process. Regular audits are conducted in the individual areas at least once a year. These audits address anti-corruption and ethics issues. Subsidiaries in Germany: At BFL Leasing, all employees were required to participate in the mandatory annual money laundering and fraud prevention training. The topic of corruption is also addressed within this framework. All employees took part in the training. At start:bausparkasse Germany, the annual mandatory training on money laundering, initiated by the money laundering officer, took the form of a self-learning program. A total of 24 employees took part in the training.

No cases of corruption were reported in BAWAG Group in 2021. We also observe anti-corruption regulations that are anchored in the Supplier Code of Conduct in our business relationships with suppliers. Adherence to the anti-corruption guideline is checked, for example, during "compliance audits," which include the topic of anti-corruption. Further details on BAWAG Group's approach towards ethics and anti-corruption can be found in the Anti-Corruption Policy and Business Ethics Guidelines, which are published on our ESG website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG). **205-3 205-2**

All members of the Supervisory Board of BAWAG Group were informed about compliance topics as part of the annual report during the reporting year. No cases of corruption were reported in BAWAG Group in 2021.

CYBERSECURITY

Data protection and information security

SDG 16

BAWAG Group's Chief Information Security Officer and the IT Security Operations Team are committed to protecting the information, ICT systems and interests of employees, customers and other stakeholders in terms of confidentiality, integrity and availability. BAWAG Group has implemented a set of security policies covering both general and specific security topics such as identification and access management.

The security policy document set was adapted to current challenges (e.g. regarding increasing cloud usage) and comprehensively expanded. State-of-the-art technologies and services are used to achieve the expected high level of internal and external security. In addition, organizational measures are implemented such as regular security awareness training for employees, security information blogs and security alerts for employees and customers (on our public BAWAG security portal). The security measures defined in collaboration between the CISO Office and IT experts are executed by certified security experts – both in the CISO Office and in the IT Security Operations Team. A special security focus has been placed on the development, implementation, operation, use and maintenance of new ICT solutions in order to identify emerging security risks at an early stage and achieve compliance with new regulatory requirements. In addition to dedicated organizational security units, BAWAG Group has established interdisciplinary committees and working groups to ensure comprehensive and consistent implementation of security measures, such as the IT Security Roadmap Workshop, the Cyber Crime Working Group and the Fraud and Information Security Committee (CFIS). BAWAG Group regularly performs penetration tests (security tests) with the help of specialized expert companies, especially for Internet-based systems (such as our digital banking solutions). The regular performance of penetration tests is required in BAWAG Group not only by financial market regulations, but also by the internal Penetration Testing Standard. The results of the penetration tests are used to further improve the security of the tested systems. For internal systems, BAWAG not only performs specific penetration tests, but also ongoing vulnerability scans to identify inadequacies in the internal IT landscape. Detected vulnerabilities are dealt with in a timely manner according to their criticality. To validate our comprehensive cybersecurity approach, we use a renowned cybersecurity rating service, which demonstrates the comparatively good cybersecurity position of BAWAG Group (including our international units) in the financial sector.

Whistleblowing

Open dialog between managers and employees is very important to us. Employees can report information about suspicious circumstances to their managers at any time. If they wish, employees can also submit such reports anonymously and confidentially via a whistleblowing system, because well-founded tips help us improve as a company and as a team. The web-based whistleblowing system is operated by an external, independent provider and is certified in accordance with European data protection law. The whistleblowing system can be accessed by employees 24/7 and is available in German and English. The employee can choose whether the report is made anonymously or not. If the whistleblower wishes to remain anonymous, a protected multi-stage login procedure with a self-selected pseudonym and password is used to ensure the whistleblower's anonymity. With the help of individual encryption, message data, mailbox data and processing data are protected from access by third parties. Only the administrators and selected, authorized and specially trained employees of BAWAG Group as "legitimate recipients" can process the data. The security system denies unauthorized third parties any access. All employees with access rights to the reporting system are bound to a mandatory duty of confidentiality by accepting the authorization. This special duty of confidentiality continues to apply indefinitely after the authorization has been deleted. The whistleblowing process is part of the "Compliance and Conduct" self-learning program for employees.

Detailed information on the process can be found in the Group-wide whistleblowing policy, which is available to employees in German and English on the intranet. It sets out rules for the careful handling of reported cases and provides guidelines on how to protect the reporting person from disadvantages and negative consequences. All whistleblower reports are handled in accordance with the specified matrix, documented in detail and reported to the management board in specific cases.

DATA PROTECTION

Since we manage sensitive data about the financial lives of our customers, a seamless data protection concept is of particular importance to us. BAWAG Group is therefore committed to implementing high data protection standards in accordance with the legal provisions of the General Data Protection Regulation and the data protection laws in the countries where it operates, as well as taking human rights into account. The Group Data Protection Officer advises relevant stakeholders within BAWAG Group. The Data Protection department is integrated into the General Counsel Office and reports to the Chief Administrative Officer. In addition, data protection and information security topics are dealt with in the Non-Financial Risk & ESG Committee. Projects focusing on data privacy were also implemented in the reporting year, including the review of the IT system catalog regarding data privacy compliance (e.g. data deletion routines). In addition, the procedure directory was updated.

Further details on data protection can be found in BAWAG's *Data Protection Guidelines,* which are published on our ESG website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG).

Responsible handling of data
BAWAG Group is obliged to comply with the rights of its customers and employees to information and access to their data as well as to rectification, deletion, restriction of processing, data portability and the right to object. Customers are informed about the collection, use, disclosure and storage of data (including data transfer to third parties). Third parties to whom data is to be transferred must comply with company policies and enter into agreements on commissioned processing and confidentiality. An online inquiry form for customers and detailed information relating to data processing are available on the websites of the Group companies. In addition, customers are informed of the possibility of contacting the data protection team directly via online contact forms on the respective websites or via e-mail.

Procedure in the event of suspected data privacy violations
Data protection violations are reported to the data protection authority in accordance with the General Data Protection Regulation. Any potential breach reported by customers or employees is thoroughly investigated and followed up. Once the results of the analysis are available, measures are taken to prevent a new incident if an actual breach is identified. Measures include changing process flows, introducing another audit measure, making any necessary technical adjustments and retraining employees. Customers are provided with a data protection information document pursuant to Articles 13 and 14 of the GDPR when products are opened, which contains, among other things, the contact options for the data protection authority for suspected cases of data protection violations. The notification is free of charge for customers. After the notification of a customer, the data protection authority examines the suspicion in the company. BAWAG Group is obliged to submit a statement on the individual case to the data protection authority within 14 days.

Employee training
A comprehensive data protection guideline applies to all employees. A mandatory SLP has been introduced for training purposes and is updated on a regular basis. The SLP must be completed by all employees every two years. In addition, contact persons in the Group help raise awareness for the confidential treatment of the personal data of our customers and employees.

RESPONSIBILITY TOWARDS CUSTOMERS

BAWAG Group has always pursued the approach of meeting the needs of its customers and providing as many people as possible with access to banking services and offering products and services that fit their individual circumstances. The needs of our customers are given top priority. Their behavior and needs are in a constant state of flux, due in part to the increasing digitalization of everyday life. Accordingly, customers' expectations of a bank's products and services are also changing rapidly, and BAWAG Group aims to meet these expectations with innovative strength across all sales channels.

PRODUCT IMPLEMENTATION PROCESS

The product implementation process (PIP) plays a central role in the development of new products and services, entering new markets and important changes to existing products, services and markets. All risks, such as credit risk, market risk and operational risk, must be taken into account during product development. Since the beginning of 2020, the inclusion of ESG criteria in the product implementation process has been mandatory.

PIP: Consideration of environmental and social factors

102-11 In 2021, all newly launched products were also reviewed in view of CSR/ESG aspects. Prior to launching new products,
FS 2 responsible product managers were asked to assess and describe positive impacts of product implementation in respect of
FS 11 environmental, social and governance aspects. The impact is queried and presented using a statement on sustainability aspects (CSR/ESG statement), which is an integrated part of the tool for product launches:

- Environmental: Among other things, the expansion of green energy or electromobility, increased energy efficiency and the reduced use of natural resources such as paper are rated positively.
- Social: Factors such as the accessibility for people with special needs, the reduction of discrimination, the fight against poverty and the expansion of educational opportunities are rated positively.
- Governance: Compliance with internal guidelines such as the Code of Conduct, anti-corruption and data protection was defined as a mandatory requirement for a product launch.

PIP guideline and internal training FS 1

CSR/ESG information is part of the guideline on the product implementation process. It states that every product idea must be evaluated for ESG criteria before the product implementation process is started. In order to promote Group-wide awareness, the importance of CSR/ESG was highlighted during internal training measures presenting and explaining a new tool for performing the PIP. All employees on a Group level who are involved in product launches were invited to the training sessions. Based on this tool, CSR/ESG data related to product implementation are stored automatically in a centrally available database and can be used for reporting.

RESPONSIBLE INTERACTION WITH CUSTOMERS

We strive to achieve the highest customer satisfaction time on all sales channels. A respectful dialog and proactive communication with our customers are particularly important to us, which is why we offer our customers the opportunity to submit inquiries and feedback via various channels. In addition to the employees who work directly with customers at the branches, the customer service center, complaints department and social media are key feedback platforms.

Access to finance

Within the last couple of years, we diversified our Retail & SME originations away from branches, thereby increasing the accessibility of our products and services. Today, over 75% of originations come by way of non-branch channels as we have invested in digital channels, partnerships and platforms. More than 90% of our transactional banking is done digitally, whether it is via our mobile or web banking functions or self-service devices. And today we have over 900,000 online customers. In addition to the transactional banking, more than 45% of our retail customer loans sales are originated through non-traditional channels.

For all questions about products, services, etc., we have implemented a dedicated section on the website (https://www.bawagpsk.com/BAWAGPSK/PK/services/276976/faqs-.html) where customers can acquire knowledge in "self-service". 95% of households in Austria have access to the Internet: Providing the information online increased the number of customers who are able to access the content 24/7 at home. As the Austrian banking market is underpenetrated with securities and investment funds, we held a first webinar for customers to create "low-threshold" access to securities investment knowledge and to increase financial literacy. In addition, customers can get access to virtual training materials and receive a “stock market driving license” – free of charge.

Our infrastructure in the region ensures access to banking services

Within the Austrian market, BAWAG provides its customers with access to banking services via various access points. In addition to its branch network, there are 1,139 ATMs outside the branches. Telephone customer services and 24/7 online offerings round out the service portfolio. By maintaining this infrastructure, we also enable residents in sparsely populated regions to access banking services. In the following provinces, the number of inhabitants per square kilometer is below the Austrian average (106.1*):

FS 13 **Table: Access to banking services in sparsely populated provinces in Austria**

2021	Inhabitants per square kilometer*	Branches	ATMs (outside of branches)
Lower Austria	88.2	8	215
Salzburg	78.4	4	78
Styria	76.0	12	210
Burgenland	74.7	3	49
Tyrol	60.1	4	95
Carinthia	58.9	5	88

Source: en.statista.com

BAWAG branch network
As a bank, BAWAG helps to provide access to banking services in Austria’s rural regions. As of 31 December 2021, our physical branch network consisted of 77 branches, including self-service zones that are accessible 24/7. The branch network enables 87% of BAWAG P.S.K. customers to reach a branch within a driving distance of 25 km or less, and 90% of customers up to a maximum of 30 km. In 2021, further progress was made on the finalization of BAWAG’s independent branch network.

Barrier-free access to branches and app
As of 31 December 2021, BAWAG had equipped 77 locations with self-service zones. All of these self-service zones are FS 14
barrier-free for the hearing and visually impaired. The functions required for this were implemented in accordance with the SDG 1
criteria of the Austrian Association for the Blind and Visually Impaired. The visually impaired can operate the devices according to their needs, including increasing the screen contrast, selecting larger fonts and switching off images and animations. Account balance inquiries, withdrawals and PIN management can be completed with the help of the audio function. Barrier-free access to BAWAG locations with self-service zones is possible during opening hours at 96% of the branches, and at 92% of the locations outside opening hours. Barrier-free access to safes is possible during opening hours at 62% of branches. In 39% of the self-service zones, it is also possible for wheelchair users to drive under the ATMs, which makes it much easier for this customer group to operate the machine. All Südwestbank locations offer wheelchair-

1) “Austrian resident population” is defined as the number of persons with their main place of residence in the country. Data as of 2016. Source: Statistics Austria.

accessible facilities. In addition, the BAWAG P.S.K. klar app and easybank app are taken into consideration for providing access to our services online 24/7.

Cash service
BAWAG customers who find it difficult to get to the nearest branch or ATM can have cash delivered personally to their home on a day of their choosing. Any customer residing in Austria can order a "domestic cash order" for their account. In addition, BAWAG offers the option of withdrawing cash at the checkouts of REWE brands throughout Austria when paying by card.

