BAWAG Group

CONSOLIDATED ANNUAL REPORT 2017

2017 HIGHLIGHTS

March
- BAWAG P.S.K. elected "Austria's Best Bank 2017" by *Global Finance*
- Anas Abuzaakouk appointed CEO

April
- Third rating upgrade by Moody's within two years to A2

July
- Agreement signed to acquire Südwestbank

October
- Acquisition of PayLife, the commercial card issuing business of SIX Payment Services Austria
- Listing of BAWAG Group AG on the Vienna Stock Exchange – largest-ever IPO in Austria

November
- BAWAG Group named "Bank of the Year" in Austria by *The Banker* for the third year in a row

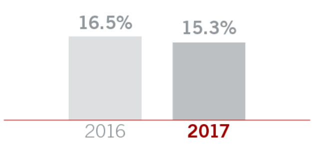
December
- Acquisition of Südwestbank successfully closed
- Agreement signed to acquire Deutscher Ring Bausparkasse
- *easybank* again awarded "Best Direct Bank in Austria" by *DerBörsianer*
- EUR 517 million full-year 2017 record profit before tax achieved

ALL 2017 TARGETS OUTPERFORMED

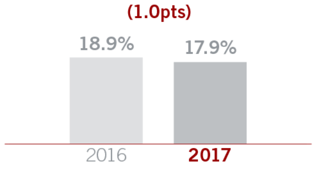
Targets 2017	Performance 2017
Profit before tax >EUR 500 million	EUR 517 million
Return on equity (@12% CET1) >15%	15.3%
Return on tangible equity (@12% CET1) >16%	17.9%
Cost-income ratio <43%	41.6%[1]
CET1 capital ratio (fully loaded) >12%	13.5%
Leverage ratio (fully loaded) >5%	6.2%

PERFORMANCE SCORECARD

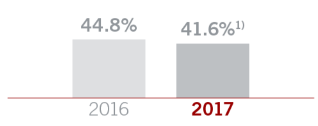
Return on equity (@12% CET1)
(1.2pts)



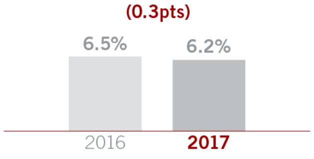
Return on tangible equity (@12% CET1)
(1.0pts)



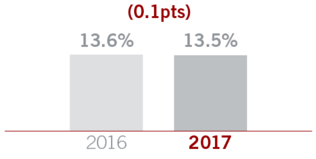
Cost-income ratio
(3.2pts)



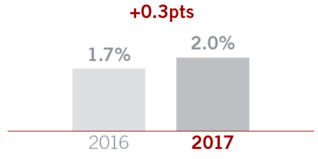
Leverage ratio (fully loaded)
(0.3pts)



CET1 ratio (fully loaded)
(0.1pts)



NPL ratio
+0.3pts



1) Excluding parts of the long-term incentive program (LTIP) recognized in 2017.

KEY FINANCIAL FIGURES

Profit or loss statement (in EUR million)	**2017**	2016	Change (%)	2015	Change (%)
Net interest income	791.3	732.2	8.1	722.3	9.6
Net fee and commission income	216.9	192.9	12.4	185.9	16.7
Core revenues	**1,008.2**	**925.1**	**9.0**	**908.2**	**11.0**
Gains and losses on financial instruments and other operating income and expenses	129.4	55.8	>100	63.6	>100
Operating income	**1,137.6**	**980.9**	**16.0**	**971.8**	**17.1**
Operating expenses	**(528.8)**	**(439.4)**	**20.3**	**(470.1)**	**12.5**
Regulatory charges	(33.8)	(46.1)	(26.7)	(36.8)	(8.2)
Total risk costs	(61.8)	(42.7)	44.7	(45.8)	34.9
Profit before tax	**517.3**	**460.7**	**12.3**	**418.5**	**23.6**
Income taxes	(50.6)	12.9	–	(24.1)	>100
Net profit	**466.6**	**473.4**	**(1.4)**	**394.4**	**18.3**

Performance ratios	**2017**	2016	Change (pts)	2015	Change (pts)
Return on equity	13.9%	15.6%	(1.7)	14.1%	(0.2)
Return on equity (@12% CET1)	**15.3%**	**16.5%**	**(1.2)**	**14.4%**	**0.9**
Return on tangible equity	16.0%	17.6%	(1.6)	16.1%	(0.1)
Return on tangible equity (@12% CET1)	**17.9%**	**18.9%**	**(1.0)**	**16.3%**	**1.6**
Net interest margin	2.23%	2.32%	(0.09)	2.35%	(0.12)
Cost-income ratio[1)]	41.6%	44.8%	(3.2)	48.4%	(6.8)
Risk costs / loans and receivables	0.18%	0.15%	0.03	0.17%	0.01

Statement of financial position (in EUR million)	**2017**	2016	Change (%)	2015	Change (%)
Total assets	46,071	39,761	15.9	35,708	29.0
Financial assets	7,588	6,416	18.3	6,288	20.7
Customer loans and receivables	30,804	28,498	8.1	24,713	24.6
Customer deposits and own issues	36,611	32,045	14.2	26,197	39.8
IFRS equity	3,609	3,123	15.6	2,956	22.1
IFRS tangible equity	3,102	2,745	13.0	2,628	18.0
Risk-weighted assets	21,491	19,044	12.8	17,454	23.1

Balance sheet ratios	**2017**	2016	Change (pts)	2015	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**13.5%**	**13.6%**	**(0.1)**	**12.3%**	**1.2**
Leverage ratio (fully loaded)	6.2%	6.5%	(0.3)	6.5%	(0.3)
Liquidity coverage ratio (LCR)	150%	138%	13	137%	14
NPL ratio	2.0%	1.7%	0.3	1.9%	0.1

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on pages 226–228. Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016. For further details please refer to Note 37.

1) Excluding parts of the long-term incentive program (LTIP) recognized in 2017.

SHARE-RELATED FIGURES

Share-related figures	2017	2016	Change (%)	2015	Change (%)
Pre-tax earnings per share (in EUR)	5.17	–	–	–	–
After-tax earnings per share (in EUR)	4.67	–	–	–	–
Book value per share (in EUR)	36.09	–	–	–	–
Share price high (in EUR)	48.00	–	–	–	–
Share price low (in EUR)	41.20	–	–	–	–
Closing price (in EUR)	44.46	–	–	–	–
Price/book ratio	1.23	–	–	–	–
Price/tangible book ratio	1.43	–	–	–	–
Shares outstanding at the end of the period	100,000,000	–	–	–	–
Weighted average number of shares outstanding	100,000,000	–	–	–	–
Market capitalization (in EUR billion)	4.4	–	–	–	–

BAWAG GROUP AT A GLANCE

BAWAG Group AG is the listed holding company of BAWAG P.S.K., which is headquartered in Vienna, Austria, with the main banking subsidiaries *easybank* and start:bausparkasse in Austria and Südwestbank in Germany. With more than 2.5 million customers, BAWAG P.S.K. is one of Austria's largest banks operating under a well-recognized national brand.

We apply a low-risk, efficient, simple and transparent business model focused on Austria, Germany and developed markets. We serve retail, small business and corporate customers offering comprehensive savings, payment, lending, leasing, investment, building society and insurance products and services through various online and offline channels.

Our business segments are BAWAG P.S.K. Retail, easygroup, Südwestbank, DACH Corporates & Public Sector, International Business and Treasury Services & Markets. Delivering simple, transparent and best-in-class products and services that meet our customers' needs is our consistent strategy across all business units.

STRATEGY SUMMARY

- **Growth in our core markets** – Our aim is to grow our customer base and business in our core markets, namely Austria, Germany and developed markets with a focus on the DACH region.
- **Making our customers' lives easier** – We offer our customers the best experience and convenience when banking through our various digital and physical channels to build and maintain successful long-term customer relationships.
- **Efficiency is the key to winning** – Cost efficiency across all businesses and functions is critical to succeed in a more complex world with increased competition, higher regulatory requirements and new market entrants from outside the financial services industry.
- **Safe and secure** – A strong capital position, stable deposits and a low risk profile are fundamental cornerstones for the execution of our strategy.

TARGETS FOR 2018

- Grow profit before tax (PBT) by more than 5%
- Achieve a cost-income ratio below 46%
- Deliver a return on tangible equity (@12% CET1) above 15%
- Maintain a CET1 ratio (fully loaded) of at least 12%

3-YEAR TARGETS (2018–2020)

- Grow profit before tax at more than 5% CAGR and deliver a PBT of greater than EUR 600 million in 2020
- Deliver pre-tax average annual earnings per share of greater than EUR 5.70
- Achieve a cost-income ratio below 40%
- Maintain a return on tangible equity (@12% CET1) in a range of 15–20%
- Maintain a CET1 ratio (fully loaded) of at least 12%
- Total excess capital accretion (>12% CET1) of greater than EUR 2 billion through 2020

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LETTER FROM THE CEO

Dear Stakeholders,

The past year was nothing short of remarkable for our company. A great deal was done over the course of 12 months. It's a real testimony to the Bank and the quality of our team that we were able to execute the largest IPO in Austria's history last October, complete multiple acquisitions and integrations, and continue to execute on our day-to-day operational and strategic initiatives, all while delivering another year of record performance. The team delivered EUR 517 million of profit before tax (+12%), a return on tangible equity of 17.9% (@12% CET1), generated approximately 330 basis points of gross capital, fully funded two acquisitions and dividend payments, and made significant investments to allow us to continue our transformation and growth. Today, BAWAG Group stands as one of the best-performing banks across Europe, an achievement that has been years in the making and is a great source of pride for our team.

Our IPO was a landmark event for the company. On 25 October 2017, BAWAG Group became a listed company on the Vienna Stock Exchange and opened a new chapter in our long and rich 130-year history. The IPO was the largest in Austria's history and represents a turning point for the Bank from private to public ownership allowing us to continue growing as an independent public company equipped to address the many opportunities ahead. We see ourselves as unique in how we address the challenges across the banking landscape. Expectations are high, but I'm convinced that with our team we will be able to deliver value to our customers, shareholders and employees.

On the M&A and integration front, the acquisitions we completed in 2017 were strategic in helping grow our customer franchise, enter new markets, offer new products, leverage talented teams and continue to improve our operating performance. We also integrated start:bausparkasse into the group, which will serve as a key channel to drive our domestic retail strategy. In addition to signing and closing the acquisitions of PayLife and Südwestbank over the course of 2017, we signed an agreement to acquire Deutscher Ring Bausparkasse in December and plan for a closing in the first half 2018.

We're in the early stages of executing on our DACH regional strategy and are excited about the many organic and inorganic opportunities ahead of us.

Delivering record results

BAWAG Group again generated a record year of financial results, making us one of the most profitable and efficient banks across Europe. We delivered on all of our 2017 targets announced at the beginning of the year:

Targets 2017	Performance 2017
Profit before tax (PBT) >EUR 500 million	EUR 517 million
Return on equity (@12% CET1) >15%	15.3%
Return on tangible equity (@12% CET1) >16%	17.9%
Cost-income ratio (CIR) <43%	41.6%[1)]
Fully loaded CET1 capital ratio >12%	13.5%
Fully loaded leverage ratio >5%	6.2%

We achieved a profit before tax (PBT) of EUR 517 million, up 12% compared to 2016. The increase was mainly driven by higher operating income and reflects the continued business transformation, positive impacts of prior-year acquisitions and continued focus on efficiency. The cost-income ratio (adjusted for effects related to the initiation of our long-term incentive program) was 41.6% in 2017.

At year-end 2017, our fully loaded CET1 capital ratio was 13.5%. This figure already takes into account the capital impacts resulting from our two acquisitions in 2017, Südwestbank and PayLife, as well as the interim dividend payment made in the third quarter 2017 and the proposed dividend of EUR 0.58 per share for the fourth quarter. Additionally, we see minimal impact from the first-time application of IFRS 9 and will head into 2018 with a strong capital base. With a strong capital position and our organic capital generation, we have the ability to continue growing and investing in our core businesses while at the same time pursuing further inorganic opportunities.

1) Excluding parts of the long-term incentive program (LTIP) recognized in 2017.

Strategic focus

As we look ahead to 2018 and beyond, I wanted to share a few thoughts around our business, strategy and key focus areas. Our business model and strategy remain consistent and no different than what has guided our transformation over the past six years. As we pursue both organic and inorganic growth opportunities, our focus is (and will always be) on addressing the needs of our customers, operational excellence and execution. We aim to deliver simple, easy-to-use and value-added products and services to our more than 2.5 million customers. We will continue to focus on serving our customers 24/7, be it through our soon to be revamped branch network, mobile and e-banking digital platforms, various partnerships, or by way of our mobile sales force.

Our foundation and heritage is Austria, however, we've also planted the seeds for cross-border growth in Germany in 2017 with the acquisition of Südwestbank and signing of an agreement to acquire Deutscher Ring Bausparkasse. We also acquired the card issuing business PayLife, which will allow us to grow our credit card business both domestically and internationally. The acquisition of Südwestbank, a regional bank with approximately 90,000 retail and corporate customers, allows us to expand our footprint and customer base in Germany. The bank is headquartered in Stuttgart, Germany, with a long tradition dating back to 1922 and operates in the strong economic region of Baden-Württemberg. The acquisition of PayLife provides us with an enhanced credit card offering, top-flight credit card team, nearly 600,000 customers and significant growth potential across the DACH region while extracting synergies across the group. The signing of an agreement to acquire Deutscher Ring Bausparkasse in December, which is a regional building society bank headquartered in Hamburg, Germany, offering building society products and services since 1972, complements our existing retail product offering while providing a bolt-on opportunity for retail growth in Germany. These transactions are part of our larger DACH regional strategy and will provide us access to excellent customers in highly attractive markets. Integrating and growing the businesses will be a key priority in 2018.

Another key strategic development that took place over the course of 2017 and was finalized in February 2018 was the separation agreement we signed with Austrian Post. We have been preparing for a separation since 2016, which represents a significant step forward in continuing to transform our retail franchise in our pursuit of a stand-alone network with an optimized cost base and enhanced service model. The separation agreement enables an accelerated wind-down of the partnership, working towards a materially complete separation by the end of 2019. The agreement will allow us to quickly right-size our branch network. Our goal is to focus on providing our customers with more high-quality advisory and substantive engagement as well as leveraging technology to be able to address administrative and transactional activities. Customers are looking for a more rewarding and engaging experience while also having 24/7 access to manage their financial lives. We aim to fulfill these needs. Austrian Post has been a solid partner over many years and we will work closely together to ensure a seamless separation over the next two years that ensures minimal impact to our customers. We're excited about the many opportunities ahead as we manage our own independent right-sized branch network, digital channels and salesforce.

To support our branch transformation, integration efforts and improve our day-to-day business, we have reorganized our technology team and added key personnel. Technology will play an important role across the Bank, from how we interface with customers to sales support, lead generation, loan processing, data analytics and information management. This will all be enhanced (and in some cases transformed). Our company benefits from the simplicity of our business model and a straightforward technology stack. We have planted the seeds for fundamental change across the organization with a realignment of functions and responsibilities, recruitment of talent from outside the banking industry and a complete rethink of our data and technology infrastructure. We aim to better leverage new and existing technologies, optimize our data and technology spend, and most importantly prepare to operate more as a technology company when it comes to product development, customer interfacing and analytics.

Customer business performance

Across our customer franchises, we continued to deliver solid results in 2017.

Segment	PBT (EUR million)	Pre-tax RoTE[1]	CIR
BAWAG P.S.K. Retail	225	29.8%	48.6%
easygroup	126	32.2%	23.8%
International Business	85	22.5%	21.4%
DACH Corporates & Public Sector	42	11.3%	49.4%

BAWAG P.S.K. Retail delivered record PBT of EUR 225 million, up 33% versus 2016, and a pre-tax RoTE (@12% CET1) of 29.8%. The segment recorded new originations of EUR 1.4 billion, driven primarily by consumer and housing loans. In addition to growing our consumer lending franchise and further optimizing our product mix, we continued to make progress in transforming to digital and driving transactional productivity. In 2017, there continued to be a significant shift in transactions from over-the-counter services, down 15% from 2016, to online and self-service devices, as our customers increasingly expect to conduct simple transactions with the push of a button anywhere.

The signing of the separation agreement with Austrian Post in February 2018 was a major step forward in our ability to pursue a preferred stand-alone strategy with an optimized cost base and enhanced service model. This agreement will allow us to rapidly right-size our branch network and enhance our customer experience. We target a smaller but more efficient stand-alone network of up to 100 branches with larger advisory teams, supported by mobile sales teams and high-quality digital platforms. This approach significantly reduces network costs, creates more productive customer-centric branches and allows us to further invest in the overall customer experience.

easygroup, comprising *easybank*, one of the leading direct banks in Austria, *easyleasing*, the #3 auto lessor in Austria, *easypay*, the leading credit card issuer in Austria and our international retail business, further increased its customer base and executed on several strategic initiatives. easygroup delivered record PBT of EUR 126 million, up 46% versus 2016, and a pre-tax RoTE (@12% CET1) of 32.2%. The segment generated originations of EUR 0.5 billion across easygroup, primarily through the *easyleasing* channel.

During the course of 2017, the business made a number of investments that will yield both short- and long-term benefits. Additionally, we made extensive investments in the development of a direct, online loan originations platform in Germany called *Qlick*. We have taken the extra time to ensure that the solution will also fit the needs of other strategic initiatives within BAWAG Group in Germany. We will start to reap the benefits of the hard work and investment put into launching our new online loan platform during 2018.

The **International Business** segment continues to be focused on international corporate, real estate and portfolio financing outside the DACH region, serviced from our London office. The business delivered PBT of EUR 85 million, a pre-tax RoTE (@12% CET1) of 22.5% and new originations of EUR 2.1 billion. Average asset volume was EUR 5.1 billion, which was flat on a year-over-year basis. The core revenues remained fairly stable, but the business performance was impacted by precautionary provisions booked against two oil and gas exposures. The business pipeline for portfolio financing opportunities remains solid and we continue to focus on maintaining disciplined underwriting of transactions with a focus on risk-adjusted returns.

1) @12% CET1.

The focus of **DACH Corporates & Public Sector** business continues to be on maintaining and acquiring sustainable customer relationships, while staying disciplined on risk-adjusted pricing despite the competitive landscape and continued downward pressure on margins. The business delivered PBT of EUR 42 million, a pre-tax RoTE (@12% CET1) of 11.3% and new originations of EUR 1.0 billion. The segment performance was impacted by losses from two corporate exposures that were de-risked / provisioned during the fourth quarter.

Additional highlights from 2017

In addition to the strong operating performance, BAWAG Group was recognized by the following groups for its outstanding performance:

March: *Global Finance*, one of the leading magazines for finance and capital market issues, selected BAWAG Group as "Austria's Best Bank 2017".

April: Moody's announced several upgrades of BAWAG P.S.K.'s ratings, the third rating upgrade within two years. Our long-term senior unsecured debt, issuer and deposit ratings were all raised by one notch to A2. These upgrades made BAWAG P.S.K. the best-rated Austrian bank by Moody's.

November: *The Banker*, an international industry magazine for banks published by the *Financial Times*, selected BAWAG Group as "Bank of the Year" in Austria for the third time in a row.

December: *easybank* was again named "Best Direct Bank in Austria" by the Austrian magazine *DerBörsianer* for the second time.

Outlook and targets

The banking industry across Europe is currently undergoing a significant transformation and facing several challenges in the form of persistently low interest rates, continued pricing pressure, increased regulatory requirements, new market entrants in the form of fintechs and a rapid pace of technological change.

We are confident that we have positioned BAWAG Group to successfully tackle these challenges in order to continue growing our business while maintaining a low-risk and well capitalized balance sheet.

Our **targets for 2018** are as follows:

- Grow profit before tax (PBT) by more than 5%
- Achieve a cost-income ratio below 46%
- Deliver a return on tangible equity (@12% CET1) above 15%
- Maintain a CET1 ratio (fully loaded) of at least 12%

In addition to these targets for the financial year 2018, we have the following **3-year targets from 2018 through 2020** in place:

- Grow profit before tax at more than 5% CAGR and deliver PBT of greater than EUR 600 million in 2020
- Deliver pre-tax average annual earnings per share of greater than EUR 5.70
- Achieve a cost-income ratio below 40%
- Maintain a RoTE (@12% CET1) in a range of 15% to 20%
- Maintain a CET1 ratio (fully loaded) of at least 12%
- Total excess capital (>12% CET1) accretion (>12% CET1) of greater than EUR 2 billion through 2020

In terms of capital generation and return, we target an annual dividend payout of 50% of net profit and will deploy additional excess capital (above 12% CET1) through 2020 to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our RoTE group targets. To the extent excess capital is not deployed via such organic growth and M&A, we are committed to distributing excess capital to shareholders, based on a yearly assessment, in the form of stock buybacks and/or special dividends.

The Managing Board will propose to the Annual General Meeting to distribute a dividend for the fourth quarter 2017 of EUR 0.58 per share (calculated as 50% of the average quarterly net profit generated in the financial year 2017).

Our continued strong operating results in 2017 reiterate that BAWAG Group is well positioned to win in a competitive European banking environment. We will continue to maintain our low-risk strategy focused on the DACH region, with Austria as our foundation, while providing our customers with simple, transparent and best-in-class products and services.

Thank you

All the successes mentioned earlier have only been possible thanks to the dedication, trust and respect of our employees, customers and shareholders. I would like to take this opportunity to thank all of them for their continued, unwavering support. We are proud of our accomplishments in 2017 and will continue our successful path in 2018 to confirm BAWAG Group's position as one of the best-performing banks in Europe.

Lastly, a special thanks to our team at the Bank. The whole Managing Board could not be more proud of what you do for the company every day. It is only because of the dedication of our employees that we have been able to build an exceptional company while providing our customers with simple, transparent and best-in-class products. The strong work ethic, the unbelievable commitment and the outstanding performance and execution of the team members across BAWAG Group is truly unmatched!

Anas Abuzaakouk, CEO of BAWAG Group AG

STRATEGY

GROWTH IN OUR CORE MARKETS

BAWAG Group's strategy focuses on growth in Austria and more broadly the DACH region, both organically and inorganically. We aim to grow our market share in core products in Austria, establish a meaningful presence in Germany and build a best-in-class customer franchise throughout the DACH region.

Austria is BAWAG Group's home market with a well-recognized brand across the country. We serve more than 2.5 million customers and have approximately 75% of our customer loans in the DACH region, thereof approximately 60% in Austria.

The DACH region has attractive features including:

- Population of 100 million, approximately a third of the size of the United States
- Annual GDP of EUR 4 trillion and GDP per capita of more than EUR 40,000
- An average unemployment rate of less than 5%; and
- Projected GDP growth of approximately 2% over the 2018–2019 period.

Our core markets also benefit from a common culture and language, with a stable legal system and credit environment. The region has low levels of consumer indebtedness, home ownership and digital penetration, all of which present opportunities for future business expansion.

Our strategy is based on an omni-channel commercial approach allowing us to capitalize on unique opportunities:

- One of the leading direct banks, *easybank*, allows us to tap a customer base which is complementary to the Austrian BAWAG P.S.K. and German Südwestbank franchise. *easybank*, as part of easygroup, will be a platform to drive cross-border retail expansion into Western European markets, with a primary focus on the DACH region.
- Our lean, centralized organizational structure enabling us to assure consistent service quality to our customers and develop products and services on a timely basis tailored to the needs of all of our customers.

Our Austrian and German business is complemented by our international corporate financing and real estate financing business in developed markets. This strategy provides us with a safe avenue for earnings diversification and growth opportunities in countries with stable geopolitical and macroeconomic fundamentals.

We are focused predominantly on serving retail, small business and corporate customers across the DACH region but also growing our international retail business in select markets. We aim to leverage our operating platform as we grow to confirm our position as one of the most efficient banks in the DACH region and across Europe.

2017 was a very successful year in terms of delivering on our growth strategy. We were able to execute several acquisitions while integrating start:bausparkasse and IMMO-BANK into BAWAG Group. We purchased the credit card business PayLife, enabling us to offer the full range of bank cards to our customers. As an important milestone for our German expansion, BAWAG Group acquired Südwestbank, providing us with access to a customer base of more than 90,000 customers. Südwestbank, headquartered in Stuttgart, operates a strong regional franchise offering a full range of products to its retail and corporate customers. Serving as a beachhead in Germany, Südwestbank paves the way for further expansion. Just before year-end we also signed a definitive agreement regarding the full purchase of Deutscher Ring Bausparkasse located in Hamburg.

Going into 2018, we plan to continue delivering on our growth strategy. The M&A pipeline continues to be robust, with a focus on core retail, small business and corporate opportunities. We are convinced that consolidation will occur both in our core DACH markets as well as across the greater European banking landscape. While our business plans continue to be based on low-interest rate environment assumptions, a 1% rate increase would trigger an opportunity of EUR 65–100 million in net interest income growth over time. We continue to position ourselves to capitalize on unique opportunities to increase our customer base and take market share, both organically and inorganically.

MAKING OUR CUSTOMERS' LIVES EASIER

We are dedicated to offering our customers the best and most convenient experience when conducting their banking through our digital and physical channels. Therefore, all of our digital initiatives aim at increasing convenience and satisfaction for our customers.

The following cornerstones are key to building and maintaining successful client relationships and making the lives of our customers easier:

- Simplicity and consistency in our product offering, which supports our orientation towards clear, fair and transparent banking across all of our distribution channels.
- Driving end-to-end digitalization by giving our customers access to the entire range of products and services anywhere they want on a 24/7 basis with seamless switching between the distribution channels.
- Using big data analytics to better understand new and existing customers, enabling us to personalize and customize product offerings.
- Strengthening our already successful partnerships and building new ones mainly in the digital area to continue developing our retail franchise and enhancing our product offerings and services.

We strongly believe that our customers prefer a bank that is simple and transparent. Therefore, our product offering is geared towards enhancing simplicity for our customers to provide them with clear, fair and transparent banking products and services, both online and offline.

We are continuously investing in all our distribution channels to offer our customers attractive savings, lending, leasing, insurance, building society and investment products and services wherever they want on a 24/7 basis. We focus on intuitive customer interfaces to enhance the overall customer experience when using our products and services and enabling our customers to switch between the different distribution channels more seamlessly.

EFFICIENCY IS THE KEY TO WINNING

The banking industry across Europe is facing several challenges in the form of the current low-interest rate environment, continued pricing pressure and increased regulatory requirements. Additionally, as more and more companies from outside the traditional financial services industry are entering the market, taking market share and attacking the traditional revenue streams of banks and financial institutions, the competitive pressure we are confronted with continues to be elevated.

We are convinced that in this challenging environment, banks have to change their overall business models and cost structure to be more efficient in their operations. This leads us to believe that the traditional paradigm regarding cost in the banking space needs to be challenged to adapt to increased competition from both traditional and non-traditional players.

Going into 2018, our focus continues to be on optimizing our processes and driving operational excellence. The key cornerstones of our process optimization and efficiency approach are:

- Automate and simplify our processes, transition to the digital world, enhance our computing and analytical capabilities and improve the overall customer experience. Our multi-year IT roadmap allows us to continually upgrade our infrastructure and leverage new technologies as they are introduced to enhance the focus on our customers.
- Further rationalization of products, services and processes, resulting in the streamlining and standardization of our online and offline product offerings and the optimization of our footprint.
- Mapping our end-to-end value chain to identify areas of core competency across the front, middle and back offices and leveraging intragroup platforms as well as potential for cooperation.

SAFE AND SECURE

A strong capital position, stable deposits and a low risk profile are fundamental cornerstones for the execution of our business strategy and the achievement of our goals. Management is committed to operating BAWAG Group in a safe and secure way.

Our entire capital base is already fully CRR compliant with no reliance on any transitional elements. Key requirements are strong common and total capital positions and a conservative leverage ratio as we aim to maintain our position as one of the best capitalized banks in Austria and across Europe.

In this respect, we believe our fully loaded CET1 ratio target should be 12% over time, which is a prudent level to manage through various economic cycles and provides us with the flexibility to consistently support our growth plans. It is also calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

Additionally, we are managing BAWAG Group with low balance sheet leverage, standing at 12.8x or 7.8% equity-to-total assets and a fully loaded regulatory leverage ratio of 6.2% as of year-end 2017.

All of our business and asset allocation decisions including our disciplined M&A approach are primarily oriented towards achieving and maintaining our capital goals, resulting in a detailed analysis of appropriate risk-adjusted returns on our capital utilization in each business unit.

Retail and corporate deposits have been the core part of our funding strategy over the years and will continue to be the dominant source of funding for our balance sheet. We supplement our deposits with a diversified strategy of wholesale funding. We have issued unsecured bonds, covered bonds secured by mortgage and public sector collateral, and RMBS.

Our long-term goal is to maintain strong deposit funding and diversified wholesale funding. Furthermore, our ratio of secured funding to overall funding stood at 13% as of 31 December 2017, which highlights the low overall encumbrance of our balance sheet assets. Our liquidity coverage ratio was 150% at year-end 2017.

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKETS

Stock markets in Europe and the U.S. continued to be supported by a sound economic environment, strong corporate earnings and supportive monetary conditions. In 2017, the price of the Austrian benchmark index ATX increased by 31% while the European Euro Stoxx 600 increased by 8% and the U.S. S&P 500 increased by 19%.

GDP growth, investment activity and employment reached multi-year highs in Europe and the U.S., resulting in an upgrade of economic projections by major forecasting agencies. The solid financial performance of the corporate sector is highlighted by increasing earnings per share of the ATX, of the Euro Stoxx 600 and of the S&P 500. Valuation metrics of the S&P 500 increased more pronouncedly than valuation metrics in Europe. While the price-to-earnings ratio of the S&P 500 increased to 22.3 as of year-end 2017, the price-to-earnings ratios of the ATX and the Euro Stoxx 600 closed the year at 19.4 and at 20.8, respectively.

Despite interest rate hikes by the U.S. Federal Reserve, global liquidity conditions remained ample in historic comparison on the back of asset purchases by the European Central Bank and the Bank of Japan. The plans of the U.S. government to increase infrastructure investments and the reduction of income taxes supported equity markets in the U.S. and to a minor extent in Europe.

Temporary increases in pricing volatility were caused by political uncertainty ahead of the French presidential elections, tensions with North Korea and turmoil around the Catalan referendum for independence.

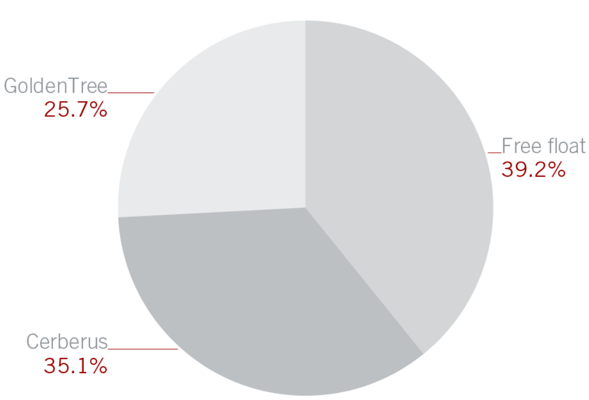
BAWAG GROUP GOES PUBLIC

On 25 October 2017, the shares of BAWAG Group AG were admitted to the Official Market of the Vienna Stock Exchange and started trading in the prime market segment. Based on the total number of 100,000,000 shares and the offer price of EUR 48.00 per share, the initial market capitalization of BAWAG Group AG amounted to EUR 4.8 billion. This IPO was the largest one in Austrian history and ranked amongst the ten largest IPOs globally in 2017.

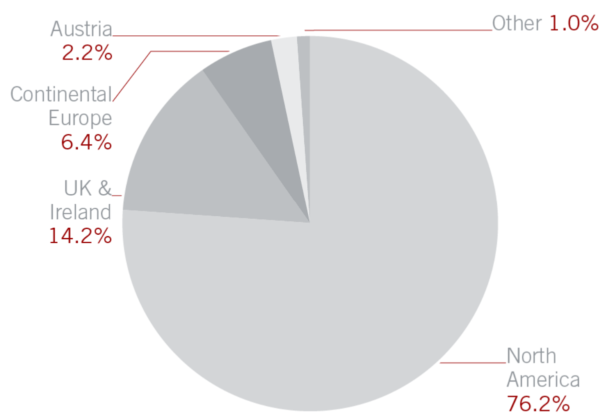
On its second trading day, 27 October 2017, BAWAG Group AG was admitted to the ATX (Austrian Traded Index).

SHAREHOLDER STRUCTURE OVERVIEW

Shareholder structure



Shareholder structure per region



INVESTOR RELATIONS

As part of the investor relations work during the preparation for the IPO, members of the Managing Board met with more than 300 investors across three continents and ten countries.