Retail customers
In 2021, BAWAG's klar and easybank digital banking apps were again continuously expanded and improved. This year, customers were offered several updates with improvements and added functions. Above all, the self-service functions (changes to personal data in the apps) and the card management features (request a new credit card and display the credit card PIN code, SmartCash and 3D Secure) were high on customers' wish lists and were fulfilled. This also applies to features such as custom account names, sales receipts and copying and sharing IBANs/BICs. More than 8.9 million transfers were made in 2021, via the klar and easybank apps.

Business customers
BAWAG further expanded its digital business customer experience in 2021 and offers domestic one-person enterprises the opportunity to open a business account in a purely digital manner, without having to visit a branch. Once the new online application process for the KontoBox XLarge Business product has been successfully completed, the new BAWAG business account can be accessed on the same day.

Complaint management

We are analyzing our customers' feedback on a regular basis and initiate measures to improve products and processes where necessary. BAWAG's complaint management guideline defines how customer complaints are handled and how this is set up in an organizational and legally compliant manner. Our goal is to deal with complaints responsibly and in accordance with the regulations, to restore customer satisfaction and to improve our service quality through in-depth analysis of the issues presented. We strive to handle every customer complaint as quickly and efficiently as possible and to find satisfactory solutions. Complaints can be submitted through various channels (by phone, web forms, in person at the branches or by regular mail). Regardless of the method of submission, all complaints are registered and customers receive written confirmation of receipt with an individual complaint number if the matter is not resolved immediately. Complaint management handles the examination/coordination of the matter and, if necessary, contacts specialist departments to obtain additional documents. The customer will be contacted by complaint management or other qualified departments in order to find a mutually agreeable resolution. If no agreement can be reached with the customer, the customer will be informed in writing of the result of the review. Customers also have the option of contacting arbitration bodies, which are official alternative dispute resolution (ADR) institutions under the Alternative Dispute Resolution Act (AStG). According to this law, businesses and consumers can avail themselves of an alternative dispute resolution procedure to court proceedings. Such a procedure can only be initiated by the consumer. Each of these independent bodies must ensure through its rules of procedure that disputes are resolved in a fair and practicable manner based on an objective assessment of the circumstances of the consumer's complaint and with due regard for the rights of the parties. The law also stipulates that proceedings must be conducted swiftly. The Joint Conciliation Board of the Austrian Banking Industry (bankenschlichtung.at) has been established for the out-of-court settlement of disputes relating to certain customer complaints in the banking industry.

For contracts concluded online, the consumer also has the option of contacting the dispute resolution platform set up by the European Commission (ec.europa.eu/odr). The Internet Ombudsman (ombudsmann.at) is responsible for the out-of-court settlement of disputes relating to contracts concluded over the Internet or other issues of e-commerce, Internet law, data protection, copyright and trademark law in connection with the Internet. Consumer Mediation Austria (www.verbraucherschlichtung.at) is the competent body for complaints relating to foreign currency loans. Consumers are already expressly informed of the possibility of appealing to these arbitration bodies in the contract documents. The Complaint Management department continuously analyzes the data and information received and, on the basis of this, formulates suggestions for improvements to products and internal processes. The evaluation results are submitted to the Non-Financial Risk & ESG Committee and discussed in the meeting.

Responsible customer management

Responsible and respectful dealings with our customers are important to us and are laid down in various guidelines (including the code of conduct). We comply with the pertinent legal regulations and also set strict internal guidelines for ourselves. In this way, we want to ensure that at every point in the company, the needs of our customers are put at the forefront. In 2020, we introduced the Group-wide responsible marketing and sales policy and communicated it to the employees who are directly responsible for its implementation. The policy serves as a strategic code of conduct for responsible behavior in marketing and sales and to build trust with our customers. The guideline's fundamental principles include a commitment to legally compliant, respectful and ethical behavior, confidential handling of information, no discrimination, expanding analytical capabilities, removing barriers and profitable and responsible growth. The guidelines in marketing include a commitment to transparent and clear language in communication measures, fair pricing, diversity in advertising and a respectful approach to all customer groups. In sales, we are committed to appropriate recommendations for our customers, ongoing training for our sales staff, continuous quality controls and a focus on our core competencies. **417-1**

The policy can be viewed at the following link: www.bawaggroup.com/BAWAGGROUP/IR/DE/ESG

Other cornerstones of responsible customer management

- Only those BAWAG customers are proactively approached through marketing campaigns for whom we assume that their financial situation allows them to use the advertised financial services product.
- The use of overdraft facilities by BAWAG customers is subject to ongoing monitoring. If we notice that a customer is approaching the upper purchase limit and also remains there for a longer period of time, we contact the customer and, if necessary, offer an alternative to the overdraft. In this way, customers not only save debit interest, but also get the opportunity for clear, structured debt reduction. This service goes beyond the legal requirements, as eligible customers are proactively addressed and the criteria BAWAG uses to define the relevant customer group are more comprehensive than required by law.
- To counter long-term credit risk for customers, we offer special insurance packages in the event of illness and unemployment when a loan is taken out. This service is not required by law, but is provided by BAWAG for the benefit of its customers.
- BAWAG customers are invited to an annual financial check-up at the branches, where they work with personal advisors to define their short- and long-term financial goals. An individual financial plan is drawn up on this basis.
- Depending on the account model, BAWAG proactively notifies its current account customers of new fee statements via ePostbox message on a monthly or quarterly basis. In this way, the Bank strives to ensure that customers are always informed of the current terms. The law only requires that this information is provided once per year.
- In 2021, BAWAG invested more time in the insurance training of its advisors. Instead of the mandatory 15 hours, the training comprised a total of 17 hours.
- As a reliable financial partner, BAWAG aims to provide its customers with transparent information about all advantages and disadvantages. Customer information in advertising materials that used to be shown in small-print footnotes is now printed under the heading “Fair to know” and in the same size as the rest of the text, especially in advertising materials for credit and investment products. This is intended to create more transparency for important customer information.

SUSTAINABILITY IN OUR CORE BUSINESS

By embedding responsible and profitable growth in consideration of ESG factors into our Group strategy, we ensure that the further development of our business activities is in line with environmental and social concerns. The work of the Regulatory Office ensures that EU-wide and national regulations and amendments are continuously monitored and forwarded to the relevant units for the adaptation of processes and guidelines. This also applies to statutory regulations relating to sustainable finance.

RISK-AVERSE INVESTMENT STRATEGY

Table: BAWAG Group sector exposure (% of total exposure) 1) **FS 6**

as of 31.12. in %	2021	2020
Defense industry	**0%**	**0%**
Production and distribution of NBC weapons	0%	0%
Production and distribution of conventional weapons	0%	0%
Production and distribution of other military services	0%	0%
Nuclear energy	**0%**	**0%**
Production of electricity in nuclear power plants	0%	0%
Construction of nuclear technologies for nuclear power plants	0%	0%
Uranium mining and trading	0%	0%
Other ethical risks	**<0.1%**	**<0.1%**
Production of and trade in addictive substances (tobacco, alcohol >20% by volume)	0%	0%
Production, trade and application of green gene technology	0%	0%
Gambling and related services/facilities	0,02%	0.05%
Fossil fuels	**<0.1%**	**0%**
Total fossil energy sector	0.01%	0%
Coal mining and power generation	0%	0%
Extraction of crude oil and natural gas by means of fracking or tar sands	0%	0%
Climate change	**0.1%**	**0.2%**
Renewable energy	0.1%	0.2%
Sustainable mobility	0%	0%
Sustainable construction	0%	0%
Other ethical opportunities	**1.5%**	**2.1%**
Socially oriented companies/projects	0.0%	0.3%
Social housing	1.5%	1.8%
Organic farming	0%	0%

1) excl. Leasing and Credit Cards

PRODUCTS AND SERVICES

BAWAG Group's corporate strategy provides for an increased focus on ESG issues in the coming years. By broadly considering the value chain from an ESG perspective, BAWAG Group aims to expand its understanding of risk and seize business opportunities for the benefit of its shareholders, customers and other stakeholders. In addition to the ESG risk management approach, BAWAG Group also sees specific ESG-related trends as business opportunities. We aim to take advantage of specific growth opportunities associated with environmental and social developments. Examples include the transition to a resource-efficient economy and the need for greater environmental protection and social inclusion.

Taxonomy Ratio

Table: Taxonomy ratios

Taxonomy Ratios	
A1: Exposure to taxonomy-eligible activities / Total assets	21.74%
A2: Exposure to non-taxable economic activities / Total assets	2.69%
B: Exposure to central governments, central banks, supranational issuers and derivatives / Total assets	22.81%
C: Share of risk exposures to corporates not subject to NFRD / Total assets	16.42%
Interbank loans	19.39%

Tabelle: Taxonomy Ratios and contextual information

Taxonomy Ratio	Contextual information
A1	In general, the data used for the calculation of A1 is based on NFRD eligible companies and taxonomy eligible NACE codes as well as financing purposes that are eligible according to the taxonomy regulation.
Private mortgage loans	Mortgage loans were identified by product classification and real estate collateral amount. Private individuals were selected based on the relevant NACE code for private households in EU countries.
NFRD Companies	EU companies subject to the NFRD were identified and assessed whether these companies are within the taxonomy eligible NACE classification. None of the relevant companies are in taxonomy eligible sectors, therefore the amount is 0.
Special financing of commercial real estate	Specialized lending real estate projects were identified. Since none of the relevant customers are subject to the NFRD, the amount is 0.
A2	Ratio A2 includes the NFRD eligible companies within EU that are not considered in ratio A1.
B	Risk positions to central banks, central states and supranational issuers were identified according to their asset class segment were identified as well as derivatives (incl. hedge accounting).
C	Ratio C includes companies that are not subject to the NFRD and not considered in ratio B. The following legal forms were selected: limited liability company (*GmbH*), stock corporation (*AG*), limited partnership with a limited liability company as general partner (*GmbH & Co. KG*), limited partnership with a stock corporation as general partner (*AG & Co. KG*)
Interbank loans	This ratio considers on-demand interbank loans based on the relevant balance sheet positions.

In general, our ESG related measures are resonating well with the conclusions of the Paris Agreement of 2015: One of the conclusions of the Paris Agreement has been to aim for strengthening the response to climate change by making finance flows consistent with a pathway towards lower greenhouse gas emissions and climate-resilient development, among other means. Sustainability has been important to us for a very long time: As a financial services provider, BAWAG is fully committed to playing a major role in supporting the economies of those markets we are operating in to enable governments, enterprises and customers to take key steps towards the objective of creating a safe, climate-neutral, climate-resilient, more resource-efficient and circular economy. As a bank, we have the opportunity to contribute to all environmental objectives which are outlined in the EU taxonomy regulation:

- climate change mitigation;
- climate change adaptation;
- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control;
- the protection and restoration of biodiversity and ecosystems.

As a bank, we contribute substantially to those environmental objectives – basically, the contributions of our core business activities serve two main targets, channeling capital flows towards sustainable investments:

- increase the positive impact by "enabling activities" to support environmental objectives
- decrease the negative impact by reducing or cutting activities that do significant harm to environmental objectives

By increasing funding for environmental and climate-related expenditures, we can support achieving sustainable development goals. We are absolutely sure that it is key to fully exploit the potential of the markets we are operating in to achieve those goals. In that context, it is crucial to remove obstacles to the efficient movement of capital into sustainable investments in our markets and to prevent new obstacles from emerging.

To ensure that investments are channeled towards economic activities that make the greatest positive impact on the environmental objectives, we have committed ourselves to straightforward ESG targets. One example is our ESG target in green financing: The credit dynamics of green financing are positive: We expect green financing to reach at least € 1.6 billion of our new business annually by 2025, compared to € 0.8 billion in 2020.

On the investment side, we have made sure to make financial products available to our customers which pursue environmentally sustainable objectives. We see this as an effective way of channeling private investments into sustainable activities. It is particularly important for a bank to assume ecological responsibility with regards to investments. Within the offered funds with an environmental focus from our cooperation partner Amundi Austria, BAWAG offers several mutual investment funds and ETFs that focus on environmental aspects.

Furthermore, the assessment of sustainability goals is a vital part of our internal processes: The product implementation process (PIP) plays a central role in the development of new products and services, entering new markets, and important changes to existing products, services and markets. All risks, such as credit risk, market risk and operational risk, must be taken into account during product development. Since the beginning of 2020, the inclusion of ESG criteria in the product implementation process has been mandatory.

In 2021, all newly launched products were reviewed also in view of CSR/ESG aspects. Prior to launching new products, responsible product managers were requested to assess and describe positive impacts of product implementation in respect of environmental, social and governance aspects. The impact is queried and presented using a statement on sustainability aspects (CSR/ESG statement) which is an integrated part of the tool for product launches – regarding ecological targets, among other things, the expansion of green energy or electromobility, increased energy efficiency and the reduced use of natural resources are rated positively.

An economic activity should qualify as contributing substantially to one or more of the environmental objectives where it directly enables other activities to make a substantial contribution to one or more of those objectives. Where this is not the case, we have set up our processes in a way to make sure to contribute to decreasing activities that do significant harm to environmental objectives. One example of that are our lending criteria, consisting of industry exclusions and restrictions in lending. It is accessible via https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG.

Lending criteria

In the reporting period, BAWAG Group published lending criteria, consisting of industry exclusions and restrictions in lending. They are accessible via https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG.