After the IPO, eleven institutions initiated coverage for BAWAG Group, namely Autonomous, Bank of America Merrill Lynch, Barclays Capital, Citigroup, Commerzbank, Credit Suisse, Goldman Sachs, JP Morgan, Morgan Stanley, Raiffeisen Centrobank and UBS.

As of 31 December 2017, ten analysts gave buy recommendations and one analyst rated the share neutral. The average target price was EUR 51.9.

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

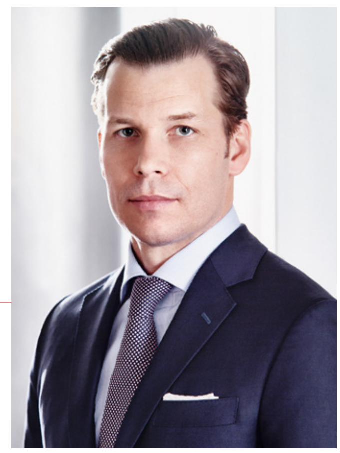
MANAGING BOARD OF BAWAG GROUP AG

Anas Abuzaakouk
Chairman of the Managing Board
Chief Executive Officer

Enver Sirucic
Member of the Managing Board
Chief Financial Officer

Stefan Barth
Member of the Managing Board
Chief Risk Officer

David O'Leary
Member of the Managing Board
Head of BAWAG P.S.K. Retail



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

Sat Shah
Member of the Managing Board
CEO of easygroup

CORPORATE GOVERNANCE

AUSTRIAN CODE OF CORPORATE GOVERNANCE

In 2006, BAWAG P.S.K. made a voluntary commitment to apply the applicable provisions of the Austrian Code of Corporate Governance (the "Code", accessible under http://www.corporate-governance.at). Following its listing in 2017, BAWAG Group AG declared its commitment to comply with the rules of the Code. The Consolidated Corporate Governance Report of BAWAG Group is prepared in accordance with Sections 243c and 267b of the Austrian Commercial Code (UGB) and will be published on the BAWAG Group website under https://www.bawaggroup.com/corporate-governance-reports.

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).

SUPERVISORY BOARD

As of 31 December 2017, the Supervisory Board of BAWAG Group AG consisted of nine members. The six capital representatives of the Supervisory Board are composed as follows: Four members are independent while – based on provisions of BAWAG Group AG's Articles of Association – one member is delegated by a Cerberus shareholder and one member is delegated by a GoldenTree shareholder.

The Rules of Procedure of the Supervisory Board set forth the rights and obligations of the Supervisory Board and define the responsibilities of individual committees at the Supervisory Board level. Further details on the individual members of the Supervisory Board and the composition of the committees are presented in the section "Boards and Officers of BAWAG Group AG" and in the Consolidated Corporate Governance Report 2017.

Audit and Compliance Committee

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 annual audit plans and regular reports of Internal Audit and the Compliance Office are submitted to the Audit and Compliance Committee. The Head of Internal Audit and the Compliance Officer have direct access to the Chairperson and members of the Audit and Compliance Committee.

Risk and Credit Committee

The committee advises the Supervisory Board on the current and future risk-bearing ability and risk strategy of BAWAG Group and monitors the effectiveness and efficiency of the risk management systems and compliance with the legal provisions and regulatory requirements.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee deals with Managing Board succession planning and the regular Fit & Proper evaluation of Managing Board and Supervisory Board members. The committee further deals with the general principles of the remuneration policy. It also monitors the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to Section 39c BWG, except for those pertaining to Managing Board members.

Committee for Management Board Matters

The Committee for Management Board Matters deals with relationships between the company and the members of the Managing Board. The committee decides on the provisions of executive and severance agreements with Managing Board members. It also monitors the remuneration policy, remuneration practices and remuneration-based incentive structures pursuant to Section 39c BWG pertaining to Managing Board members.

Related Parties Special Audit Committee

The Related Parties Special Audit Committee audits whether transactions of BAWAG Group AG and BAWAG Group AG's subsidiaries with related parties pursuant to IAS 24 are granted at arm's length terms.

MANAGING BOARD

As of 31 December 2017, the Managing Board of BAWAG Group AG consisted of six members.

Anas Abuzaakouk is Chief Executive Officer and Chairman of the Managing Board. David O'Leary is responsible for BAWAG P.S.K. Retail. Andrew Wise is Chief Investment Officer and responsible for Non-Retail Lending. Enver Sirucic is Chief Financial Officer and Stefan Barth Chief Risk Officer. Sat Shah is responsible for the easygroup segment.

Specific responsibilities and tasks of the Managing Board are set forth in the Rules of Procedure of the Managing Board.

COMPLIANCE

As a listed company, BAWAG Group AG is obliged to ensure the highest compliance standards.

The Compliance Office reports directly to the Managing 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 Managing Board and Supervisory Board as well as their related persons are published on BAWAG Group's website (https://www.bawaggroup.com/directors-dealings).

REPORT FROM THE CHAIRMAN 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 Managing 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 chairmen of the Supervisory Board, the Audit and Compliance Committee and the Risk and Credit Committee discussed current business matters with the Managing Board members. Further details regarding the composition of the Supervisory Board and its committees as well as their working procedures are disclosed in the Consolidated Corporate Governance Report 2017. The Managing Board was continuously monitored and regularly advised.

The Chairman of the Supervisory Board regularly met with the CEO and other Managing Board members outside of formal meetings.

SUPERVISORY BOARD

As of December 2017, the Supervisory Board consisted of nine members. The Supervisory Board focused on the annual financial statements and the consolidated financial statements for 2016 and discussed the appointment of the external auditor for 2018.

Other material topics which the Supervisory Board dealt with were the appointment of the Managing Board members, decisions in connection with the IPO, regular M&A and integration updates (start:bausparkasse, IMMO-Bank), discussions on the 2018 budget, the mid-term plan and the acquisition and integration of Südwestbank. Furthermore, the Supervisory Board approved the termination of the cooperation agreement with Austrian Post and reviewed BAWAG Group's strategy.

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 2018 audit plans of Internal Audit and of Compliance. The annual audit process for 2017 was also presented. Furthermore, regular updates on legal issues, compliance and AML topics were given. 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 corporate, retail and market risk. In addition, the 2017 credit risk validation reports, an update on regulatory topics as well as the risk planning guidelines of BAWAG Group were presented to the committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee approved the remuneration policy and acknowledged the mandates of Managing Board members which they hold outside BAWAG Group.

Committee for Management Board Matters

The Committee for Management Board Matters discussed and approved the amendments of BAWAG Group's remuneration policy as well as the long-term incentive program (LTIP).

Related Parties Special Audit Committee

The Related Parties Special Audit Committee held a meeting in December 2017.

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 2017 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 Managing Board as well as all employees within BAWAG Group on behalf of the entire Supervisory Board for their performance and sustained commitment in 2017.

March 2018

Pieter Korteweg
Chairman of the Supervisory Board of BAWAG Group AG

Group Management Report

ECONOMIC AND REGULATORY DEVELOPMENTS

ECONOMIC DEVELOPMENTS

Macro trends

Economic conditions continued to improve in Austria throughout the year 2017. Austria's real gross domestic product growth accelerated to a rate of around 3%, the highest growth rate in a decade. The increase in growth from a rate of 1.5% in 2016 was broadly based and driven by increasing investment activity, solid growth in private consumption and a recovery in demand for Austrian exports. Private consumption was supported by population growth, a decrease in the unemployment rate, improved consumer confidence and a stable savings rate. Corporates as well as private households continued to prove financially sound. On the back of increasing revenues, government debt consolidated to levels slightly above 80% of GDP and is expected to decrease further.

The discussions around the future economic policy agenda of the newly elected government in Austria center around reducing red tape, deregulation, increasing labor market flexibility, lowering the tax burden for lower and middle income families and fostering investments through the favorable tax treatment of retained earnings, for example.

In 2018, more than 100 million people will live within the DACH region. The growth momentum in the region, which has an annual gross domestic product of more than one third of the Euro area, remains very supportive. With 2.7% in 2017, Germany's real gross domestic product recorded the strongest annual expansion since 2011. In addition to industrial production and foreign trade, private consumption provided the largest contribution to growth. Low inflation rates and a labor market close to full employment support the financial position of German private households.

Economic and financial conditions throughout the European continent improved in 2017, highlighted by an uptick in real gross domestic product growth to 2.4% in the European Union.

Market developments

The dynamic economic environment in 2017 resulted in solid loan demand from private households in the Austrian lending market. The outstanding volume of loans for housing purposes increased in line with real estate prices, while loans for non-housing purposes grew at somewhat lower rates similar to consumer price inflation. Real estate prices grew less dynamically than in 2016 with the driver of growth continuing to shift from apartments in Vienna to single family homes in the rest of Austria. Deposits from Austrian households continued to increase despite the low-interest rate environment. The increasing investment activity was accompanied by increasing loan demand from Austrian corporations. The ratio of domestic credit provided by the financial sector to GDP remains below the OECD average and home ownership is low in Austria compared to the European average.

In 2017, the number of branches of Austrian banks declined at an accelerating rate for the fifth year in a row. The overall balance sheet of the Austrian banking sector decreased while customer assets and customer liabilities increased, reflecting the trend towards a more customer centered business.

Outlook

Structural as well as cyclical dynamics continue to support the outlook for the Austrian and German economy in 2018. Loan growth is sustainable and well supported by underlying macroeconomic developments. The Austrian population is expected to grow above the European average on the back of growth in urban areas, especially in the greater Vienna region.

Automation and digitalization will continue to drive the well-established trends towards more operational efficiency and enhanced customer experience in the banking sector.

Political risks remain elevated on a global scale but are expected to be less pronounced for Europe. The normalization of monetary policy by the ECB is expected to result in a reduction of crisis measures and a discussion on ending negative interest rates while the U.S. Federal Reserve is expected to hike key interest rates.

Given the sound financial position of private households and corporates, default rates are expected to remain at moderate levels. With a focus on Austrian retail banking and business activity in Germany and select Western developed markets, BAWAG Group is well positioned to benefit from the favorable economic environment.

REGULATORY DEVELOPMENTS

The ECB continued its direct oversight of the Eurozone's main credit institutions, including BAWAG Group, under the Single Supervisory Mechanism (SSM). The main priorities in 2017 were business models and profitability drivers, credit risk (with a focus on NPLs and concentrations) and risk management.

On 3 November 2017, the European Banking Authority (EBA) published its interpretation of certain capital regulations that impact the total capital ratio of BAWAG Group. The CET1 ratio and the leverage ratio remain unaffected. The EBA interpretation impacts bank holding companies with a high level of total capital as is the case for BAWAG Group. It implies that the portion of outstanding Tier 2 instruments issued by BAWAG P.S.K. and IMMO-BANK exceeding the minimum own funds requirement is no longer fully eligible for the consolidated capital ratios of BAWAG Group. The total capital ratio of 15.2% as of 31 December 2017 already fully includes an 80 basis points impact of this development (pre-impact: 16.0%).

During December 2017, the Basel Committee finalized its work on the reform package generally known as Basel IV. The key components are the revision of standardized approaches (mainly credit risk and operational risk) as well as the introduction of an aggregate output floor of 72.5% of the RWA calculated on the basis of the revised standardized approaches. Implementation is scheduled for 2022, with the output floor being phased in until 2027. While details of the transposition of the rules into EU law are yet to be finalized, we expect only a de minimis impact due to our conservative RWA density.

The introduction of IFRS 9 as the new accounting standard for financial instruments is a key development for the financial services industry. First-time application of the new standard occurs on 1 January 2018, and BAWAG Group is well prepared. The negative impact on the fully loaded CET1 ratio as of 1 January 2018 will be minimal.

MREL requirements will be introduced for banks in order to ensure that they have a sufficient amount of equity and debt in place that is eligible to absorb losses in resolution and may be used for a bail-in. These requirements will be determined on a case-by-case basis for each banking group by the competent resolution authority, in the case of BAWAG Group the Single Resolution Board (SRB). We expect that the SRB will start to issue individual MREL requirements in 2018. As of 31 December 2017, the SRB has not yet announced any MREL requirements for BAWAG Group. There is also still regulatory uncertainty on the precise MREL eligibility criteria for funding instruments and the extent of MREL requirements that need to be met with subordinated instruments (e.g. senior non-preferred instruments).

Going into 2018, we expect the pace of regulatory changes for European financial institutions to remain high, with the finalization of the comprehensive reforms to the CRR, the CRD IV and the BRRD initially published in November 2016 being the primary area of focus. In addition to the developments around MREL mentioned above, further measures relate to the introduction of the leverage ratio and the net stable funding ratio (NSFR) as binding requirements.

We will continue to proactively monitor and implement the upcoming regulatory changes on a timely 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 EUR million	2017	2016	Change	Change (%)
Interest income	1,083.1	1,026.1	57.0	5.6
Interest expense	(299.8)	(297.2)	(2.6)	0.9
Dividend income	8.0	3.3	4.7	>100
Net interest income	**791.3**	**732.2**	**59.1**	**8.1**
Fee and commission income	303.6	276.3	27.3	9.9
Fee and commission expenses	(86.7)	(83.4)	(3.3)	4.0
Net fee and commission income	**216.9**	**192.9**	**24.0**	**12.4**
Core revenues	**1,008.2**	**925.1**	**83.1**	**9.0**
Gains and losses on financial instruments and other operating income and expenses[1)]	129.4	55.8	73.6	>100
Operating income	**1,137.6**	**980.9**	**156.7**	**16.0**
Operating expenses[1)]	**(528.8)**	**(439.4)**	**(89.4)**	**20.3**
Regulatory charges	(33.8)	(46.1)	12.3	(26.7)
Operating profit	**575.0**	**495.4**	**79.6**	**16.1**
Total risk costs	(61.8)	(42.7)	(19.1)	44.7
Share of the profit or loss of associates accounted for using the equity method	4.1	8.0	(3.9)	(48.8)
Profit before tax	**517.3**	**460.7**	**56.6**	**12.3**
Income taxes	(50.6)	12.9	(63.5)	–
Profit after tax	**466.7**	**473.6**	**(6.9)**	**(1.5)**
Non-controlling interests	(0.1)	(0.2)	0.1	50.0
Net profit	**466.6**	**473.4**	**(6.8)**	**(1.4)**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of EUR 30.6 million for 2017. The item Operating expenses includes regulatory charges in the amount of EUR 3.2 million for 2017 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.

Profit before tax increased by EUR 56.6 million, or 12.3%, to EUR 517.3 million in 2017. The increase was driven by higher operating income, which offset the increase in operating expenses and risk costs.

Net interest income increased by EUR 59.1 million, or 8.1%, to EUR 791.3 million in 2017, with a **net interest margin** of 2.23%.

Net fee and commission income was up EUR 24.0 million, or 12.4%, and amounted to EUR 216.9 million in 2017, mainly due to an increase in income from current accounts and the acquisition of PayLife.

Gains and losses on financial instruments and other operating income and expenses increased by EUR 73.6 million, or 131.9%, to EUR 129.4 million in 2017, mainly due to higher results from business combinations.

Operating expenses increased by EUR 89.4 million, or 20.3%, to EUR 528.8 million in 2017, mainly due to expenses related to a long-term incentive program and higher restructuring reserves posted during 2017.

Total risk costs increased by EUR 19.1 million, or 44.7%, to EUR 61.8 million in 2017.

Total assets

in EUR million	2017	2016	Change	Change (%)
Cash reserves	1,180	1,020	160	15.7
Financial assets	7,588	6,416	1,172	18.3
Available-for-sale	4,408	3,209	1,199	37.4
Held-to-maturity	2,274	2,353	(79)	(3.4)
Held for trading	458	652	(194)	(29.8)
Fair value through profit or loss	448	202	246	>100
Loans and receivables	35,753	30,825	4,928	16.0
Customers	30,804	28,498	2,306	8.1
Debt instruments	1,289	692	597	86.3
Credit institutions	3,660	1,635	2,025	>100
Hedging derivatives	517	677	(160)	(23.6)
Tangible non-current assets	223	56	167	>100
Intangible non-current assets	506	378	128	33.9
Tax assets for current taxes	12	10	2	20.0
Tax assets for deferred taxes	102	199	(97)	(48.7)
Other assets	190	180	10	5.6
Total assets	**46,071**	**39,761**	**6,310**	**15.9**

Financial assets increased by EUR 1,173 million, or 18.3%, compared to year-end 2016 and amounted to EUR 7,589 million as of 31 December 2017.

Loans and receivables with customers increased by EUR 2,306 million, or 8.1%, to EUR 30,804 million as of 31 December 2017, primarily driven by the acquisition of Südwestbank.

Tax assets for deferred taxes decreased by EUR 97 million net, or 48.7%, to EUR 102 million due to the usage of deferred tax assets on tax loss carryforwards.

Total liabilities and equity

in EUR million	2017	2016	Change	Change (%)
Total liabilities	**42,461**	**36,636**	**5,825**	**15.9**
Financial liabilities	40,965	34,726	6,239	18.0
Fair value through profit or loss	726	1,115	(389)	(34.9)
Issued securities	726	1,115	(389)	(34.9)
Held for trading	345	617	(272)	(44.1)
At amortized cost	39,894	32,994	6,900	20.9
Customers	30,947	26,030	4,917	18.9
Issued securities	4,938	4,900	38	0.8
Credit institutions	4,009	2,064	1,945	94.2
Financial liabilities associated with transferred assets	–	300	(300)	(100)
Valuation adjustment on interest rate risk hedged portfolios	116	223	(107)	(48.0)
Hedging derivatives	94	260	(166)	(63.8)
Provisions	450	404	46	11.4
Tax liabilities for current taxes	17	19	(2)	(10.5)
Tax liabilities for deferred taxes	5	21	(16)	(76.2)
Other obligations	814	683	131	19.2
Total equity	**3,610**	**3,125**	**485**	**15.5**
Shareholders' equity	3,609	3,123	486	15.6
Non-controlling interests	1	2	(1)	(50.0)
Total liabilities and equity	**46,071**	**39,761**	**6,310**	**15.9**

Deposits from customers increased by EUR 4,917 million, or 18.9%, to EUR 30,947 million as of 31 December 2017. The increase mainly results from the acquisition of Südwestbank.

Issued securities at amortized cost remained largely stable compared to year-end 2016 and amounted to EUR 4,938 million as of 31 December 2017.

Total equity increased by EUR 485 million, or 15.5%, to EUR 3,610 million as of 31 December 2017. The change was driven by the net profit for 2017.

CAPITAL AND LIQUIDITY POSITION

Maintaining a strong capital position is considered a key strategic priority for BAWAG Group. We have set ourselves the target of maintaining a CET1 ratio of at least 12% on a fully loaded basis. The target CET1 ratio takes the current and the expected future regulatory capital requirements into account and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

For 2018, the regulatory minimum CET1 ratio applicable to BAWAG Group according to the SREP is 9.625% (based on the Pillar 1 minimum of 4.50%, a Pillar 2 requirement of 2.25%, a capital conservation buffer of 1.875% and a systemic risk buffer of 1.0%). In addition to the capital requirement, the SREP for 2018 also includes a Pillar 2 guidance, which is set at 1% for BAWAG Group. The regulator therefore expects us to maintain a CET1 ratio of 10.625% (9.625% SREP requirement plus 1% Pillar 2 guidance).

As of 31 December 2017, a fully loaded CET1 ratio of 13.5% and a fully loaded total capital ratio of 15.2% significantly exceed both the target ratio and the regulatory requirement detailed above. These ratios include the impact of the Südwestbank acquisition, which closed in the fourth quarter 2017 as well as the interim dividend of EUR 51.6 million paid in the third quarter 2017 and the expected dividend of EUR 58.3 million for the fourth quarter 2017 (calculated as 50% of the average quarterly net profit generated in the financial year 2017).

Our strong capital position enables significant further growth and our capital distribution strategy. We target an annual dividend payout of 50% of net profit and aim to invest additional excess capital above the CET1 target ratio in organic growth and pursue earnings-accretive M&A at returns consistent with BAWAG Group's RoTE (@12% CET1) target. To the extent excess capital is not deployed via such organic growth and M&A, we aim to distribute to shareholders in the form of stock buybacks and/or special dividends, subject to regulatory restrictions on the distribution of earnings.

Based on the fully loaded capital ratios as of 31 December 2017, the maximum distributable amount above the regulatory requirements for 2018 (Pillar 1 minimum ratios, Pillar 2 requirement and combined buffer requirements) is EUR 499 million (prior to the EUR 58.3 million dividend for the fourth quarter 2017). Available distributable items as defined in Art. 4.1 (128) CRR on the level of BAWAG Group AG amount to EUR 2,852 million as of 31 December 2017.

The first-time application of IFRS 9 as of 1 January 2018 will have minimal negative impact on our fully loaded CET1 ratio.

Our funding strategy continues to be based on our stable customer deposits, which represent two thirds of our funding base. In addition to our strong deposit base, we issued a EUR 500 million public sector covered bond in the first quarter 2017. In March 2017, we also participated in the ECB's targeted longer-term refinancing operations (TLTRO II), which provides four-year funding at attractive rates.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 150% at the end of 2017. BAWAG Group thereby significantly exceeds the regulatory LCR requirement applicable for 2017 (80%) and 2018 (100%). No additional LCR requirements were imposed on BAWAG Group as a result of the SREP for 2017 and 2018.

KEY QUARTERLY PERFORMANCE INDICATORS

in EUR million	**Q4 2017**	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	198.0	198.0	198.7	196.8	179.9
Net fee and commission income	66.1	44.8	56.3	49.8	46.9
Core revenues	264.1	242.8	255.0	246.6	226.8
Operating income	364.4	252.1	256.3	265.0	237.9
Operating expenses	(208.4)	(102.8)	(110.5)	(107.2)	(121.3)
Total risk costs	(18.2)	(17.0)	(15.6)	(11.1)	(17.8)
Profit before tax	134.9	131.8	128.0	122.6	94.4
Income taxes	27.7	(31.2)	(20.6)	(26.5)	(0.6)
Net profit	162.6	100.5	107.4	96.1	93.8

(figures annualized)					
Return on equity	18.6%	12.0%	13.1%	12.1%	12.2%
Return on equity (@12% CET1)	**22.0%**	**15.0%**	**15.5%**	**13.7%**	**14.1%**
Return on tangible equity	21.4%	13.5%	14.9%	13.8%	13.8%
Return on tangible equity (@12% CET1)	**25.9%**	**17.6%**	**18.0%**	**15.8%**	**16.3%**
Net interest margin	2.19%	2.29%	2.23%	2.23%	2.23%
Cost-income ratio[1)]	41.8%	40.8%	43.1%	40.5%	51.0%
Risk costs / loans and receivables	0.22%	0.22%	0.19%	0.14%	0.25%
Tax rate	(20.5)%	23.7%	16.1%	21.6%	0.6%

1) Excluding parts of the long-term incentive program (LTIP) recognized in 2017.
Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on pages 226–228.

BUSINESS SEGMENTS

BAWAG P.S.K. RETAIL

Overview and strategy

The BAWAG P.S.K. Retail segment services 1.7 million private and small business customers through a centrally managed branch network as well as our online and mobile sales channels supported by our customer care center. We are one of the leading omni-channel retail banks in Austria, offering simple, fair and transparent products and financial advice through our physical and digital sales channels with a strong and well-recognized national brand. Our focus is on the mass market in Austria, providing a targeted suite of products for our customers to save, invest, protect and achieve their financial goals.

In 2017, we demonstrated the strengths and continued progress of our retail franchise in several areas. We continued with the transformation of the franchise and grew profit before tax by 33% to EUR 225 million. We generated growth in key product areas, with new business growing more than 4% in our core lending products. Customers who have traditionally come to BAWAG P.S.K. to deposit their savings now have a market-leading lending franchise to help them accomplish their financial goals.

We advanced avenues of earnings growth through enhanced analytics by deriving data-driven approaches to offer targeted products and services to customers in context with their lives and financial needs at the right time. This approach relies on the long history we have with most of our customers, paired with purchasing-probability and trigger-based models used to identify customers' needs.

In parallel, we made further progress on the successful transformation of our branch network, which continues to reduce costs while enhancing the advisory experience for our customers through more productive and larger advisory teams and greater specialization in branches.

After terminating the cooperation agreement end of 2017 we signed a separation agreement with Austrian Post in February 2018 for a consensual and gradual wind-down of the partnership, working towards a materially complete separation by year-end 2019. This was a major step forward in our ability to pursue a preferred stand-alone strategy with an optimized cost base and enhanced service model.

Additionally, we continued to invest in our digital customer experience. This includes further development of our omni-channel customer interaction platform as well as the continued release of new digital banking features, including digital crime security insurance and a peer-to-peer payment capability, making online payments easier and worry-free for our customers.

2017 business review

The segment results reflect the success of our continued focus on the following value drivers:

- Growing our customer lending franchise
- Optimizing and enhancing our product mix
- Driving productivity across the organization
- Transforming our customer experience through digital
- Capitalizing on inorganic opportunities

Growing our customer lending franchise

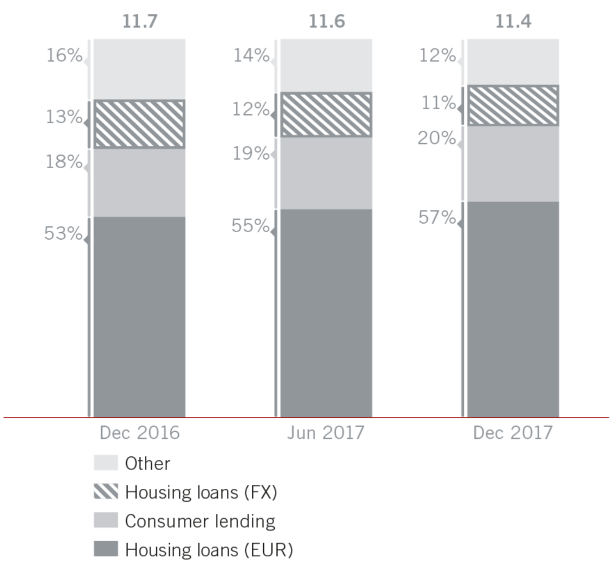
In 2017, we continued to grow our consumer lending franchise with new business of EUR 476 million, which supported net asset growth of 6% in 2017 and an 8% CAGR over the past three years. We also grew our market share in consumer loans by 0.6 points to 12.1% in 2017 and 3.3 points over the past three years. These results were delivered while maintaining our disciplined underwriting standards and despite a declining market.

Our instant credit decisions in our branches, our automated workflow as well as the quality of our advisory and sales processes differentiate us from our competitors. Our continued innovation and application of data analytics provide a stable flow of relevant and contextual leads for our sales force for cross-selling to current customers, where we have a better risk understanding and ability to make tailored offers based on their needs. All these activities have resulted in a more than 5% higher average volume per consumer loan compared to last year with more than 80% of our consumer loan sales to current customers.

We continue to see high customer interest in housing loans and are investing in our housing finance product platform. Austria's home ownership rate of approximately 55% has been among Europe's lowest for decades, driven – among other factors – by a continuous supply of affordable and social housing by the semi-public and public sector. However, we have seen a strong uptick in consumer demand for (owner-occupied) real estate since the financial crisis, driven by a higher preference for real assets paired with low interest rates. This has translated into a healthy demand for mortgages with market volume growth of approximately 3% in 2017. We originated EUR 691 million of new housing loans in 2017. The acquisition of start:bausparkasse in the fourth quarter 2016 further strengthened our presence in this market. However, we will continue to maintain disciplined pricing and focus on risk-adjusted margin versus volume to ensure responsible and profitable growth.

At the end of 2017, the total assets of the BAWAG P.S.K. Retail segment stood at EUR 11.4 billion, with total new originations of EUR 1.4 billion. The focus was growth in core lending products (consumer lending +6%, EUR housing loans +3%). This growth in core lending products was offset by a proactive reduction in FX housing loans of approximately EUR 0.3 billion (18% reduction) and Other of approximately 0.3 billion (21% reduction).

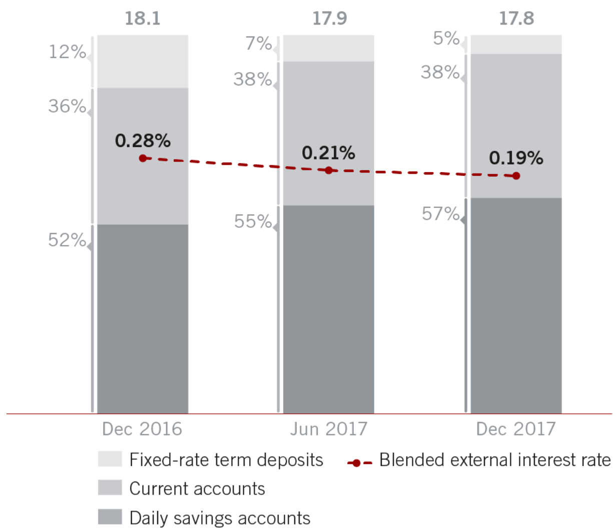
Asset volume development (in EUR billion)



Optimizing and enhancing our product mix

On the liability side, we continued the shift from fixed-rate term deposits to current accounts and daily savings accounts, thus providing for lower funding costs, freeing up sales force capacity and providing our customers with products with greater functionality. Overall, the blended external interest rate on retail deposits stood at 0.19% at the end of 2017. Overall deposit volume was down 1.3%, which was a byproduct of the active run-down of legacy high-cost fixed savings products of approximately 1.2 billion volume offset by growth in daily savings cards, building society deposits and current account volume of approximately 1.0 billion.

Customer deposit volume development (in EUR billion)



We continue to experience the benefits of an initiative concerning fee-generating products launched in 2016. Part of this initiative was the launch of a new KontoBox (current accounts) family, which has been well received by our customers. More than 64% of our new current account customers selected our premium models in 2017. Additionally, we have introduced a new insurance product "KONZEPT:SCHUTZ" that provides earnings security for our customers in protecting them against risks of disability, unemployment and severe illnesses. These products offer higher levels of services and drive customer engagement.

Furthermore, our recently announced partnership with Spotcap to give small and medium-sized enterprises (SMEs) fully digital and highly automated access to same-day financing is another such example of our commitment to innovating via digital channels and offering best-in-class products. With our Spotcap offering, we are bringing a new product to the Austrian market for SMEs to address unmet needs, while enhancing our digital and analytical ecosystems.

Through partnerships, we are working with developing companies and technologies to enhance our product range and customer experience. We ensure the highest quality partners for the development of our product lines to satisfy our customers' demand.

Driving productivity across the organization

Since the initial phases of the network transformation that we started in early 2016, we have created a differentiated branch structure to concentrate advisory services in our core locations with the highest customer frequency, while maintaining service reach through a network of self-service devices and transaction points. This branch differentiation drives cost efficiency through better resource management and higher sales productivity. Additionally, we extended the local responsibility and invested in product and sales training for our advisors. All these activities resulted in an improvement of the cost-income ratio of the BAWAG P.S.K. Retail segment by 6.6 points to 48.6% compared to 2016.

In 2017, there continued to be a significant shift in transactions from over-the-counter services, down 15% from 2016, to online and self-service devices, as our customers expect to conduct simple transactions with the push of a button anywhere and at all times. As of year-end 2017, over-the-counter transactions represented only 14% of total transactions, with 86% of our transactions coming through e-banking, mobile and self-service devices. The over-the-counter transactions have declined more than 60% since we signed our partnership agreement with Austrian Post in 2010. As such, the need for physical proximity to the customer through disbursed branch coverage is becoming less relevant as customers interface with their financial accounts primarily through mobile or other online solutions, evidenced by an 8% increase in electronic and mobile usage.

To this extent, we made headway in our branch transformation efforts and franchise strategy by signing a separation agreement with Austrian Post in February 2018 with retroactive effect as of 1 January 2018 for a consensual and gradual wind-down of the partnership, working towards a materially complete separation by year-end 2019, 12 months earlier than expected. This agreement will allow us to make progress on our efforts to adjust our footprint to our customers' behavior. It rapidly right-sizes our branch network infrastructure and will enhance our customer experience by offering locations focused on financial advisory, which drives our customer engagement and new business and leads to greater connectivity and higher revenues per customer. The agreement adjusts pricing for services provided by Austrian Post to market rates and based on performance for transaction services and advisor activity. In addition, it also allows us to immediately eliminate non-productive spend by reducing more than 200 branches that currently do not offer advisory services or generate any new business. Our branch optimization process began in 2016, and has already centralized our customer service activities to a reduced set of 150 branches by the end of 2018. The agreement permits us to fully realize the economic benefit of this and attain a fully right-sized branch network of approximately 100 branches focused on our customer base and optimal market coverage.

Transforming our customer experience through digital

As we progress in the transformation of our branch network, we continue in parallel to enhance the online and mobile customer experience with services that provide leading access to financial products and information. Our goal is for our platform to serve as the "hub" of our customers' financial lives by offering several options for top-notch advisory services, seamlessly combined with an intuitive and secure digital ecosystem that brings customers insight and financial possibilities to support them in their daily activities.

As a leader in the digital marketplace, we offer all our core retail products to be available within a few minutes fully online via any device. We are first-movers in leveraging state-of-the-art technologies like video legitimation (i.e. customer identification via a video chat) or digital signature to provide prospective customers the best onboarding experience possible. Additionally, we have set up our big data infrastructure, which is comprised of our analytical data lake on a Hadoop infrastructure that provides significant processing capabilities without capacity constraints to optimize the targeting and personalization of our offerings and ultimately provide prospective and existing customers alike the products and services they want and value, when they need it and via the channel they prefer.

We are also continuously optimizing the experience of our customers when banking with us day-to-day through sales and product feature integration into the online customer journeys. In this context, seamless security has become an increasing priority of bank customers around the globe and a key driver of mobile engagement. In addition to our highly secure push authentication service for transactions, called "secTAN", we have introduced the new service "Geldwächter," securing our customers against losses from digital fraud activities and therefore driving online engagement as well as trust. A further example is the Touch ID (fingerprint) login functionality for our mobile banking app, launched in December 2016, which was very well received by our customers with more than 4 million logins in 2017, thereof 1.3 million within the fourth quarter 2017. All these actions led to 100 million logins to our eBanking (+15% compared to 2016), with 68% of total logins coming from mobile devices (up 8 points from December 2016).

As we are working on developing the retail franchise of the future, we are focused on delivering a value-additive on-and-offline platform with an enhanced ecosystem (via our public application program interface, or API) to third-party partners to provide the best customer experience possible and significantly improve our time-to-market. For instance, our recent partnership with finAPI, a secure provider of customer account information services, will enable us to enhance customer financial advisory through account aggregation, spend categorization and personal financial management suggestions, while also supporting the digitization of underwriting processes. Our partnership with Spotcap is yet another example of our commitment to offer market-leading products, whether through in-house development or strategic partnerships, and focus on running technology that is scalable and transformative. In line with our customer demands, we continue to drive towards a holistic customer journey with seamless switching between the various sales and service channels as well as a comprehensive set of personalization features, including customization and financial advice based on our big data infrastructure.

Capitalizing on inorganic opportunities

We are continuously evaluating various inorganic growth opportunities. During 2017, we focused on the integration of start:bausparkasse and IMMO-BANK. The focus of inorganic opportunities will be on domestic platforms and/or portfolios that are value-accretive to the franchise, focus on core products and services, provide access to new customers and can be integrated into our technology infrastructure.

Outlook

In the coming quarters, we will continue to execute on our long-term strategy and franchise transformation. We have many opportunities to grow and help our customers to borrow, invest, save and protect their money. Our growth will be accelerated by three principles:

- **Data analytics:** We have developed a new customer segmentation, which combines behavioral insights with the revenue potential of customers, allowing us to better target active customers and offer products at the right time and place. We are further investing in data analytics and big data use cases to add and adapt our range of predictive models.

- **Customer experience:** In this age of competition and new options, our customer experience is critical. The total relationship, from the trust built in the branches to the convenience of digital services and our knowledge of our customers' needs, will drive a satisfying customer journey on a daily basis, a key differentiator for us.

- **Platform transformation:** We have the opportunity to create a fully customer-focused branch network through our separation from Austrian Post, and through our new e- and mobile banking platform. This investment in our network, our people and our systems will accelerate our market leadership. It also allows us to drive seamless processes and efficiency in our branch network and across the customer value chain. In addition, we are actively pursuing partnerships and deals to provide new customer growth, further aligned with our network. We expect this to continue to drive productivity across the organization as we right-size our branch network and drive enhanced engagement with our customers through analytics and our digital hub for their financial lives. As a result, our mid-term target is to drive to a cost-income ratio of below 42% through the various productivity initiatives we have launched.

Financial results

Income metrics (in EUR million)	2017	2016	Change (%)	Q4 2017	Q4 2016	Change (%)
Net interest income	398.3	352.3	13.1	100.2	93.7	6.9
Net fee and commission income	158.1	141.1	12.0	40.8	34.8	17.2
Core revenues	**556.4**	**493.4**	**12.8**	**141.0**	**128.5**	**9.7**
Gains and losses on financial instruments	0.8	0.8	–	(2.3)	0.0	(100)
Other operating income and expenses	3.9	1.5	>100	2.2	0.5	>100
Operating income	**561.1**	**495.7**	**13.2**	**140.9**	**129.0**	**9.2**
Operating expenses	**(272.6)**	**(273.5)**	**(0.3)**	**(72.2)**	**(71.7)**	**0.7**
Regulatory charges	(14.9)	(12.3)	21.1	(0.6)	0.0	100
Total risk costs	(49.0)	(40.8)	20.1	(18.3)	(14.2)	28.9
Profit before tax	**224.6**	**169.1**	**32.8**	**49.8**	**43.1**	**15.5**

Key ratios	2017	2016	Change (pts)	Q4 2017	Q4 2016	Change (pts)
Pre-tax return on tangible equity	26.5%	21.1%	5.4	22.3%	21.1%	1.2
Pre-tax return on tangible equity (@12% CET1)	29.8%	22.6%	7.2	27.5%	24.7%	2.8
Net interest margin	3.44%	3.72%	(0.28)	3.51%	3.71%	(0.20)
Cost-income ratio	48.6%	55.2%	(6.6)	51.2%	55.6%	(4.4)
Risk costs / loans and receivables	0.43%	0.39%	0.04	0.64%	0.54%	0.10
NPL ratio	2.3%	2.0%	0.3	2.3%	2.0%	0.3

Business volumes (in EUR million)	2017	2016	Change (%)
Assets	11,351	11,659	(2.6)
Risk-weighted assets	4,492	4,432	1.4
Customer deposits and own issues	20,682	21,049	(1.7)

Operating income increased by 13.2% to EUR 561.1 million as a result of the full-year impact of 2016 acquisitions, higher volumes in consumer and mortgage loans, liability optimization measures, an increase in net commission income driven by higher fees for the new “KontoBox” current accounts, securities and lower commission expenses.

Operating expenses were stable at EUR 272.6 million, already fully absorbing the integration of start:bausparkasse and IMMO-BANK.

Regulatory charges – stemming from the deposit guarantee scheme – showed an increase due to the deposit volume increase related to the integration of start:bausparkasse and IMMO-BANK.

Risk costs amounted to EUR 49.0 million, translating into a risk cost ratio of 43 basis points, up 4 basis points from the previous year and stable given the changing asset mix.

The segment contributed EUR 224.6 million to BAWAG Group’s **profit before tax** and delivered a pre-tax return on tangible equity (@12% CET1) of 29.8%.

Assets decreased by EUR 0.3 billion, or 2.6%, driven by a reduction in non-core products (CHF loans, real estate leasing) while consumer loans and mortgage loans grew over the same period.

Liabilities decreased by EUR 0.4 billion, or 1.7%, due to a reduction of deposit volumes in the fixed-rate savings books.

EASYGROUP

Overview and strategy

With approximately one million customers and 1.4 million customer accounts, easygroup is Austria's first and largest direct banking group offering a full product suite, ranging from current accounts and savings products to credit cards, consumer and housing loans, auto leases and investment products.

Unlike traditional banks with physical distribution networks, easygroup operates in a lean, non-traditional manner, distributing products via digital and partner networks. We are a market leader in innovation with an ability to quickly adapt to changes in markets, technology and consumer trends. We continuously focus on investing in new technologies in the banking space and incorporating the best features into our customer offerings. Our goal is to be the one-stop, simple and innovative financial service solution for our customers.

With a rise in new technological advances, customers' access to financial services is moving at a faster pace than ever before. easygroup benefits from a nimble structure, enabling us to react to new developments quickly, and a long history of banking know-how, which ensures our ability to execute necessary changes in a safe and secure manner. Through continuous investments in technology and our focus on customer care, we have been delivering our customers a best-in-class direct banking experience for over 20 years. This is supported by the fact that for the past seven years, we have been awarded with the highest Net Promoter Score of any bank or financial institution in Austria and continuously win multiple industry awards recognizing *easybank,* an easygroup entity, as the #1 direct bank in Austria.

By having no reliance on a costly brick-and-mortar infrastructure, we have a significant competitive advantage in the cost to serve our customers. This enables us to offer more competitive prices than traditional banks. Cost efficiency is in our DNA, and easygroup continuously looks for ways to improve on how we deliver products to our customers. By becoming more efficient, we enable ourselves to invest more in customer service and satisfaction while at the same time being able to remain one of the most competitively priced financial institutions in Austria.

easygroup has various go-to-market channels, ranging from direct banking to auto dealers and brokers, and strong partnerships with leading Austrian organizations. easygroup is comprised of

- the #1 rated direct bank in Austria, *easybank*;
- the #3 auto lessor in Austria, *easyleasing*;
- the leading credit card issuer in Austria*, easypay;* and
- our international retail business, consisting of high-quality performing residential mortgages in Western Europe.

easygroup is a cornerstone to the overall growth strategy for BAWAG Group and continues to focus on growth through non-branch distribution channels. Our goal is to continue being the leading direct bank in Austria and take our successful model to expand into larger Western European markets.

2017 business review

The segment ended the year with an increase of our client base to approximately one million customers and over 1.4 million customer accounts. Customer deposits remained stable compared to year-end 2016, and profit before tax came in at a record high of EUR 126 million, up 46% driven by strong organic growth combined with acquisitions.

Our strong results are due to four key pillars:

- Maintaining *easybank*'s position as Austria's leading digital bank
- Expanding our relationship with current customers to increase product sales
- Utilizing our financial strength to play offense via inorganic growth and strategic partnerships
- Expanding internationally into Western European markets

Maintaining easybank's position as Austria's leading digital bank

At the center of easygroup lies *easybank* – Austria's leading digital bank. Founded in 1997 as a branchless telephone and online bank, *easybank* has always been innovative and ahead of its time. Over the past years, we have entrenched ourselves in the Austrian banking sector with a rigorous focus on offering broad-based, simple products and services along with best-in-class customer service. Innovation, digitalization and speed to market are core to *easybank*'s culture. With more than 900,000 customers, *easybank* continues to see customer growth, a large portion coming through recommendations from existing loyal, trusting and satisfied customers. In 2017, we grew our number of customers by more than 150%, which was primarily driven by the acquisition of PayLife. Even without the effects of the acquisition, we saw solid organic customer growth. Unlike many other direct banks and fintechs entering the banking space, *easybank* customers tend to be unique in that the majority become long-term customers. Nearly 50% of our customers use *easybank* as their main bank, and 17% of *easybank*'s customers use us as their only bank (in comparison with our closest direct bank competitor with 8% and 5%, respectively).

The customer loyalty we have achieved is the result of our dedication to providing an outstanding customer experience for *easybank* customers. We do not rest on our achievements and continuously look to improve how we can best serve our customers and anticipate their demands. This approach has gained us recognition over the years. In 2017, *easybank* received multiple awards reflecting our dedication to our customers, including: #1 direct bank by the Austrian Financial Marketing Association (for the seventh year in a row); "Best Direct Bank in Austria 2017" by *DerBörsianer* and #1 direct bank in a study conducted by the Austrian Association of Consumer Studies.

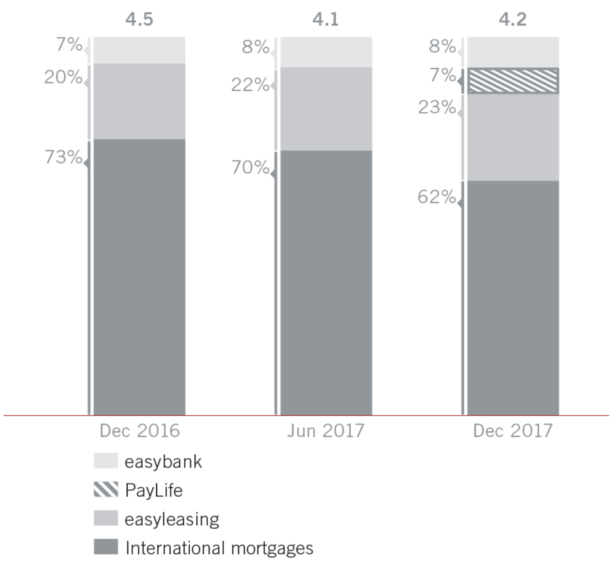
Expanding our relationship with current customers to increase product sales

easygroup's most valuable asset is our loyal and growing customer base. Through our business units and various partnerships, easygroup operates within a customer ecosystem consisting of over three million individuals. Historically, as was the case with most direct banks, our focus was on building a deposit-taking institution that offered customers low-cost banking solutions with excellent customer service. Because of the investments we have made over the past few years, easygroup has developed the capabilities to provide a full suite of retail banking products in an easy and convenient manner. Today, our focus is to not just grow our customer base and be a single product bank, but also to provide all of our customers with the best financial products that fit their current needs.

One of our largest growth opportunities for cross-selling lies in our consumer lending business. In 2017, by improving and simplifying the customer experience of obtaining a consumer loan, and using customer data to produce analytics helping better target customers more susceptible to taking a loan, we saw an increase in new lending volume in this product of 32% year-over-year. During the second half 2017 alone, the new consumer lending volume increased by 82% versus the prior year. The targeted campaigns identify existing customers who would benefit from a consumer loan based on their profile and needs. Overall, these initiatives led to a 15% net asset growth in consumer lending versus last year. While these are off smaller balances, the trend and growth rates signify the offline-to-online migration in customer behavior that we are seeing across BAWAG Group and positions us to capitalize on changing customer behaviors and the evolution of the banking landscape going forward.

In addition to the increasing success of our ability to provide customers with consumer loans, we launched a new gold credit card in the fourth quarter 2017. By analyzing existing customer data and paying attention to our customers' needs through various interaction points, we designed the gold card to specifically fit their daily needs. Focusing on data analytics, we ran targeted campaigns, which resulted in an upsell rate of over 6% versus the industry average of low single digits.

Asset volume development (in EUR billion)



Utilizing our financial strength to play offense via inorganic growth and strategic partnerships

Unlike many other financial institutions including fintechs, we focus on creating a profitable relationship with our customers from day 1. The goal is to achieve profitable growth by maintaining pricing discipline and creating products that make sense for our customer base. This profitability provides us with sufficient capital to fund large-scale organic and inorganic growth. We have a dedicated team of experts that source, analyze and review multiple growth opportunities and ensure that we only invest in value-accretive transactions.

Over the past few years, we have demonstrated our capability to not only grow organically, but also grow inorganically with deals that have proven to be highly accretive. For us, these transactions do not end once a deal is closed. We see to it that these transactions are effectively integrated into our core businesses and unlock substantial synergies across BAWAG Group:

- In 2015, we closed the acquisition of Volksbank Leasing, which has been an integral part of the *easyleasing* franchise.
- In October 2017, we acquired one of Austria's leading credit card issuers, PayLife. On top of the strong earnings accretion the deal will bring, the increased payments services scale has unlocked over EUR 5 million in savings across BAWAG Group. In addition, easygroup acquired nearly 600,000 new potentially bankable customers.

Apart from utilizing our capital to execute transformative and strategic acquisitions, numerous key investments with both short-term and long-term benefits were made during 2017. One of these key investments was a structural change and shift of focus towards analytics. During 2017, we established a team whose entire focus was geared towards holistically understanding our customers and their financial needs. Through the use of enhanced data analysis, we have created more targeted marketing campaigns and increased overall new customer applications. While our 2017 investments brought immediate top- and bottom-line growth, the majority of the uplift will come in future years as we have established the foundation for more effective leads, targeted campaigns and deepening our customer relationships, which should translate into a greater share of wallet.

Expanding internationally into Western European markets

In 2017, we benefited from a full-year impact from our two acquisitions of high-quality performing residential mortgage portfolios in Western Europe. The portfolios performed in line with our expectations and continue to run down as projected. At the end of 2017, the portfolios consisted of EUR 2.6 billion assets, down 21% versus the prior year. We continue to explore portfolio purchases in Western Europe and believe these performing mortgage portfolios provide better risk-adjusted returns versus investing in securities portfolios. In addition, these portfolios provide invaluable customer behavioral data for us if and when we plan to enter these developed markets in the future.

As these portfolios continue to run off, we plan to replace the assets through our organic expansion into Germany, strategic partnerships and bolt-on acquisitions. In 2017, we made extensive investments in the development of a direct, online loan originations platform in Germany called *Qlick*. The main value of the *Qlick* investments lies in the technology platform without the burden of legacy infrastructures seen across the banking landscape today. As this technology is being developed, we have taken the extra time to ensure that the solution will also fit the needs of other strategic initiatives across BAWAG Group in Germany, in particular for Südwestbank, but also allow us to benefit from both scale and ease of integration for future acquisitions and partnerships we are pursuing.

Outlook

Looking forward to 2018, easygroup will continue to grow organically on the heels of significant investments made in 2017, while also pursuing value-accretive bolt-on acquisitions.

Our new website, which will be launched during the first half 2018, will be a significant leap forward in terms of technology and capability. Once launched, our customers will be able to open any product we offer, quickly and conveniently from anywhere, at any time. As a direct banking group, our website is our face to our customers. One of the key investments we have made, alongside a complete overhaul of the design and content, is in our ability to track the customer experience and make nimble changes to optimize the usability.

During 2018, we will start to reap the benefits of the hard work and investment put into launching our online loan platform *Qlick* in Germany. The German online consumer lending market, which has a volume of approximately EUR 10 billion and is growing at 25% per year, is an exciting venture for us. Our mid-term target will be to achieve a market share of 2%.

In addition, a large focus will be on completing the operational integration of PayLife, leveraging the top-class credit card team in place and unlocking additional synergies across BAWAG Group. The PayLife acquisition will have an immediate contribution to our bottom line, and in 2018 will already surpass our EUR 12 million medium-term profit before tax target, with an anticipation of continued sustainable growth.

Financial results

Income metrics (in EUR million)	2017	2016	Change (%)	Q4 2017	Q4 2016	Change (%)
Net interest income	150.4	115.8	29.9	34.6	26.0	33.1
Net fee and commission income	21.0	10.1	>100	12.7	3.2	>100
Core revenues	**171.4**	**125.9**	**36.1**	**47.3**	**29.2**	**62.0**
Gains and losses on financial instruments	0.0	0.0	–	2.3	0.0	100
Other operating income and expenses	0.3	(1.4)	–	1.4	(1.3)	–
Operating income	**171.7**	**124.5**	**37.9**	**51.0**	**27.9**	**82.8**
Operating expenses	**(40.8)**	**(30.6)**	**33.3**	**(17.1)**	**(7.3)**	**>100**
Regulatory charges	(2.7)	(2.4)	12.5	(0.3)	0.1	–
Total risk costs	(2.0)	(4.8)	(58.3)	(3.8)	(3.0)	26.7
Profit before tax	**126.2**	**86.7**	**45.6**	**29.8**	**17.7**	**68.4**

Key ratios	2017	2016	Change (pts)	Q4 2017	Q4 2016	Change (pts)
Pre-tax return on tangible equity	28.6%	20.6%	8.0	27.7%	15.5%	12.2
Pre-tax return on tangible equity (@12% CET1)	32.2%	22.2%	10.0	34.2%	18.2%	16.0
Net interest margin	3.61%	3.46%	0.15	3.34%	2.98%	0.36
Cost-income ratio	23.8%	24.6%	(0.8)	33.5%	26.2%	7.3
Risk costs / loans and receivables	0.05%	0.12%	(0.07)	0.37%	0.32%	0.05
NPL ratio	1.9%	2.0%	(0.1)	1.9%	2.0%	(0.1)

Business volumes (in EUR million)	2017	2016	Change (%)
Assets	4,173	4,458	(6.4)
Risk-weighted assets	3,381	4,249	(20.4)
Customer deposits and own issues	4,253	4,478	(5.0)

Operating income increased by 37.9% to EUR 171.7 million. The increase in net interest income was mainly driven by the acquisition of a French mortgage portfolio in December 2016 and the reduction of interest expenses. The increase in net commission income stems from the integration of the card issuing business of PayLife in the early fourth quarter 2017.

Operating expenses were up 33.3% to EUR 40.8 million mainly due to the acquisitions.

Risk costs amounted to EUR 2.0 million, translating into a risk cost ratio of 5 basis points.

The segment contributed EUR 126.2 million to BAWAG Group's **profit before tax** and delivered a pre-tax return on tangible equity (@12% CET1) of 32.2%.

Assets decreased by EUR 0.3 billion due to the run-off of the international mortgage portfolio in the amount of EUR 0.7 billion that was partly compensated by organic growth in the leasing and loan business (EUR 0.1 billion) and the PayLife acquisition (EUR 0.3 billion).

Customer deposits remained largely stable at EUR 3.8 billion despite reduced customer rates.

SÜDWESTBANK

Overview and strategy

Südwestbank, founded in 1922, is a universal bank with a long history of serving customers in the prosperous Baden-Württemberg region of southwest Germany with its headquarters in Stuttgart, Germany.

Südwestbank has more than 90,000 private and commercial customers and offers a wide range of lending and deposit products and services. Besides the lending and deposit business, Südwestbank offers additional products including insurance, savings contracts with building societies and brokerage services. Südwestbank also operates a dedicated asset management business unit providing special consulting services for customers, domestic and foreign payment transactions as well as real estate brokerage activities. Südwestbank uses different strategic partnerships with other German banks and insurance companies as a complement to its own product offering. Customers are serviced through a physical branch network and online service capabilities.

Südwestbank's strategy consists of four primary principles:

Operational efficiency: Streamline and digitize core business processes to better and more efficiently serve our customers, including digital archiving, digital credit files and automated workflows in loan origination and servicing.

Capital efficiency: Evaluate all business segments and product lines in terms of capital efficiency and return on equity. Based on profitability and return assessments at the product, customer and business channel levels, Südwestbank will determine growth plans for high-performance products and segments and repricing or exit plans for low-performing products and segments.

Grow share of wallet: Expand our business cooperation with existing high-performance corporate customers, focusing on increasing deal ticket size and broader product offering. Drive digital initiatives and leverage the digital infrastructure of BAWAG Group to revitalize the retail franchise.

New customer acquisition and bolt-on acquisitions: Develop new customer acquisition strategies to reposition Südwestbank into a broader retail franchise with a more comprehensive set of consumer finance products and cross-sell potential. BAWAG Group is evaluating multiple acquisition targets that would complement Südwestbank's product offering and business model, leverage its infrastructure and create additional economies of scale for growth in the German market.

2017 business review

The acquisition of Südwestbank was successfully closed on 7 December 2017. The 2017 performance is included in the results of BAWAG Group from the closing date through 31 December 2017.

Outlook

For 2018, the Südwestbank integration and transformation process will be fully launched. We will execute on our principal strategies of operational efficiency to make our customers' lives easier and our processes more simple and cost-effective. We will focus on capital efficiency to unlock low-returning capital, deleverage our balance sheet and support organic and inorganic growth to extend our customer and geographic reach and expand our German retail franchise. These strategies are designed to improve operating performance across the segment with a focus on profitability, efficiency and capital, with the goal to deliver results in line with overall BAWAG Group targets.

Financial results

Income metrics (in EUR million)	2017	2016	Change (%)	Q4 2017	Q4 2016	Change (%)
Net interest income	5.6	–	–	5.6	–	–
Net fee and commission income	3.0	–	–	3.0	–	–
Core revenues	**8.6**	**–**	**–**	**8.6**	**–**	**–**
Gains and losses on financial instruments	0.0	–	–	0.0	–	–
Other operating income and expenses	0.0	–	–	0.0	–	–
Operating income	**8.6**	**–**	**–**	**8.6**	**–**	**–**
Operating expenses	**(7.8)**	**–**	**–**	**(7.8)**	**–**	**–**
Regulatory charges	(0.1)	–	–	(0.1)	–	–
Total risk costs	(0.2)	–	–	(0.2)	–	–
Profit before tax	**0.5**	**–**	**–**	**0.5**	**–**	**–**

Business volumes (in EUR million)	2017	2016	Change (%)
Assets	4,183	–	–
Risk-weighted assets	3,349	–	–
Customer deposits and own issues	6,146	–	–

The 2017 financials represent the results of the segment from closing date of 7 December 2017 through 31 December 2017.

Operating income amounted to EUR 8.6 million. Customer loans are the main contributor to net interest income. Net commission income stems mainly from securities, loans and payment services.

Operating expenses came in at EUR 7.8 million.

The segment contributed EUR 0.5 million to BAWAG Group's **profit before tax**.

Assets amounted to EUR 4.2 billion as of year-end 2017.

Liabilities amounted to EUR 6.1 billion and comprise EUR 4.3 billion deposits from corporate and institutional customers, EUR 1.2 billion deposits from retail and SME customers and EUR 0.6 billion deposits from private banking clients.

DACH CORPORATES & PUBLIC SECTOR

Overview and strategy

Our DACH Corporates & Public Sector strategy focuses on entering into and maintaining sustainable and profitable relationships with our customers while remaining disciplined on pricing despite the competitive landscape. We are well positioned to capitalize on corporate banking opportunities across the DACH region, leveraging our Austrian customer base and relationship managers as well as our skills and know-how developed in the Austrian market to address the German and Swiss markets. An expansion into the DACH region will provide a broader base of commercial opportunities and complement the growth of easygroup into Germany.

With respect to corporate clients, we apply a simplified coverage model concentrating on fewer products with relatively high profitability versus targeting overall market share. Existing clients are approached with a clear strategy aimed at retaining and extending our client base with an investment grade rating or high (or full) collateralization to de-risk transactions and optimize capital deployment. In contrast, with respect to clients with small exposures and/or a non-investment grade rating, we focus on appropriate risk-return thresholds. For new business, we focus on product-agnostic opportunities arising from refinancings, syndications, restructurings and commercial real estate, with a focus on our top 200 customers in the DACH region.

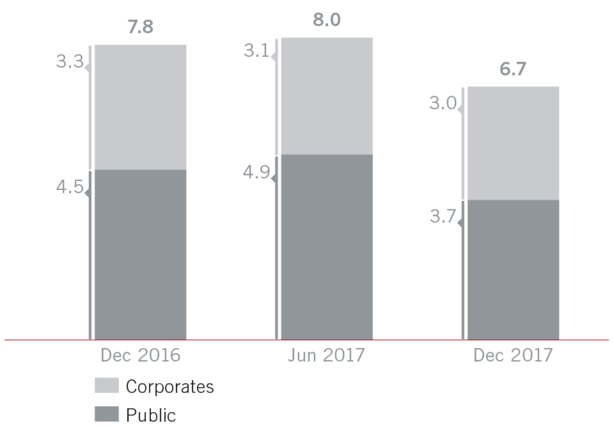
In the public sector business, our goal is to maintain our market position and retain cash management fees by focusing in particular on payments with existing top clients and the acquisition of new clients for our payments business and clients through tender processes and cross-selling to existing borrowers. Furthermore, we have established an originate-to-sell platform to sell public sector loans to investors such as insurance companies to generate additional fee income.

The key focus in 2017 was on combining our domestic and DACH lending activities to exploit revenue synergies and identify new markets with a focus on building a regional corporate lending platform. To ensure that we always meet the needs of our customers and improve existing solutions, we established a unit that manages daily product activities as well as product development.

2017 business review

The DACH Corporates & Public Sector segment originated – in addition to normal renewals – EUR 980 million of new business in 2017, materially up compared to last year. In addition, we launched our originate-to-sell public sector platform. Our business solution teams continued to elevate our strong client relationships across financing products as well as payments and cash management services, while aiming to maintain and increase strong risk-adjusted pricing.

Asset volume development (in EUR billion)



The segment's assets decreased by EUR 1.1 billion to EUR 6.7 billion compared to year-end 2016 due to a decrease in short-term lendings to municipalities and social insurance companies and early redemptions. However, average assets in 2017 remained stable compared to 2016 (EUR 7.7 billion versus EUR 7.6 billion, respectively).

Net fee and commission income – mainly arising from payments activities of our clients – was largely stable compared to 2016.

Outlook

We expect the market to grow but remain very competitive. We have the flexibility and speed necessary for strategic transactions requiring complete debt solutions for clients. Nevertheless, we expect the originations in 2018 to come in at a lower level than in 2017.

Financial results

Income metrics (in EUR million)	2017	2016	Change (%)	Q4 2017	Q4 2016	Change (%)
Net interest income	70.6	79.5	(11.2)	17.9	20.6	(13.1)
Net fee and commission income	39.1	39.7	(1.5)	10.1	10.0	1.0
Core revenues	**109.7**	**119.2**	**(8.0)**	**28.0**	**30.6**	**(8.5)**
Gains and losses on financial instruments	(10.9)	1.0	–	(11.4)	(0.1)	>(100)
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**98.8**	**120.2**	**(17.8)**	**16.6**	**30.5**	**(45.6)**
Operating expenses	**(48.8)**	**(53.6)**	**(9.0)**	**(13.4)**	**(14.9)**	**(10.1)**
Total risk costs	(8.0)	4.4	–	(15.0)	1.7	–
Profit before tax	**42.0**	**71.0**	**(40.8)**	**(11.8)**	**17.3**	**–**

Key ratios	2017	2016	Change (pts)	Q4 2017	Q4 2016	Change (pts)
Pre-tax return on tangible equity	10.0%	15.5%	(5.5)	(10.4)%	15.4%	(25.8)
Pre-tax return on tangible equity (@12% CET1)	11.3%	16.5%	(5.2)	(12.8)%	18.1%	(30.9)
Net interest margin	0.92%	1.05%	(0.13)	0.99%	1.10%	(0.11)
Cost-income ratio	49.4%	44.6%	4.8	80.7%	48.9%	31.8
Risk costs / loans and receivables	0.11%	(0.06)%	0.17	0.86%	(0.09)%	0.95
NPL ratio	1.4%	0.9%	0.5	1.4%	0.9%	0.5

Business volumes (in EUR million)	2017	2016	Change (%)
Assets	6,725	7,812	(13.9)
Risk-weighted assets	2,410	2,916	(17.4)
Customer deposits (incl. other refinancing) and own issues	6,762	5,487	23.2

Core revenues decreased by 8.0% to EUR 109.7 million. Whereas net interest income, the net interest margin as well as net commission income from the regular business were stable, the decrease in **operating income** was driven by a one-off caused by an early repayment.

Operating expenses were reduced by 9.0% to EUR 48.8 million, resulting from the reorganization of the sales team as well as efficiency increases in the back office.

Risk costs amounted to EUR 8.0 million in 2017, translating into a risk cost ratio of 11 basis points – after a positive contribution from releases of EUR 4.4 million in 2016.

The business performance was impacted by losses incurred from de-risking exposure to a large international retailer and provisioning for a German wholesaler, which we believe are non-recurring in nature.

The segment contributed EUR 42.0 million to BAWAG Group's **profit before tax** and delivered a pre-tax return on tangible equity (@12% CET1) of 11.3%.

Assets decreased by EUR 1.1 billion, or 13.9%, to EUR 6.7 billion. EUR 0.8 billion of this decrease is attributable to a reduction of short-term money market deals and public sector lending.

Liabilities increased by 23.2% to EUR 6.8 billion due to an increase in deposits on current accounts of EUR 0.5 billion as well as new own issues and the increase of the TLTRO. Term deposits were reduced by EUR 1.0 billion driven by the pricing policy in light of the current liquidity situation.

INTERNATIONAL BUSINESS

Overview and strategy

The International Business segment complements our business strategy by providing earnings growth and diversification in countries with stable geopolitical and macroeconomic fundamentals. We focus on international corporate, real estate and portfolio lending with a preference for secured or unsecured investment grade loans and senior secured non-investment grade loans. Our unsecured exposure is typically limited to high-quality, investment grade corporate clients. We only lend at the senior level of the capital structure, with a focus on cash flow generating companies in defensive industries where the risk-return profile meets group-wide targets.

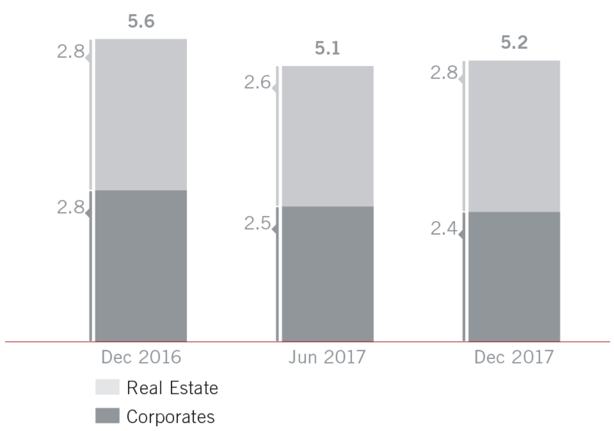
The international corporate lending business focuses on lending to free cash flow generating companies in Europe and North America with defensive business profiles, appropriate capital structures and strong market positions.