ESG target

We see the opportunity in green financing: The credit dynamics of green financing are positive: We expect green financing to reach at least € 1.6 billion of our new business annually by 2025 (compared to € 0.8 billion in 2020).

Financing

203-1
SDG 1
SDG 8
SDG 9
COP 9

Corporate business – financing with added value for the region

In the public sector segment, a refinancing loan was concluded with the EIB in December 2020 (volume: € 100 million). The focus is on investment projects by municipalities, municipal associations etc. in the areas of climate, energy, education, water/waste recycling and health care. The first tranche of this urban development refinancing EIB loan has already been successfully deployed in 2021 by supporting mainly investments in the educational and water supply/wastewater disposal segment. EIB urban development loan: https://www.eib.org/de/projects/loans/all/20200238

In addition, numerous companies, municipalities and the public sector place their trust in BAWAG when it comes to financing and implementing projects. Of the infrastructure projects that the Bank has (co-)financed in recent years, the majority were projects that accelerated the expansion and improvement of infrastructure in rural regions throughout Austria. The individual facilities ranged from € 0.5 million to € 14 million in 2021 and were used for the following projects:

- Education: BAWAG finances numerous educational institutions in Austria. These include various properties, ranging from educational campuses to schools and day care centers
- Water management: Both water supply and wastewater disposal (filtration plants, decarbonization) are financed
- Health care sector: hospital financing and public as well as private nursing facilities
- Utilities: financing of green projects of energy suppliers
- Grocery retailer: financing of a project of the recycling division

Beyond this, BAWAG is constantly working on broadening funding for German affordable/social housing companies. BAWAG's corporate customers also include companies that promote the expansion of alternative energy generation facilities, build important health care facilities, contribute to the preservation of Austria's flora and fauna, drive the progress of electromobility and provide further education and training for people with disabilities or who have difficulties in getting access to the labor market.

SDG 1
SDG 8

SME customers – corporate financing

The SME unit retained its ability to support companies with microfinancing. New business in microfinance under € 5,000 for SME customers amounted to over € 122,000 in 2021 (overdraft facilities and one-time loans). The coronavirus fiancial aid program, launched in 2020 for SME customers, was kept in 2021. This year, coronavirus financial aid in the amount of about € 3,403,800 were granted (one-time loans). The SME upload function that was implemented in 2020 (i.e. business documents can be uploaded and branch visits or printouts can be reduced) was rolled out for the rollover process for working capital lines, making it accessible to even more customers.

COP 7
SDG 12
SDG 13

Retail customers – consumer and housing financing

- Mortgage loans: BAWAG has implemented the data item from the energy performance certificate which has to be created for every new building and every existing property in case of sale (legal obligation). The energy performance certificate enables the customer to take measures on energy efficiency. In addition, BAWAG reimburses the costs of an energy performance certificate (up to € 250) to the customer.

- Environmental loans: The website of start:bausparkasse Germany (start-bsk.de) is barrier-free and customers and sales partners have the option of requesting services online or placing orders by e-mail. Construction financing products are offered almost exclusively via the Europace and ehyp sales platforms, which enable a very high degree of digital and thus paperless application filing and processing.
- Debt collection policy: In 2021, BAWAG Group implemented its debt collection policy. We strive to provide sustainable financial assistance solutions, tailored to customers' individual circumstances, that consistently deliver the right outcomes. The solution offered is always based on an individual customer circumstances assessment, in which we look to ascertain (a) the reasons for and nature of financial difficulties, and (b) current and future affordability levels. The debt collection policy is accessible via https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG.
- Building society loan: start:bausparkasse is the only building society in Austria offering a building society loan for financing housing measures with a 30-year fixed interest rate.
- Dutch mortgages with state guarantees: In the Netherlands, we offer access to state-guaranteed mortgages, thereby offering a broader range of customers access to affordable mortgage loans.

Investments

Amundi: broad range of investment funds with an ESG approach **FS 7**

It is particularly important for a bank to assume social and ecological responsibility with regard to investments. Within the offered funds, "Amundi Ethik Fonds", "Amundi Ethik Fonds ausgewogen", "Amundi Ethik Fonds Evolution", "Amundi Öko Sozial Euro Short Term Bond", "Amundi Öko Sozial Euro Aggregate Bond", "Amundi Öko Sozial Dollar Bond", "Amundi Öko Sozial Stock" and "Amundi CPR Climate Action" and 8 Amundi ETFs from our cooperation partner Amundi Austria, BAWAG offers eight mutual investment funds and eight ETFs that focus on ESG aspects. The individual securities and international issuers of funds are selected according to strict ethical and ecological exclusion criteria (decided by Amundi) so that the sustainable, ecological and social orientation of the investment is ensured. All of them have been awarded the "EUROSIF" transparency logo for sustainability funds, and the Amundi funds from Austria also have been awarded the Austrian ecolabel for sustainable financial products. During the course of 2021, customers further increased their demand in sustainable investing: Amundi Ethik Fonds was once again the best-selling fund in BAWAG's retail segment in 2021. Both the new business and the total assets of ESG funds in BAWAG and easybank business increased significantly compared to 2020: 31% of the new business in the securities area (vs. 22% in 2020) was related to ESG funds of Amundi, of the share of ESG funds in the total fund assets increased to 14% (from 8% in 2020). **SDG 13**

Accounts and cards

Social inclusion accounts at BAWAG

SDG 1

BAWAG's **New Chance account,** which was introduced in 2009, is designed for people who would otherwise be excluded from payment transactions. Neither the account number nor the sort code indicate that a customer has such an account. This prevents customers from being directly or indirectly stigmatized in the course of carrying out their financial transactions. In addition, our **consumer payment account**, which is in line with the Consumer Payment Account Act, offers all people very affordable access to a bank account. Especially people experiencing financial difficulty can get this flat rate account including an account card for € 40 per year.

KontoBoxes – simple and paperless **COP 8**

The KontoBoxes S and L offer maximum convenience and are focused on customers who would like to conduct their account transactions online and offline. The application process and the opening of the account take place completely online. The paperless account opening application was rolled out to more channels in 2021. We went live with our full online application on the easybank and BAWAG website: As a result, we can offer a fully digital and paperless application process from home to all new customers with the legal forms of "non-prot. EU," "prot. EU" and "GmbH.". Especially during the lockdowns, no branch visits were needed to open a current account.

Qlick – installment loans

Installment loans under the Qlick brand are offered exclusively digitally as well.

Debit Mastercard

Customers can use the new debit Mastercard to make online purchases without a credit card. This makes it possible for customers who do not want a credit card or who are not eligible (e.g. due to creditworthiness reasons) to make purchases from online merchants without being disadvantaged by lower security standards. It uses the internationally standardized 3D-Secure for Mastercard products procedure which simply requires free registration.

Credit cards

All our BAWAG, easybank and PayLife credit card customers have the option of retrieving their PIN for payment approval directly in klar, the easybank app or myPayLife, thus eliminating the sending of a PIN letter by regular mail.

SOCIAL RESPONSIBILITY AND PERSONAL COMMITMENT

We see education as one of the most important cornerstones to keep the partnership of our industry with society at eye level. With a higher level of (financial) education and accessibility of education opportunities, we strive to help people to increase their knowledge and well-being, where we play an active role in creating partnerships and developing projects. Education should never be a question of the origin or education level of one's parents.

We believe in supporting projects with a social purpose across all age groups, mainly in the markets we are operating in. We focus on projects on a long-term basis and give our commitment to initiatives for many years. Therefore, many of our campaigns and measures have a long tradition, which is important for the financial structure of projects with a social purpose. Moreover, we see contributions to a good cause as an important factor to help people in need.

We’re proud of our team members for their community involvement and will continue to support this outreach through both financial support and volunteerism. Therefore, we are committed to intensifying our measures: One exemplary target area will be focused on increasing corporate volunteering activities.

BAWAG Group accepts its social responsibility and is committed to socio-politically relevant issues. Our commitment should bring benefits and added value to people. We regularly donate to initiatives and social projects as a company. In 2021, we increased our amount of donations: A total of over € 200,000 was donated by BAWAG Group (2020: € 104,000).

Since 2014, BAWAG has been using the crowdfunding.at platform to support social projects and ecologically sustainable projects by individuals or private organizations in presenting their undertakings to the public and raising funds through crowdfunding contributions from private individuals. So far, funding of nearly € 1,000,000 has been raised. On the platform, social projects from the areas of work, housing, education, health, culture, environment and technology are put in the spotlight. In 2021, financing was raised for projects focusing mainly on less privileged members of our society, including the Caritas projects “a spark of heat” and “a sleeping bag as lifesaver” for homeless people and “place to sleep for mother & child”. Furthermore, attention was drawn to severely disabled and ill children including initiatives by MOMO Kinderhospiz and the Red Noses Clowndoctors. In addition to that, projects were launched by Austrian Red Cross in order to support children in their school education.

Furthermore, BAWAG intensified its social commitment to financial education by donating € 80,000 to the University of Vienna. The Children's Office at the University of Vienna brings together children from all social backgrounds and motivates them to be curious and inquisitive throughout their lives. In doing so, it conveys a very important message to the next generation, which is also close to our hearts as a bank: Education is the best investment for the future! Education helps people to make self-determined decisions and also has a positive influence on the way they handle money, for example. As a bank, it is important to us to support outstanding projects in the field of education. In 2021, employees again could use up to two working days per year to volunteer for charitable organizations and projects without having to take vacation days. In December 2021 – due to the lockdown in Austria – the first virtual corporate volunteering day was organized together with KinderUni Wien: 13 volunteers (65 hours in total) from BAWAG Group enrolled: The representatives of KinderUni facilitated a workshop in which our employees contributed their brainpower during a couple of brainstorming sessions (i.e. how to make financial literacy more tangible to children) – the results of this workshop build the foundation for the development of lectures that will be done at KinderUni in 2022 and beyond.

SDG 4 To promote the development of financial literacy at an early age, BAWAG continued to use a financial quiz for children aged 6 and older to help them get started in their financial lives which was developed by “Three Coins” in 2020: Each child can complete the Safe&Cool check on the BAWAG website free of charge, either independently or together with their parents. The check with its ten questions teaches the fundamentals of sensible consumption and saving, and also how to handle personal bank data safely. The check is also designed as an introductory quiz for all Safe&Cool allowance accounts at BAWAG, in order to establish a foundation for the safe handling of money in the digital world.

In 2021, BAWAG once again supported "Licht ins Dunkel" with a total donation of € 50,000. Of this amount, € 20,000 were allocated to the "Licht ins Dunkel" emergency aid fund. The organizations "Caritas St. Pölten" (for a project that supports young adults with mental illnesses), "Gesellschaft Österreichischer Kinderdörfer" (for vacation day care for children and young people with disabilities) and "Debra Salzburg" (for children suffering from epidermolysis bullosa), each received donations of € 10,000.

In December 2020, BAWAG Group launched an internal appeal for donations for Volkshilfe Österreich's LERNEN.MÖGLICH.MACHEN aid fund. The aid fund enables children and young people living in households at risk of poverty in Austria to access educational opportunities. A total of € 150,000 was donated, an in December 2021, Volkshilfe reported that 100 children were supported throughout the year until the end of November and announced that it would double the number by year end. As part of the BAWAG P.S.K. Women's Award 2021, the BAWAG P.S.K. Women's Initiative supported ZARA with a donation of € 10,000. The initiative's goal is to help people who have been the victims of hatred or racism.

At the end of 2021 and beginning of 2022, BAWAG employees, the Works Council, the Management Board and the Bank continued their social commitment in the area of children's and youth work by donating € 55,875 to the RAINBOWS association. RAINBOWS supports children and young people in challenging times - in the event of the separation, divorce or death of close caregivers. Children and young people are at the center of their work - they are accompanied in perceiving and understanding their own feelings. This enables children and young people to adapt to new life circumstances with courage and confidence, even in difficult times. In the case of divorce or separation, RAINBOWS actively supports both parents so that even after the separation both can fulfill their role as parents. Single parents and parents after death receive special counseling and gentle accompaniment. All RAINBOWS staff have completed RAINBOWS-specific training and receive ongoing training.

BAWAG P.S.K. has been the main bank of numerous charitable organizations in Austria for decades. **SDG 1**

HUMAN RESOURCES: EMPLOYEE PROMOTION AND DEVELOPMENT, DIVERSITY AND EQUAL OPPORTUNITY

COP 6
WEP 1
WEP 2
WEP 4

Our employees are the foundation for delivering on our strategy and building the BAWAG Group of tomorrow. Technology has not only changed customer behavior, but also the way we work together. Besides the traditional banking expertise, the capabilities and skillset of financial institutions' employees have and will continue to be enhanced to adapt to these changes. Attracting, developing and retaining excellent employees is key and therefore our responsibility is to create a working environment where people are given the space for their development. An active equality policy and the promotion of diversity among employees are synonymous with being a modern employer and a customer-oriented company.

Our culture and values are defined by accountability, humility and embracing change. We value leaders who are dynamic, lead with uncompromising integrity, have a strong work ethic and do not shy away from taking hard decisions. Our Senior Leadership Team, which has led our transformation over the past decade, have an average of 12 years of working experience at BAWAG. We do our best to maintain a simple Group structure and flat organization. We encourage all team members to focus on the work at hand, cut out the noise and always challenge the status quo for the betterment of the team.

We believe our diversity, inclusivity and meritocratic culture are a real source of strength. We are fully committed to gender equality and diversity. Our diversity and gender equality will be a byproduct of merit, integrity and work ethic. Our greatest asset is our human capital, so we are focused on developing and mentoring our team members across the ranks.

At BAWAG Group, people from 47 nations, from all age groups,with different sexual orientations, with limitations and different faiths, work together every day. Diversity and equal opportunity for all employees are key success factors for the Group and are the responsibility of the management, implemented operationally by Human Resources and put into practice by all managers and employees of the company. All BAWAG Group employees, whether full-time or part-time, are to be treated equally and fairly. BAWAG Group does not tolerate any discrimination based on age, gender, disability, sexual orientation, origin or religion. BAWAG Group also firmly rejects any form of bullying, sexual harassment, threats and violence.

We support our employees in developing their talents and skills at different levels of their career. While offering specific programs, we also provide a wide range of training opportunities to help develop their personal as well as professional skills. During COVID-19 restrictions, all training sessions and workshops were held online. Thus, training plans could be successfully completed in 2021.

PROMOTING DIVERSITY AND EQUAL OPPORTUNITY

ESG targets

Promoting and embracing a true culture of meritocracy enables us to attract, develop and motivate our team members, which underpins our success. Most importantly, our meritocracy allows us to guard against complacency. In 2021, we embedded HR-related ESG targets into our operating plans: In terms of diversity, we have established a female gender quota of 33%, for both the Supervisory Board as well as the Senior Leadership Team, by 2025.

Attracting and retaining the right mix of employees is challenging. We have made great progress over the last years with the initiatives set. One key aspect of our women's promotion plan has been to encourage women to participate in personnel development programs. We encourage women to take on leadership roles, in particular after maternity leaves.

Women's Advancement Plan

The Women's Advancement Plan, which has been in place since 2012, serves as a binding framework for promoting equality and ensuring equal opportunity for women and men in the company. The plan is based on four principles and concrete measures: sensitization, equal career opportunities, financial equality and promoting a better work-life balance for women and men.

Women's Initiative

The BAWAG Women's Initiative is a network of female experts and female managers from all areas of the Bank supported by the Management Board of BAWAG Group. The goal of the initiative is to promote equality for women in BAWAG Group in the form of achieving career goals in management or expert positions, monetary equality and the compatibility of family and career.

WEP 6
WEP 7

Women's Mentoring Program

The Women's Mentoring Program is aimed at female employees with longer management experience who would like to benefit from external top managers from the business world as mentees and broaden their horizons as well as at all female colleagues who would like to develop themselves further, have already gained initial leadership experience or would like to move in this direction. The goal of the Women's Mentoring Program is to give female employees the opportunity to deal intensively with the topic of women and careers, to have an in-depth personal exchange with their mentors and to build a network within the Bank. In this program, top executives from BAWAG Group make themselves available to the female mentors to share their experience in joint discussions and to provide advice to the mentees.

SDG 5
WEP 5
WEP 6

During the mentoring year, the mentees are offered professional and personal development content in workshops, networking events and extensive further training as part of the BAWAG Group Business Academy. Participants have the opportunity to talk to internal experts on the topics of finance, risk and retail, as well as to exchange ideas with members of the BAWAG Group's Management Board in a very personal setting during business talks. The 7th BAWAG Group Women's Mentoring Program was successfully completed in Q3 2021.

Women's Award

In December, the 9th BAWAG Women's Award was presented to Barbara Liegl, managing director of ZARA. The € 5,000 award recognizes outstanding achievements by women and special commitment to positioning women in society. The association ZARA has been working for equal rights for all people since 1999, regardless of ethnic and social affiliation, skin color, gender, language, religion, sexual orientation, age or disability. Since 1999, ZARA has been supporting people who are confronted with racist discrimination and/or hatred on the Internet through psychosocial and legal counseling, systematic documentation, active public relations and project work and intensive monitoring phases.

Barbara Liegl, one of the two directors of ZARA and also active in the Ludwig Boltzmann Institute for Fundamental and Human Rights, is a committed and competent expert in this field, which contributed to her selection by the BAWAG Women's Initiative.

DIVERSITY FIGURES

102-8
405-1

Table: Change in the number of employees

401-1

	2021	2020
Number of employees	3,671	4,073
Fluctuation rate (in %)[1)]	13%	10%

1) Not including employee departures under the social plan. The calculation was performed on the basis of headcount.

Table: Extent of employment

	2021	2020
Full-time	**2,364**	**2,590**
Female	1,088	1,178
Male	1,276	1,412
Part-time	**1,307**	**1,483**
Female	1,025	1,129
Male	282	354

Table: Type of employment relationship by gender

	2021	2020
Permanent	**3,557**	**3,996**
Female	2,056	2,259
Male	1,521	1,737
Temporary	**94**	**77**
Female	57	48
Male	37	29

Table: Type of employment relationship by country

	2021	2020
Permanent	**3,577**	**3,996**
Austria	3,098	3,400
Germany	428	538
Other	51	58
Temporary	**94**	**77**
Austria	79	63
Germany	15	13
Other	0	0

WEP 1
WEP 7

Table: Gender breakdown (in %)

	2021	2020
Female	58%	57%
Male	42%	43%
Proportion of women in management positions	36%	33%

Tables: Workforce/governing bodies by age group and gender[1)]

2021		Age group <30	30–50	>50	Number
Male	Senior Leadership Team (SLT) (incl. Management Board) [1)]	0	48	9	57
	Employees outside the SLT	268	627	606	1,501
Total (male)		**268**	**675**	**615**	**1,558**
Female	Senior Leadership Team (SLT) (incl. Management Board) [1)]	0	16	6	22
	Employees outside the SLT	461	1,008	624	2,093
Total (female)		**461**	**1,024**	**630**	**2,115**
Total		**729**	**1,699**	**1,245**	**3,673**

1) We reconstituted our Senior Leadership Team (SLT), which is made up of 79 team members, including our core markets (DACH, Western Europe & the US).

2020		Age group <30	30–50	>50	Number
Male	Management Board		6		6
	Division management/senior management		30	11	41
	Regional division or sales management/ sales management/department management	1	55	31	87
	Branch management/group management/ team management	6	104	42	152
	No managerial function	317	578	585	1,480
Total (male)		**324**	**773**	**669**	**1,766**
Female	Management Board				
	Division management/senior management		7		7
	Regional division or sales management/ sales management/department management	2	34	8	44
	Branch management/group management/ team management	8	60	19	87
	No managerial function	506	1,018	645	2,169
Total (female)		**516**	**1,119**	**672**	**2,307**
Total		**840**	**1,892**	**1,341**	**4,073**

405-1

	2021	2020
Supervisory Board (number of members)	9	6
thereof male	5	4
thereof female	4	2

	2021	2020
Supervisory Board by age group	9	6
30-50	2	1
>50	7	5

RECRUITING

BAWAG Group has introduced a workflow tool which continued to support the recruiting process and has been rolled out throughout the organization. The recruiting policy defines key principles and rules of the internal and external recruiting process and is aligned with the strategic and cost-related corporate objectives. **COP 6**

BAWAG Group stands for equal opportunity and diversity. All employees of BAWAG Group, whether in full-time or part-time **WEP 2**
employment, shall be treated fairly and equally, regardless of age, gender, disability, sexual orientation, origin (national and ethnic), religion or belief. As multipliers, our recruiters have transferred this knowledge to the managers of BAWAG Group Austria in the introductory workshops on the recruiting tool. BAWAG Group generally promotes open-ended employment relationships. Leasing personnel are only taken on in exceptional cases.

EMPLOYEE DEVELOPMENT (CENTRAL FUNCTIONS)

Programs for new hires

Come & Learn internship
BAWAG Group offers students interesting insights into professional life in six-month internships. The interns can further develop the knowledge they have acquired during their studies. They actively work on bank-specific projects and tasks and not only gain valuable practical experience in various specialist areas, but also learn about the Bank's processes. Internships at BAWAG Group offer ideal entry-level opportunities for a successful career in the company.

Start & Move trainee program
The Start & Move trainee program is targeted at university graduates. As part of the one-year program, trainees gain comprehensive insight into the company, work on bank-related projects and can build up an initial internal network. In addition, they receive in-depth training in their assigned area and can continuously expand their capabilities.

Programs for existing employees

When selecting program participants and specific training opportunities for employees, a balanced ratio of women and men is considered. Promoting talents, (new) managers and experts is a key pillar of our people development strategy at BAWAG Group. When assessing and creating individual development programs for employees, we partner with external educational institutions to develop or deliver joint training programs for our staff: In the fall of 2021, existing programs were revised and adapted to work requirements, such as teamwork/leading in remote working situations; and the targeted Group-specific use of the wide range of online training courses offered by the goodhabitz learning platform was incorporated. A total of 768 employees actively used the offerings of the GoodHabitz learning library this year.

The focus continues to be on expanding social, professional and methodological skills. The new BAWAG Academy (founded in 2020), with its webinars and online training courses, offers enhancement of professional knowledge: The competences of the our own experts are passed on to employees in a structured manner, thus actively stimulating knowledge transfer. Experienced executives and management teams are supported through individual (management) coaching and strategic team workshops to meet specific needs. A training academy (BAWAG Academy Technical Training) for data analysts was executed successfully in 2021, broadening new content (Python & Data Stack Training, Data Scientist Training with focus on predictive models, data pipelines and model lifecycle management). The target group of this program were new employees with a technological background. This program provides in-depth internal hands-on training (e.g. banking expertise, technical and programming skills). From the start of the BAWAG Academy in June until fall, 40 online webinars took place, with a total of 573 participants. Each webinar lasted between 1.5 to 3 hours.

In addition, BAWAG Group cooperates with a third-party institution which acts as our educational partner for innovative online training courses. These trainings courses promote continuing education for every employee across the entire Group. With over 100 online training courses, this tool enables employees to develop a wide range of personal, leadership, teamwork and technical skills.

Succession planning

BAWAG Group is proud to be an organization that makes promotions based on merit. Employees' potential, career progression and the corresponding promotion opportunities are determined based on talent, ambition and performance. Career opportunities and career paths are defined in line with strategic succession planning. A Group-wide leadership goal for the senior leadership team made leadership development, succession planning, talent development and talent improvement a top priority of leadership. Therefore, an integrated strategic workforce planning is in place: One part of an integrated bundle of measures is related to our recruiting strategy: In 2021, 58% of new hires were female. Furthermore, all of our training and development programs are assessed and re-calibrated on a regular basis in order to ensure we are on track to meet our target of a female gender quota of 33% in our Senior Leadership team by the end of 2025.

The Extended Management Board has been in place since 2019 to provide senior managers with a broader platform for strategic discussions and know-how transfer with the Management Board.

WEP 1

Leadership development - Leader's Choice

In order to provide existing managers with the best possible training, various influencing factors have to be taken into account. On the one hand, there are different role profiles in sales, differentiated requirements and the strategic orientation of branch sales. On the other hand, input from the results of potential analyses, current performance and sales surveys must be taken into account. The aim is to offer sales managers a diverse and tailored range of courses in personal development, leadership and specialist topics to give them the tools they need to lead their teams to success. As the title also describes, topics for leadership and personality development are offered as elective modules. In selecting the topics, the wishes and suggestions of the sales executives as well as trends in the banking industry were taken into account. Each manager will find the optimum training measures for him or her in order to be well equipped for day-to-day management.

Personality analysis for managers

In order to tailor the further development of managers to the individual in addition to the standard programs, managers in sales receive personal profiles from two personality analyses that complement each other: TMA (Talent and Motivation Analysis) is an online-based tool for analyzing people’s talents and motives. The TMA measures talents and competencies relevant to the work context. PCM (Process Communication Model) is an online-based analysis that describes human personality and communication. This profile helps to better understand communication, motivation and stress triggers. Training is available to active BAWAG Group employees in Austria regardless of whether they work full or part time. BAWAG Group uses leased staff only in exceptional cases.

Training for all employees: Tailor-made approaches to mitigate retention risks

In general, training measures are accessible to all employees (full-time or part-time) of the entire Group. As there are **FS 4**
regular performance appraisals as a part of the Group-wide feedback process, specific areas for further development of employees are identified and corresponding measures can be agreed. The executed training measures vary between a tailor-made concept (e.g. individual coaching), broadening of bank know-how (e.g. job-specific development) and individual development programs, especially targeted at talents and high performers.