The international real estate lending business is primarily driven by established sponsors for international private equity investments focusing on senior loan positions in cash flow generating properties. The portfolio has only a limited exposure in land, development and construction financings.

2017 business review

We continued to focus on our loan origination opportunities primarily in select developed markets. The International Business segment generated new business of EUR 2.1 billion in 2017. Compared to year-end 2016, the FX movement accounts for EUR 0.3 billion of portfolio reduction. Average assets in 2017 remained stable compared to 2016 (EUR 5.2 billion versus EUR 5.3 billion, respectively).

Asset volume development (in EUR billion)



Our **international corporate lending business** continued to be faced with early redemptions arising from competitive market conditions in a low-interest rate environment. As a consequence, the business experienced an asset volume decrease of 15% to EUR 2.4 billion compared to year-end 2016. EUR 0.2 billion of this decrease were related to FX movements. Our new business volume primarily consists of high-quality loans with a general focus on defensive industries. The overall blended net leverage of the companies in our international corporate business was below 4.0x[1)] and for the tranches BAWAG Group lends to 3.0x[1)].

Our **international real estate financing business** with an asset volume of EUR 2.8 billion was, to a lesser extent, also affected by an increased volume of early redemptions and currency movements of EUR 0.1 billion These effects were compensated by a strong realization of new financings on a year-over-year basis. Transaction diversification continued across our commercial real estate lending business on a geographic, asset and industry basis. These transactions focused primarily on real estate financings with attractive LTVs, strong cash flow, shorter weighted expected maturities and solid covenant characteristics. The overall business performance and credit trends remained solid with some shortening of duration as loan amortizations increased ahead of original projections. We are also active in portfolio financing with low loan-to-value (LTV) and low loan-to-cost (LTC) positions against a more diversified portfolio of cash generating real estate assets. The business has strong collateral coverage characteristics (average LTV <60%), provides strong cash flows and is structured to perform well in stressed market conditions, with shorter average durations.

1) Ratios adjusted by one outlier.

Outlook

We see a solid pipeline with diversified opportunities in particular for our real estate lending business during 2018. However, competition for defensive, high-quality transactions will remain high.

Financial results

Income metrics (in EUR million)	2017	2016	Change (%)	Q4 2017	Q4 2016	Change (%)
Net interest income	129.1	134.0	(3.7)	30.1	32.2	(6.5)
Net fee and commission income	0.4	(0.1)	–	0.2	0.0	100
Core revenues	**129.5**	**133.9**	**(3.3)**	**30.3**	**32.2**	**(5.9)**
Gains and losses on financial instruments	(0.4)	(2.8)	85.7	0.0	(0.5)	100
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**129.1**	**131.1**	**(1.5)**	**30.3**	**31.7**	**(4.4)**
Operating expenses	**(27.6)**	**(29.9)**	**(7.7)**	**(6.6)**	**(9.9)**	**(33.3)**
Total risk costs	(16.3)	1.2	–	(0.5)	(1.9)	73.7
Profit before tax	**85.2**	**102.4**	**(16.8)**	**23.2**	**19.9**	**16.6**

Key ratios	2017	2016	Change (pts)	Q4 2017	Q4 2016	Change (pts)
Pre-tax return on tangible equity	20.0%	22.2%	(2.2)	19.9%	18.2%	1.7
Pre-tax return on tangible equity (@12% CET1)	22.5%	23.6%	(1.1)	24.5%	21.4%	3.1
Net interest margin	2.48%	2.55%	(0.07)	2.36%	2.43%	(0.07)
Cost-income ratio	21.4%	22.8%	(1.4)	21.8%	31.2%	(9.4)
Risk costs / loans and receivables	0.31%	(0.02)%	0.33	0.04%	0.15%	(0.11)
NPL ratio	0.9%	0.0%	0.9	0.9%	0.0%	0.9

Business volumes (in EUR million)	2017	2016	Change (%)
Assets	5,174	5,634	(8.2)
Risk-weighted assets	4,318	4,169	3.6

Operating income decreased slightly by 1.5% to EUR 129.1 million as a result of a stable average asset volume but slightly lower margins.

Operating expenses were reduced by 7.7% to EUR 27.6 million mainly due to staff cost reductions.

Risk costs amounted to EUR 16.3 million in 2017, translating into a risk cost ratio of 31 basis points – after a positive contribution from releases of EUR 1.2 million in 2016. The higher risk costs resulted from provisions booked on exposures in the oil and gas sector in the second quarter 2017.

The segment contributed EUR 85.2 million to BAWAG Group's **profit before tax** in 2017 and delivered a pre-tax return on tangible equity (@12% CET1) of 22.5%.

Assets decreased to EUR 5.2 billion, while the average asset volume in 2017 remained relatively stable compared to 2016.

TREASURY SERVICES & MARKETS

Overview and strategy

Treasury Services & Markets acts as a service center for BAWAG Group's customers, subsidiaries and partners through treasury activities such as ALM, funding, market execution and select investment activities.

Treasury Services & Markets manages BAWAG Group's liquidity from the core funding franchise in available-for-sale and held-to-maturity portfolios, including the liquidity reserve, as well as certain hedging positions. The investment strategy continues to focus on investment grade securities primarily representing secured and unsecured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures and high-quality CLOs in order to maintain solid diversification.

2017 business review

In 2017, we continued to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our available-for-sale portfolio to preserve the flexibility of redeployment into customer loans or other balance sheet management activities. After the closing of the Südwestbank transaction, a fixed income securities portfolio containing similar assets with respect to credit, geography, duration, liquidity and seniority was integrated and will be managed according to our investment strategy going forward. In addition, other securities were transferred, containing investment funds of well-recognized asset managers.

As of 31 December 2017, the investment portfolio amounted to EUR 7.3 billion, the liquidity reserve was EUR 3.4 billion and other securities amounted to EUR 0.4 billion. The investment portfolio's average maturity was five years, comprised 97% of investment grade rated securities, of which 87% were rated in the single A category or higher. Exposure to CEE represented less than 2% of the portfolio. As of 31 December 2017, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK is moderate and focuses on internationally diversified issuers with solid credit quality. Exposure to Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers. This overall composition reflects our strategy of maintaining high credit quality, shorter 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.

Outlook

Treasury Services & Markets will continue to focus on keeping streamlined processes and simple products in support of BAWAG Group's core operating activities and customer needs. The development of liquidity supply and the tapering of the asset purchases by the ECB as well as elevated political risks will remain important factors in the financial markets. However, we are committed to maintaining high credit quality and highly liquid investments with solid diversification.

Financial results

Income metrics (in EUR million)	2017	2016	Change (%)	Q4 2017	Q4 2016	Change (%)
Net interest income	49.4	54.3	(9.0)	12.1	12.9	(6.2)
Net fee and commission income	0.0	0.0	–	0.0	0.0	–
Core revenues	**49.4**	**54.3**	**(9.0)**	**12.1**	**12.9**	**(6.2)**
Gains and losses on financial instruments	21.6	11.9	81.5	(2.2)	0.8	–
Other operating income and expenses	0.0	0.0	–	0.0	0.0	–
Operating income	**71.0**	**66.2**	**7.3**	**9.9**	**13.7**	**(27.7)**
Operating expenses	**(16.3)**	**(16.3)**	**–**	**(4.3)**	**(4.3)**	**–**
Total risk costs	0.0	0.0	–	0.0	0.0	–
Profit before tax	**54.7**	**49.9**	**9.6**	**5.6**	**9.4**	**(40.4)**

Key ratios	2017	2016	Change (pts)	Q4 2017	Q4 2016	Change (pts)
Pre-tax return on tangible equity	15.9%	16.2%	(0.3)	6.4%	12.1%	(5.7)
Pre-tax return on tangible equity (@12% CET1)	18.0%	17.3%	0.7	7.8%	14.2%	(6.4)
Net interest margin	0.80%	0.96%	(0.16)	0.72%	0.93%	(0.21)
Cost-income ratio	23.0%	24.6%	(1.6)	43.4%	31.4%	12.0

Business volumes (in EUR million)	2017	2016	Change (%)
Assets and liquidity reserve	11,137	6,691	66.4
Risk-weighted assets	2,124	2,031	4.6
Own issues and other liabilities	2,477	2,847	(13.0)

Operating income increased by 7.3% to EUR 71.0 million. Net interest income was down as the pressure on yields of high-quality assets remained high and hence reinvestments on the run-off volumes were only possible at lower margins. This was more than compensated by higher gains and losses on financial instruments arising from the sale of bonds in the course of the active management of the investment portfolio.

Operating expenses were stable at EUR 16.3 million.

The segment contributed EUR 54.7 million to BAWAG Group's **profit before tax** and delivered a pre-tax return on tangible equity (@12% CET1) of 18.0%.

Assets of EUR 11.1 billion comprise the investment portfolio of EUR 7.3 billion, the liquidity reserve of EUR 3.4 billion and other securities of EUR 0.4 billion. EUR 3.0 billion of the asset increase relate to the consolidation of Südwestbank (comprising EUR 1.3 billion investment portfolio bonds, a EUR 1.3 billion liquidity reserve and EUR 0.4 billion other securities).

Liabilities decreased by 13.0% to EUR 2.5 billion, including liabilities from Südwestbank in the amount of EUR 0.4 billion.

CORPORATE CENTER

2017 review

The Corporate Center contains central functions for BAWAG Group. Accounting entries, e.g. market values from derivatives, represent the largest portion of assets and liabilities. BAWAG Group's equity is also shown here. Restructuring expenses, contributions to the single resolution fund, the bank levy, corporate taxes and other one-off items are included in this segment as well.

Main drivers in 2017 include:

- Consolidation effects from the acquisition of Südwestbank and the card issuing business of PayLife (badwill, initial valuation of customer stock and brand, other valuation effects according to application of IFRS 3, restructuring)
- Restructuring costs for the termination of the cooperation agreement with Austrian Post (affecting other operating expenses, operating expenses and impairments)
- The long-term incentive program rolled out for the Managing Board and the senior leadership team
- Risk costs that were driven by the write-up of the brand following the impairment test and reserves for legal costs and operational risk
- Income taxes that were influenced by the tax-free badwill of the acquisitions and the effect that the initial valuation of the acquisition was booked net of income tax.

Financial results

Income metrics (in EUR million)	**2017**	2016	Change (%)	**Q4 2017**	Q4 2016	Change (%)
Net interest income	(12.1)	(3.7)	>(100)	(2.7)	(5.5)	50.9
Net fee and commission income	(4.7)	2.1	–	(0.8)	(1.2)	33.3
Core revenues	**(16.8)**	**(1.6)**	**>(100)**	**(3.5)**	**(6.7)**	**47.8**
Gains and losses on financial instruments	0.6	8.2	(92.7)	(18.2)	(23.6)	22.9
Other operating income and expenses	113.5	36.6	>100	128.5	35.4	>100
Operating income	**97.3**	**43.2**	**>100**	**106.8**	**5.1**	**>100**
Operating expenses	**(114.9)**	**(35.5)**	**>100**	**(87.0)**	**(13.3)**	**>100**
Regulatory charges	(16.1)	(31.4)	(48.7)	(2.9)	(6.3)	(54.0)
Total risk costs	13.7	(2.7)	–	19.7	(0.4)	–
Share of the profit or loss of associates accounted for using the equity method	4.1	8.0	(48.8)	1.1	1.8	(38.9)
Profit before tax	**(15.9)**	**(18.4)**	**13.6**	**37.7**	**(13.1)**	**–**
Income taxes	(50.6)	12.9	–	27.7	(0.6)	–
Non-controlling interests	(0.1)	(0.2)	50.0	0.0	0.0	–
Net profit/loss	**(66.6)**	**(5.7)**	**>(100)**	**65.4**	**(13.7)**	**–**

Volumes (in EUR million)	**2017**	2016	Change (%)
Other assets	3,328	3,507	(5.1)
Risk-weighted assets	1,417	1,247	13.6
Equity	3,610	3,123	15.6
Other liabilities	2,142	2,776	(22.8)

RISK MANAGEMENT

With respect to the explanations on financial and legal risks at BAWAG Group as well as the goals and methods of risk management, please refer to the information in the Notes section.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

INTRODUCTION

The designation "internal control system" refers 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; and
- BAWAG Group's compliance with material legal regulations to which it is subject.

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, 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 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.

CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Control environment

The Code of Conduct that has been adopted by BAWAG Group and the fundamental values described in it apply to every employee. The Code of Conduct creates a climate rooted in focus on the customer, achievement, mutual respect, teamwork and trust.

The Accounting division is responsible for BAWAG Group's accounting records. Newly acquired subsidiaries still 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 certain subsidiaries, maintaining the financial and consolidated accounts, managing taxes and regulatory reporting.

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

Our internal control and risk management systems contain instructions and processes for the accounting 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 is 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 are 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 Managing Board on a regular (monthly or more frequent) basis.

Monitoring

In order to limit or eliminate operational risks and control deficiencies, risk identification is performed annually through Risk Control Self Assessments (RCSA). If measures to minimize risk are agreed upon, they are tracked proactively by the Operational Risk and Internal Control System department with regard to implementation. Loss incidents are documented separately and 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

As of 31 December 2017, BAWAG Group AG's share capital amounted to EUR 100,000,000 and was divided into 100,000,000 non-par value bearer shares, which carry equal participation interest in the share capital of BAWAG Group AG. As of 31 December 2017, BAWAG Group AG did not hold any treasury shares (own shares).

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 deconsolidation agreements (*Entherrschungsverträge*) to which BAWAG Group AG is also a party:

- BAWAG Group AG on the one hand and (i) Promontoria Holding 212 B.V., (ii) Promontoria Holding 213 B.V., (iii) Promontoria Holding 214 B.V., (iv) Promontoria Holding 215 B.V. and (v) Promontoria Holding 216 B.V., (jointly the "Cerberus Shareholders") on the other hand, have entered into a deconsolidation agreement (*Entherrschungsvertrag*) effective upon the listing of BAWAG Group AG's shares on the official market of the Vienna Stock Exchange (the "Cerberus Deconsolidation Agreement"). The Cerberus Shareholders are owned and controlled by several funds and accounts under management by Cerberus Capital Management LP ("Cerberus") and its affiliates. In the Cerberus Deconsolidation Agreement, the Cerberus Shareholders undertook vis-à-vis BAWAG Group AG,
  - in respect of (i) the election and dismissal of Supervisory Board members, (ii) any vote of no-confidence and (iii) management matters that are brought before the general meeting of BAWAG Group AG, to exercise their voting rights only up to an aggregate maximum number equal to those voting rights of the other shareholders present and entitled to vote at any given shareholders' assembly minus 10,000 votes, and
  - not to vote for the appointment (election) of Supervisory Board members of BAWAG Group AG who are not independent of Cerberus and GoldenTree Asset Management LP ("GoldenTree"), (the delegation rights of Cerberus and GoldenTree, as set forth in the Articles of Association of BAWAG Group AG, remaining unaffected by this provision).

  Furthermore, the Cerberus Shareholders undertook that if shares in BAWAG Group AG are to be transferred by a Cerberus Shareholder to an affiliate or other entity controlled by Cerberus, such transfer may only be effected if the transferee accepts to become a party to the Cerberus Deconsolidation Agreement and to be bound by it in the same manner and for the same duration as the transferor (and to impose the same on any further transferee controlled by Cerberus in the future until the termination of the Cerberus Deconsolidation Agreement).

- 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*) effective upon the listing of the shares in BAWAG Group AG (the "GoldenTree Deconsolidation Agreement"). The GoldenTree Shareholders are owned and controlled by several funds and accounts under management by, or whose holdings in BAWAG Group AG are subject to an investment management agreement with, GoldenTree and its affiliates. In the GoldenTree Deconsolidation Agreement, the GoldenTree Shareholders undertook vis-à-vis BAWAG Group AG,
  - in respect of (i) the election and dismissal of Supervisory Board members, (ii) any vote of no-confidence and (iii) management matters that are brought before the general meeting of BAWAG Group AG, to exercise their voting rights only up to an aggregate maximum number equal to those voting rights of the other shareholders present and entitled to vote at any given shareholders' assembly minus 10,000 votes, and
  - not to vote for the appointment (election) of Supervisory Board members of BAWAG Group AG who are not independent of GoldenTree and Cerberus (the delegation rights of Cerberus and GoldenTree, as set forth in the Articles of Association of BAWAG Group AG, remaining unaffected by this provision).

  The self-restraint undertaking in relation to the exercise of voting rights set forth above only applies if and to the extent that the GoldenTree Shareholders combine sufficient voting rights that they would, taken as a whole, be deemed to be the largest single shareholder represented at such a general meeting (provided that the Cerberus Shareholders are deemed to be one single shareholder in this context).

  Furthermore, the GoldenTree Shareholders undertook that 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 and to be bound by it in the same manner and for the same duration as the transferor (and to impose the same on any further transferee controlled by GoldenTree in the future until the termination of the GoldenTree Deconsolidation Agreement).

- In the Cerberus Deconsolidation Agreement, the Cerberus Shareholders undertook (i) not to act in concert with the GoldenTree Shareholders or GoldenTree with regard to the exercise of voting rights in the general meeting, (ii) not to influence the composition of a board and any member of a board except for the exercise of (a) the rights granted in connection with Promontoria Holding 212 B.V.'s delegation rights, (b) rights in connection with the participation in the general meeting and (c) the voting rights in accordance with the Cerberus Deconsolidation Agreement, and (iii) to vote for the abolishment of Promontoria Holding 212 B.V.'s delegation right if aggregated participation of the Cerberus Shareholders falls below 20% of BAWAG Group AG's share capital for at least four consecutive weeks (and also to vote for abolishment of GoldenTree Holdco Lux 2 S.à r.l.'s delegation right under corresponding circumstances).

- In the GoldenTree Deconsolidation Agreement, the GoldenTree Shareholders undertook (i) not to act in concert with the Cerberus Shareholders or Cerberus with regard to the exercise of voting rights in the general meeting, (ii) not to influence the composition of a board and any member of a board except for the exercise of (a) the rights granted in connection with GoldenTree Holdco Lux 2 S.à r.l.'s delegation rights, (b) rights in connection with the participation in the general meeting and (c) the voting rights in accordance with the Cerberus Deconsolidation Agreement, and (iii) to vote for the abolishment of GoldenTree Holdco Lux 2 S.à r.l.'s delegation right if aggregated participation of the GoldenTree Shareholders falls below 20% of BAWAG Group AG's share capital for at least four consecutive weeks (and also to vote for the abolishment of Promontoria Holding 212 B.V.'s delegation right under corresponding circumstances).

- In the underwriting agreement, the Cerberus Shareholders, the GoldenTree Shareholders, Promontoria Sacher Holding, B.V. and certain minority shareholders have committed to an obligation vis-à-vis the underwriters that they will not enter into certain transactions regarding their shares or take part in certain measures regarding BAWAG Group AG's share capital during a certain period, as further explained below, without the prior written consent of Goldman Sachs International and Morgan Stanley, whose consent may not be unreasonably withheld or delayed, and subject to certain exceptions. The lock-up period commenced on the date of the underwriting agreement and will end (i) in the case of the Cerberus Shareholders and the GoldenTree Shareholders 450 days after the first day of trading of shares in BAWAG Group AG on the official market, whereby the commitment contemplates three different phases: in the first phase (which ends 180 days after the first day of trading of shares in BAWAG Group AG on the official market), the commitment shall apply to all shares in BAWAG Group AG held by these shareholder groups; in the second phase (which begins the day after the first phase and ends 180 days thereafter) and in the third phase (which begins the day after the second phase and ends 90 days thereafter), a certain number of shares in BAWAG Group AG from the shareholdings of the Cerberus Shareholders and the GoldenTree Shareholders, respectively, are excluded from the lock-up commitment; and (ii) in the case of the other shareholders, 180 days after the first day of trading of shares in BAWAG Group AG on the official market.

  Furthermore, in accordance with the underwriting agreement, each of the members of the Managing Board has, severally and not jointly, committed to an obligation vis-à-vis the underwriters that they will not, during the period commencing on the date of the underwriting agreement and ending 360 days after the first day of trading of shares in BAWAG Group AG on the official market, enter into certain transactions or perform certain actions with respect to shares in BAWAG Group AG, subject to certain exceptions.

Based on BAWAG Group AG's information, as of 31 December 2017, the (i) Cerberus Shareholders held 35,098,312 shares in BAWAG Group AG, corresponding to 35.1% of BAWAG Group AG's share capital and (ii) GoldenTree Shareholders held 25,688,389 shares in BAWAG Group AG, corresponding to 25.7% of BAWAG Group AG's share capital. As of 31 December 2017 none of the Cerberus Shareholders or GoldenTree Shareholders held shares corresponding to at least 10% of BAWAG

Group AG's share capital taken individually, except for Promontoria Holding 212 B.V. who held a number of shares corresponding to 12.91% of BAWAG Group AG's share capital. Furthermore, based on BAWAG Group's information the shareholding of each of Promontoria Holding 213 B.V. and Promontoria Holding 215 B.V. increased to a number of shares corresponding to 11.1% of BAWAG Group AG's share capital as of 20 February 2018.

Pursuant to BAWAG Group AG's Articles of Association, the shareholder Promontoria Sacher Holding B.V. shall have the right to delegate two 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. If Promontoria Sacher Holding B.V. transfers at least one share to Promontoria Holding 212 B.V., the right to delegate one of the members of the Supervisory Board is also transferred to Promontoria Holding 212 B.V. If Promontoria Sacher Holding B.V. transfers at least one share to GoldenTree Holdco Lux 2 S.à r.l., the right to delegate one of the members of the Supervisory Board is also transferred to GoldenTree Holdco Lux 2 S.à.r.l. This means that Promontoria Sacher Holding B.V. shall no longer have the rights to delegate members of the Supervisory Board to the extent that these rights have been transferred to Promontoria Holding 212 B.V. and/or GoldenTree Holdco Lux 2 S.à.r.l. Promontoria Holding 212 B.V. and/or GoldenTree Holdco Lux 2 S.à.r.l. shall also each have the right to delegate one of the members of the Supervisory Board according to Section 88 AktG only as long as the respective shareholder holds a direct participation in BAWAG Group AG of at least one share. In October 2017, Promontoria Sacher Holding B.V. transferred its rights to delegate the two board members of the Supervisory Board to Promontoria Holding 212 B.V. and to GoldenTree Holdco Lux 2 S.à.r.l., respectively.

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 Managing Board and Supervisory Board must fulfill certain personal requirements in order to be eligible.

- Members of the Managing 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 Managing 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 managing 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 Managing Board, the Supervisory Board or an employee of BAWAG Group AG or who are the spouse of a member of the Managing Board or Supervisory Board (whereas this ground for exclusion is only applicable to the members of the Managing 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 Managing 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 Managing Board shall be authorized, with the consent of the Supervisory Board, to increase the share capital within five years from the date of the resolution, thus until 15 September 2022 – also in several tranches – against cash payments and/or contributions in kind by up to EUR 50,000,000 by issuing up to 50,000,000 new bearer shares with no par value and to define the issue price conditions in agreement with the Supervisory Board (authorized capital 2017).

- The statutory subscription right of the shareholders to the new shares issued from the authorized capital 2017 shall be excluded 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 unfavourable exchange ratio and/or (ii) to satisfy the exercise of over-allotment options (greenshoe options) granted to the issuing banks.

  Furthermore, the Managing Board, with the consent of the Supervisory Board, shall be authorized to exclude the statutory subscription right in the following cases:
  - to exclude subscription rights insofar as is necessary to grant subscription rights to new shares to the holders of 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 as they would be entitled to such subscription rights after exercising the conversion or option right or upon fulfillment of a corresponding conversion obligation;
  - to issue shares to employees, senior executives, and members of the Managing Board of BAWAG Group AG or its subsidiaries (Section 189a No 7 UGB) within the framework of an employee participation program or a stock option program;
  - 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 2017;
  - in case of capital increases against cash payments, if 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. This maximum limit of 10% of the share capital is reduced by the proportionate amount of the share capital attributable to those treasury shares of BAWAG Group AG that are sold and transferred by BAWAG Group AG during the term of the authorized capital 2017, while excluding the shareholders' subscription rights pursuant to Sections 65 Para 1b, 170 Para 2, 153 Para 4 AktG. In addition, the maximum limit is reduced by the proportionate amount of the share capital attributable to those shares which have to be granted to service debt instruments (including participation rights) with conversion or option rights or a conversion obligation, to the extent that such debt instruments (including participation rights) are issued during the term of the authorized capital 2017, while excluding the subscription rights subject to appropriate application of Section 153 Para 4 AktG.

- On 15 September 2017, the shareholders' meeting resolved to authorize the Managing 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 and subject to the consent of the Supervisory Board to acquire treasury shares (own shares). Pursuant to the authorization, the consideration to be paid per share when repurchasing shares must not be lower than EUR 1.0 and must not be more than 20% above the volume-weighted average closing price of the last 20 trading days preceding the respective purchase. The Managing Board is authorized to establish the repurchase conditions, and the Managing Board shall publish (each) corresponding Managing Board resolution and the respective buyback program including its duration in accordance with the statutory provisions.

  The Managing Board may exercise the authorization within the statutory limits on the maximum number of treasury 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. For the purpose of calculating the 10% threshold, the shares held by BAWAG Group AG as well as shares of BAWAG Group AG acquired by subsidiaries or third parties for the account of BAWAG Group AG or a subsidiary pursuant to Section 66 AktG as well as shares taken as pledge in accordance with Section 65b AktG must be taken into account. The authorization may be exercised in whole or in part, or also in several partial amounts and for one or several purposes by BAWAG Group AG, by a subsidiary (Section 189a No 7 UGB), or by third parties acting on behalf of BAWAG Group AG.

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

Pursuant to the authorization, the Managing Board may resell the acquired shares without an additional resolution by the general meeting with the consent of the Supervisory Board via the stock exchange or a public offer and set the terms of sale. Furthermore, the Managing Board is authorized to retire the treasury shares acquired in whole or in part without an additional resolution by the general meeting with the consent of the Supervisory Board.

- On 15 September 2017, the shareholders' meeting also resolved to authorize the Managing 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 sale of treasury shares using a different legally permitted method of sale than through the stock exchange or via a public offer and on a possible exclusion of pre-emption rights (subscription rights) of shareholders, and to define the terms and conditions of sale.

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 Managing Board and Supervisory Board members or employees that would take effect in the event of a public takeover bid.

HUMAN RESOURCES DEVELOPMENT

TRAINING

In order to ensure that the right employees are working in the right positions while having a structured career path, the main training focus in 2017 was again on career paths and human resource development. The focus was on keeping the staff up to date as well as meeting all regulatory requirements – also supported by self-learning programs and respective quick checks.

Personnel development remained a key aspect and offers each employee the potential to advance in line with their individual focus, for example in the retail business with the help of the new "Sales Academy." This academy combines three major pillars as the basis for our sales success: know-how, sales and leadership. Know-how means competent knowledge of our products and processes, sales means inspiring training courses to memorize the right wording for our customer pitches and leadership as an important steering tool and the key to collective success. This training takes place primarily in the three training branches set up for this purpose (replicas of a real branch without customers) in Vienna, Graz and Salzburg. This enables the employees to practice their roles in a realistic setting. The training also includes various modern self-study programs.

We take our responsibility to offer young people worthwhile goals and prospects for the future very seriously. We have therefore successfully trained apprentices for many years now and have won numerous awards, including for the best apprentice training program in Austria. The apprentices are part of a team working together to achieve our goals. We also support the "Lehre mit Matura" program, which many students have taken advantage of in recent years to earn a secondary school diploma while completing their apprenticeship.

We are also committed to keeping our employees fit for the daily challenges they face at work. For this reason, all employees are able to choose from a variety of different courses and workshops from IT training to project management, from soft skills and leadership development to workshops about self, stress and time management. All workshops and training courses are focused on supporting the participants in their professional work and upcoming challenges.

LEADERSHIP DEVELOPMENT

Leadership is a constant development process. Accordingly, the leadership development program encompasses a wide range of offerings. The program focuses on a high level of practice-oriented learning, the targeted development of leadership skills, sharpening managers' self-reflection skills and employee guidance and development.

In retail sales, for example, the leadership development activities are based on a regular employee survey and a potential assessment that is supervised by external experts and aimed at identifying an individual's personal strengths and areas for development. On this basis, we offer a training program that addresses exactly the skills that are needed for leadership.

In 2017, the "LEAD neue Führungskräfte" leadership curriculum was once again held in our central units. The program provides support and guidance for new members of the management team during their first year in their new function and serves as a platform to discuss day-to-day leadership challenges. The 19th group started the program in September 2017.

Experienced leaders and management teams were again supported in 2017 through individual (management) coaching and targeted change management measures. The focus was on individual advice and optimal assistance for the managers (and their teams) from HR Development and selected consultants.

The "After Work Führungskräfte Forum" was successfully continued in 2017. This initiative is a platform where our managers can learn more about new developments in management and leadership and also exchange professional knowledge and experiences. The high interest in this event is a testament to its success.

TALENT DEVELOPMENT, SUCCESSION AND CAREER PLANNING

The talent identification and development process that was successfully started in 2014 to find and develop potential successors for key functions was established as a standard tool in 2017 and completed in the third quarter with the “Talent Review.” During this Managing Board meeting, all potential successors were discussed in a targeted manner and a coordinated plan of action was adopted for succession risks.

The seventh iteration of the “Start & Move” graduate program started in September 2017. This one-year program provides support for trainees who join BAWAG Group. It offers a detailed overview of the organization and its processes and allows the new employees to build a solid network for the coming years.

In October 2017, the sixth run of the “forTalents” talent program for our central units started. As in the previous iterations of this program, participants are supported in their development and groomed for new management and expert positions.

The “TOP-TEAM Vertrieb” talent program for recruiting branch managers for retail and corporate banking from our own staff was conducted for the eighth time in 2017. The participants are all promising young employees with leadership potential who have been nominated as part of the succession planning process. They go through a challenging program of technical and personal development training to prepare them to manage a branch.

Since agreeing on a women’s promotion plan back in 2012, we have consistently worked to achieve equality between women and men. A key aspect of this has been encouraging women to participate in personnel development programs. As an example, half of the participants in the “forTalents” program in 2017 were women.

MBO PROCESS (MANAGEMENT BY OBJECTIVES)

The “Management by Objectives” (MbO) approach remains a key management tool for supporting our business strategy. With the start of the new cycle at the end of 2017, this process is again being supported by the “HR ONE” software, which serves as a performance management and learning platform. HR has combined the entire “MbO” process and the associated tracking tool, a virtual learning portal with competence checks, e-learning programs and supportive tutorials. The sales talent management process for retail sales was newly added to this platform in autumn 2017. The range of self-study methods was also expanded with the addition of blended learning (where mixed classes with online units and physical attendance are offered and where a competence check must be completed to qualify for the seminar) and social learning settings, in which participants learn together and from one another.

CAREER AND FAMILY AUDIT

In 2013, we were audited and distinguished by the Ministry of Science, Research and Economy as a “family-friendly company.” We are committed to enabling a good work-life balance. Following the expiration of the three-year basic certificate, the re-auditing process was successfully completed at year-end 2016. Starting in 2017, several new measures will be implemented by the end of 2019.

In addition to the “berufundfamilie” career and family audit, we are also a member of the “Network of Family-Friendly Companies.”

CORPORATE SOCIAL RESPONSIBILITY

At BAWAG Group, we strive to live up to our corporate social responsibility (CSR). It is important for companies to strike the right balance between economic, ecological and social objectives.

CSR REPORTING

As of the financial year 2017, the Austrian Sustainability and Diversity Improvement Act extends and specifies the reporting obligation for non-financial information (environmental, social and employee issues, respect for human rights and ant-corruption) in the Group Management Report by implementing the EU Directive 2014/95/EU. The purpose of mandatory reporting is to increase the transparency and comparability of non-financial information.

BAWAG Group makes use of the statutory option provided for in Section 267a Para 6 UGB to produce a separate consolidated non-financial report in accordance with Section 267a UGB. 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.

OUTLOOK

The banking industry across Europe is currently undergoing a significant transformation and facing several challenges in the form of persistently low interest rates, continued pricing pressure, increased regulatory requirements, new market entrants in the form of fintechs and a rapid pace of technological change.

We are confident that we have positioned BAWAG Group to successfully tackle these challenges in order to continue growing our business while maintaining a low-risk and well capitalized balance sheet. This will be supported by favorable economic growth prospects for the DACH region, with projected GDP growth of approximately 2% over the 2018 and 2019 period.