The continously revised onboarding pages on the Bank’s intranet serve as support for new employees during their first days at BAWAG Group. In the first few weeks, employees get to know the Bank through mandatory self-learning programs (see the Ethics and integrity section) and individual training sessions in their teams. The increasing importance of sustainability issues is a topic of high importance for us: ESG Officers steer projects and processes as a decentralized body. Example: After a first step (risk officers attended a special workshop on ESG risk management with an external expert), in particular, ESG risks, instruments and methods as well as related challenges were discussed. In a second step, all employees received an overview of sustainability topics in a mandatory self-learning program. In a third step, all employees in the Retail and Business Customers division, employees who offer securities advice, employees in the Corporate Banking division and employees in the Risk division were given in-depth training on the topics of sustainable business and ESG and their application in day-to-day business in a mandatory self-learning program by the end of February 2021.

With these measures, BAWAG Group is pursuing the goal of creating company-wide awareness of sustainability, promoting product innovations in the long term and integrating ESG considerations into the Bank’s business processes. In addition to self-learning programs and training offered by BAWAG Group, employees also have the opportunity to develop their professional skills through external training and workshops. The specific requirements and prerequisites are determined in regular personal discussions with the direct supervisor. The content and scope of training is tailored to the needs of our employees and the business requirements. BAWAG Group also supports specific training needs (e.g. CFA, MBA, external training) through additional study time, reimbursement of costs or annual membership coverage (e.g. CEFA, CRM, CIIA, CISSP, CISA). BAWAG Group in Austria supports employees in their professional reorientation through a work foundation in cooperation with WAFF. The work foundation helps employees plan their return to work, provides for financial security during this time and arranges training and further education as well as internships. If desired, the work foundation also provides support in the active search for a job.

Table: Training days by gender

404-1

2021[1]	Total days	Average days
Female	5,086	3.0
Male	5,042	3.7
Total	**10,128**	**3.3**

2020[1]	Total days	Average days
Female	6,152	3.2
Male	6,944	4.5
Total	**13,096**	**3.8**

Tables: Training days by position

2021[1]	Total days	Average days
Managers		
Female	487	3.4
Male	760	2.9
Sales employees		
Female	2,549	3.99
Male	2,689	6.7
Employees in central functions		
Female	2,050	2.2
Male	1,593	2.3

2020[1]	Total days	Average days
Managers		
Female	602	4.7
Male	1,079	3.8
Sales employees		
Female	5,538	5.7
Male	4,330	10.5
Headquarters employees		
Female	1,220	1.2
Male	327	0.4

1) A training day is defined as eight hours

The decrease in training days is primarily due to the ongoing COVID 19 pandemic and related lockdowns. Classroom events were reduced, while at the same time there was an increased focus on virtual training and self-learning programs.

Special training for headquarters employees

New employees start their banking career with a “welcome day” workshop. This workshop provides initial insights into the Bank and its strategy, followed by presentations related to risk management, information security and internal audit. In addition, the risk department is presented to all new employees, with a focus on the risk strategy and risk governance. New hires also receive insights on the Group Data Warehouse and the importance of data for our operations. In the presentation on information security, practical examples are used to sensitize new employees and to share guidelines and advice on individual precaution measures.

Special training for sales staff

Sales Camp: training new sales employees
New employees start off their branch assignment with a welcome day. The sales staff then start their basic training, the Sales Camp. All new employees are supported and guided by their own supervisor.

Professional development in sales
After the Sales Camp, employees can continue their professional training in securities or housing loans. For both specializations, the training courses are structured similarly and consist of four modules: Preparation tasks, Training, Follow-up tasks and Examination/certification

After the training, we offer employees the chance to take part in a workshop. This allows them to discuss their initial experiences, clarify any questions and consolidate the knowledge they have gained. We also employ a mentoring system: Every new employee is assigned to an experienced mentor. Several self-learning programs, online and face-to-face training are available for all sales staff to keep their knowledge up to date while meeting the legal further training requirements.

Competencies and sales training
Special topics are offered annually for the further development of competencies, customer orientation or sales techniques - depending on the current strategy and focus. The training methods are varied and range from on-the-job training in the branches to online courses and classroom training over several days. At Südwestbank, employees have the opportunity to complete internal and external seminars on a variety of topics such as personality training, technical training and specialist and sales seminars. Satisfaction with the respective training measure is evaluated after the sessions. Südwestbank attaches great importance to needs-oriented personnel development. The Personnel Development department plans measures for the personal and professional development of employees in close coordination with management and the department heads. In addition to internal Bank opportunities for further training, there are also external courses and bachelor’s and master’s programs in which Südwestbank participates through targeted support measures.

EMPLOYEE EXPERIENCE

COVID-19

Health and safety of our employees are paramount to us: In the second year of the pandemic, the internal COVID-19 taskforce – established in 2020 – continued to hold regular virtual meetings to discuss national and international COVID-19 developments and their impact on our sites and business, coordinate measures with management and communicate actions to employees and customers through our channels. Broad-based communication campaigns were launched for employees throughout BAWAG Group and across all subsidiaries and brands. This included BAWAG P.S.K.'s Stay safe! communication campaign. During Q1, "home office first" was the motto for the central functions, meaning that it was recommended to work from home if possible. In Q2, BAWAG Group offered employees the possibility to register via the intranet to get an appointment for a COVID-19 vaccination. During the entire year, the COVID-19 task force did regular updates due to changing legislations to inform employees about updated health protocols in fighting the pandemic. The COVID-19 pandemic had no impact on agreed working-time models of employees or termination of employment.

WEP 2

Flexible work

At BAWAG Group, there are a lot of benefits available that are accessible to full- and part-time employees, across all entities and countries. Working in a flexible environment with hybrid teams will remain an important pillar of the culture at BAWAG Group in the future. The experience of the past two years has shown that working flexibly from different locations functions well for many areas and brings benefits for employees and the Bank. The employee survey conducted in the summer of 2020 showed that the vast majority of our employees would like to continue using flexible working. BAWAG Group has worked with the BAWAG P.S.K. Works Council to develop appropriate regulations and recommendations. In addition, we have created a flex-office guide for employees and managers.

In most organizational units, variable working hours with defined function times apply. Individual time models can be agreed upon, including a daily reduced working time or an aggregate number of hours during a certain number of days per week. We offer a variety of models and options for employees who wish to take time off from work or reduce their working hours due to personal commitments. These include:

- Educational leave for 2–12 months
- Part-time work for education for 4–24 months
- Sabbatical: a combination of a savings phase in which the employee receives only a portion of the usual monthly salary, and a time-off phase
- Part-time reintegration: reintegration on a part-time basis after a long period of sick leave for an agreed period of 1–6 months, with the additional option of extending for three months.
- Family hospice leave for three months with extension options and special conditions for seriously ill children
- Caregiver leave for one week per year, a second week for the necessary care of a sick child under 12 years of age
- Nursing leave/part-time care leave for 1–3 months
- Flex-office – flexible working locations

Working in a flexible environment with hybrid teams will remain an important pillar of the culture at BAWAG Group. The experience of the past few months has shown that working flexibly from different locations works well for many areas and brings benefits for employees and the Bank. The employee survey conducted last year showed that the vast majority of our employees would like to continue using flexible working. BAWAG Group has worked with the BAWAG Works Council to develop appropriate regulations and recommendations and created a flex-office guide for employees and managers.

Balance between work and family

BAWAG Group works continuously to offer its employees a flexible and family-friendly working environment. As a responsible employer, it is important to BAWAG Group that the various phases of its employees' lives can be reconciled with their work, their families and their free time. At the employee's request, BAWAG Group in Austria offers the option of remaining in marginal employment during parental leave. This model is intended to make it easier for those on parental leave to return to work. The Group also offers employees flexible working hours and part-time models after paternal leave. Depending on the management position, this option is also offered to executives. Human Resources supports them in agreeing individual part-time models, clearly defined structures and responsibilities.

SDG 4
SDG 5
WEP 2
WEP 3

401-3 **Table: Parental part-time work**

	2021	2020
Total number of employees who took parental leave in the reporting period	**270**	**249**
Female	240	211
Male	30	38
Total number of employees who returned to work after taking parental leave in the reporting period	**77**	**85**
Female	60	57
Male	17	28
Total number of employees who returned after parental leave and were still employed 12 months later	**104**	**94**
Female	82	81
Male	22	13
Return rate		
Female	92%	86%
Male	80%	97%
Retention rate		
Female	73%	80%
Male	91%	62%

Certification
In 2013, BAWAG committed itself to the compatibility of work and family as part of a structured auditing process and received certification as a family-friendly company, which is valid for three years. BAWAG most recently received the certificate in 2020 and this is still valid.

Dad month and special leave days
We are pleased to support fathers at BAWAG in taking parental leave or taking advantage of the so-called dad month. Since 2014, all fathers at BAWAG have also received two additional special leave days immediately after the birth of their child on top of the two special leave days to which they are entitled under the collective agreement. This gives fathers an additional four days to spend with their family.

Company day care center at central location
BAWAG Group offers childcare at the company day care center at the central location in Vienna. Part-time employees, single parents and employees with special working time arrangements are given priority in the allocation of open slots.

Support for the care of family members
BAWAG Group offers employees the opportunity to emergency care and/or elderly care. The access is given upon request and dealt with on the basis of special situations. Since 1 January 2014, it has been possible to take caregiver leave or part-time caregiver leave after prior agreement with the respective manager. Employees can take care leave for one month up to a maximum of three months or reduce the working hours to a minimum of ten hours per week. The entire process is handled by the Federal Ministry of Social Affairs.

Information event for expectant parents and welcome back event
All expectant mothers and fathers at BAWAG Group are invited to online information events held twice a year on the topic of parental leave management and re-entry into the Bank. Since 2009, Human Resources and the Works Council have organized a welcome back event which allows a smooth transation for employees returning from parental leave.

Employee feedback and ideas

BAWAG Group employees have the opportunity to submit innovative ideas through a defined process. The ideas are evaluated by an assessment committee and subsequently awarded prizes. This is intended to promote the further development of products and processes by employees. In the new anonymous Retail Feedback Corner, sales employees have the opportunity to share ideas, ask questions about sales topics and provide feedback.

Employee engagement and engagement surveys

Based on the ongoing feedback between employees and managers in 2021, the decision was made by the Management Board to further improve feedback opportunities for employees across the entire Group: Starting in 2022, employees will have the opportunity to submit their feedback through an employee survey ("pulse check") on a quarterly basis. We are interested in obtaining opinions and reviews and evaluating employee mood and morale, a degree of engagement and also monitoring employee achievements. It is our target to establish employee surveys as an integral part of our culture, to receive employee feedback regularly and to get perspective on factors such as work culture, "FlexOffice" and elements that motivate or demotivate employees in the workplace. We will make sure that the planned employee surveys will bear productive results as we are committed to acknowledging employees' feedback for their submitted responses.

Communication platforms and grievances

Information is disseminated to employees via communication platforms. A special SharePoint platform has been implemented to cover the additional information requirements in sales. In 2021, Group-wide town hall meetings with the Management Board were held online. All employees were invited to participate in this event. Management Board members also used this form of online meetings to pass on updates and important information directly to their teams.

BAWAG Group promotes open dialog between managers and employees. Employees can address concerns or complaints directly to their supervisor. Human Resources follows a structured procedure to investigate justified complaints and takes appropriate action when an employee grievance is substantiated. Further details on grievance procedures can be found in BAWAG's Grievance Procedure Principles, which are published on our ESG website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG).

Performance management – employee feedback process

BAWAG Group's remuneration policy is designed to strike a balance between rewarding performance, competence and the degree of responsibility. The new and simplified employee feedback process continues to be an important management tool for supporting the business strategy. The goal of this process is to strengthen the feedback culture in the company, increase employee motivation and thus contribute to BAWAG Group's success.

Table: Participation in feedback process by position and gender (in percent)

404-3

WEP 3

	2021	2020
Managers		
Female	94%	91%
Male	94%	83%
Sales employees		
Female	87%	91%
Male	97%	94%
Employees in central functions		
Female	97%	87%
Male	95%	88%

Workplace health promotion and health management

A cornerstone of workplace health promotion is the range of services offered by the company health offices: examinations and assessments by a company physician, treatment of acute illnesses and vaccination campaigns, COVID-19 antigen tests, first aid, free annual preventive medical checkup, company psychologists and physical therapists at the health offices. BAWAG has also been offering its employees support and advice in the area of occupational psychology since 2010. This offer can be taken advantage of in the form of individual counseling sessions, among other things. In fall 2021, webinars by occupational psychologists were offered dealing with mental stress prevention in the workplace. The prevention of work-related mental stress is carried out per subsidiary or division in the form of an online survey by the external occupational psychologist from the Occupational Health Service. The benefits offered by BAWAG Group are available to all employees (both part- and full-time employees are eligible).

Other company social benefits

Table: Other company social benefits

401-2

in € thousand	2021	2020
Travel allowances	592	451
Pension fund contributions	7,547	7,834
Anniversary bonus payments	708	462
Allowances (especially for marriage/birth/death, WAFF)	113	125
Accident insurance	402	283
Subsidy for supplementary health insurance	193	135
Corporate food allowance	1,430	669
Company physician and health programs	138	104
Company daycare center	215	388
Employee events (especially Christmas vouchers/Christmas dinner/excursions)	56	229
Subsidy for the Works Council (vaccination campaigns, vacation rooms, sports club etc.)	295	320
Total	**11,689**	**11,000**

Benefits

The benefits offered by BAWAG Group are available to all employees across all regions, both full-time and part-time. Some benefits are, in general, granted from the first day of employment, some benefits apply only after being taken over into an unlimited employment relationship or fulfilling the respective waiting period.

Employee stock program

Additionally, we will be sharing details of an employee stock program in the first half of 2022. It is important to the Management Board, Supervisory Board and Workers Council that all team members are also owners of the company as well.

ENVIRONMENTAL AND CLIMATE PROTECTION

ENVIRONMENTAL FIGURES

Table: Environmental indicators[1] SDG 13

	Unit	2021	2020	
Material consumption				
Paper use	kg	160,445	164,564	
Bank statement envelopes	Piece	7,703,280	9,049,198	
Energy consumption[2]				302-1
Total electricity consumption	kWh	8,093,078	12,831,686	302-2
Space heating				
Gas	kWh	3,915,356	3,205,619	
District heating	kWh	5,327,975	7,740,654	
Total space heating	kWh	9,419,040	11,135,205	
District cooling[3]	kWh	1,515,610	870,957	
Heating oil[4]	kWh	175,710	188,933	
Fleet/mobility				
Fleet gasoline	kWh	289,360	239,815	
Fleet diesel	kWh	1,336,681	1,433,704	
Air travel	kWh	353,476	550,731	
Total energy consumption	kWh	21,007,244	27,062,098	
CO_2 emissions[5]				305-1
Scope 1 – direct emissions				305-2
Vehicle fleet	t CO_2-e	528	534	305-3
Space heating (gas)	t CO_2-e	1,049	869	
Heating oil	t CO_2-e	58	64	
Subtotal Scope 1	t CO_2-e	1,636	1,467	
Scope 2 – indirect emissions from energy purchases (market-based)				
Electricity	t CO_2-e	0	147	
District heating/cooling[6]	t CO_2-e	1,163	1,578	
Subtotal Scope 2	t CO_2-e	1,163	1,725	
Scope 2 – indirect emissions from energy purchases (location-based)				
Electricity	t CO_2-e	2,079	3,627	
District heating/cooling	t CO_2-e	1,163	1,578	
Subtotal Scope 2	t CO_2-e	3,241	5,205	
Scope 3 – other indirect emissions				
Air travel	t CO_2-e	245	378	
Subtotal Scope 3	t CO_2-e	245	378	
Total CO_2 emissions (Scope 1–3, market-based)	t CO_2-e	3,044	3,570	
Total CO_2 emissions (Scope 1–3, location-based)	t CO_2-e	5,123	7,050	

1) The energy consumption data is shown on the basis of current billing information. Due to different billing periods, it is not possible to present the data as of the reporting date.

2) Reporting period 2020: The electricity consumption figures of BFL Leasing, 2 BAWAG P.S.K. branches and 3 easyleasing locations are not included. The space heating consumption figures of BFL Leasing, 3 BAWAG P.S.K. branches and 3 easyleasing locations are not included. In both cases, no data was available.

3) District cooling consumption applies exclusively to BAWAG Group headquarters.

4) Heating oil has only been reported since 2020 and just for BAWAG P.S.K.

5) Minor deviations may occur due to rounding of decimal places. The calculation method of the CO_2 balance is carried out in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and refers each year to the currently published emission factors of the Austrian and German Federal Environment Agency, the German Agency for Renewable Energies and electricity labels of various energy providers. In addition to CO_2, all other gases with GHG potential - including methane and nitrous oxide - are taken into account in the greenhouse gas (GHG) balance according to their impact on the climate. District cooling was not included in the Scope 2 calculation, because no emission factors were available.

6) For district heating, the conversion factor of location-based was used. District cooling not converted due to missing factor.

MEASURES AND INITIATIVES

Even though the environmental impact caused directly by banks is very limited, BAWAG Group is aware of its indirect responsibility and pays attention to the environmental hazards that may arise from its financing business. We aim to minimize impacts on the environment with products, services and in the daily work of all employees. By regularly optimizing energy consumption at our sites and in our IT infrastructure and by focusing on local suppliers, we aim to contribute to reducing the environmental impact of our business activities. Environmental and climate protection create the foundations for the long-term existence of our company. Through our commitment, we position ourselves as a responsible partner and employer that helps create a future worth living in. As a bank, we contribute to sustainable change by providing loans for innovative, resource-conserving business activities. By cooperating with local suppliers and service providers in the DACH region, we contribute to short transport routes and CO2 savings, as well as to increasing value creation in the countries where we do business. Furthermore, we support the protection and continued existence of our sites through climate protection measures.

ESG targets

ESG is a thread that runs through our business strategy – therefore, we have committed ourselves to tangible ESG targets, which we are embedding into our operating plans: To further reduce our carbon footprint, we are planning to reduce our CO2 emissions (Scope 1 and Scope 2) by >50% by 2025.

Supplier management

102-9
204-1
SDG 8
SDG 13
SDG 16
COP 1
COP 2
COP 4
COP 5
COP 6
COP 8
COP 10

The Supplier Code of Conduct defines our expectations towards suppliers with regard to environmental protection. As already mentioned, each supplier is obliged to commit to these principles before entering into a business relationship with BAWAG Group. In the course of the supplier onboarding process, commercial, professional/technical, legal and general parameters surrounding the future cooperation are comprehensively examined and evaluated. As part of the harmonization of procurement processes, a single policy is used across the entire Group, which ensures a uniform approach towards purchasing. Additional internal guidelines govern all topics relating to the organization, procedures and systems in the procurement process. These processes foresee that, in the case of multiple offers with the same price/performance ratio, the more sustainable company shall be preferred.

Around 74% of all spending by BAWAG (incl. easybank and SÜDWESTBANK) went to local suppliers[1)] in 2021. Procurement consists primarily of software and information services, marketing, rent, insurance and facility management/business equipment.

Operations management

SDG 7
SDG 13

100% green energy and energy efficiency

BAWAG Group supplies all of its sites with green energy. This had already been achieved in 2020 to a large extent and was also driven forward in 2021. THE ICON VIENNA building continues to strive for the highest Leadership in Energy and Environmental Design certification of "Platinum" and the Building Research Establishment Environmental Assessment Method certification of "Excellent". Work continued on the submissions for certification in 2021. In addition, BAWAG Group employs energy-efficient and resource-saving devices for its IT infrastructure. More than 6,000 laptop and desktop computers, tablets, monitors and workstations in use at BAWAG Group in Austria have Energy Star certification and are thus more resource-efficient than standard devices.

Green postal and courier services

In 2020, an electric vehicle was purchased for the internal logistics of BAWAG Group's central locations in Austria. Südwestbank has already been using an electric vehicle to carry out inner-city courier services for several years. Österreichische Post AG continued to deliver all BAWAG items in a CO2-neutral manner in 2021. Südwestbank sent letters and parcels in a climate-neutral manner using GOGREEN. With the help of an independent measurement system, the CO2

1) Suppliers with their main location in Austria, Germany or Switzerland are considered "local." International companies whose branches are located in the aforementioned countries and who submit invoices to BAWAG Group are also classified as "local" in the presentation.

emissions of all shipments are precisely assessed. Greenhouse gases are offset by supporting various climate protection projects.

Digitization of processes

Various initiatives to digitalize our processes have been helping to reduce paper use throughout BAWAG Group for years. As a result of COVID-19, sales processes were also increasingly digitalized this year, thus further reducing paper consumption (for more information, see the Sustainability in our core business section). The paperless branch project has been one of the most important paper reduction initiatives since the switch to an independent BAWAG network. Unless customers specifically request it, payment transaction slips and documents for product closings are not printed out but transmitted electronically. The signing of contracts is also handled electronically.

APPENDIX

Additional tables on employee promotion and development, diversity and equal opportunity

Table: Exits

401-1

	2021	2020
By country		
Austria	369	320
Germany	113	69
Other	12	12
By age group		
<30	203	165
30–50	192	166
>50	99	70
By gender		
Female	255	204
Male	239	197

Table: Exits

in %	2021	2020
By country		
Austria	75%	80%
Germany	23%	17%
Other	2%	3%
By age group		
<30	41%	41%
30–50	39%	41%
>50	20%	17%
By gender		
Women	52%	51%
Men	49%	49%

Table: New hires

401-1

	2021	2020
By country		
Austria	205	315
Germany	34	35
Other	8	8
By age group		
<30	155	219
30–50	65	124
>50	27	15
By gender		
Women	143	156
Men	104	202

Table: New hires

in %	2021	2020
By country		
Austria	83%	88%
Germany	14%	10%
Other	3%	2%
By age group		
<30	63%	61%
30–50	26%	35%
>50	11%	4%
By gender		
Female	58%	44%
Male	42%	56%

Table: Material topics

Material topic	Significance, approach, impact, opportunities & risks	GRI	SDGs	COP, WEP	NaDiVeG
Economic success	… to pursue our simple and transparent business model, which is focused on low risk, efficiency and regionally oriented on Austria, Germany and developed markets. … create value for stakeholders across the value chain, leading to a favorable impact on the economy. … contribute to the success of our stakeholders by consistently driving strategic initiatives. … risks: economic risks, negative effects on various stakeholders, loss of confidence among relevant stakeholders, declining share price and customer base, depletion of capital reserves. … due diligence: auditing, controlling	201-1, 201-4, 202-2	1, 8, 9	No assign-ment	No assign-ment
Ethics and integrity	… create a positive environment for legally compliant behavior, inside and outside of the company. … to act in accordance with the ethical values of the Code of Conduct, the ten principles of the UN Global Compact and the seven principles of the UN Global Compact Women's Empowerment Program. … to be guided by the 17 Sustainable Development Goals of the UN Global Compact as a target framework for sustainable action. … to ensure that all employees act ethically and with integrity through appropriate policies and guidelines. … to give special priority to the topics of anti-corruption and data protection in compliance management. … risks: non-compliance with laws and requirements may result in a sustained loss of confidence and reputation. … due diligence: employee training, control systems	205-1, 205-2, 205-3, 206-1, 415-1, 418-1, 419-1	8, 16	COP 1, COP 2, COP 10	Respect for human rights, fight against corruption and bribery
Responsibility towards customers	… to give our customers the opportunity to conduct their banking transactions according to their individual wishes, whenever and wherever they want, via our digital and physical distribution channels. … to give access to finance, easy to understand, accessible 24/7 via digital devices. … successful and long-term business relationships with customers across all sales channels and platforms. … risks: loss of trust and customers, loss of market share, economic and financial risk … due diligence: customers' feedback, surveys, market shares, product implementation process, control systems, complaints process	417-1, 417-2, 417-3, FS 1, FS 2, FS 11, FS 13, FS 14	1, 8	COP 1, COP 8	No assign-ment
Sustainability in core business	… to promote the development of sustainable business areas and to provide a diverse range of products and services that are geared towards ecological, economic and social requirements. … to be a reliable partner for companies and the regional economy and to assume ecological and social responsibility. … to support products and services with a sustainable focus and financing of projects with added value for the regional economy. … promote the development of sustainable business areas and provide a diverse range of products and services	FS 6, FS 7, 203-1, 412-3	1, 7, 8, 9, 12, 13	COP 1, COP 2, COP 7-9	Environ-mental and social concerns, respect for human rights

	geared towards ecological, economic and social requirements. … risks: reputational, economic risk, climate change … due diligence: product implementation process, screening of regulatory changes				
Social responsibility and personal commitment	... to promote civic engagement and the social commitment of employees … increased awareness of social issues … reduction of inequality and poverty … strengthening civil society … risks: reputational risk, loss of trust … due diligence: review process for non-profit crowdfunding.at projects, approval process for employee volunteering, review of donation projects by multiple people	No assign-ment	1, 4	No assign-ment	Social issues
Employee promotion and development, diversity and equal opportunities	... to provide employees with a healthy and career-enhancing work environment. ... to maintain an open, appreciative relationship with employees and to promote their potential. ... to actively put equal opportunities and diversity into practice in the company. … to create opportunities by increasing the level of education. … risks: high fluctuation rate, increased sick leave, loss of trust, shortage of skilled workers, problems in doing business … due diligence: evaluation platforms, sustainability ratings, employee feedback on various programs, Women's Advancement Plan	401-1, 401-2, 401-3, 404-3, 405-1, 406-1, FS 4	4, 5, 8	COP 3-6, WEP 1-7	Social and labor issues, respect for human rights
Environmental & climate protection	… to preserve the natural basis of human life. … to keep the direct impact on the environment in everyday work and the indirect impact through products and services as low as possible, thus ensuring an environment worth living in for future generations. … to mitigate climate change, promote circular economy. … risks: climate change risks, financial risks and reputational risks … due diligence: environmental and resource management, Group-wide prcesses and standards for business relationships	204-1, 302-1, 302-2, 305-1, 305-2, 305-3	1, 7, 8, 13, 16	COP 1-8	Environ-mental

GRI INDEX

This GRI Index was prepared in accordance with the Global Reporting Initiative 2016 guidelines (GRI Standards, application level "in accordance: core" option, industry-specific indicator set for financial services). Unless otherwise stated, all data refer to the year 2021 or 31 December 2021. In the course of the materiality process, BAWAG Group identified its key areas for action. These were assigned to the individual GRI topics. The following table provides an overview of the material topics and the corresponding GRI indicators according to the GRI Standards. In addition, GRI codes have been provided alongside the text content in the sections of this report.