Our **targets for 2018** are as follows:

- Grow profit before tax (PBT) by more than 5%
- Achieve a cost-income ratio below 46%
- Deliver a return on tangible equity (@12% CET1) above 15%
- Maintain a CET1 ratio (fully loaded) of at least 12%

In addition to these targets for the financial year 2018, we have the following **3-year targets from 2018 through 2020** in place:

- Grow profit before tax at more than 5% CAGR and deliver a PBT of greater than EUR 600 million in 2020
- Deliver pre-tax average annual earnings per share of greater than EUR 5.70
- Achieve a cost-income ratio below 40%
- Maintain a RoTE (@12% CET1) in a range of 15% to 20%
- Maintain a CET1 ratio (fully loaded) of at least 12%
- Total excess capital accretion (>12% CET1) of greater than EUR 2 billion through 2020

In terms of capital generation and return, we target an annual dividend payout of 50% of net profit and will deploy additional excess capital (above 12% CET1) through 2020 to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our RoTE group targets. To the extent excess capital is not deployed via such organic growth and M&A, we are committed to distributing excess capital to shareholders, based on a yearly assessment, in the form of stock buybacks and/or special dividends.

The Managing Board will propose to the Annual General Meeting to distribute a dividend for the fourth quarter 2017 of EUR 0.58 per share (calculated as 50% of the average quarterly net profit generated in the financial year 2017).

Our continued strong operating results in 2017 reiterate that BAWAG Group is well positioned to win in a competitive European banking environment. We will continue to maintain our low-risk strategy focused on the DACH region, with Austria as our foundation, while providing our customers with simple, transparent and best-in-class products and services.

7 March 2018

Anas Abuzaakouk
Chief Executive Officer

David O'Leary
Member of the Managing Board

Enver Sirucic
Member of the Managing Board

Andrew Wise
Member of the Managing Board

Stefan Barth
Member of the Managing Board

Sat Shah
Member of the Managing Board

Consolidated Financial Report

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

CONTENTS

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in EUR million	[Notes]	2017	2016
Interest income		1,083.1	1,026.1
Interest expense		(299.8)	(297.2)
Dividend income		8.0	3.3
Net interest income	**[2]**	**791.3**	**732.2**
Fee and commission income		303.6	276.3
Fee and commission expense		(86.7)	(83.4)
Net fee and commission income	**[3]**	**216.9**	**192.9**
Gains and losses on financial assets and liabilities	[4]	11.7	19.1
Other operating income and expenses	[5]	87.1	(7.1)
Administrative expenses	[6]	(491.7)	(405.4)
Depreciation and amortization on tangible and intangible non-current assets	[7]	(40.3)	(36.3)
Risk costs	[8]	(61.8)	(42.7)
Share of the profit or loss of associates accounted for using the equity method	[9]	4.1	8.0
Profit before tax		**517.3**	**460.7**
Income taxes	[10]	(50.6)	12.9
Profit after tax		**466.7**	**473.6**
Thereof attributable to non-controlling interests		0.1	0.2
Thereof attributable to owners of the parent		**466.6**	**473.4**

In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges. For further details, please refer to Note 5. The item Administrative expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of EUR 3.2 million for 2017 as well (2016: EUR 2.3 million). 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.

Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016. For further details, please refer to Note 37.

Earnings per share

	2017	2016[1)]
Net result attributable to owners of the parent (in EUR million)	466.6	473.4
Net result attributable to owners of the parent after deduction of dividend (in EUR million)	**466.6**	**473.4**
Weighted average number of outstanding shares[1)]	100,000,000	100,000,000[1)]
Basic earnings per share (in EUR)	**4.7**	**4.7**
Weighted average diluted number of outstanding shares	100,000,000	100,000,000[1)]
Diluted earnings per share (in EUR)	**4.7**	**4.7**

Changes in number of outstanding shares

	2017	2016[1)]
Shares outstanding at the beginning of the period[1)]	100,000,000	100,000,000
Shares outstanding at the end of the period	100,000,000	100,000,000
Weighted average number of outstanding shares[1)]	100,000,000	100,000,000
Weighted average diluted number of outstanding shares[1)]	100,000,000	100,000,000

1) Represents a theoretical figure since the former BAWAG Holding GmbH was converted into BAWAG Group AG in August 2017.

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. As no dilutive potential ordinary shares exist, basic earnings per share correspond to diluted earnings per share.

STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR million	2017	2016
Profit after tax	**466.7**	**473.6**
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plans	(5.0)	(1.9)
Income tax on items that will not be reclassified	1.3	0.5
Total items that will not be reclassified to profit or loss	**(3.7)**	**(1.4)**
Items that may be reclassified subsequently to profit or loss		
Cash flow hedge reserve	(4.7)	8.4
Thereof transferred to profit (-) or loss (+)	(7.2)	(4.1)
Available-for-sale reserve	33.2	2.9
Thereof transferred to profit (-) or loss (+)	(14.2)	(15.9)
Share of other comprehensive income of associates accounted for using the equity method	(0.2)	(2.3)
Income tax relating to items that may be reclassified	(6.4)	(4.5)
Total items that may be reclassified subsequently to profit or loss	**21.9**	**4.5**
Other comprehensive income	**18.2**	**3.1**
Total comprehensive income, net of tax	**484.9**	**476.7**
Thereof attributable to non-controlling interests	0.1	0.2
Thereof attributable to owners of the parent	**484.8**	**476.5**

The increase of the Available-for-sale-reserve is mainly due to the valuation of securities and non-consolidated participations partly compensated by the transfer to profit or loss due to sales of securities.

For further details, please refer to Note 32 Equity.

Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016. For further details, please refer to Note 37.

STATEMENT OF FINANCIAL POSITION

Total assets

in EUR million	[Notes]	31.12.2017	31.12.2016
Cash reserves	[11]	1,180	1,020
Financial assets designated at fair value through profit or loss	[12]	448	202
Available-for-sale financial assets	[13]	4,408	3,209
Held-to-maturity investments	[14]	2,274	2,353
Financial assets held for trading	[15]	458	652
Loans and receivables	[16]	35,753	30,825
Customers		30,804	28,498
Securities		1,289	692
Credit institutions		3,660	1,635
Hedging derivatives	[31]	517	677
Property, plant and equipment	[19]	103	53
Investment properties	[19]	120	3
Goodwill	[20]	58	58
Brand name and customer relationships	[20]	291	192
Software and other intangible assets	[20]	157	128
Tax assets for current taxes		12	10
Tax assets for deferred taxes	[21]	102	199
Associates recognized at equity	[51]	44	45
Other assets	[22]	146	135
Total assets		**46,071**	**39,761**

The line items Goodwill, Brand name and customer relationships, and Software and other intangible assets are shown under the line item Intangible non-current assets in Note 33.

Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016. For further details please refer to Note 37.

Total liabilities and equity

in EUR million	[Notes]	31.12.2017	31.12.2016
Total liabilities			
Financial liabilities designated at fair value through profit or loss	[23]	726	1,115
Financial liabilities held for trading	[24]	345	617
Financial liabilities at amortized cost	[25]	39,894	32,994
Customers		30,947	26,030
Issued bonds, subordinated and supplementary capital		4,938	4,900
Credit institutions		4,009	2,064
Financial liabilities associated with transferred assets	[40]	–	300
Valuation adjustment on interest rate risk hedged portfolios		116	223
Hedging derivatives	[31]	94	260
Provisions	[29]	450	404
Tax liabilities for current taxes		17	19
Tax liabilities for deferred taxes	[21]	5	21
Other obligations	[30]	814	683
Total equity	**[32]**	**3,610**	**3,125**
Equity attributable to the owners of the parent		3,609	3,123
Non-controlling interests		1	2
Total liabilities and equity		**46,071**	**39,761**

Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016. For further details, please refer to Note 37.

STATEMENTS OF CHANGES IN EQUITY

in EUR million	Subscribed capital	Capital reserves	Retained earnings reserve	AFS reserve net of tax excluding equity associates	AFS reserve net of tax from equity associates	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2016	**100.0**	**1,094.4**	**1,792.5**	**36.3**	**4.8**	**–**	**(71.8)**	**2,956.2**	**1.4**	**2,957.6**
Transactions with owners	–	–	–	–	–	–	–	–	–	–
Owner's contribution	–	–	–	–	–	–	–	–	–	–
Dividends	–	–	(309.0)	–	–	–	–	(309.0)	–	(309.0)
Change in scope of consolidation	–	–	–	(0.3)	–	–	–	(0.3)	–	(0.3)
Total comprehensive income	–	–	473.4	0.5	(2.3)	6.3	(1.4)	476.5	0.2	476.7
Balance as of 31.12.2016 = 01.01.2017	**100.0**	**1,094.4**	**1,956.9**	**36.5**	**2.5**	**6.3**	**(73.2)**	**3,123.4**	**1.6**	**3,125.0**
Transactions with owners	–	52.0	–	–	–	–	–	52.0	–	52.0
Owner's contribution	–	52.0	–	–	–	–	–	52.0	–	52.0
Dividends	–	–	(51.6)	–	–	–	–	(51.6)	(0.3)	(51.9)
Change in scope of consolidation	–	–	0.0	–	–	–	–	–	–	–
Total comprehensive income	–	–	466.6	25.6	(0.2)	(3.5)	(3.7)	484.8	0.1	484.9
Balance as of 31.12.2017	**100.0**	**1,146.4**	**2,371.9**	**62.1**	**2.3**	**2.8**	**(76.9)**	**3,608.6**	**1.4**	**3,610.0**

For further details, please refer to Note 32 Equity. Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016. For further details, please refer to Note 37.

CASH FLOW STATEMENT

in EUR million	[Notes]	2017	2016
I. Profit (after tax, before non-controlling interests)	Profit or Loss Statement	**467**	**474**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities			
Depreciation, amortization, impairment losses, write-ups	[7], [8]	81	49
Changes in provisions	[29]	4	20
Changes in other non-cash items		(215)	(106)
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	[4], [5]	(15)	(33)
Share of profit of equity-accounted investees, net of tax	Profit or Loss Statement	(4)	(8)
Other adjustments (mainly received interest less paid interest)		(791)	(732)
Subtotal		**(473)**	**(336)**
Change in assets and liabilities arising from operating activities after corrections for non-cash items			
Loans and advances to customers and credit institutions		(46)	220
Other financial assets (not including investing activities)		595	189
Other assets		(10)	(119)
Deposits from customers and banks		320	(328)
Other financial liabilities (not including financing activities)		(989)	724
Other obligations		41	8
Interest receipts		1,075	1,066
Dividend receipts	Profit or Loss Statement	8	3
Dividends from equity-accounted investees		6	3
Interest paid		(282)	(298)
Income taxes paid		(7)	(3)
II. Net cash from operating activities		**238**	**1,129**
Cash receipts from sales of			
Financial investments		1,742	1,158
Tangible and intangible non-current assets		–	2
Cash paid for			
Financial investments		(1,215)	(1,694)
Tangible and intangible non-current assets	[19], [20]	(66)	(54)
Cash receipts from sales of subsidiaries	Cash flow from the sale of subsidiaries	–	91
Cash receipts from sales of associates		11	5
Acquisition of subsidiaries, net of cash acquired	[37]	(493)	(83)
Other changes		–	–
III. Net cash used in investing activities		**(21)**	**(575)**
Capital contributions	Statement of Changes in Equity	–	–
Redemption of participation capital	Statement of Changes in Equity	–	–
Dividends paid	Statement of Changes in Equity	(52)	(309)
Issuance of subordinated liabilities (including those designated at fair value through profit or loss)		–	–

Redemption of subordinated liabilities (including those designated at fair value through profit or loss)	(5)	(34)
IV. Net cash from financing activities	**(57)**	**(343)**
Cash and cash equivalents at end of previous period	**1,020**	**809**
Net cash from operating activities	**238**	**1,129**
Net cash used in investing activities	**(21)**	**(575)**
Net cash from financing activities	**(57)**	**(343)**
Cash and cash equivalents at end of period	**1,180**	**1,020**

Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016. For further details, please refer to Note 37.

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.

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.

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 EUR million	01.01.2017	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	Repurchase/ Cash change	Others	31.12.2017
Financial liabilities designated at fair value through profit or loss							
Subordinated and supplementary capital	109	–	–	5	–	–	114
Financial liabilities measured at amortized cost							
Subordinated and supplementary capital	464	12	(11)	–	(5)	(1)	459

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

Cash flow from the sale of subsidiaries

There were no sales of subsidiaries in 2017. In January 2016, BAWAG P.S.K. sold its shares in BAWAG Malta Bank Ltd. after having received all regulatory approvals. The profit from the sale was shown in the line item Gains and losses on financial assets and liabilities.

in EUR million	**2017**	2016
Sales proceeds	**–**	**91**
Assets sold	**–**	**87**
Financial assets	–	9
Other assets	–	78
Debts sold	**–**	**–**
Net assets sold	**–**	**87**
Profit from the sale	**–**	**4**
Sales proceeds	–	91
Cash and cash equivalents contained in the assets sold	–	–
Proceeds from the sale	**–**	**91**

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 Wiesingerstraße 4, 1010 Vienna.

The consolidated financial statements were prepared applying section 59a BWG, 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 2017.

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 2017. 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 with respect to all of the financial years stated in these consolidated financial statements, with the exception that in the course of the IFRS 9 implementation project fair values of unlisted AFS equity instruments were calculated for the first time. These fair values were considered as of 31 December 2017.

We have maintained the accounting and valuation methods that were applied in the consolidated financial statements as of 31 December 2016, with the exception mentioned in the paragraph above.

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 2017, the consolidated financial statements included 44 (2016: 36) fully consolidated companies and 2 (2016: 2) companies that are accounted for using the equity method in Austria and abroad. In the second quarter 2017, BV Vermögensverwaltung GmbH was included in the scope of consolidation due to materiality. In the third quarter 2017, BAWAG P.S.K. Leasing GmbH ("BPL") as the transferring company was merged with easyleasing GmbH as the absorbing company. Due to the merger, BPL was eliminated from the scope of consolidation. In December 2017, Südwestbank AG, SWB Immowert GmbH, SWBI Darmstadt 1 GmbH, SWBI Mainz 1 GmbH, SWBI München 1 GmbH, SWBI Stuttgart 1 GmbH, SWBI Stuttgart 2 GmbH and SWBI Stuttgart 3 GmbH were consolidated for the first time. 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 49 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 EUR 16 million (2016: EUR 19 million) on 31 December 2017. Controlled companies with a carrying amount of EUR 27 million (2016: EUR 22 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 49 and 50.

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 EUR 58 million (2016: EUR 58 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 legal entities easybank AG (EUR 58 million), BAWAG P.S.K. Versicherung AG (EUR 11 million) and PSA Payment Services Austria GmbH (EUR 6 million) – the latter two entities are accounted for using the equity method – as these are the smallest CGUs to which goodwill can be assigned.

easybank AG is part of the segment easygroup, BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH are part of the segment Corporate Center.

Also, all equity investments were tested for indicators for 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 IAS 39 and categorized as available-for-sale financial assets.

Financial Instruments

Financial instruments are recognized and derecognized on the trade date. 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.

a) Held-to-Maturity Investments

This category includes all financial instruments with fixed or determinable payments and fixed maturity that are intended to be held to maturity. If securities are assigned to this category, BAWAG Group has the positive intention and the ability to hold the instruments to maturity.

Held-to-maturity investments are carried at amortized cost. If at the end of a reporting period there is objective evidence for impairment, the recoverable amount is calculated and an impairment is recognized if this amount is lower than the carrying amount. The recoverable amount is calculated by discounting the expected future cash flows with the original effective interest rate of the financial instrument. If this impairment decreases in subsequent periods, a write-up is recognized up to the amortized cost valid at that time.

Premiums and discounts on securities classified as held-to-maturity investments are recognized pro rata temporis via the effective interest rate. Expenses and revenues were set off against interest income from the same securities.

b) Financial Assets and Liabilities Recognized at Fair Value through Profit or Loss

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 trading and 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.

Financial assets and liabilities designated at fair value through profit or loss

Certain financial assets and liabilities that do not meet the definition of trading assets and 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, 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
- Management on a fair value basis
  - Certain securities and loans are managed on a fair value basis by the Strategic Asset Liability Committee, which also decides on the extent of the open interest rate risk exposures. The Managing Board is informed about these positions regularly.
- Presence of embedded derivatives
  - Structured financial instruments with embedded derivatives

c) Loans and Receivables

Loans and receivables are measured on the Statement of Financial Position at amortized cost inclusive of deferred interest following deduction of impairment allowances.

Premiums and discounts are recognized pro rata temporis via the effective interest rate. Expenses and revenues were set off against interest income from the same loan.

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 Loan Loss Provisions section for information about the formation of provisions.

d) Available-for-Sale Financial Assets

This category covers financial assets which are not classified as

- Loans and receivables;
- Held-to-maturity investments; or
- Financial assets recognized at fair value through profit or loss.

In addition to the securities that BAWAG Group has assigned to the category Available-for-sale financial assets, this item also includes shares in non-consolidated subsidiaries.

The Available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in other comprehensive income (AFS reserve) until the asset is sold, repaid or impaired. Impairments are recognized in the Profit or Loss Statement under Risk costs – Impairment losses for financial assets. BAWAG Group continuously compares the redemption amount with the carrying amount of the available-for-sale financial assets to detect any possible impairments. Potential impairments are reviewed and – in case of materiality – approved by the responsible Risk Division. When the reasons for the impairment of a debt instrument no longer apply, these impairments are reversed through profit or loss up to the amount of amortized cost. Any reversal of impairment for equity instruments recognized at fair value is recognized directly in other comprehensive income.

Debt instruments are reviewed individually for impairment if objective indications of a loss (such as delayed payment) are incurred after the date of initial recognition that would lead to a reduction in the cash flow arising from them. An impairment exists when the net present value of the expected cash flows is lower than the carrying value of the financial instrument concerned.

Premiums and discounts are recognized pro rata temporis via the effective interest rate. Expenses and revenues were set off against interest income from the same securities.

e) Financial Liabilities

In accordance with IAS 39, financial liabilities
- not held for trading or
- designated as Financial liabilities at fair value through profit or loss

are measured at amortized cost.

Reclassifications

Reclassification of Financial Assets into the Category Loans and Receivables

Financial assets can be reclassified from the category available-for-sale to the category of loans and receivables when

- the financial asset meets the requirements for inclusion in the category loans and receivables according to IAS 39 on the date of reclassification and on the date of initial recognition; and
- the entity has the ability and the management has the intention on the reclassification date to hold the reclassified assets for the foreseeable future.

Financial assets are reclassified at their fair value on the reclassification date. The fair value of the financial instrument on the reclassification date is the new amortized cost of the instrument. The expected cash flows of the financial instrument are estimated on the reclassification date, and these estimates are used to calculate the new effective interest rate of the instrument. If the expected future cash flows of the reclassified instrument increase at a later date as a result of a value improvement, the effect of this increase is accounted for by adjusting the effective interest rate and not by adjusting the carrying amount of the instrument at the time that the estimates change. In the event of a subsequent decrease in the expected future cash flows, the instrument is subjected to an impairment test and measured in accordance with the measurement rules for the category loans and receivables.

When available-for-sale assets are reclassified into loans and receivables, the unrealized profit or loss that has been recognized in Other comprehensive income is distributed over the remaining term of the instrument and recognized as interest income or interest expense. Should the instrument be discovered to be impaired at a later date, the unrealized loss of the instrument that is recognized in Other comprehensive income as of that date is recognized immediately in the Profit or Loss Statement under Risk costs – Impairment losses for financial assets.

Details are presented in Note 16.

Reclassification of Financial Assets into the Category Held-to-Maturity Investments

Financial assets can be reclassified from the category available-for-sale to the category of held-to-maturity investments when the entity has the ability and the management has the intention on the reclassification date to hold the reclassified assets until maturity.

In addition, available-for-sale financial assets may be reclassified to held-to-maturity investments after the expiration of the two-year retention period that is required if more than an insignificant portion of the held-to-maturity investments is sold or reclassified.

Financial assets are reclassified at their fair value on the reclassification date. The fair value of the financial instrument on the reclassification date is the new amortized cost of the instrument. The expected cash flows of the financial instrument are estimated on the reclassification date, and these estimates are used to calculate the new effective interest rate of the instrument. If the expected future cash flows of the reclassified instrument increase at a later date as a result of a value improvement, the effect of this increase is accounted for by adjusting the effective interest rate and not by adjusting the carrying amount of the instrument at the time that the estimates change. In the event of a subsequent decrease in the expected future cash flows, the instrument is subjected to an impairment test and measured in accordance with the measurement rules for the category held-to-maturity investments.

When available-for-sale assets are reclassified into held-to-maturity investments, the unrealized profit or loss that has been recognized in Other comprehensive income is distributed over the remaining term of the instrument and recognized as interest income or interest expense. Should the instrument be discovered to be impaired at a later date, the unrealized loss of the instrument that is recognized in Other comprehensive income as of that date is recognized immediately in the Profit or Loss Statement under Risk costs – Impairment losses for financial assets.

Reclassification of Financial Assets into the Category Available-for-Sale

IAS 39 and its interpretations state that financial instruments that are classified as loans and receivables can be reclassified as available-for-sale assets when the financial instrument subsequent to its initial classification becomes traded in an active market and therefore the definition of loans and receivables is no longer met.

When an asset is reclassified as available-for-sale, it must be remeasured at its fair value, and any difference between its carrying amount and its fair value must be recognized in Other comprehensive income (AFS reserve).

Hedge Accounting

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 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.

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

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.

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.

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 a portfolio that is to be protected against interest rate risks. These 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. Additions and withdrawals are initially allocated to the non-designated portion of the identified portfolio 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.

Cash Flow Hedge

Since January 2016, BAWAG Group has applied cash flow hedge accounting according to IAS 39 for highly probable future cash flows from certain foreign currency portfolios.

The Group has identified future spread income from GBP 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 operating 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 2017 fair value losses in the amount of EUR 4.7 million (2016: gains in the amount of EUR 8.4 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.

Loan Loss Provisions

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.

The loan loss provisions cover provisions for loan defaults or counterparty risks and are formed as individual and general provisions on the basis of past experience. The loan loss provisions from lending are netted off against the corresponding receivables on the Statement of Financial Position. Provisions for off-balance-sheet loans are reported as provisions.

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. Provisions for counterparty risks that were not individually significant were accounted for generally, on a percentage basis, with regard to the amounts overdue and based on our historical loss experience.

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.

A loan loss provision is accounted for on a portfolio basis in accordance with IAS 39.AG89 for losses incurred but not reported as of the reporting date. The portfolio loan loss provision is recognized for on- and off-balance-sheet receivables of the Group's loan portfolio including securities but excluding items recognized at fair value. For loans backed by a repayment vehicle, which mainly include loans in foreign currencies, a provision based on funding gaps is considered as well. The amount of the IBNR is calculated on the basis of the regulatory Expected Loss Model. The actual loss that has been incurred is extrapolated from the expected loss, taking into account the duration from occurrence to detection of the loss (the loss identification period – LIP). For this reason, financial assets are grouped on the basis of similar credit risk characteristics (IAS 39.AG87). The classification is based on the categories of claims against Banks, Corporates, Sovereigns and Retail. LIP is calculated for each segment and is based on the average time until identification of the 90 days overdue status based on expected cash inflows according to the repayment plans. LIP is calculated as the exposure-weighted average in months. Depending on the risk monitoring process, a shorter LIP than calculated based on expected cash flows is anticipated. For details, see Note 8, 16 and 54.

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

Derivatives

To measure exchange-traded instruments such as futures and options on futures, exchange prices are used. Details are presented in Note 33. 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 case of negative interest rates for caps, floors and swaptions) model.

For positions in the trading book, the closing costs of the positions (bid/ask spreads) on a net basis are calculated and booked on a regular basis.

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. If available, liquid credit default swap (CDS) spreads are generally used to determine the probability of default (PD) and the recovery rate (REC). If this is not possible, equivalent segments of the CDS market are used.

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 IAS 39.9.

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 IAS 39.43. 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 IAS 39.9 for categorization under loans and receivables.

This approach was chosen following IAS 39.40 and IAS 39.21, since IAS 39 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, which 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 level of spreads 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 pre-tax profits reduced by the nominal tax rate was calculated by using the risk-weighted pre-tax discount rate in the market applicable to the participation in question. The pre-tax discount rate was derived from the planned pre-tax profits and the above-mentioned valuation result, and served as a target value.

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

As a rule, the planning horizon used for valuation purposes is five years. The long-term growth rates used in the calculation are 1.0%, applying the going concern principle.

The pre-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. As of 31 December 2017, the following parameters are used:

- The risk-free rate (1.33%) 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 (6.92% for Austria) is the website Damodaran in conjunction with the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose working group "Business Valuation" sets a range from 5.5% to 7%. A market risk premium of 6.92% was chosen for Austria.
- The applied beta factor for banks and financial service companies (0.98) is the two-year weekly average beta of ten banks listed on European stock exchanges with retail as their core business. Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 qualify for the peer group. The applied beta factor for non-banks is 1.0 (except for stock exchanges with a beta factor of 0.86), which represents a specific parameter and no general market risk.

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

The Group's interest in BAWAG P.S.K. Versicherung Aktiengesellschaft is assessed using the embedded value and an estimation of the future value.

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. As a rule, this 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, depending on the purpose of the contract, within liabilities held for trading or financial liabilities associated with transferred assets.

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 IAS 39. 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. 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 1.3% and 4.0%, while other furniture and equipment are depreciated at annual rates between 5% and 84.2%. Purchased and self-produced software, and other intangible assets and rights (other than goodwill and brand name) are amortized at annual rates between 4.63% and 100.0%. The high annual rates are due to first-time consolidation of Südwestbank, since depreciation of non-current assets is calculated using the remaining useful life starting with the closing date. Customer relationships are amortized over approximately 8–33 years (2016: 33 years) using a linear amortization rate. The amortization method and period are reviewed annually according to IAS 38. For details, please refer to Note 20.

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 rentals. 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.

Land and buildings held for investment purposes (investment property) are measured at cost less straight-line depreciation for buildings and less impairments (IAS 40). Depreciation ranges between 2% and 3% per year. For details, see Note 19.

Impairment Testing

The fair value of the brand BAWAG P.S.K. 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 (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 8.11%.

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 8.

In the case of real estate companies and own real estate, current estimated market values of the properties are taken into account. External appraisals are usually renewed every three years at the latest.

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.

Leasing

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. The details are provided in Note 47.

BAWAG Group as Lessor

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.

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

Expenditure on operating leases is recorded on a straight-line basis over the life of the lease agreement and reported under operating expenses.

Finance leases where BAWAG Group is a lessee are of minor significance.

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 2017, unused tax losses amounted to EUR 383 million (2016: EUR 381 million) at the level of BAWAG Group, EUR 338 million (2016: EUR 594 million) at the level of BAWAG P.S.K., EUR 44 million (2016: EUR 0 million) at the level of members of the tax group included in the consolidated financial statements and EUR 0 million (2016: EUR 5 million) at the level of other companies included in the consolidated financial statements, hence a total of EUR 765 million (2016: EUR 980 million). Tax goodwill amortization will contribute another EUR 76 million per year as tax-deductible expenses until 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 EUR 765 million (2016: EUR 980 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately EUR 191 million (2016: EUR 245 million) are recognized within BAWAG Group. If the forecasted taxable results varied by 10% compared to management estimations, deferred tax assets would remain unchanged (2016: would remain unchanged) if results improve and would remain unchanged (2016: would remain unchanged) if forecasted results turn out to be lower than expected.

A tax group pursuant to section 9 KStG was parented by BAWAG Group AG (formerly BAWAG Holding GmbH) in the financial year. On 31 December 2017, the tax group consisted of the group parent and 24 domestic members, both consolidated and non-consolidated in these financial statements (2016: 21 members). A tax collection agreement was concluded. The allocation method was chosen for determining the tax allocations. This method is based on the tax result of the group as a whole. The payable tax is allocated to each group member with a positive tax result on the basis of its proportionate share of the group's tax result. An internal tax loss carryforward is taken into account for tax losses allocated to the group parent. If the head of the tax group has to pay a minimum corporate tax, the head of the tax group is able to burden the members of the tax group with a proportion of the minimum corporate tax following the principle of tax causation.

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 stand-alone method. This method simulates that each group member is an independent taxpayer. Group members are obliged 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.

In the financial year 2017 and 2016, no tax allocations were allocated to members of the tax group included in the consolidated financial statements due to a negative taxable group result.

As of 31 December 2017, the exit of BAWAG Group from the tax group and the exit of all other group members, with the exception of the new members in 2016 and 2017, would not result in a corporate income tax back payment as of 31 December 2017 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 2016 and 2017 would incur a corporate income tax back payment in the amount of EUR 8 million (2016: EUR 5 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 the year in which they are incurred in other comprehensive income.

The principal parameters underlying the actuarial calculations are:

Parameters for post-employment pension obligations

	2017	2016
Interest rate	1.60% p.a.	1.75% p.a.
Wage growth	1.50% p.a.	1.50% p.a.
Fluctuation discount	0%–3.74% p.a.	0%–3.74% p.a.

Parameters for severance payments and anniversary bonuses

	2017	2016
Interest rate	1.60% p.a.	1.75% p.a.
Wage growth severance payments	3.10% p.a.	3.10% p.a.
Wage growth anniversary bonuses	2.80% p.a.	2.80% p.a.
Fluctuation discount severance payments	0%–0.34% p.a.	0%–2.14% p.a.
Fluctuation discount anniversary bonuses	0%–9.75% p.a.	0%–9.75% p.a.
Retirement age	60–65 years[1)]	57–65 years[1)]

1) The earliest possible individual retirement age as per ASVG/APG (excl. corridor pension) was assumed.

The interest rate used in 2017 has been changed from 1.75% in the previous year to 1.60%.

The generation mortality tables *AVÖ 2008-P-Angestellte* were used when calculating the long-term employee benefit provisions.

Not all managerial staff are entitled to post-employment benefits from the Group. The managerial 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 that are financed entirely through provisions because they are defined benefit obligations pertain primarily to post-employment benefit rights and future rights of employees of BAWAG P.S.K. AG. 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 covered by BONUS Pensionskassen AG and Bundespensionskasse AG (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 EUR 16.0 million in 2017 (2016: EUR 6.6 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, whereby employees render services as consideration for equity instruments (equity-settled transactions). Accounting is based on IFRS 2.

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 recognised 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 (not relevant for the current program) are fulfilled (the vesting period). The cumulative expense recognised 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 recognised 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.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met (in our case only service conditions are relevant). 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 recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised 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.

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 44.

Equity

Equity is the capital provided by the Bank's owners (issued capital and capital reserves) and the capital generated by the Bank (retained earnings, reserves from currency translation, AFS reserve, cash flow 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.

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 proportion of interest-bearing derivatives, separated into income and expenses, is recognized in interest income and expense.

Interest expense consists mainly of interest for liabilities to credit institutions and customers, issued bonds, subordinated capital and supplementary capital. Interest income and interest expense are recognized on an accrual basis.

Details concerning the net interest income can be found in Note 2.

Fee and Commission Income and Expense

This item consists mainly of income from and expenses for payment transfers, the securities and custody business, lending and payments to Österreichische Post AG for the use of its distribution network. Income and expenses are recognized on an accrual basis. For details, see Note 3.

Gains and Losses on Financial Assets and Liabilities

This item consists mainly of the valuations and sales gains or losses of our investment, 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. For details, see Note 4.

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. For details see Note 5.

Administrative Expenses

General administrative expenses represent personnel and other administrative expenses accrued in the reporting period. Details are explained in Note 6.

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. 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 of property and equipment and other intangible assets as well as impairment losses on goodwill and non-consolidated equity investments. For details, see Note 8.

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 IAS 39 categories. The components are detailed for each IAS 39 category in the notes on net interest income, gains and losses on financial assets and liabilities, and risk costs.

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.

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 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 33 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 20 Goodwill, Brand name 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 reevaluates 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 21 Net deferred tax assets and liabilities on 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 following items are also subject to the judgment of management:

- 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
- recognition of provisions for uncertain liabilities
- assessments of legal risks and the outcome of legal proceedings, supreme court rulings and inspections of regulatory authorities and the recognition of provisions regarding such risks

Latitude of Judgment and Uncertainty of Estimates – City of Linz

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

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

The City of Linz filed a lawsuit against BAWAG Group at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling EUR 24.2 million at the exchange rate at that time). BAWAG Group filed a (counter) suit against the City of Linz for the fulfillment of its contractual entitlements from the same transaction in the amount of EUR 417.7 million. The court combined the two suits. The first hearings were held in the spring of 2013 and an expert opinion was requested. The supplementary expert opinion was requested thereafter and was submitted by the experts on 29 December 2017. The court has not yet set a date for the next hearing. BAWAG Group bases its assessment of the carrying amount of the claim on corresponding legal and other opinions, which support the amount of the claim. BAWAG Group's strong legal position remains unchanged and the Bank is well prepared for the forthcoming court hearings. It is difficult to assess how much longer the lawsuit is going to continue. However, based on experience it is assumed that the further legal proceedings until a final judgement is enforceable will take several years.