Areas of action	GRI codes
Economic success	201-1, 201-4, 202-2
Ethics and integrity	205-1, 205-2, 205-3, 206-1, 415-1, 418-1, 419-1
Responsibility towards customers	417-1, 417-2, 417-3, FS 1, FS 2, FS 11, FS 13, FS 14
Sustainability in our core business	203-1, 412-3, FS 6, FS 7
Social responsibility and personal commitment	
Employee promotion and development, diversity and equal opportunity	401-1, 401-2, 401-3, 404-1, 404-3, 405-1, 406-1, FS 4
Environmental and climate protection	204-1, 302-1, 302-2, 305-1, 305-2, 305-3

GENERAL DISCLOSURES

GRI code		Content according to GRI Standards (core)	Reference	Notes
Organizational profile	102-1	Name of the organization		Consolidated Annual Report 2021, p. 5.
	102-2	Activities, brands, products, and services		Consolidated Annual Report 2021, p. 5 et seq.
	102-3	Location of headquarters		BAWAG Group's headquarters are located in Vienna, Austria.
	102-4	Location of operations		Consolidated Annual Report 2021, p. 16 et seq.
	102-5	Ownership and legal form		Consolidated Annual Report 2021, p. 25.
	102-6	Markets served		Consolidated Annual Report 2021, p. 5 et seq.
	102-7	Scale of the organization		As of 31 December 2021, BAWAG Group had one headquarters location, three other locations and 88 branches in the DACH region.
	102-8	Information on employees and other workers		No significant proportion of non-employed workers.
	102-9	Supply chain		Consolidated Annual Report 2021, p. 5.
	102-10	Significant changes to the organization and its supply chain		No significant changes in the reporting period.
	102-11	Precautionary principle or approach	p. 294	
	102-12	External initiatives		Work and family audit; equalitA; Austrian Leading Companies; UN Global Compact; UN Global Women's Empowerment Program; 2030 Agenda Sustainable Development Goals
	102-13	Memberships of associations		UN Global Compact, UN Global Compact WEP
Strategy	102-14	Statement from senior decision-maker		Consolidated Annual Report 2021, p. 10.
Ethics and integrity	102-16	Values, principles, standards, and norms of behavior	p. 290 p. 294	
Governance	102-18	Governance structure		https://www.bawaggroup.com/BAWAGGROUP/IR/EN/ESG/494430/esg-article.html at "Our Governance Structure"
	102-20	Executive-level responsibility for economic,		The NFR & ESG Committee is chaired by the Chief Risk Officer (deputy: Chief Executive Officer; deputy: Chief Financial Officer). He reports directly to the BAWAG Group Supervisory Board.

		environmental, and social topics		
Stakeholder engagement	102-40	List of stakeholder groups		CSR Report 2018, p. 9
	102-41	Collective bargaining agreements		Around 92% of BAWAG Group's employees are covered by collective bargaining agreements.
	102-42	Identifying and selecting stakeholders		Ten stakeholder groups were defined in 2018 as part of the materiality process through an analysis by the CSR team and external consultants (CSR Report 2018, p. 9). This selection was also used for discussions in this reporting year when the materiality matrix was redefined. The stakeholders are a compilation of all material internal and external stakeholder groups and were determined in consultation with sustainability experts who were entrusted with implementing the stakeholder analysis.
	102-43	Approach to stakeholder engagement		CSR Report 2018, p. 9
	102-44	Key topics and concerns raised		In the 2021 materiality analysis, the topics of data protection, anti-corruption/compliance and economic success were rated as the three most important topics by BAWAG Group's stakeholder groups. Data protection and anti-corruption/compliance were rated as very important across all stakeholder groups (- no stakeholder group preferences discernible). Economic success was rated as particularly important by employees and suppliers.
Reporting practice	102-45	Entities included in the consolidated financial statements		Consolidated Annual Report 2021, p. 202.
	102-46	Defining report content and topic boundaries	p. 287	
	102-47	List of material topics	p. 289 et seq.	
	102-48	Restatements of information		The numbers for the year 2020 (table "Economic value distributed" (p. 293)), the numbers for the year 2020 (table "Environmental indicators" (p. 327)) and the numbers for year 2020 (table "Exits", p. 330) have been restated in this report.
	102-49	Changes in reporting	p. 287	
	102-50	Reporting period	p. 287	
	102-51	Date of most recent report		March 2021
	102-52	Reporting cycle		Annual
	102-53	Contact point for questions regarding the report		Contact point for questions regarding the report: csr@bawaggroup.com
	102-54	Claims of reporting in accordance with the GRI Standards	p. 287	
	102-55	GRI content index	p. 334	
	102-56	External assurance	p. 341 et seq.	

MANAGEMENT APPROACHES AND PERFORMANCE INDICATORS

Area of action 1: Economic success

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	103-1	Explanation of the material topic and its Boundary	p. 292 et seq.	
	103-2	The management approach and its components	p. 292 et seq.	
	103-3	Evaluation of the management approach	p. 292 et seq.	
Economic Performance	201-1	Direct economic value generated and distributed	p. 293	
	201-4	Financial assistance received from government		No support during the reporting period.
Market Presence	202-2	Proportion of senior management hired from the local community		The origin of 100% of the members of the Senior Leadership Team (table “Workforce/Governing Bodies by age group and gender”) is our core markets (DACH, Western Europe & the US).

Area of action 2: Ethics and integrity

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	103-1	Explanation of the material topic and its Boundary	p. 294 et seq.	
	103-2	The management approach and its components	p. 294 et seq.	
	103-3	Evaluation of the management approach	p. 294 et seq.	
Anti-corruption	205-1	Operations assessed for risks related to corruption		During the risk assessment, there have been no significant risks identified.
	205-2	Communication and training about anti-corruption policies and procedures	p. 297	
	205-3	Confirmed incidents of corruption and actions taken	p. 298	
Anti-competitive Behavior	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		No incidents in the reporting period.
	415-1	Political contributions		Political donations are prohibited throughout the Group by the anti-corruption policy.
Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		There were two complaints, one is substantiated and one open (to be clarified whether the complaint is justified: In one case, a customer was wrongly registered in KSV. The customer complained to the Bank and the data protection authority. When the data protection authority asked us to comment, we had already deleted the entry. The case was closed. In one case, cookies were set. The customer complained about the cookie banner. The cookies were deleted. We changed the banner. It is not clear whether we actually should have changed the cookie banner. The proceedings are still ongoing. Beside the two complaints, we had 33 data breaches, all of which were solved.
Socio-economic Compliance	419-1	Non-compliance with laws and regulations in		No incidents during the reporting period.

		the social and economic area		

Area of action 3: Responsibility towards customers

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	103-1	Explanation of the material topic and its Boundary	p. 301 et seq.	
	103-2	The management approach and its components	p. 301 et seq.	
	103-3	Evaluation of the management approach	p. 301 et seq.	
Marketing and Labeling	417-1	Requirements for product and service information and labelling	p. 304 et seq.	
	417-2	Incidents of non-compliance concerning product and service information and labeling		There were no violations during the reporting period.
	417-3	Incidents of non-compliance concerning marketing communications		There were no violations during the reporting period.
Sector-specific disclosure: Product Portfolio	FS 1	Policies with specific environmental and social components applied to our core business	p. 301 et seq.	
	FS 2	Procedures for assessing and screening environmental and social risks in our core business	p. 301 et seq.	
Sector-specific disclosure: Active Ownership	FS 11	Percentage of assets subject to positive and negative environmental or social screening	p. 301 et seq.	
Community	FS 13	Access points in low-populated or economically disadvantaged areas by type	p. 302 et seq.	
	FS 14	Initiatives to improve access to financial services for disadvantaged people	p. 302 et seq.	

Area of action 4: Sustainability in our core business

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	103-1	Explanation of the material topic and its Boundary	p. 305 et seq.	
	103-2	The management approach and its components	p. 305 et seq.	Example: Green Finance Framework: By focusing on the essential topic of "sustainability in core business", we are responding to changing customer requirements, which increasingly emphasize the use of sustainable products and services. At the same time, BAWAG Group wants to live up to its responsibility for sustainability – as opposed to achieving its economic goals at the expense of ecology and social contributions. Link:

				https://www.bawaggroup.com/linkableblob/BAWAGGROUP/530114/f8aec564d09ae29d917fe8536a0b47bf/green-finance-framework-2021-data.pdf
	103-3	Evaluation of the management approach	p. 305 et seq.	
Sector-specific disclosure: Product Portfolio	FS 6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/ large) and by sector	p. 305 et seq.	In addition to the table on overall sector exposure in the CSR Report, the risk concentration by sector for Corporates, Real Estate & Public Sector is also presented in the Consolidated Annual Report 2021 (p. 242). The distribution of the credit portfolio by size cannot be applied in accordance with GRI requirements based on the available data.
	FS 7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	p. 309 et seq.	
Indirect Economic Impacts	203-1	Infrastructure investments and services supported	p. 308 et seq.	
Human Rights Assessment	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening		The Code of Conduct sets out the standards for compliance with human rights that are binding for all business activities. This also includes the conclusion of contracts or the launch of products (PIP). Beyond this, there are currently no human rights clauses in investment agreements/contracts. The Supplier Code of Conduct, which is mandatory for suppliers, covers human rights aspects such as equal treatment, child labor, forced labor etc.

Area of action 5: Social responsibility and personal commitment

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	103-1	Explanation of the material topic and its Boundary	p. 311 et seq.	
	103-2	The management approach and its components	p. 311 et seq.	
	103-3	Evaluation of the management approach	p. 311 et seq.	
		Volunteer hours completed by employees	p. 311	

Area of action 6: Employee promotion and development, diversity and equal opportunity

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	103-1	Explanation of the material topic and its Boundary	p. 313 et seq.	
	103-2	The management approach and its components	p. 313 et seq.	
	103-3	Evaluation of the management approach	p. 313 et seq.	
Sector-specific disclosure: Product Portfolio	FS 4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to our core business	p. 319 et seq.	
Employment	401-1	New employee hires and employee turnover	p. 315, 329 et seq.	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 325	

	401-3	Parental leave	p. 323 et seq.	
Training and Education	404-1	Average hours of training per year per employee	p. 320 et seq.	
	404-3	Percentage of employees receiving regular performance and career development reviews	p. 325	
Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	p. 315 et seq.	
Non-discrimination	406-1	Incidents of discrimination and corrective actions taken		No incidents during the reporting period.

Area of action 7: Environmental and climate protection

GRI code		Content according to GRI Standards (core)	Reference	Remarks
Management Approach	103-1	Explanation of the material topic and its Boundary	p. 327 et seq.	
	103-2	The management approach and its components	p. 327 et seq.	
	103-3	Evaluation of the management approach	p. 327 et seq.	
Procurement Practices	204-1	Proportion of spending on local suppliers	p. 328	Due to the data situation, it was only possible to report the spendings of BAWAG (incl. easybank and SÜDWESTBANK). It is planned to expand the presentation to include other subsidiaries in future disclosures.
Energy	302-1	Energy consumption within the organization	p. 327	
	302-2	Energy consumption outside of the organization	p. 327	
Emissions	305-1	Direct (Scope 1) GHG emissions	p. 327	
	305-2	Energy indirect (Scope 2) GHG emissions	p. 327	
	305-3	Other indirect (Scope 3) GHG emissions	p. 327	

23 February 2022

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Management Board

Sat Shah
Member of the Management Board

David O'Leary
Member of the Management Board

Andrew Wise
Member of the Management Board

Guido Jestädt
Member of the Management Board

INDEPENDENT ASSURANCE REPORT

102-56 We have performed an independent limited assurance engagement on the combined consolidated non-financial report according to § 267a UGB ("NFI report") for the financial year 2021, which has been published as (consolidated) Non-Financial Report of **BAWAG Group AG, Vienna** (referred to as "BAWAG Group" or "the Company").

Conclusion

Based on the procedures performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the NFI report of the Company is not in accordance with the legal requirements of the Austrian Sustainability and Diversity Improvement Act (§ 267a UGB), the provisions of Article 8 of the Regulation (EU) 2020/852 as amended and the supplementing delegated Regulation (EU) 2021/2178 (hereafter "EU Taxonomy Regulation") and the sustainability reporting guidelines of the Global Reporting Initiative (GRI Standards) Option "Core" in all material respects.