The Group has valued the derivative transaction until termination according to the general principles (see Note 1 Accounting policies), and has adequately accounted for the risks associated with the claim arising from this derivative. In particular, management had to estimate the risks that are associated with the transaction, such as non-payment, legal, process and other operational risks and had to make judgments as part of the continuous valuation process; this resulted in the respective valuation adjustments.

After the termination of the transaction, the derivative was derecognized and a receivable was recognized under Receivables from customers (classified under Loans and advances). In 2011, when derecognizing the swap, the credit value adjustment was set off against the gross receivable, thus a new receivable was recognized in the amount of approximately EUR 254 million.

Effects of Adopting Amended and New Standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2017 consolidated financial statements:

Amended standards	First-time application	Adopted by the EU Commission	Impact on BAWAG Group
Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016)	1 January 2017	6 November 2017	Amended disclosure of changes in liabilities arising from financing activities in the Cash Flow Statement. For details, please refer to the Cash Flow Statement.
Amendments to IAS 12: recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016)	1 January 2017	6 November 2017	None
Annual Improvements to IFRS Standards 2014–2016 Cycle (issued on 8 December 2016)	1 January 2017 / 1 January 2018	7 February 2018	None

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 2017. BAWAG Group does not plan an early application of endorsed but not yet effective standards:

Standard/Interpretation	First-time application	Adopted by the EU Commission	Expected impact on BAWAG Group
IFRS 9 Financial Instruments (issued on 24 July 2014)	1 January 2018	22 November 2016	For details, please see below
IFRS 16 Leases (issued on 13 January 2016)	1 January 2019	31 October 2017	For details, please see below
Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)	1 January 2018	31 October 2017	For details, please see below
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)	1 January 2018	3 November 2017	None
IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015)	1 January 2018	7 February 2018	None

IFRS 9 Financial Instruments

Already in July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*. IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value and fair value through other comprehensive income.

IFRS 9 will become mandatory for reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

According to IFRS 7, in 2018 the notes of BAWAG Group will contain transitional tables reconciling financial assets and impairment allowances from IAS 39 to IFRS 9. It is not planned to disclose the IFRS 9 figures for the prior year.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

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. Furthermore, embedded derivatives will no longer be separated from the financial host asset. If the structured financial asset does not fulfill the SPPI criteria, the financial instrument is assessed in its entirety and measured at fair value through profit or loss.

Business Model Assessment for Financial Assets

The Group completed an assessment of business models for all segments and identified the following business models:

- Hold to Collect
  Financial assets held in this business model are in general designated 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 assets' 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.

  Financial assets held in this business model include the entire loan portfolio except for a small municipal loan portfolio and approximately 45% of the bond portfolio held for liquidity needs.

- 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 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).

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 analyzed 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 FVPnL.

BAWAG Group has analyzed its existing loan portfolio. 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 were identified as failing the SPPI test, mainly due to their interest rate indicator being non-compliant.

Financial Liabilities

The classification and measurement requirements for financial liabilities have only been changed slightly compared to IAS 39. However, under IFRS 9 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.

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.

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 election is made on an instrument-by-instrument basis. If the OCI option is used, all fair value changes including sales from gains are shown in OCI. Gains and losses are not recycled to Profit or Loss (PnL). Only dividends are always recognized in PnL. This designation can only be made at inception and cannot be changed afterwards.

The majority of the 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. In case the 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.

Hedge Accounting

IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: Instead of the quantitative criterion (bandwidth of 80% to 125%), qualitative and quantitative criteria for a forward-looking effectiveness assessment have been introduced. Furthermore, voluntary terminations of hedge relationships are no longer allowed in general, but only if certain requirements are met. Rules for rebalancing were introduced for hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

While the macro hedge accounting project is ongoing, adopters of IFRS 9 may, as an accounting policy choice, continue to apply the macro fair value hedge accounting model for interest rate risk in IAS 39.

BAWAG Group currently expects no major impacts on the consolidated financial statements resulting from IFRS 9 hedge accounting and decided to continue applying hedge accounting according to IAS 39.

Impairment

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).

The main drivers in the ECL calculation are the lifetime probability of default (PD), the lifetime loss given default (LGD) and the lifetime exposure at default. Existing internal rating based (IRB) risk models are the starting point for IFRS 9 parameter estimation. Necessary adjustments to increase the forecast horizon and to consider forward-looking information were made.

The lifetime PD is assumed to consist of a through-the-cycle component and point-in-time component. The through-the-cycle component represents idiosyncratic characteristics of the borrower, whereas the point-in-time stands for business-cycle effects. For the through-the-cycle component, our model approach considers – amongst others – the homogenous and non-homogenous continuous Markov approach. For the point-in-time component, the shift factor is used. Macroeconomic variables predict the short-term future default rate, which result in a shift of the through-the-cycle PD. The long-term default rate is oriented towards the central tendency of the corresponding segment. For each relevant business segment, separate models were developed. The initial validation (“back testing”) confirmed the accuracy of the estimates.

The LGD models also consist of a through-the-cycle and a point-in-time component, with the LGD being split into a recovery rate for collaterals and a loss rate for the unsecured exposure. Similar to the shift factor model mentioned above, macroeconomic predictions are used to forecast the loss rate of the unsecured exposure. For Sovereigns and Institutions, the through-the-cycle and point-in-time component for a total LGD model was estimated using an external loss database.

For the committed but not drawn exposures, a Credit Conversion Factor (CCF) for a defaulted and for a non-defaulted scenario was estimated applying a similar methodology as for PD and LGD estimation.

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. As a result, all IFRS 9 parameters were estimated and calibrated using the default definition according to the CRR.

Staging criteria and significant increase in credit risk as part of impairment

The ECL model in BAWAG Group applies to:

- Contract assets and debt instruments (loans, debt securities, trade receivables, etc.) 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.

Risk provisioning of expected credit losses in staging concept:

Stage 1: 12-months ECLs

The 12-month calculation applies to are all financial instruments at initial recognition (with a few exceptions, e.g. POCI) and those which do not show a significant increase in credit risk since initial recognition.

Stages 2 and 3: Lifetime ECLs

This measurement base applies when a significant increase in credit risk has occurred on an individual or collective basis. It is important to point out that the stage 3 exposures in BAWAG Group comply with the default definition according to CRR.

The overall procedure of the stage allocation in BAWAG Group is based on three conditions:

- a quantitative,
- a qualitative, and
- a backstop criterion.

As long as one of these criteria applies, staging transfer occurs. The quantitative criterion measures the cumulative PD change since initial recognition, while the qualitative criterion contributes additional information to assess the significant increase in credit risk. As a backstop criterion, BAWAG Group considers delayed payments which are more than 30 days past due as a significant increase in credit risk as well.

A quantitative criterion of an increase in credit risk is based on two thresholds:

- the relative cumulative PD change, and
- the absolute cumulative PD change,

and the exposure will only be considered as stage 2 with a lifetime ECL if both thresholds are exceeded. BAWAG Group considers the method based on quantile regression to calculate critical values for relative change in PD, i.e. the significance thresholds are set to the empirical quantiles (e.g. 95% quantile) of the response variable (relative change in lifetime PD since initial recognition). This approach has been selected due to economic plausibility, statistical significance of variables, acceptable goodness of fit and a distribution of exposures between two stages as expected. The following variables impact the quantiles of the lifetime PD changes, causing the quantile thresholds to vary:

- customer segment,
- initial rating,
- remaining maturity (difference between reporting date and maturity date), and
- age of the deal (difference between initial date and reporting date).

Qualitative staging criteria factors selected by BAWAG Group are:

- Entry in Watch list (Non-Retail customers),
- Entry in Warning list (Retail customers), and
- Forbearance flag.

If one of these factors is active, the staging transfer is executed.

All financial instruments with payment delays of more than 30 days past due fulfill the backstop staging transfer criteria of BAWAG Group, provided they have not been defaulted (meaning in stage 3).

When no more staging trigger applies, the exposure will be automatically reassigned to stage 1. A default cure period of 30 days for financial instruments in stage 3 is in place, which complies with the default definition according to CRR.

Applying IFRS 9 for the first time as of 1 January 2018 has the following impacts on BAWAG Group:

Classification and Measurement

- **Business model:** The Group holds a small portfolio of loans to the public sector with a current book and also fair value of EUR 5.3 million as hold to sell ("other" business model). All other loans are classified in the business model hold to collect, thus leading to no impact as these loans have been accounted for as loans and receivables under IAS 39.

  With regard to a bond portfolio – with a book value of EUR 117.1 million – that was classified as available for sale under IAS 39 and held within the business model hold to collect under IFRS 9, an impact on equity in the amount of minus EUR 4.3 million before taxes arises. With the new business model, these bonds are measured at amortized cost.

  Accounting for all other bonds based on the business model remains unchanged, meaning that bonds that were classified as available for sale under IAS 39 are in the business model hold to collect and sell under IFRS 9, and bonds that were classified as held to maturity or as loans and receivables under IAS 39 are held within the business model hold to collect under IFRS 9. Thus, the total impact from changed classification and measurement rules on equity amounts to minus EUR 4.3 million.

- **SPPI test:** Loans with a book value of EUR 180.9 million failed the SPPI test due to their interest rate indicator being non-compliant. These loans show a hidden reserve in the amount of EUR 0.8 million. With regard to the bond portfolio, a portfolio with a book value of EUR 90.5 million must be reclassified from available-for-sale under IAS 39 to fair value, as these loans do not fulfill the SPPI criteria.

  In addition, under IAS 39 separated embedded floors of loans at amortized cost are reversed, as rules for separation no longer exist under IFRS 9 and as the loans pass the SPPI test under IFRS 9. This leads to an impact of minus EUR 8.8 million. Therefore, the total impact on equity arising from financial assets failing the SPPI test and reversing embedded floors amounts to minus EUR 8.0 million.

- **Changes in fair value option:** The fair value option is newly applied for an own issue (Tier II; XS0987169637) where an accounting mismatch exists with a nominal value of EUR 300 million, leading to an impact of minus EUR 82.4 million on equity due to changes in own credit spread. The maturity of the own issue is the fourth quarter 2023.

- **Equity instruments:** BAWAG Group designated all participations except for a portfolio with a book value of EUR 28.0 million at fair value through OCI. This led to a reclassification of an AFS reserve to retained earnings in the amount of EUR 0.7 million. All other participations and equity instruments are classified at fair value through OCI.

  The total impact for accounting of classification and measurement under IFRS 9 thus leads to an impact of minus EUR 94.7 million (thereof EUR 82.4 million due to the new application of the fair value option for the Tier II own issue mentioned before) before taxes on equity when applying IFRS 9 for the first time as of 1 January 2018.

Impairment

The ECL as of 31 December 2017 for stage 1 and 2 amounts to minus EUR 94.2 million. Of this amount, EUR 4.0 million belong to bonds or loans in the hold to collect and sell business model, and therefore are accounted for equity neutral, thus leading to an impact on equity of minus EUR 90.2 million. This impact is counterbalanced by the release of the IBNR in the amount of EUR 43.7 million, leading to a total impact from changes in loan loss provision accounting in the amount of minus EUR 46.4 million. BAWAG Group has no significant impact from changes in stage 3.

in EUR million	on balance	off balance	on+off balance
Stage 1	56	7	63
Stage 2	32	0	32
Total	**88**	**7**	**95**

Hedge Accounting

The Group will continue to apply hedge accounting including the portfolio fair value hedge accounting model for interest rate risk according to IAS 39. Therefore, no impacts from changes in hedge accounting arise.

Impact on equity and own funds

Including an impact from deferred taxes in the amount of plus EUR 35.5 million, this leads to a total impact on equity of minus EUR 105.6 million. This impact is subject to an ongoing validation:

in EUR million	
Equity under IAS 39	**3,606**
Changes in accounting for impairment	(46)
Changes in accounting of classification and measurement	(95)
Overall deferred taxes	35
Total impact	**(106)**
Equity under IFRS 9	**3,500**

The fully loaded CET1 ratio under IFRS 9 amounts to 13.4% compared to 13.5% under IAS 39. CET1 decreases only slightly as the impact from expected credit loss is counterbalanced by a smaller shortfall deducted from CET 1. RWAs increase slightly, mainly due to higher DTAs.

IFRS 16 Leases

IFRS 16 is effective from 1 January 2019, replaces the previous leases standard, IAS 17 Leases, and related interpretations and will be applicable to the consolidated financial statements of BAWAG Group. BAWAG Group is currently evaluating the effects of IFRS 16 on the consolidated financial statements. One major effect for BAWAG Group as a lessee in an operating lease contract will be the recognition of a "right-of-use" asset and the related lease liability at commencement of the lease. Furthermore, rental expenses, which so far have been recognized on a straight-line basis, will be replaced by interest expenses for the lease liability and depreciation of the "right-of-use" asset. Major impacts from the application of IFRS 16 are expected in connection with rented real estate – i.e. the Group's premises and branches. The Bank currently does not expect major impacts in accounting for its lease business, where it acts as a lessor. BAWAG Group will apply IFRS 16 as of its effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

BAWAG Group has completed an analysis of the impact of the adoption of IFRS 15 on its consolidated financial statements. This focused on fees and commission income, i.e. income that does not form part of the effective interest rate under IAS 39 or IFRS 9.

IFRS 15 does not have a material impact on BAWAG Group, as the timing of the revenue and the presentation does not change except for the following amounts:

- Sale of insurance contracts and building society house savings contracts: BAWAG Group sells insurance contracts and building society house savings contracts and earns commission income. A liability is accounted for expected contract cancellations. This liability amounting to EUR 9.6 million as of 31 December 2017 will be presented as liability netted off from the corresponding receivable starting 1 January 2018 according to IFRS 15.55.

- Bonus flights: When reaching a sales limit, holders of certain credit cards can benefit from bonus flights paid by BAWAG Group. These must be presented as two separate contracts according to IFRS 15.B39 et seq. Therefore, income from flights is presented in other operating income starting on 1 January 2018 instead of net fee and commission income. For the financial year 2018, BAWAG Group expects income in the amount of approximately EUR 1.0 million.

IFRS 15 is applied retrospectively with the cumulative effect of initial application recognized at the date of initial application in accordance with IFRS 15.C3b).

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 an early application:

Standard/Interpretation/Amendment	Expected impact on BAWAG Group
IFRS 17 Insurance Contracts (issued on 18 May 2017)	None
IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	None
IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)	None
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)	Not applicable to the consolidated financial statements of BAWAG Group from a current perspective
Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)	Immaterial
Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)	No impact from a current perspective
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	None
Annual Improvements to IFRS Standards 2015–2017 Cycle (issued on 12 December 2017)	Immaterial
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	Immaterial

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

2 | Net interest income

in EUR million	2017	2016
Interest income	**1,083.1**	**1,026.1**
Financial assets held for trading	81.9	78.8
Financial assets designated at fair value through profit or loss	9.4	3.8
Available-for-sale financial assets	57.1	67.6
Loans and receivables	741.6	700.8
Held-to-maturity investments	34.9	38.2
Derivatives – Hedge accounting, interest rate risk	148.1	134.7
Other assets	10.1	2.2
Interest expense	**(299.8)**	**(297.2)**
Financial liabilities held for trading	(41.0)	(56.5)
Financial liabilities designated at fair value through profit or loss	(26.0)	(29.3)
Financial liabilities measured at amortized cost	(148.5)	(150.3)
Derivatives – Hedge accounting, interest rate risk	(69.4)	(48.6)
Provisions for social capital	(6.4)	(8.0)
Other liabilities	(2.6)	(1.5)
Dividend income	**8.0**	**3.3**
Available-for-sale financial assets	8.0	3.3
Net interest income	**791.3**	**732.2**

Interest income and similar income are recognized on an accrual basis. Interest income also includes, among others, premiums and discounts on securities classified as financial investments as well as premiums and discounts on acquired loan portfolios which are allocated in accordance with the accruals concept. Interest income on impaired receivables during 2017 amounted to EUR 1.1 million (2016: EUR 1.3 million). In interest income, negative interest with an amount of EUR 10.0 million (2016: EUR 2.2 million) income is included and in interest expense, negative interest with an amount of EUR 8.5 million (2016: EUR 4.6 million) expense is included.

3 | Net fee and commission income

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

in EUR million	2017	2016
Fee and commission income	**303.6**	**276.3**
Payment transfers	189.1	170.0
Lending	29.7	30.1
Securities and custody business	41.0	36.9
Other services	43.8	39.3
Fee and commission expense	**(86.7)**	**(83.4)**
Payment transfers	(46.3)	(39.6)
Lending	(1.8)	(1.6)
Securities and custody business	(2.9)	(3.0)
Others	(35.7)	(39.2)
Net fee and commission income	**216.9**	**192.9**

4 | Gains and losses on financial assets and liabilities

in EUR million	2017	2016
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**48.6**	**9.5**
Available-for-sale financial assets	14.2	15.7
Loans and receivables	25.1	(10.5)
Held-to-maturity investments	5.7	9.0
Financial liabilities measured at amortized cost	(1.6)	(5.7)
Gain from the sale of subsidiaries and associates	4.5	11.0
Other result	0.7	(10.0)
Gains (losses) on financial assets and liabilities held for trading, net	**(79.1)**	**2.3**
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	**40.3**	**9.7**
Gains (losses) from fair value hedge accounting	**3.4**	**0.1**
Fair value adjustment of hedged item	146.1	(74.0)
Fair value adjustment of hedging instrument	(142.7)	74.1
Exchange differences, net	**(1.5)**	**(2.5)**
Gains and losses on financial assets and liabilities	**11.7**	**19.1**

The item gains and losses on financial assets and liabilities was influenced primarily by the valuation and sales of our investments, the sales of associates, the valuation of issued securities, sales gains and losses from non-performing loans and derivative transactions for customers. In 2017 and 2016, there were no gains and losses on financial assets and liabilities attributable to non-controlling interests.

5 | Other operating income and expenses

in EUR million	2017	2016
Other operating income	**305.1**	**124.5**
Income from investment properties	1.3	0.6
Gains from the sale of property, plant and equipment	0.0	0.2
Consolidation result from business combinations	279.4	114.2
Other income	24.4	9.5
Other operating expenses	**(218.0)**	**(131.6)**
Expenses relating to investment properties	(1.3)	(0.7)
Losses from the sale of property, plant and equipment	(0.3)	(3.5)
Restructuring expenses relating to business combinations	(46.5)	(36.0)
Regulatory charges	(30.6)	(84.9)
Fee for cancellation of cooperation agreement with Österreichische Post AG	(95.2)	–
Other expenses	(44.1)	(6.5)
Other operating income and expenses	**87.1**	**(7.1)**

The line item Regulatory charges includes the bank levy (in 2016 also the additional one-time payment) and the contributions to the deposit guarantee scheme and to the bank resolution fund. The bank levy included in this item amounts to EUR 4.6 million for 2017, compared to EUR 62.8 million according to the old bank levy regime for 2016. The remeasurement of the collateral portion regarding the bank resolution fund in the amount of EUR

1.2 million (2016: EUR 1.3 million) is recognized in the gains and losses on financial assets and liabilities. Rental income from investment properties amounted to EUR 1.3 million in 2017 (2016: EUR 0.6 million); expenses amounted to EUR 1.3 million in 2017 (2016: EUR 0.7 million). Vacancy costs amounted to EUR 0.1 million (2016: EUR 0.1 million). After having cancelled the cooperation agreement in November 2017, a separation agreement with Österreichische Post AG was concluded in February 2018 replacing the former cooperation agreement. It transforms a letter of intent concluded in December 2017 into a binding agreement with retroactive effect from 1 January 2018. The line items Other income and Other expenses include expenses in connection with the IPO of BAWAG Group as well as income from the recharge of these expenses to the former shareholders.

6 | Administrative expenses

in EUR million	2017	2016
Staff costs	**(326.2)**	**(268.1)**
Wages and salaries	(256.0)	(210.6)
thereof one-off expenses	(73.6)	(24.6)
Statutory social security contributions	(57.2)	(53.7)
Staff benefit costs	(21.8)	(10.8)
Increase/Release of pension provision	3.2	(0.4)
thereof one-off income	4.1	–
Decrease of provision for severance payments	5.5	7.6
Decrease of provision for jubilee benefits	2.1	1.5
Staff benefit fund costs	(2.0)	(1.7)
Other administrative expenses	**(165.5)**	**(137.3)**
IT, data, communication	(42.4)	(37.8)
thereof one-off expenses	(2.4)	–
Real estate, utility, maintenance expenses	(45.0)	(43.8)
Advertising	(16.4)	(16.8)
Legal, consulting, outsourcing	(19.2)	(12.4)
thereof one-off expenses	(0.1)	–
Postage fees and logistics	(17.2)	(13.3)
Regulatory and audit fees	(6.8)	(5.9)
Other general expenses	(18.4)	(7.3)
thereof one-off expenses	(3.0)	–
Administrative expenses	**(491.7)**	**(405.4)**
Administrative expenses excluding one-off expenses	(416.7)	(380.8)

One-off expenses, totaling minus EUR 75.0 million in 2017, mainly included expenses for a long-term incentive program (LTIP) and expenses for restructuring costs. (2016: One-off expenses, totaling minus EUR 24.6 million, mainly included expenses for restructuring costs, partly offset by the release of a provision for vacation pay.)

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

in EUR million	2017	2016
Depreciation and amortization		
Brand name and customer relationships	(7.2)	(5.6)
Software and other intangible assets	(23.9)	(21.0)
Property, plant and equipment	(9.2)	(9.7)
Depreciation and amortization	**(40.3)**	**(36.3)**

8 | Risk costs

in EUR million	2017	2016
Loan loss provisions of loans and receivables	(89.6)	(35.4)
Changes in provisions for off-balance credit risk	2.2	5.7
Impairment losses on financial assets	(9.9)	(0.4)
Provisions and expenses for operational risk	(26.0)	(12.6)
Appreciation of non-financial assets	61.5	–
Risk costs	**(61.8)**	**(42.7)**

Impairment and appreciation of non-current assets

in EUR million	2017	2016
Property, plant and equipment	(10.8)	–
Investment property	1.5	–
Software and other intangible assets	70.8	–
thereof Brand name	72.0	–
thereof Software and other intangible assets	(1.2)	–
Available-for-sale financial assets – equity investments	(9.9)	(0.4)
Impairment and appreciation of non-current assets	**51.6**	**(0.4)**

As of 31 December 2017, the impairment test for the brand name BAWAG P.S.K. indicated a reversal of the impairment recognized in prior years. Cash flow projections are based on the five-year business plan and a 1% growth rate of cash flows after this period. The discount rate was set at 8.11% (2016: 7.44%). The fair value of the CGU BAWAG P.S.K., which takes BAWAG Group AG's stock market capitalization into account, is higher than its net asset value. In the impairment test for the financial year 2017, BAWAG P.S.K. Group was valued using a DCF model based on the five-year business plan and due to the IPO in October 2017, taking BAWAG Group AG's market capitalization into account for the first time. Therefore, BAWAG Group recognized the full reversal of the impairment of the brand name BAWAG P.S.K. in the amount of EUR 72.0 million in its consolidated accounts for 2017. In the segment reporting, this reversal of impairment is shown in the Corporate Center. The position property, plant and equipment includes write-downs of business equipment in the branches that are operated together with Österreichische Post AG in the amount of EUR 8.6 million. In the segment reporting, these write-downs are shown in the Corporate Center. In the course of the IFRS 9 implementation project, fair values of unlisted AFS equity instruments were calculated for the first time. These fair values were considered as of 31 December 2017. As a result, BAWAG Group had to book an impairment in the amount of EUR 9.9 million for its stake in Oesterreichische Kontrollbank AG. In the segment reporting, this impairment is shown in the Corporate Center.

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

The profit reported for 2017 of EUR 4.1 million (2016: loss of EUR 8.0 million) contains the proportionate shares in BAWAG P.S.K. Versicherung AG and PSA Payment Services Austria GmbH.

The unrecognized share of the losses of entities that were accounted for using the equity method as provided by IFRS 12.22 (c) came to EUR 0.0 million (2016: EUR 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 EUR million	2017	2016
Cumulated assets	2,499	2,472
Cumulated liabilities	2,362	2,326
Cumulated equity	137	146
Earned premiums (gross)	217	231
Fee and commission income	186	172
Cumulated net profit	18	34

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 36 Related parties.

10 | Income taxes

in EUR million	2017	2016
Current tax expense/income	11.1	(3.4)
Deferred tax expense/income	(61.7)	16.3
Income taxes	**(50.6)**	**12.9**

The deferred tax income in 2016 is mainly due to the recognition of deferred tax assets on tax loss carryforwards.

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

in EUR million	2017	2016
Profit before tax	517.3	460.7
Tax rate	25%	25%
Computed tax expenses	**(129.3)**	**(115.2)**
Reductions in tax		
Due to tax-exempt income from equity investments	4.1	3.0
Due to gains and losses from the valuation of equity investments	35.7	23.0
Due to the sale of equity investments	–	–
Due to first-time consolidation	69.9	28.1
Due to other tax-exempt income	–	0.6
Due to differing foreign tax rates	2.4	0.0
Due to use of tax loss carryforwards of the tax group parent	1.7	12.0
Due to valuation of deferred taxes on tax loss carryforwards	(1.0)	76.9
Due to other tax effects	5.1	2.6
Increases in tax		
Due to the sale of equity investments	–	–
Due to gains and losses from the valuation of equity investments	(2.6)	(0.4)
Due to the sale of equity investments	–	–
Due to unrecognized deferred taxes on tax loss carryforwards	–	–
Due to non-tax deductible expenses	(26.5)	(8.3)
Due to other tax effects	(8.9)	(5.5)
Income tax in the period	**(49.6)**	**16.9**
Out-of-period income tax	(1.0)	(4.0)
Reported income tax (expense/income)	**(50.6)**	**12.9**

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as yet unused tax losses in the amount of EUR 191 million (2016: EUR 245 million). The tax losses can be carried forward for an unlimited period. The taxed portion of the liability reserve was EUR 372.9 million (2016: EUR 372.9 million). The total liability reserve amounted to EUR 613.7 million as of 31 December 2017 (2016: EUR 613.7 million).

As of 31 December 2017, unused tax losses amounted to EUR 383 million (2016: EUR 381 million) at the level of BAWAG Group, EUR 338 million (2016: EUR 594 million) at the level of BAWAG P.S.K., EUR 44 million (2016: EUR 0 million) at the level of members of the tax group included in the consolidated financial statements and EUR 0 million (2016: EUR 5 million) at the level of other companies included in the consolidated financial statements, for a total of EUR 765 million (2016: EUR 980 million). Tax goodwill amortization will contribute another EUR 76 million per year as tax-deductible expenses until 2021.

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11 | Cash reserves

in EUR million	31.12.2017	31.12.2016
Cash on hand	572	422
Balances at central banks	608	598
Cash reserves	**1,180**	**1,020**

12 | Financial assets designated at fair value through profit or loss

in EUR million	31.12.2017	31.12.2016
Loans and advances to customers	128	145
Bonds and other fixed income securities	52	54
Shares and other variable rate securities	268	3
Investment certificates	267	2
Other	1	1
Financial assets designated at fair value through profit or loss	**448**	**202**

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 IAS 39 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.

The increase of the line item Investment certificates is due to the acquisition of Südwestbank (funds).

13 | Available-for-sale financial assets

in EUR million	31.12.2017	31.12.2016
Debt instruments	**4,308**	**3,129**
Bonds and other fixed income securities	4,294	3,129
Public sector debt instruments	313	510
Bonds of other issuers	3,981	2,619
Other variable rate securities		
Investment certificates	14	–
Equity investments	**100**	**80**
Investments in non-consolidated subsidiaries	27	22
Interests in associates	16	19
Other shareholdings	38	39
Shares and other equity instruments	19	–
Available-for-sale financial assets	**4,408**	**3,209**

In the fourth quarter 2017, BAWAG Group reclassified a security from the category “Loans and receivables“ (book value: EUR 8 million) to the category “Available-for-sale financial assets“ due to a more liquid market. The increase of the line items Investment certificates and Shares and other equity instruments is due to the acquisition of Südwestbank (funds).

The following table shows key financial indicators for the Bank's unconsolidated associates:

Associates not accounted for using the equity method due to immateriality

in EUR million	31.12.2017	31.12.2016
Cumulated assets	261	499
Cumulated equity	9	83
Cumulated net profit	2	7

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 2017 were being prepared, financial statements as of 31 December 2016 were available for the majority of the respective entities (prior year: 31 December 2015).

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 47% (2016: 39%).

For further details, please refer to Note 36 Related parties.

14 | Held-to-maturity financial investments

in EUR million	31.12.2017	31.12.2016
Debt instruments	**2,274**	**2,353**
Bonds and other fixed income securities	2,274	2,353
Public sector debt instruments	425	498
Bonds of other issuers	1,849	1,855
Held-to-maturity financial investments	**2,274**	**2,353**

15 | Financial assets held for trading

in EUR million	31.12.2017	31.12.2016
Derivatives in trading book	**143**	**230**
Foreign currency derivatives	2	20
Interest rate derivatives	141	210
Derivatives in banking book	**315**	**422**
Foreign currency derivatives	26	20
Interest rate derivatives	289	402
Financial assets held for trading	**458**	**652**

16 | Loans and receivables

The following breakdown depicts the composition of the item Loans and receivables. The financial assets in this category are measured at amortized cost.

31.12.2017 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Securities	**1,289**	**–**	**–**	**–**	**1,289**
Public sector debt instruments	37	–	–	–	37
Debt instruments of other issuers	1,252	–	–	–	1,252
Receivables from credit institutions	**3,660**	**–**	**–**	**–**	**3,660**
Receivables from customers	**30,365**	**715**	**(195)**	**(81)**	**30,804**
Corporates and other customers	16,154	357	(50)	–	16,461
Retail	14,147	358	(145)	(36)	14,324
Central governments	64	–	–	–	64
IBNR portfolio provision[1)]	–	–	–	(45)	(45)
Total	**35,314**	**715**	**(195)**	**(81)**	**35,753**

1) Allowance for incurred but not reported losses.

31.12.2016 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
Securities	**692**	**–**	**–**	**–**	**692**
Public sector debt instruments	91	–	–	–	91
Debt instruments of other issuers	601	–	–	–	601
Receivables from credit institutions	**1,635**	**–**	**–**	**–**	**1,635**
Receivables from customers	**28,156**	**547**	**(129)**	**(76)**	**28,498**
Corporates and other customers	13,355	294	(15)	–	13,634
Retail	14,736	253	(114)	(22)	14,853
Central governments	65	–	–	–	65
IBNR portfolio provision[1)]	–	–	–	(54)	(54)
Total	**30,483**	**547**	**(129)**	**(76)**	**30,825**

1) Allowance for incurred but not reported losses.

The Receivables from customers are broken down into the following receivables classes.

The category Central governments includes receivables from central governments, primarily from the Republic of Austria in the case of BAWAG Group.

The Corporates category includes larger enterprises with an exposure in excess of EUR 1 million or revenue of over EUR 50 million, and special financing agreements (project finance). Other customers cover public sector entities, churches and religious groups, political parties, associations and securities trading houses without a banking license.

The Retail category covers receivables from retail banking. This segment comprises individuals and small and medium-sized enterprises with an exposure of less than EUR 1 million or revenue of less than EUR 50 million.

The IBNR portfolio provision represents a provision for losses incurred but not reported yet and is calculated for all portfolios.

The following breakdown depicts the composition of the item Loans and receivables according to the Group's segments.

31.12.2017 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
BAWAG P.S.K. Retail	11,124	224	(126)	(29)	11,193
easygroup	4,090	82	(21)	(7)	4,144
DACH Corporates & Public Sector	6,521	42	(27)	0	6,536
International Business	4,934	50	(21)	–	4,964
Treasury Services & Markets	4,488	–	–	–	4,488
Südwestbank	4,124	–	–	–	4,124
Corporate Center	32	317	0	(45)	304
Total	**35,314**	**715**	**(195)**	**(81)**	**35,753**

Due to the measurement rules for business combinations, any allowances for individual impairment until closing are reflected in the fair value of the individual asset at the acquisition date.

31.12.2016 in EUR million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
BAWAG P.S.K. Retail	11,499	160	(84)	(19)	11,556
easygroup	4,426	32	(20)	(3)	4,436
DACH Corporates & Public Sector	7,568	34	(21)	0	7,580
International Business	5,392	–	–	–	5,392
Treasury Services & Markets	1,496	–	–	–	1,496
Südwestbank	–	–	–	–	–
Corporate Center	103	321	(5)	(54)	365
Total	**30,483**	**547**	**(129)**	**(76)**	**30,825**

Reclassifications

BAWAG Group transferred available-for-sale financial assets to the Statement of Financial Position item Loans and receivables at their fair values in the amount of EUR 1,897 million as of 1 June 2010.

These reclassified assets are private placements and credit surrogates without derivative components. BAWAG Group is of the opinion that the amortized cost of the reclassified assets offers relevant information for readers of the financial report.

The following information is mandatory according to IFRS 7.12A:

As of 31 December 2017, the carrying amount of these reclassified assets amounted to EUR 37 million (2016: EUR 40 million). Their fair value amounted to EUR 37 million (2016: EUR 39 million). The decline in comparison to the previous year results primarily from redemptions.

As of 31 December 2017, an AFS reserve in the amount of EUR 1 million (2016: EUR 1 million) was shown for reclassified financial assets. If the assets had not been reclassified, unrealized fair value changes in the amount of EUR 0 million (2016: EUR 0 million) would have been recognized in Other comprehensive income (in the AFS reserve) for available-for-sale financial assets.

After reclassification, the financial assets in question continued to make the following contribution to the pre-tax profit of the respective year:

in EUR million	2017	2016
Interest income	0.8	0.7
Profits from disposals	–	–

Changes in loan loss provisions

	Individual and collective loan loss provisions		Loan loss provisions for incurred but not reported losses		
in EUR million	Receivables from credit institutions	Receivables from customers	Receivables from credit institutions	Receivables from customers	Total
Balance as of 01.01.2017	**–**	**151**	**–**	**54**	**205**
Additions					
Changes in scope of consolidation	–	5	–	6	11
Provisions created through profit or loss	–	121	–	–	121
Disposals					
Changes in scope of consolidation	–	–	–	–	–
Used as intended	–	(18)	–	–	(18)
Provisions released through profit or loss	–	(27)	–	(15)	(42)
Unwinding pursuant to IAS 39	–	(1)	–	–	(1)
Reclassification	**–**	**–**	**–**	**–**	**–**
Balance as of 31.12.2017	**–**	**231**	**–**	**45**	**276**

in EUR million	Individual and collective loan loss provisions		Loan loss provisions for incurred but not reported losses		
	Receivables from credit institutions	Receivables from customers	Receivables from credit institutions	Receivables from customers	Total
Balance as of 01.01.2016	**–**	**189**	**–**	**46**	**235**
Additions					
Changes in scope of consolidation	–	11	–	7	18
Provisions created through profit or loss	–	48	–	1	49
Disposals					
Changes in scope of consolidation	–	(1)	–	–	(1)
Used as intended	–	(60)	–	–	(60)
Provisions released through profit or loss	–	(35)	–	–	(35)
Unwinding pursuant to IAS 39	–	(1)	–	–	(1)
Reclassification	**–**	**–**	**–**	**–**	**–**
Balance as of 31.12.2016 = 01.01.2017	**–**	**151**	**–**	**54**	**205**

The loan loss provisions break down by region as follows:

in EUR million	31.12.2017	31.12.2016
Austria	**195**	**190**
Abroad	**81**	**15**
Western Europe	72	12
Central and Eastern Europe	3	3
Rest of the world	6	–
Loan loss provisions	**276**	**205**

17 | Receivables from customers and credit institutions

The following table depicts the breakdown of receivables from customers and credit institutions by credit type.

Receivables from customers – breakdown by credit type

	Designated at fair value through profit or loss		At amortized cost		Total	
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Current accounts	**–**	**–**	**2,078**	**1,325**	**2,078**	**1,325**
Cash advances	**–**	**–**	**372**	**667**	**372**	**667**
Loans	**128**	**145**	**27,178**	**25,304**	**27,306**	**25,449**
One-off loans	128	145	26,617	25,291	26,745	25,436
Current account loans	–	–	–	12	–	12
Other	–	–	561	1	561	1
Finance leases	**–**	**–**	**1,176**	**1,202**	**1,176**	**1,202**
Receivables from customers	**128**	**145**	**30,804**	**28,498**	**30,932**	**28,643**

Receivables from credit institutions – breakdown by credit type

	Designated at fair value through profit or loss		At amortized cost		Total	
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Demand deposits	–	–	1,303	221	1,303	221
Time deposits	–	–	2,232	1,268	2,232	1,268
Loans	–	–	124	145	124	145
Other	–	–	1	1	1	1
Receivables from credit institutions	**–**	**–**	**3,660**	**1,635**	**3,660**	**1,635**

18 | Asset maturities

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

Financial assets – breakdown by remaining period to maturity 2017

31.12.2017 in EUR 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	52	33	40	128
Bonds and other fixed income securities	–	–	–	30	22	52
Available-for-sale financial assets						
Bonds and other fixed income securities	–	138	343	2,250	1,563	4,294
Held-to-maturity investments						
Bonds and other fixed income securities	–	136	210	1,094	834	2,274
Loans and receivables						
Receivables from customers	1,329	2,056	1,978	10,303	15,138	30,804
Receivables from credit institutions	1,304	2,233	2	1	120	3,660
Bonds and other fixed income securities	–	53	240	21	975	1,289
Total	**2,633**	**4,619**	**2,825**	**13,732**	**18,692**	**42,501**

Financial assets – breakdown by remaining period to maturity 2016

31.12.2016 in EUR 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	–	4	57	37	47	145
Bonds and other fixed income securities	–	–	–	34	20	54
Available-for-sale financial assets						
Bonds and other fixed income securities	–	345	259	1,229	1,296	3,129
Held-to-maturity investments						
Bonds and other fixed income securities	–	53	147	1,234	919	2,353
Loans and receivables						
Receivables from customers	1,218	447	2,600	9,914	14,319	28,498
Receivables from credit institutions	221	1,271	–	9	134	1,635
Bonds and other fixed income securities	–	–	50	420	222	692
Total	**1,439**	**2,120**	**3,113**	**12,877**	**16,957**	**36,506**

19 | Property, plant and equipment, Investment properties

Changes in property, plant and equipment and investment properties 2017

in EUR million	Carrying amount 31.12.2016	Acquisition cost 01.01.2017	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative depreciation	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2017	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**53**	**195**	**66**	**–**	**–**	**3**	**(31)**	**–**	**(130)**	**103**	**(19)**
Land and buildings used by the enterprise for its own operations	7	18	58	–	–	–	–	–	(11)	65	(1)
Office furniture and equipment	46	177	8	–	–	3	(31)	–	(119)	38	(18)
Investment properties	**3**	**26**	**116**	**–**	**–**	**–**	**–**	**–**	**(22)**	**120**	**1**

The position Depreciation (-), impairments (-) and reversal of impairments of office furniture and equipment includes write-downs in the branches that are operated jointly with Österreichische Post AG in the amount of EUR 8.6 million. In the segment reporting, these write-downs are shown in the Corporate Center.

Changes in property, plant and equipment and investment properties 2016

in EUR million	Carrying amount 31.12.2015	Acquisition cost 01.01.2016	Change in scope of consolidation Acquisition cost	Change in scope of consolidation Cumulative depreciation	Change in foreign exchange differences	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2016	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**59**	**202**	**–**	**–**	**–**	**4**	**(11)**	**–**	**(142)**	**53**	**(9)**
Land and buildings used by the enterprise for its own operations	7	20	–	–	–	–	(2)	–	(11)	7	–
Office furniture and equipment	52	182	–	–	–	4	(9)	–	(131)	46	(9)
Investment properties	**4**	**26**	**–**	**–**	**–**	**–**	**–**	**–**	**(23)**	**3**	**–**

20 | Goodwill, brand name and customer relationships and Software and other intangible assets

The brand name “BAWAG P.S.K.” with a book value of EUR 114 million (2016: EUR 42 million) and customer relationships with a total book value of EUR 174 million (2016: EUR 150 million) are the Bank’s most important intangible non-current assets. The book value of the customer relationships is amortized according to the churn rate of the customers. Of the total carrying amount for other intangible non-current assets, a major part can be attributed to Allegro projects (BAWAG Group’s core banking system) carried out in this context.

Changes in Goodwill, Software and other intangible assets 2017

in EUR million	Carrying amount 31.12.2016	Acquisition cost 01.01.2017	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2017	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**58**	**624**	**–**	**–**	**–**	**–**	**(566)**	**58**	**–**
Brand name and customer relationships	**192**	**440**	**35**	**–**	**–**	**–**	**(184)**	**291**	**65**
Software and other intangible assets	**128**	**554**	**3**	**64**	**(136)**	**–**	**(328)**	**157**	**(28)**
Software and other intangible non-current assets	112	517	3	34	(119)	4	(313)	126	(26)
Thereof purchased	95	498	3	25	(118)	2	(307)	103	(22)
Thereof internally generated	17	19	–	9	(1)	2	(6)	23	(4)
Intangible non-current assets in development	6	6	–	30	(1)	(4)	–	31	–
Thereof purchased	2	2	–	21	(1)	(2)	–	20	–
Thereof internally generated	4	4	–	9	–	(2)	–	11	–
Rights and compensation payments	10	31	–	–	(16)	–	(15)	–	(2)

Changes in Goodwill, Software and other intangible assets 2016

in EUR million	Carrying amount 31.12.2015	Acquisition cost 01.01.2016	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2016	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**58**	**624**	**–**	**–**	**–**	**–**	**(566)**	**58**	**–**
Brand name and customer relationships	**168**	**410**	**30**	**–**	**–**	**–**	**(248)**	**192**	**(6)**
Software and other intangible assets	**103**	**511**	**–**	**50**	**(7)**	**–**	**(426)**	**128**	**(21)**
Software and other intangible non-current assets	90	480	–	42	(6)	1	(405)	112	(19)
Thereof purchased	84	472	–	30	(5)	1	(403)	95	(17)
Thereof internally generated	6	8	–	12	(1)	–	(2)	17	(2)
Intangible non-current assets in development	2	2	–	6	(1)	(1)	–	6	–
Thereof purchased	2	2	–	2	(1)	(1)	–	2	–
Thereof internally generated	–	–	–	4	–	–	–	4	–
Rights and compensation payments	11	29	–	2	–	–	(21)	10	(2)

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

Intangible asset	Book value as of 31.12.2017 in EUR million	Remaining useful life	Book value as of 31.12.2016 in EUR million
Total goodwill	**58**		**58**
thereof: goodwill easybank	58	indefinite	58
Total brand names	**117**		**42**
thereof: brand name BAWAG P.S.K.	114	indefinite	42
Total customer relationships	**174**		**150**
thereof: customer relationships BAWAG Group	115	13–22 years	121
Total other intangibles	**157**		**128**
thereof: core banking system for Austrian operations (Allegro)	43	16 years	37

Impairments in the amount of EUR 1.2 million have been recognized in profit or loss in the financial year 2017 (2016: EUR 0 million).

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

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

A reversal of an impairment loss is recognized in profit or loss, a process in which AWAG Group applies a two-step approach:

- First, BAWAG Group assesses a reversal of impairment at the individual asset level; and
- Then compares the revised carrying amount of the CGU BAWAG P.S.K., including the increase as a result of the reversal of impairment in step 1, to its recoverable amount.

A reversal of the impairment is only recognized if the impairment test of the total CGU BAWAG P.S.K. shows a value that is higher than BAWAG P.S.K.'s net assets and the individual impairment test of the brand name “BAWAG P.S.K.” shows a recoverable amount higher than the book value of the brand name..

As of 31 December 2017, the individual impairment test for the brand name BAWAG P.S.K. indicated a reversal of the impairment recognized in prior years. Cash flow projections are based on the five-year business plan and a 1% growth rate of cash flows after this period. The discount rate was set at 8.11% (2016: 7.44%). The fair value of the CGU BAWAG P.S.K., which takes BAWAG Group AG's stock market capitalization into account, is higher than its net asset value. In the impairment test for the financial year 2017, BAWAG P.S.K. Group was valued using a DCF model based on the five-year business plan and taking BAWAG Group AG's market capitalization into account for the first time due to the IPO in October 2017. Therefore, BAWAG Group recognized the reversal of the impairment of the brand name BAWAG P.S.K. in the amount of EUR 72.0 million in its consolidated accounts for 2017. In the segment reporting, this reversal of impairment is shown in the Corporate Center.

Impairment testing for cash generating units with goodwill

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

in EUR million	31.12.2017	31.12.2016
easybank AG, Vienna	58	58
Goodwill	**58**	**58**

The material assumptions made in estimating the recoverable amount of easybank AG 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.

in %	2017	2016
Discount rate	11.8%	10.2%
Sustainable growth rate	1.0%	1.0%
Planned profit growth rate (average for the next five years)	6.1%	16.7%

The decrease of the planned profit growth rate is predominantly due to the non-linear profit increase in 2017 after the merger of PayLife. The discount rate is before taxes and was estimated based on average equity returns in the sector. This discount rate was calculated based on the pre-tax interest rate required in IAS 36, taking into account the substantial tax loss carryforwards of BAWAG P.S.K. The risk-free interest rate used is the yield on government bonds with a remaining term to maturity of 30 years published by the German central bank. This discount rate is adjusted by applying a risk premium that reflects the higher general risk associated with an equity investment and the specific risk of the individual cash generating unit.

The cash flow projections are based on the annual profits planned by the management of the company 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.

Sensitivity analysis as of 31.12.2017

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 2018 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 2018 (in %)
easybank AG, Vienna	12.12	(3.68)%

Sensitivity analysis as of 31.12.2016

	Change in discount rate (in percentage pts)	Change in growth after 2017 (in %)
easybank AG, Vienna	19.08	(11.16)%

21 | 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 EUR million	31.12.2017	31.12.2016
Financial liabilities designated at fair value through profit or loss	22	35
Loans and receivables	49	80
Provisions	69	68
Tax loss carryforwards	191	245
Other	10	6
Deferred tax assets	**341**	**434**
Financial assets designated at fair value through profit or loss	12	13
Available-for-sale financial assets	29	27
Assets held for trading	41	50
Hedging derivatives	82	112
Internally generated intangible assets	6	6
Other intangible assets	71	47
Property, plant and equipment	3	1
Other	–	–
Deferred tax liabilities	**244**	**256**
Deferred tax assets reported on the balance sheet	**102**	**199**
Deferred tax liabilities reported on the balance sheet[1]	**5**	**21**

1) Representing deferred tax liabilities of four newly acquired companies which were not part of the tax group as of 31 December 2017. (2016: Representing deferred tax liabilities of a newly acquired company which was not part of the tax group as of 31 December 2016.)

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 EUR 599 million (2016: EUR 358 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.

22 | Other assets

in EUR million	31.12.2017	31.12.2016
Accruals	28	18
Leasing objects not in operation yet	1	2
Other items	117	115
Other assets	**146**	**135**

The other items include accounts relating to payment and miscellaneous other assets. As of 31 December 2017, other assets in the amount of EUR 20 million (31 December 2016: EUR 18 million) have a maturity of more than one year.

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

in EUR million	31.12.2017	31.12.2016
Issued bonds, subordinated and supplementary capital	**726**	**1,115**
Issued bonds (own issues)	93	190
Subordinated capital	114	109
Short-term notes and non-listed private placements	519	816
Financial liabilities designated at fair value through profit or loss	**726**	**1,115**

The Issued bonds are listed issues. The decrease compared to the previous year was mainly driven by redemptions of own issues.

Financial liabilities designated at fair value through profit or loss include issues of the former P.S.K. which 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 2017 was EUR 34 million above their repayment amount (2016: EUR 79 million above the repayment amount).

24 | Financial liabilities held for trading

in EUR million	31.12.2017	31.12.2016
Derivatives trading book	**64**	**143**
Foreign currency derivatives	2	46
Interest rate derivatives	62	97
Derivatives banking book	**281**	**474**
Foreign currency derivatives	50	193
Interest rate derivatives	231	281
Financial liabilities held for trading	**345**	**617**

25 | Financial liabilities measured at amortized cost

in EUR million	31.12.2017	31.12.2016
Deposits from banks	**4,009**	**2,064**
Deposits from customers	**30,947**	**26,030**
Savings deposits – fixed interest rates	968	1,928
Savings deposits – variable interest rates	6,945	6,404
Deposit accounts	5,649	6,074
Current accounts – Retail	9,909	7,341
Current accounts – Corporates	5,288	2,505
Other deposits[1)]	2,188	1,778
Issued bonds, subordinated and supplementary capital	**4,938**	**4,900**
Issued bonds	3,732	3,042
Subordinated capital	429	428
Supplementary capital	30	36
Short-term notes and unlisted private placements	747	1,394
Financial liabilities at amortized cost	**39,894**	**32,994**

1) Primarily time deposits.

The issued bonds are mainly listed securities.

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 EUR million	**2017**	2016	**2017**	2016	**2017**	2016
Issued bonds (own issues)	93	190	2,776	3,042	2,869	3,232
Subordinated capital	114	109	429	428	543	537
Supplementary capital	–	–	30	36	30	36
Short-term notes and unlisted private placements	519	816	1,703	1,394	2,222	2,210
Total	**726**	**1,115**	**4,938**	**4,900**	**5,664**	**6,015**

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

ISIN	Type	Currency	Nominal value in EUR million	Type of interest payment	Coupon	Maturity date
XS1514988689	RMBS	GBP	755	Variable	3M LIBOR + 0.7%	15.09.2045
XS0830444039	Covered	EUR	500	Fixed	1.875%	18.09.2019
XS1298418184	Covered	EUR	500	Fixed	0.375%	01.10.2020
XS1369268534	Covered	EUR	500	Fixed	0.375%	23.02.2022
XS1551294926	Covered	EUR	500	Fixed	0.750%	18.01.2027
XS0987169637	Lower Tier II	EUR	300	Fixed	8.125%	30.10.2023

27 | Deposits from customers

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

Deposits from customers – breakdown by product class and business sector

in EUR million	At amortized cost 31.12.2017	At amortized cost 31.12.2016
Savings deposits	**7,913**	**8,332**
Savings accounts	5,219	4,565
Building savings deposits	1,717	1,818
Fixed-term investment savings accounts	976	1,941
Savings associations	1	8
Other deposits	**23,034**	**17,698**
Retail	13,168	11,834
Corporates	6,117	5,006
Non-credit institutions	3,129	669
Central governments	620	189
Deposits from customers	**30,947**	**26,030**

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 2017

31.12.2017 in EUR 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						
Bonds	–	34	–	38	21	93
Subordinated capital	–	–	–	24	90	114
Short-term notes and non-listed private placements	–	96	8	347	68	519
Liabilities at amortized cost						
Deposits from customers	24,493	836	3,751	1,565	302	30,947
Deposits from banks	514	477	36	2,197	785	4,009
Bonds	–	19	131	1,684	942	2,776
Subordinated capital	–	–	10	33	386	429
Supplementary capital	–	5	10	15	–	30
Short-term notes and non-listed private placements	–	99	81	317	1,206	1,703
Total	**25,007**	**1,566**	**4,027**	**6,220**	**3,800**	**40,620**

Financial liabilities – breakdown by remaining period to maturity 2016

31.12.2016 in EUR 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						
Bonds	–	9	40	74	67	190
Subordinated capital	–	–	–	24	85	109
Short-term notes and non-listed private placements	–	15	64	482	255	816
Liabilities at amortized cost						
Deposits from customers	19,079	1,296	3,432	2,044	179	26,030
Deposits from banks	181	1,199	71	312	301	2,064
Bonds	–	75	151	1,552	1,264	3,042
Subordinated capital	–	1	–	43	384	428
Supplementary capital	–	5	10	21	–	36
Short-term notes and non-listed private placements	–	36	1	252	1,105	1,394
Total	**19,260**	**2,636**	**3,769**	**4,804**	**3,640**	**34,109**

29 | Provisions

in EUR million	31.12.2017	31.12.2016
Provisions for social capital	375	386
Thereof for severance payments	96	97
Thereof for pension provisions	250	260
Thereof for jubilee benefits	29	29
Anticipated losses from pending business	20	8
Credit promises and guarantees	20	8
Other items including legal risks	55	10
Provisions	**450**	**404**

Provisions for social capital are long-term liabilities. Provisions for anticipated losses on pending business in the amount of EUR 2.8 million and other risks including legal risks in the amount of EUR 3 million are expected to be used after more than twelve months. Due to the current low interest rate environment and the immaterial impact, BAWAG Group does not discount any provisions.

Changes in social capital

in EUR million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2017	**270**	**97**	**29**	**397**
Service cost	1	4	2	7
Interest cost	4	2	–	6
Actuarial gain/loss				
from demographic assumptions	–	–	–	–
from financial assumptions	4	2	–	6
due to other reasons, mainly experience results	–	(1)	(1)	(2)
Gain from settlements	(4)	–	–	(4)
Return on plan assets excluding interest income recognized in profit or loss	–	–	–	–
Other				
Payments	(52)	(10)	(3)	(65)
Change in scope of consolidation	33	2	2	37
Other	0	–	–	0
Defined benefit obligation as of 31.12.2017	**256**	**96**	**29**	**381**
Fair value of plan assets	(6)	–	–	(6)
Provision as of 31.12.2017	**250**	**96**	**29**	**375**

in EUR million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2016	**276**	**96**	**29**	**401**
Service cost	1	5	2	7
Interest cost	6	2	1	8
Actuarial gain/loss				
from demographic assumptions	–	–	–	–
from financial assumptions	2	3	3	8
due to other reasons, mainly experience results	(2)	(2)	(4)	(7)
Gain from settlements	–	(1)	–	(1)
Return on plan assets excluding interest income recognized in profit or loss	–	–	–	–
Other				
Payments	(14)	(9)	(3)	(25)
Change in scope of consolidation	1	6	1	8
Other	–	(3)	–	(3)
Defined benefit obligation as of 31.12.2016	**270**	**97**	**29**	**397**
Fair value of plan assets	(10)	–	–	(10)
Provision as of 31.12.2016	**260**	**97**	**29**	**387**

At 31 December 2017, the weighted average duration was 13.97 years (2016: 14.60 years) for defined benefit obligations relating to pension plans and 10.77 years (2016: 11.07 years) for obligations arising from entitlement to severance payments.

Assignable unit-linked pension fund assets

in EUR million	2017	2016
Pension fund assets as of 01.01.2017	**10**	**11**
Additions	–	–
Payments	(4)	(1)
Pension fund assets as of 31.12.2017	**6**	**10**

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 %	2017	2016
Bonds	75%	67%
Equities	16%	16%
Cash and cash equivalents	0%	1%
Other	8%	17%

Bonds issued by BAWAG P.S.K. amount to 0.03% 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 issuers and have an average rating of A.

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

- a strategic asset mix comprising 62% government bonds, 10% corporates, 14% equities and 14% other investments;
- the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: bonds: 50%–100%, equities: 5%–20%, other investments: 0%–20%;
- 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 30%.

BAWAG Group expects that payments in the amount of EUR 0.2 million will have to be made to the pension fund in 2018 (2017: EUR 0.2 million).

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, 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 2017 in the amount of EUR 352 million (2016: EUR 367 million):

Sensitivity analysis as of 31 December 2017

	Provisions for post-employment benefits and severance payments	
in EUR million	Increase of variable	Decrease of variable
Discount rate – 1 percentage point movement	311	401
Future salary growth – 1 percentage point movement	400	311
Attrition –1 percentage point movement	343	349
Future mortality –1 percentage point movement (post-employment benefits only)	256	257

Sensitivity analysis as of 31 December 2016

	Provisions for post-employment benefits and severance payments	
in EUR million	Increase of variable	Decrease of variable
Discount rate – 1 percentage point movement	323	422
Future salary growth – 1 percentage point movement	421	323
Attrition –1 percentage point movement	352	370
Future mortality –1 percentage point movement (post-employment benefits only)	270	272

Changes in other provisions

in EUR million	Balance 01.01.2017	Change in scope of consolidation	Added[1)]	Used	Released	**Balance 31.12.2017**
Other provisions	**18**	**14**	**55**	**(2)**	**(10)**	**75**
Anticipated losses from pending business	8	14	1	0	(3)	20
Other items	10	–	54	(2)	(7)	55

1) Including reclassification.

in EUR million	Balance 01.01.2016	Change in scope of consolidation	Added	Used	Released	Balance 31.12.2016
Other provisions	**29**	**10**	**10**	**(27)**	**(4)**	**18**
Anticipated losses from pending business	24	–	5	(18)	(3)	8
Other items	5	10	5	(9)	(1)	10

30 | Other obligations

in EUR million	31.12.2017	31.12.2016
Accounts relating to payment	301	283
Liabilities resulting from restructuring	170	150
Other liabilities	338	246
Accruals	5	4
Other obligations	**814**	**683**

As of 31 December 2017, other obligations in the amount of EUR 172 million (31 December 2016: EUR 210 million) have a maturity of more than one year.

31 | Hedging derivatives

in EUR million	31.12.2017	31.12.2016
Hedging derivatives in fair value hedges		
Positive market values	456	595
Negative market values	50	95
Hedging derivatives in cash flow hedges		
Positive market values	61	82
Negative market values	44	165

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 Available-for-sale financial assets as well as the Group’s own issues, savings accounts and loans to customers that are recognized at amortized cost. Since January 2016, BAWAG Group has applied 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.

Fair value hedge

in EUR million	Notional of hedged items		Net book value of hedging instruments		Net result of hedged item and hedging instrument recognized in the financial year	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Available-for-sale financial assets	**2,835**	**1,562**	**(10)**	**(34)**	**–**	**1**
Securities	2,835	1,562	(10)	(34)	–	1
Financial instruments recognized at amortized cost	**15,303**	**12,602**	**415**	**534**	**3**	**–**
Securities	79	90	–	(1)	–	–
Own issues	3,503	3,209	171	235	1	(2)
Savings deposits of customers	2,372	1,153	8	16	–	–
Loans to customers	380	305	(27)	(50)	–	–
Liabilities to customers	8,969	7,845	263	334	2	2
Total	**18,138**	**14,164**	**405**	**500**	**3**	**1**

The effects of changes in the value of the hedging instrument and the hedged item are shown under Note 4 Gains and losses on financial assets and liabilities.

Cash flow hedge

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

31.12.2017 in EUR million	Within 1 year	1 to 5 years	Over 5 years	Total
	382	2,092	1,015	**3,489**

32 | Equity

Share capital

BAWAG Group has a fully paid in share capital of EUR 100 million, which remained unchanged compared to the previous year. The share capital is divided into 100,000,000 bearer shares.

Authorized capital

Pursuant to Section 5 No 7 of the Articles of Association of BAWAG Group AG, the Managing Board has been authorized, with the consent of the Supervisory Board, to increase the share capital within five years from the date of the resolution, thus until 15 September 2022 – also in several tranches – against cash payments and/or contributions in kind by up to EUR 50,000,000 by issuing up to 50,000,000 new bearer shares with no par value and to define the issue price conditions in agreement with the Supervisory Board (authorized capital 2017).

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.

Dividends

The Managing Board decided to propose to the general assembly that a dividend of EUR 58.3 million (EUR 0.58 per share) shall be paid for the financial year 2017.

Change in shareholder structure

On 21 February 2018, BAWAG Group AG was informed that, with effectiveness as of 20 February 2018, its direct shareholder Promontoria Holding 214 B.V. was merged into Promontoria Holding 213 B.V. and Promontoria Holding 216 B.V. was merged into Promontoria Holding 215 B.V. As a result of these mergers, the shareholding of each of Promontoria Holding 213 B.V. and Promontoria Holding 215 B.V. increased to a number of shares corresponding to 11.1% of BAWAG Group AG's share capital, while the shareholding of each of Promontoria Holding 214 and Promontoria Holding 216 B.V. decreased to a number of shares corresponding to 0% of BAWAG Group AG's share capital. These mergers did not affect the aggregate shareholding of the Cerberus shareholders.

Non-controlling interests

The 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests in the amount of EUR 1 million (2016: EUR 2 million).

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 EUR million	Retained reserves	AFS reserve	Cash flow hedge reserve net of tax	Actuarial gains/ losses	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2017	**466.6**	**25.4**	**(3.5)**	**(3.7)**	**484.8**	**0.1**	**484.9**
Consolidated profit/loss	466.6	–	–	–	466.6	0.1	466.7
Income and expenses recognized directly in equity	**–**	**25.4**	**(3.5)**	**(3.7)**	**18.2**	**–**	**18.2**
Change in cash flow hedge reserve	–	–	(4.7)	–	(4.7)	–	(4.7)
Changes in AFS reserves	–	33.2	–	–	33.2	–	33.2
Income and expenses recognized directly in equity (before taxes)	–	33.2	–	–	33.2	–	33.2
Share of other comprehensive income of associates accounted for using the equity method	–	(0.2)	–	–	(0.2)	–	(0.2)
Actuarial gains (losses) on defined benefit pension plans	–	–	–	(5.0)	(5.0)	–	(5.0)
Income taxes	–	(7.6)	1.2	1.3	(5.1)	–	(5.1)

in EUR million	Retained reserves	AFS reserve	Cash flow hedge reserve net of tax	Actuarial gains/ losses	Equity w/o non-controlling interests	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2016	**473.4**	**(1.8)**	**6.3**	**(1.4)**	**476.5**	**0.2**	**476.7**
Consolidated profit/loss	473.4	–	–	–	473.4	0.2	473.6
Income and expenses recognized directly in equity	**–**	**(1.8)**	**6.3**	**(1.4)**	**3.1**	**–**	**3.1**
Change in cash flow hedge reserve	–	–	8.4	–	8.4	–	8.4
Changes in AFS reserves	–	2.9	–	–	2.9	–	2.9
Income and expenses recognized directly in equity (before taxes)	–	2.9	–	–	2.9	–	2.9
Share of other comprehensive income of associates accounted for using the equity method	–	(2.3)	–	–	(2.3)	–	(2.3)
Actuarial gains (losses) on defined benefit pension plans	–	–	–	(1.9)	(1.9)	–	(1.9)
Income taxes	–	(2.4)	(2.1)	0.5	(4.0)	–	(4.0)

Deferred income taxes recognized in Other comprehensive income

	Before taxes	Income taxes	After taxes	Before taxes	Income taxes	After taxes
in EUR million	01.01.–31.12.2017			01.01.–31.12.2016		
Cash flow hedge reserve	(4.7)	1.2	(3.5)	8.4	(2.1)	6.3
AFS reserve	33.0	(7.6)	25.4	0.6	(2.4)	(1.8)
Actuarial gains (losses) on defined benefit pension plans	(5.0)	1.3	(3.7)	(1.9)	0.5	(1.4)
Income and expenses recognized directly in equity	**23.3**	**(5.1)**	**18.2**	**7.1**	**(4.0)**	**3.1**

SEGMENT REPORTING

This information is based on the Group structure as of 31 December 2017.

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 on the basis of the internal reports used by the Managing Board to assess the performance of the segments and to make decisions on allocating resources to the segments.

The breakdown of the net interest income and its allocation to the segments in the management report is based on the principles of the market interest rate method, also taking into account allocated liquidity costs and premiums.

According to this method, it is assumed that asset and liability items are refinanced by means of money and capital market transactions with corresponding maturities, and that there is therefore no interest rate risk. The interest rate risk is managed actively through asset and liability management, and the related results are reported in the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective business units on the basis of where they are incurred. The overhead costs and planned depreciation are assigned to the individual segments according to an allocation factor.

As of December 2017, certain changes in the business segment reporting were made to reflect the acquisitions of Südwestbank AG and the card issuing business of PayLife:

- BAWAG P.S.K. introduced a new segment named Südwestbank which covers the customer business of Südwestbank AG and its subsidiaries, also including refinancing activities attached to this business.
- The investment books of Südwestbank AG and its subsidiaries were incorporated into the existing Treasury Services & Markets segment, which holds the portfolio of the Group's financial securities.
- The credit card portfolio for PayLife is fully integrated into the easygroup segment, which already included the existing card business of easybank.

Hence, BAWAG Group is managed in accordance with the following seven main business and reporting segments:

- **BAWAG P.S.K. Retail –** includes savings, payment, card and lending activities, investment and insurance services for our domestic private customers, small business lending and our social housing activities, building society savings and loans as well as real estate leasing.

- **easygroup –** includes our direct banking subsidiary *easybank* with a full online product offering, e.g. savings, payments, card and lending activities for private and small business customers, along with our auto and mobile leasing platforms as well as lending to our international retail clients.

- **Südwestbank –** includes the customer business (private, small business, corporate) of Südwestbank and its subsidiaries as well as refinancing activities attached to this business.

- **DACH Corporates & Public Sector –** includes our corporate and public lending business and other fee-driven financial services for mainly Austrian customers; as we also support our clients in their cross-border activities, selective client relationships in neighboring countries are included in this segment as well.

- **International Business –** includes lending activities to international corporates as well as international real estate financing activities outside the DACH region originated by our London office.