Management's Responsibility

The Company's management is responsible for the proper preparation of the NFI report in accordance with the reporting criteria. The Company applies the legal requirements of the Austrian Sustainability and Diversity Improvement Act (§ 267a UGB) and the sustainability reporting guidelines of the Global Reporting Initiative (GRI Standards) Option "Core" as reporting criteria. In addition, the company prepares disclosures in accordance with the EU Taxonomy Regulation, which are published as part of sustainability reporting. The Company's management is responsibile for the selection and application of appropriate methods for non-financial reporting (especially the selection of significant matters) as well as the use of appropriate assumptions and estimates for individual non-financial disclosures, given the circumstances. Furthermore, their responsibilities include the design, implementation and maintenance of systems, processes and internal controls that are relevant for the preparation of the sustainability report in a way that is free of material misstatements – whether due to fraud or error.

Emphasis of Matter

We refer to the disclosures in section "Sustainability in our core business" of the non-financial statement, related to Article 8 of the EU Taxonomy Regulation, in which the legal representatives have set out their understanding of the regulations and the delegated legislation adopted in this regard. Both the disclosures as well as the delegated legislation issued in this regard are based on wordings and terms that are subject to significant uncertainties in their interpretation and for which there are no authoritative sources available for clarification. The legal representatives are responsible for the selection of these interpretations as well as their reasonability. Due to the inherent risk that ambiguous legal terms may be interpreted differently, an assessment of legal conformity with regulations is subject to uncertainties. Our conclusion is not modified in respect of this matter.

Auditor's Responsibility

Our responsibility is to state whether, based on our procedures performed and the evidence we have obtained, anything has come to our attention that causes us to believe that the Company's NFI report is not in accordance with the legal requirements of the Austrian Sustainability and Diversity Improvement Act (§ 267a UGB), the legal requirements of the EU Taxonomy Regulation and the sustainability reporting guidelines of the Global Reporting Initiative (GRI Standards) Option "Core" in all material respects. Our engagement was conducted in conformity with the International Standard on Assurance Engagements (ISAE 3000) applicable to such engagements. These standards require us to comply with our professional requirements including independence requirements, and to plan and perform the engagement to enable us to express a conclusion with limited assurance, taking into account materiality. An independent assurance engagement with the purpose of expressing a conclusion with limited assurance ("limited assurance engagement") is substantially less in scope than an independent assurance engagement with the purpose of expressing a conclusion with reasonable assurance ("reasonable assurance enagement"), thus providing reduced assurance. Despite diligent engagement planning and execution, it cannot be ruled out that material misstatements, illegal acts or irregularities within the non-financial report will remain undetected.

The procedures selected depend on the auditor's judgment and included the following procedures in particular:

- Inquiries of personnel at the group level, who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting threshholds of the Company;
- A risk assessment, including a media analysis, on relevant information on the Company's sustainability performance in the reporting period;
- Evaluation of the design and implementation of the systems and processes for the collection, processing and monitoring of disclosures on environmental, social and employees matters, respect for human rights, anti-corruption as well as bribery and also includes the consolidation of data;
- Inquiries of personnel at the group level, who are responsible for providing, consolidating and implementing internal control procedures relating to the disclosure of concepts, risks, due diligence processes, results and performance indicators;
- Inspection of selected internal and external documents, in order to determine whether qualitative and quantitative information is supported by sufficient evidence and presented in an accurate and balanced manner;
- Assessment of the processes for local data collection, validation and reporting, as well as the reliability of the reported data through a (remotely conducted) survey performed on a sample basis at easyleasing GmbH, Vienna.
- Analytical evaluation of the data and trend of quantitative disclosures regarding the GRI Standards listed in the GRI-Index, submitted by all locations for consolidation at the group level;
- Evaluation of the consistency of the of the Austrian Sustainability and Diversity Improvement Act (§ 267a UGB), the EU Taxonomy Regulation and the GRI Standards, Option "Core" to disclosures and indicators of the NFI report, which apply to the Company;
- Evaluation of the overall presentation of the disclosures by critically reading the NFI report.

The procedures that we performed do not constitute an audit or a review. Our engagement did not focus on revealing and clarifying of illegal acts (such as fraud), nor did it focus on assessing the efficiency of management. Furthermore, it is not part of our engagement to audit future-related disclosures, prior year figures, statements from external sources of information, expert opinions or references to more extensive external reporting formats of the Company.

Restriction on use

Because our report will be prepared solely on behalf of and for the benefit of the principal, its contents may not be relied upon by any third party, and consequently, we shall not be liable for any third party claims. We agree to the publication of our assurance certificate and NFI report. However, publication may only be performed in its entirety and as a version hat has been certified by us.

General Conditions of Contract

Our responsibility and liability towards the Company and any third party is subject to paragraph 7 of the General Conditions of Contract for the Public Accounting Professions.

Vienna, 23 February 2022

KPMG Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Peter Ertl

Wirtschaftsprüfer (Austrian Chartered Accountant)

UN GLOBAL COMPACT COMMUNICATION ON PROGRESS (COP)

COMMUNICATION ON PROGRESS (COP)

As a signatory to the UN Global Compact, BAWAG Group is committed to complying with the ten principles focusing on labor rights, human rights, environmental protection and anti-corruption and, since signing the UN Global Compact Women's Empowerment Principles (WEP) in 2015, to complying with the seven WEP. This CSR Report 2021 is thus also a report in the sense of the annual "Communication on Progress" (COP). For each principle, examples have been given of how they have been and are being implemented in BAWAG Group.

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT AND EXAMPLES OF IMPLEMENTATION

The ten principles	Examples of implementation
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence. (COP 1)	p. 295, 328 General/principles/guidelines: Code of Conduct, Supplier Code of Conduct
Principle 2: Businesses should make sure that they are not complicit in human rights abuses. (COP 2)	p. 295, 328 General/principles/guidelines: Code of conduct, supplier code of conduct
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. (COP 3)	General/principles/guidelines: Freedom of association and the registration of trade unions are enshrined in law in our core markets. There is an ongoing exchange of information between management and the Works Council, and new works agreements are concluded regularly.
Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labor. (COP 4)	p. 295, 296, 328 General/principles/guidelines: Supplier Code of Conduct; the majority of our suppliers come from the DACH region. The topics of freedom of negotiation, forced labor, working hours and wages are part of the Supplier Code of Conduct item 3 "Respect for fundamental rights, health and safety of employees."
Principle 5: Businesses should uphold the effective abolition of child labor. (COP 5)	p. 295, 328 General/principles/guidelines: Supplier code of conduct
Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation. (COP 6)	p. 295, 313, 317, 327 General/principles/guidelines: Code of Conduct, Supplier Code of Conduct, recruiting policies, Women's Advancement Plan, Women's Mentoring Program
Principle 7: Businesses should support a precautionary approach to environmental challenges. (COP 7)	p. 308 et seq. Energy efficiency products and services
Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility. (COP 8)	p. 309, 328 Energy-efficient sites, paperless branches, digitalization of processes, expansion of online offerings
Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies. (COP 9)	p. 308 et seq. Financing of sustainable projects
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. (COP 10)	p. 295, 297, 328 General/principles/guidelines: Code of Conduct, Supplier Code of Conduct, anti-corruption and gift acceptance policy, conflict of interests policy. New entrants in Austria must successfully complete training on the prevention of money laundering. Employees must complete training on topics such as anti-corruption and fraud prevention.

WEP 7

THE SEVEN PRINCIPLES OF THE UN GLOBAL COMPACT WOMEN'S EMPOWERMENT PROGRAM AND EXAMPLES OF IMPLEMENTATION

The seven principles	Examples of implementation
Principle 1: Establish high-level corporate leadership for gender equality (WEP 1)	p. 313, 316, 319 Women's Advancement Plan, Women's Mentoring Program, flexible working time models, focus topic in management programs
Principle 2: Treat all women and men fairly at work – respect and support human rights and nondiscrimination (WEP 2)	p. 314, 317, 322, 323 Recruiting policy, Code of Conduct, flexible working time models, Supplier Code of Conduct, Women's Advancement Plan, part-time parental leave, dad month
Principle 3: Ensure the health, safety and well-being of all women and men workers (WEP 3)	p. 323, 325 et seq. Work and family audit, information events for expectant parents, welcome back events for parents returning from parental leave, company day care centers, workplace health promotion
Principle 4: Promote education, training and professional development for women (WEP 4)	p. 313 et seq. Women's Advancement Plan, Women's Mentoring Program
Principle 5: Implement enterprise development, supply chain and marketing practices that empower women (WEP 5)	p. 314 Women's Award
Principle 6: Promote equality through community initiatives and advocacy (WEP 6)	p. 314 Women's Award, Women's Initiative
Principle 7: Measure and publicly report on progress to achieve gender equality (WEP 7)	p. 314, 316 Report on measures, objectives and target achievement as part of the annual CSR Report and the Communication on Progress (COP); proportion of female managers

DEFINITIONS

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

Liquidity coverage ratio (LCR)	Liquid assets / net liquid outflows (calculation according to CRR)	The liquidity coverage ratio is a regulatory metric that ensures that banks maintain adequate levels of liquidity, i.e. sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, the bank shall sustain any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements and short-term liquidity needs.
Loan-to-Value (LTV)	Mortgage loans / appraised value (market value) of the property	The LTV ratio is a financial term to express the ratio of a mortgage loan in relation to the value in use or market value of the underlying property.
Net interest margin	Net interest income / average interest-bearing assets	The net interest margin is a performance measure and is expressed as a percentage of what a bank earns on loans and other assets in a time period less the interest it pays on deposits and other liabilities divided by average interest-bearing assets. It is used for external comparison with other banks as well as internal profitability measurement of products and segments.
Net profit	Profit after tax attributable to owners of the parent	This profitability measure represents the profit after tax that is available for distribution to the shareholders in absolute amounts for the respective period as presented in the consolidated financial statements.
Non-performing loans (NPL) ratio	Non-performing loans / Exposure	The NPL ratio is a ratio to demonstrate the proportion of loans that have been classified as non-performing in relation to the entire credit risk exposure (on-balance and off-balance sheet receivables). The ratio reflects the quality of the portfolio and of the Group's credit risk management.
Non-performing loans (NPL) coverage ratio	Stage 3 incl. prudential filter and collateral / NPL exposure economic	The total of stage 3 impairments including prudential filter and collateral relative to the NPL exposure economic
Non-performing loans (NPL) cash coverage ratio	Stage 3 incl. prudential filter / NPL exposure economic	The total of stage 3 impairments including prudential filter relative to the NPL exposure economic
Off-balance sheet business	CCF weighted off-balance business	Off-balance sheet business refers to assets or liabilities that do not appear on the Group's balance sheet such as loan commitments and financial guarantees. The off-balance business in the risk report is weighted by a credit conversion factor (CCF).
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses	As presented in the respective line item in the income statement
Operating profit	Operating income less operating expenses and regulatory charges	As presented in the respective line item in the income statement
Pre-provision profit	Operating income less operating expenses	As presented in the respective line item in the income statement
Pre-tax earnings per share	Profit before tax / weighted average diluted number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax per every individual share (diluted) of the stock.
Return on common equity (RoCE)	Net profit / average common equity excluding AT1 capital and dividends and dividend accruals	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the income statement as a percentage of the respective underlying (either equity related or asset related).

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

GLOSSARY

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
AML	Anti-Money-Laundering
Backtesting	A method for verifying projected VaR values by comparing them with the actual developments.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
Cash flow hedge	A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CLO	Collateralized loan obligation; securities that are collateralized by a pool of credit claims.
Cross-selling	The active selling of complementary products and services to existing customers.
CRR	Capital Requirements Regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance; in the applicable version.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Expected credit loss	IFRS 9 requires a bank to determine the expected credit loss (ECL) based on a probability assessment of future cash flows and losses. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries).
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
Fair value hedge	Assets or liabilities, generally with fixed interest rates, are protected against changes in their fair value using derivatives.
Futures	Standardized, exchange-traded forward agreements in which an asset must be delivered or purchased at a specific time and at a price that is agreed in advance.
Hedge accounting	An accounting technique that aims to minimize the effects that the opposing developments in the value of a hedge transaction and its underlying transaction have on the income statement.
Hedging	Protecting against the risk of disadvantageous interest rate and price changes.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
ILLAP	Internal Liquidity Adequacy Assessment Process; an internal procedure to ensure that a bank has robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk.
Impairments stage 1	Impairments (ECL) for assets without increase in credit risk since initial recognition.
Impairments stage 2	Impairments (ECL) with increase in risk since initial recognition but not credit-impaired.
Impairments stage 3	Impairments (provisions and reserves) for credit-impaired debt instruments.
Industry segmentation	Allocation to individual industries based on internal industry codes.
Investment properties	Properties held as financial investments, primarily to generate rental income.
Monte Carlo simulation	A numerical method for solving mathematical problems by modelling random values.
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time.
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
SALCO	Strategic Asset Liability Committee; a bank committee with a full board representation that decides on the most relevant issues related to liquidity, capital and interests.
Swap	A financial instrument that is generally used to exchange payment flows between two parties.
Trading book	All positions that a bank holds in financial instruments for the purpose of sale again in the short term when the best result can be achieved depending on the development of prices and interest rates. Positions that are not assigned to the trading book are managed in the banking book.

OWNER AND PUBLISHER

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

Investor Relations:
investor.relations@bawaggroup.com

Media:
communications@bawaggroup.com

Typesetting:
In-house using firesys