- **Treasury Services & Markets –** 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 our portfolio of financial securities of BAWAG Group.

- **Corporate Center –** includes unallocated items related to support functions for the entire Bank, accounting positions (e.g. market values of derivatives) 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.

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:

2017 in EUR million	BAWAG P.S.K. Retail	easygroup	Südwest-bank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	398.3	150.4	5.6	70.6	129.1	49.4	(12.1)	791.3
Net fee and commission income	158.1	21.0	3.0	39.1	0.4	0.0	(4.7)	216.9
Core revenues	**556.4**	**171.4**	**8.6**	**109.7**	**129.5**	**49.4**	**(16.8)**	**1,008.2**
Gains and losses on financial instruments	0.8	0.0	0.0	(10.9)	(0.4)	21.6	0.6	11.7
Other operating income and expenses	3.9	0.3	0.0	0.0	0.0	0.0	113.5	117.7
Operating income	**561.1**	**171.7**	**8.6**	**98.8**	**129.1**	**71.0**	**97.3**	**1,137.6**
Operating expenses	**(272.6)**	**(40.8)**	**(7.8)**	**(48.8)**	**(27.6)**	**(16.3)**	**(114.9)**	**(528.8)**
Regulatory charges	(14.9)	(2.7)	(0.1)	–	–	–	(16.1)	(33.8)
Total risk costs	(49.0)	(2.0)	(0.2)	(8.0)	(16.3)	0.0	13.7	(61.8)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	4.1	4.1
Profit before tax	**224.6**	**126.2**	**0.5**	**42.0**	**85.2**	**54.7**	**(15.9)**	**517.3**
Income taxes	–	–	–	–	–	–	(50.6)	(50.6)
Profit after tax	**224.6**	**126.2**	**0.5**	**42.0**	**85.2**	**54.7**	**(66.5)**	**466.7**
Non-controlling interests	–	–	–	–	–	–	(0.1)	(0.1)
Net profit	**224.6**	**126.2**	**0.5**	**42.0**	**85.2**	**54.7**	**(66.6)**	**466.6**
Business volumes								
Assets	11,351	4,173	4,183	6,725	5,174	11,137	3,328	46,071
Liabilities	20,682	4,253	6,146	6,762	–	2,477	5,751	46,071
Risk-weighted assets	4,492	3,381	3,349	2,410	4,318	2,124	1,417	21,491

2016 in EUR million	BAWAG P.S.K. Retail	easygroup	Südwest-bank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
Net interest income	352.3	115.8	–	79.5	134.0	54.3	(3.7)	732.2
Net fee and commission income	141.1	10.1	–	39.7	(0.1)	0.0	2.1	192.9
Core revenues	**493.4**	**125.9**	**–**	**119.2**	**133.9**	**54.3**	**(1.6)**	**925.1**
Gains and losses on financial instruments	0.8	0.0	–	1.0	(2.8)	11.9	8.2	19.1
Other operating income and expenses	1.5	(1.4)	–	0.0	0.0	0.0	36.6	36.7
Operating income	**495.7**	**124.5**	**–**	**120.2**	**131.1**	**66.2**	**43.2**	**980.9**
Operating expenses	**(273.5)**	**(30.6)**	**–**	**(53.6)**	**(29.9)**	**(16.3)**	**(35.5)**	**(439.4)**
Regulatory charges	(12.3)	(2.4)	–	–	–	–	(31.4)	(46.1)
Total risk costs	(40.8)	(4.8)	–	4.4	1.2	0.0	(2.7)	(42.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	8.0	8.0
Profit before tax	**169.1**	**86.7**	**–**	**71.0**	**102.4**	**49.9**	**(18.4)**	**460.7**
Income taxes	–	–	–	–	–	–	12.9	12.9
Profit after tax	**169.1**	**86.7**	**–**	**71.0**	**102.4**	**49.9**	**(5.5)**	**473.6**
Non-controlling interests	–	–	–	–	–	–	(0.2)	(0.2)
Net profit	**169.1**	**86.7**	**–**	**71.0**	**102.4**	**49.9**	**(5.7)**	**473.4**
Business volumes								
Assets	11,659	4,458	–	7,812	5,634	6,691	3,507	39,761
Liabilities	21,049	4,478	–	5,487	–	2,847	5,900	39,761
Risk-weighted assets	4,432	4,249	–	2,916	4,169	2,031	1,247	19,044

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

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 single entity level.

As an Austrian bank, BAWAG Group generates 73% of its core revenues in Austria. The business is focused on the DACH region, supported by Südwestbank, the corporate business as well as the expansion of easygroup to Germany. The International Business is focused on Western Europe and North America.

The following tables show core revenues per segment and geography:

2017 in EUR million	BAWAG P.S.K. Retail	easygroup	Südwest-bank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
DACH	553.0	103.6	8.5	106.7	0.0	21.3	(16.5)	776.6
thereof Austria	551.0	103.5	0.0	89.0	0.0	19.6	(23.4)	739.7
thereof Germany	1.6	0.0	8.4	17.3	0.0	0.5	6.9	34.7
Western Europe	0.4	67.8	0.1	0.1	81.0	15.2	(0.2)	164.4
thereof UK	0.1	27.3	0.0	0.1	36.3	6.4	0.0	70.2
thereof France	0.1	40.5	0.0	0.0	3.1	0.8	0.0	44.5
thereof Ireland	0.0	–	0.0	–	25.9	2.1	–	28.0
North America	0.2	0.0	0.0	0.3	39.8	2.8	0.0	43.1
thereof USA	0.2	0.0	0.0	0.3	37.2	2.8	0.0	40.5
Southern Europe	0.4	0.0	0.0	0.1	6.1	9.0	0.0	15.6
Others	2.4	0.0	0.0	2.5	2.6	1.1	(0.1)	8.5
Total	**556.4**	**171.4**	**8.6**	**109.7**	**129.5**	**49.4**	**(16.8)**	**1,008.2**

2016 in EUR million	BAWAG P.S.K. Retail	easygroup	Südwest-bank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total
DACH	490.4	85.9	–	114.4	0.0	23.7	(1.3)	713.0
thereof Austria	488.3	85.8	–	93.9	0.0	20.8	(1.3)	687.4
thereof Germany	1.6	0.0	–	20.0	0.0	1.1	0.0	22.7
Western Europe	0.4	40.0	–	0.1	81.9	15.5	(2.3)	135.7
thereof UK	0.1	37.5	–	0.0	31.2	7.0	0.0	75.8
thereof France	0.0	2.5	–	0.0	11.6	1.1	0.0	15.2
thereof Ireland	0.0	–	–	–	20.8	0.7	–	21.5
North America	0.1	0.0	–	0.5	41.3	2.9	0.0	44.8
thereof USA	0.1	0.0	–	0.5	39.4	2.9	0.0	42.9
Southern Europe	0.4	0.0	–	0.2	9.3	10.7	0.0	20.6
Others	2.1	0.0	–	4.0	1.4	1.5	2.1	11.1
Total	**493.4**	**125.9**	**–**	**119.2**	**133.9**	**54.3**	**(1.5)**	**925.2**

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

in EUR million	2017	2016
Gains and losses on financial instruments according to segment report	11.7	19.1
Gains and losses on financial assets attributable to non-controlling interests	–	–
Gains and losses on financial assets and liabilities according to Consolidated Profit or Loss Statement	**11.7**	**19.1**

in EUR million	2017	2016
Other operating income and expenses according to segment report	117.7	36.7
Regulatory charges	(30.6)	(43.8)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**87.1**	**(7.1)**

in EUR million	2017	2016
Profit before tax according to segment report	517.3	460.7
Gains and losses on financial assets attributable to non-controlling interests	–	–
Profit before tax according to Consolidated Profit or Loss Statement	**517.3**	**460.7**

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.

BAWAG Group manages its capital position based on a fully loaded CRR environment and therefore without the benefit of any transitional rules regarding capital components and the calculation of risk-weighted assets. 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 Managing Board of BAWAG Group for strengthening the own funds coverage 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 warning levels refer to liquidity as well as to regulatory and economic capital figures. The recovery plan was prepared within the framework of BaSAG (Bundesgesetz über die Sanierung und Abwicklung von Banken, "Austrian Banking Resolution and Recovery Act").

BAWAG Group constantly monitors its compliance with the warning 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 new regulatory changes, e.g. MREL, IFRS 9 and Basel IV. The impact of the new regulatory changes is estimated and the expected effects on the capital position of the Bank is presented to the respective division heads and board members. This process should 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 and its own funds requirement as per 31 December 2017 and 31 December 2016 pursuant to CRR applying IFRS figures and the CRR scope of consolidation. The capital figures of Promontoria Sacher Holding B.V. have also been presented in recent periods. Since the fourth quarter 2017, Promontoria Sacher Holding B.V. is no longer the EU parent financial holding company of the group of credit institutions.

	BAWAG Group	
in EUR million	**31.12.2017[2)]**	31.12.2016
Share capital and reserves (including funds for general banking risk)[1)]	3,492	3,158
Deduction of intangible assets	(343)	(190)
Other comprehensives income	9	(30)
IRB risk provision shortfalls	(38)	(19)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(33)	(47)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(91)	(100)
Excess of deduction from AT1 items over AT1 capital	(90)	(133)
Common Equity Tier I	**2,906**	**2,639**
IRB risk provision shortfalls	(5)	(6)
Deduction of intangible assets	(85)	(127)
Excess of deduction from AT1 items over AT1 capital	90	133
Additional Tier I	**0**	**0**
Tier I	**2,906**	**2,639**
Supplementary and subordinated debt capital[3)]	347	484
Tier II capital in grandfathering	15	0
Excess IRB risk provisions	35	24
Less significant investments, IRB risk provision shortfalls	(27)	(26)
Tier II	**370**	**482**
Own funds	**3,276**	**3,121**

1) In this position, dividends in the amount of EUR 109.9 million (consisting of an interim dividend in the amount of EUR 51.6 million and a year-end dividend in the amount of EUR 58.3 million) and a voluntary prudential filter of EUR 44 million on the distributable result were deducted.
2) Own funds as of 31 December 2017 differ from those as of 31 December 2016 inter alia because of different CRR transitional rules for 2017 and 2016 for the eligibility of capital (mainly available-for-sale reserve) and deductions from own funds (mainly intangible assets and IRB risk provision shortfall).
3) On 3 November 2017, the European Banking Authority (EBA) published its interpretation of certain capital regulations that impact the total capital ratio of BAWAG Group. The CET1 ratio and the leverage ratio remain unaffected. The EBA interpretation impacts bank holding companies with a high level of total capital as is the case for BAWAG Group. It implies that the portion of outstanding Tier 2 instruments issued by BAWAG P.S.K. exceeding the minimum own funds requirement is no longer fully eligible for the consolidated capital ratios of BAWAG Group.

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

	BAWAG Group	
in EUR million	31.12.2017	31.12.2016
Credit risk	19,716	17,329
Market risk	52	59
Operational risk	1,705	1,633
Capital requirements (risk-weighted assets)	**21,473**	**19,021**

Supplemental information on a fully loaded basis

	BAWAG Group	
	31.12.2017	31.12.2016[1)]
Common Equity Tier 1 capital ratio based on total risk	13.5%	13.6%
Total capital ratio based on total risk	15.2%	16.2%

1) If the purchase price allocation of start:bausparkasse and IMMO-BANK had been final as of 31 December 2016, the CET1 ratio would have amounted to 13.5% and the total capital-ratio would have come to 16.0%.

Key figures according to CRR including its transitional rules

	BAWAG Group	
	31.12.2017	31.12.2016
Common Equity Tier 1 capital ratio based on total risk	13.5%	13.9%
Total capital ratio based on total risk	15.3%	16.4%

During the financial year 2017, BAWAG Group always complied with the regulatory capital requirement imposed by the SREP. Our target CET1 ratio in 2017 was 12% on a fully loaded basis. We delivered a much stronger ratio, coming in at 13.5%. Going forward, we will continue to maintain a fully loaded CET1 ratio above 12%.

Restatement of prior period comparatives in accordance with IAS 8

The European Central Bank conducted an on-site inspection with focus on credit risk in respect to BAWAG Group's international business activities. As a result of the on-site inspection, the false application of certain CRR requirements was identified, in particular in connection with the application of preferred regulatory risk weights for the international residential mortgage portfolios. As a consequence, the respective exposures had to be reclassified in respect to their specific risk weight category, which led to an increase in risk-weighted assets of the Group. The following table presents the restatements of the disclosures affected:

Capital disclosures

in EUR million	31.12.2016 adjusted	31.12.2016 published
Credit risk RWAs on a transitional basis	17,329	15,426
Capital requirements (risk-weighted assets) on a transitional basis	19,021	17,118
Common Equity Tier 1 capital ratio based on total risk (incl. interim profit) on a fully loaded basis	13.6%	15.1%
Total capital ratio based on total risk (incl. interim profit) on a fully loaded basis	16.2%	18.0%
Common Equity Tier 1 capital ratio based on total risk (incl. interim profit) on a transitional basis	13.9%	15.4%
Total capital ratio based on total risk (incl. interim profit) on a transitional basis	16.4%	18.2%

Segment disclosures

in EUR million	31.12.2016 adjusted	31.12.2016 published
Risk-weighted assets easygroup	4,249	2,346
Total risk-weighted assets BAWAG Group AG	19,021	17,118

FURTHER DISCLOSURES REQUIRED BY IFRS

33 | Fair value

The following table depicts the fair values of the Statement of Financial Position items. These are the prices 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. If market prices were available on a stock exchange or other functioning market, they were used.

If no current, liquid market values were available, generally accepted, standard state-of-the-art methods of measurement were 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 measurement of fair value of customer business was carried out by applying credit spreads for each customer category. The blanket credit spreads are applied for the following customer categories: credit institutions, commercial customers, public sector and private customers, for which mortgage loans and other loans are considered separately. The credit spreads in customer business are derived by analyzing both external data (market developments and OeNB statistics) and internal default statistics.

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

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

The basic parameters on which the models are based (yield curves, volatilities and exchange rates) are input into the system by the Market Risk unit independently of the Treasury division, 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 Reuters are used to evaluate the spreads of issued securities recognized at fair value through profit or loss; for this, a BAWAG P.S.K. senior unsecured spread curve is derived from a defined pool of bank bonds, additionally taking into account a liquidity and rating premium. For covered issues, the spread curve is derived from the quotations of 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 2017, the portion of change in fair values of securities issued by BAWAG Group accounted for solely by changes in our credit spreads was minus EUR 12.4 million (minus EUR 5.9 million as of 31 December 2016). As of 31 December 2017, the cumulative fair value change resulting from changes in our credit rating amounted to EUR 7.3 million (EUR 17.7 million as of 31 December 2016).

A one basis point narrowing of the credit spread is expected to change their valuation by minus EUR 0.1 million (minus EUR 0.2 million as of 31 December 2016).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to minus EUR 0.1 million as of 31 December 2017 (plus EUR 0.7 million as of 31 December 2016) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to minus EUR 0.9 million (minus EUR 1.3 million as of 31 December 2016). A one basis point narrowing of the credit spread is expected to change their valuation by plus EUR 0.08 million (plus EUR 0.10 million as of 31 December 2016).

Fair values of selected items on the Statement of Financial Position

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

in EUR million	Carrying amount 31.12.2017	Fair value 31.12.2017	Carrying amount 31.12.2016	Fair value 31.12.2016
Assets				
Cash reserves	1,180	1,180	1,020	1,020
Financial assets designated at fair value through profit or loss	448	448	202	202
Available-for-sale financial assets				
Recognized at fair value	4,408	4,408	3,129	3,129
Recognized at cost	–	n/a	80	n/a
Held-to-maturity investments	2,274	2,347	2,353	2,448
Assets held for trading	458	458	652	652
Loans and receivables	35,753	35,929	30,825	31,051[1)]
Hedging derivatives	517	517	677	677
Property, plant and equipment	103	n/a	53	n/a
Investment properties	120	121	3	5
Intangible non-current assets	506	n/a	378	n/a
Other assets	304	n/a	389	n/a
Total assets	**46,071**		**39,761**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	726	726	1,115	1,115
Liabilities held for trading	345	345	617	617
Financial liabilities at amortized cost	39,894	40,176	32,994	33,246[1)]
Financial liabilities associated with transferred assets	–	–	300	300
Valuation adjustment on interest rate risk hedged portfolios	116	116	223	223
Hedging derivatives	94	94	260	260
Provisions	450	n/a	404	n/a
Other obligations	836	n/a	723	n/a
Equity	3,609	n/a	3,123	n/a
Non-controlling interests	1	n/a	2	n/a
Total liabilities and equity	**46,071**		**39,761**	

1) Adjusted prior year figures due to an editorial error. The adjustments amount to minus EUR 247 million for the item Loans and receivables and minus EUR 15 million for the item Financial liabilities at amortized cost.

The fair values of investment properties were determined by external property valuers having appropriate recognized professional qualifications and recent experience in the location and category of property being valued. The carrying amount of other assets and other obligations is a reasonable approximation of fair value. Therefore, information on the fair value of these items is not shown.

BAWAG Group does not intend to sell or derecognize significant investments in equity held at the reporting date in the near future.

Securities recognized in the line items Held to maturity investments and Loans and receivables are measured at amortized cost. As of 31 December 2017, the fair value of securities in the line items Held to maturity and Loans and receivables is in total EUR 94 million higher than their book value (2016: EUR 130 million higher). The fair value of own issues recognized in the line item Financial liabilities at amortized cost is, as of 31 December 2017, EUR 254 million higher than their book value (2016: EUR 270 million higher).

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:** 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.

- **Level 3:** The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid funds of Südwestbank as well as own issues of BAWAG P.S.K. Wohnbaubank, IMMO-BANK and Südwestbank. Loans and receivables and financial liabilities measured at amortized cost are valued using the discounted cash flow method using a spread-adjusted swap curve. In 2017, this also pertains to stakes in non-consolidated subsidiaries that are classified as available-for-sale, due to the fact that in the course of the IFRS 9 implementation project fair values of unlisted AFS equity instruments were calculated for the first time.

- **Other:** In 2016, this pertains to stakes in non-consolidated subsidiaries that are classified as available-for-sale.

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.

31.12.2017 in EUR million	Level 1	Level 2	Level 3	Others	Total
Assets					
Financial assets designated at fair value through profit or loss	267	180	1	–	**448**
Available-for-sale financial assets	4,077	210	121	–	**4,408**
Held-to-maturity investments	2,340	7	–	–	**2,347**
Assets held for trading	–	458	–	–	**458**
Loans and receivables	–	4,058	31,871	–	**35,929**
Hedging derivatives	–	517	–	–	**517**
Investment properties	–	–	121	–	**121**
Total assets	**6,684**	**5,430**	**32,114**	**–**	**44,228**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	363	363	–	**726**
Liabilities held for trading	–	345	–	–	**345**
Financial liabilities at amortized cost	–	6,935	33,241	–	**40,176**
Financial liabilities associated with transferred assets	–	–	–	–	**–**
Valuation adjustment on interest rate risk hedged portfolios	–	116	–	–	**116**
Hedging derivatives	–	94	–	–	**94**
Total liabilities	**–**	**7,853**	**33,604**	**–**	**41,457**

31.12.2016 in EUR million	Level 1	Level 2	Level 3	Others[1)]	Total
Assets					
Financial assets designated at fair value through profit or loss	2	199	1	–	**202**
Available-for-sale financial assets	2,949	179	1	80	**3,209**
Held-to-maturity investments	2,436	12	–	–	**2,448**
Assets held for trading	–	652	–	–	**652**
Loans and receivables	–	2,436	28,615[2)]	–	**31,051[2)]**
Hedging derivatives	–	677	–	–	**677**
Investment properties	–	–	5	–	**5**
Total assets	**5,387**	**4,155**	**28,622**	**80**	**38,244**
Liabilities					
Financial liabilities designated at fair value through profit or loss	–	638	477	–	**1,115**
Liabilities held for trading	–	617	–	–	**617**
Financial liabilities at amortized cost	–	6,654	26,592[2)]	–	**33,246[2)]**
Financial liabilities associated with transferred assets	–	300	–	–	**300**
Valuation adjustment on interest rate risk hedged portfolios	–	223	–	–	**223**
Hedging derivatives	–	260	–	–	**260**
Total liabilities	**–**	**8,692**	**27,069**	**–**	**35,761**

1) Investments in equity that are measured at cost in accordance with IAS 39.AG80–81 because their fair value cannot be measured reliably.
2) Adjusted prior year figures due to an editorial error. The adjustments amount to minus EUR 247 million for the item Loans and receivables and minus EUR 15 million for the item Financial liabilities at amortized cost.

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 2017, one available-for-sale security (2016: seven) was moved from Level 1 to Level 2 due to subsequent illiquid market prices. Five available-for-sale securities (2016: five) 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:

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2017	**1**	**1**	**477**
Valuation gains (losses) in line item gains and losses on financial assets and liabilities in profit or loss			
for assets held at the end of the period	–	–	(13)
for assets no longer held at the end of the period	–	–	–
Valuation gains (losses) in other comprehensive income	–	–	–
for assets held at the end of the period	–	–	–
for assets no longer held at the end of the period	–	–	–
Purchases	–	–	–
Redemptions	–	–	(101)
Sales	–	–	–
Foreign exchange differences	–	–	–
Change in scope of consolidation	–	39	–
Transfers into or out of Level 3	–	81	–
Closing balance as of 31.12.2017	**1**	**121**	**363**

in EUR million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2016	**2**	**4**	**468**
Valuation gains (losses) in line item gains and losses on financial assets and liabilities in profit or loss			
for assets held at the end of the period	–	–	(12)
for assets no longer held at the end of the period	–	–	–
Valuation gains (losses) in other comprehensive income			
for assets held at the end of the period	–	–	–
for assets no longer held at the end of the period	–	–	–
Purchases	–	1	–
Redemptions	(1)	(4)	(40)
Sales	–	–	–
Foreign exchange differences	–	–	–
Change in scope of consolidation	–	–	61
Transfers into or out of Level 3	–	–	–
Closing balance as of 31.12.2016	**1**	**1**	**477**

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.

Level 3 financial assets increased by EUR 120 million compared to the previous year, with EUR 39 million due to the acquisition of Südwestbank (mainly funds) and EUR 81 million due to the first-time calculation of fair values of unlisted AFS equity instruments in the course of the IFRS 9 implementation project. Financial liabilities in the amount of EUR 101 million that were reported under Level 3 in 2016 were redeemed in the financial year 2017.

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, IMMO-BANK and Südwestbank 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 is currently 100 basis points (31 December 2016: 100 basis points) for all maturities (mid). For issues of IMMO-BANK and Südwestbank, 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.

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

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. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank and IMMO-BANK; BAWAG Group had Level 3 financial assets recognized at their fair value in the amount of EUR 122 million as of 31 December 2017 (31 December 2016: EUR 2 million).

If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 31 December 2017 would have increased by EUR 1.3 million (31 December 2016: EUR 2.0 million).

If the liquidity discount of Südwestbank funds is increased by 10 percentage points, the valuation result as of 31 December 2017 would have decreased by EUR 4.2 million.

For investments in equity instruments, the dividend discount and discounted earnings methods are applied. The main input parameters are the discount factor and dividend income or earnings. If the discount rate for investments in equity instruments decreased by 100bps, the fair value would increase by EUR 6.5 million; whereas if the discount rate increased by 100bps, the fair value would decrease by EUR 4.8 million. If dividend income or earnings rose by 20%, the fair value of those assets would rise by EUR 2.2 million; if dividend income or earnings declined by 20%, the fair value would decrease by EUR 2.1 million.

If the fair value of the financial assets that are not Südwestbank funds or equity instruments decreased by 30%, the accumulated valuation result as of 31 December 2017 would have decreased by EUR 0.6 million (31 December 2016: minus EUR 0.6 million).

34 | Treatment of day one gain

IAS 39.AG76 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 two loan portfolios, market interest rates on the transaction date were lower than when prices were negotiated. In both cases the seller wanted to exit the respective business. Therefore, the transaction prices in this 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 through 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. IAS 39 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 1 profits in the line item Interest income.

The following differences will be recognized in income in subsequent years:

in EUR million	2017	2016
Balance at the beginning of the period	**104**	**45**
New transactions[1)]	–	76
Amounts recognized in profit or loss during the period	(33)	(11)
FX effects	(1)	(6)
Balance at the end of the period	**70**	**104**

1) In the fourth quarter 2016, BAWAG P.S.K. acquired a high-quality performing residential mortgage portfolio in Western Europe consisting of EUR 1.4 billion in assets.

35 | 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

in EUR million	31.12.2017	31.12.2016
Receivables from customers	37	48
Receivables from subsidiaries	**37**	**48**
Deposits from customers	15	11
Payables to subsidiaries	**15**	**11**

Interest income from business with subsidiaries in 2017 totaled EUR 4 million (2016: EUR 3 million) and interest expense EUR 1 million (2016: EUR 1 million).

Receivables from and payables to associates

in EUR million	31.12.2017	31.12.2016
Receivables from customers	86	136
Securities	22	20
Receivables from associates	**108**	**156**
Deposits from customers	80	44
Payables to associates	**80**	**44**

36 | 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) funds and accounts under management by Cerberus Capital Management, L.P. and its affiliates held 35.1%, (ii) 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 25.7 % and (iii) Harbor International Fund held 4.2 % of the shares in BAWAG Group AG as of 31 December 2017.

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 the organization of the ATM card business. PSA is accounted for using the equity method in BAWAG Group's accounts.

Other subsidiaries

Please refer to Note 50 for a list of all non-consolidated subsidiaries.

Transactions with related parties

The following table shows transactions with related parties:

31.12.2017 in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Loans and receivables – customers	–	413	37	1	86	–
Unutilized credit lines	–	240	7	1	28	–
Securities	–	34	–	22	–	–
Other assets (incl. derivatives)	–	–	5	–	–	–
Financial liabilities – customers	–	0	17	160	1	0
Other liabilities (incl. derivatives)	–	0	–	1	–	–
Guarantees provided	–	–	0	–	1	–
Interest income[1)]	–	23.3	0.9	2.4	0.3	0.0
Interest expense	–	9.0	0.1	2.1	0.0	0.0
Net fee and commission income	–	–	0.0	15.5	0.0	0.0

1) Gross income; hedging costs not offset.

31.12.2016 in EUR million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Loans and receivables – customers	6	808	48	44	93	1
Unutilized credit lines	–	108	12	14	25	–
Securities	–	43	–	20	–	–
Other assets (incl. derivatives)	36	0	6	–	–	–
Financial liabilities – customers	–	0	11	122	0	–
Other liabilities (incl. derivatives)	–	0	–	1	–	–
Guarantees provided	–	–	–	0	1	–
Interest income[1)]	–	31.6	1.7	2.6	0.3	0.0
Interest expense	–	0.8	0.0	1.5	0.0	0.0
Net fee and commission income	–	–	0.0	18.5	0.0	0.1

1) Gross income; hedging costs not offset.

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to EUR 0.0 million in 2017 (2016: EUR 0.0 million).

Regarding related party transactions, no write-offs or loan loss provisions were required.

Information regarding natural persons

Key management

Key management of BAWAG Group refers to the members of the Managing Board and the Supervisory Board of BAWAG Group AG and BAWAG P.S.K. AG. Total personnel expenses for the key management amount to EUR 25.4 million (2016: EUR 26.4 million).

Expenses for remuneration (including accrued and deferred bonuses and payments to the pension fund) relating to active members of the Managing Board of BAWAG Group AG and BAWAG P.S.K. AG during the financial year amounted to EUR 18.9 million (2016: EUR 25.6 million). Expenses for remuneration in 2017 for former members of the Managing Board amounted to EUR 2.1 million. In 2017, EUR 4.5 million were reimbursed by the then shareholder Promontoria Sacher Holding N.V. (2016: EUR 4.5 million).

At 31 December 2017, contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members.

There are no bonus awards for the Managing Board for 2017. Under consideration of the regulatory principles, a long-term incentive program was implemented, among others, for the Managing Board. The long-term incentive program is awarded 100% in shares of BAWAG Group AG under the precondition of a long-term corporate success.

As of the reporting date, there was one outstanding loan to a member of the Managing Board in the amount of EUR 0.2 million (2016: EUR 0.6 million). In addition, an amount of EUR 0.2 million has been drawn under a credit line in the amount of EUR 0.8 million (2016: an undrawn credit line in the amount of EUR 0.7 million). Loans, building-society loans or leasing financing to members of the Supervisory Board totaled EUR 0.0 million (2016: EUR 0.0 million). Repayments of loans granted to executives and staff took place as contractually agreed.

Furthermore, Managing Board and Supervisory Board members did not make use of current account limits (2016: EUR 0 million) as of the reporting date. Turnovers of credit cards guaranteed to third parties by the Bank that belong to Managing Board members amounted to EUR 0 million in December 2017 (2016: EUR 0 million). Turnovers of guaranteed credit cards that belong to members of the Supervisory Board amounted to EUR 0 million in December 2017 (2016: EUR 0 million).

Until 15 September 2017, the remuneration scheme for Supervisory Board members approved at the Annual General Meeting stipulated that the Chairman of the Supervisory Board shall receive EUR 60,000 per calendar year, the Deputy Chairman shall receive EUR 40,000 per calendar year and the members of the Supervisory Board selected at the Annual General Meeting shall each receive EUR 30,000 per calendar year. The chairmen of the Risk and Credit and Audit and Compliance Committees each receive EUR 20,000 and all other members of the Risk and Credit and Audit and Compliance Committees each receive EUR 10,000 (these additional compensation measures do not apply for the Chairman of the Supervisory Board).

Starting on 16 September 2017, the remuneration scheme for Supervisory Board members approved at the Annual General Meeting stipulates that the Chairman of the Supervisory Board shall receive EUR 225,000 per calendar year, the Deputy Chairmen shall receive EUR 168,750 per calendar year and the members of the Supervisory Board selected at the Annual General Meeting shall each receive EUR 93,750 per calendar year. Each of the Chairperson of the Audit and Compliance Committee and the Committee for Management Matters receives EUR 56,250 and each committee member receives EUR 18,750. The Chairman of the Supervisory Board and the Deputy Chairman are not entitled to additional fixed compensation for their work in the committees.

Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG amounted to EUR 0.5 million in 2017 (2016: EUR 0.4 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 EUR 0.1 million (2016: EUR 0.4 million).

Consulting expenses for four members of the former Supervisory Board (prior to IPO) of BAWAG Group AG amounted to EUR 1.9 million (2016: two members; EUR 4.4 million).

Pension payments to former members of the Managing Board and their surviving dependents came to EUR 25.1 million (2016: EUR 2.0 million).

Expenditures for severance pay for former members of the Managing Board came to EUR 3.8 million (2016: EUR 0.0 million).

Long-term incentive program

BAWAG Group established a long-term incentive program (LTIP) for the members of the Managing 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 ordinary shares of BAWAG Group AG to the participants based on the fulfillment of certain conditions. The LTIP represents an equity settled share-based transaction which is accounted for in accordance with IFRS 2.

The actual bonus shares will be granted in early 2018 by BAWAG Group, based on an assessment of the individual's performance in 2017 (and earlier years).

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

For 25% of the shares of each participant, there is a service condition ("part 2"): Those shares only vest if the participant keeps working for the Group until March 2022 and 2023. This part is lost if the participant terminates the employment himself or is dismissed. If the participant is not a member of the Managing Board based on Austrian labor law, a pro rata allocation shall take place for "good leavers".

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

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

The 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 January 2018:

	Number of shares	Fair value in EUR million	Fair value per share
Granted on 18.1.2018	1,459,476	69.3	47.44
Thereof awarded in part 1 of the LTIP program	1,094,607	51.9	47.44

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 Managing Board of the company					
Anas Abuzaakouk	169,880	56,626	226,506	0	0
Stefan Barth	60,497	20,166	80,663	0	0
David O'Leary	108,395	36,131	144,526	0	0
Sat Shah	136,979	45,660	182,639	0	0
Enver Sirucic	60,497	20,166	80,663	0	0
Andrew Wise	124,573	41,524	166,097	0	0
Members of the Managing Board of a subsidiary	0	0	0	0	0
Senior leadership team of the company and its subsidiaries	381,615	127,205	508,820	0	0
Other	52,171	17,391	69,562	0	0
Total	**1,094,607**	**364,869**	**1,459,476**	**0**	**0**

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 were 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. BAWAG expects that all participants will satisfy the service condition.

Amounts recognized in the 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 part 1 of the LTIP program, there is no service period attached to the awards and the expense is recognized immediately.

Although the grant date for the LTIP program was in early 2018, the award is a bonus for services rendered in 2017. The beneficiaries were informed in December 2017 about the program and the individual's inclusion therein.

Therefore, the expenses and the increase in equity are recognized in the financial statements as of 31 December 2017 based on the grant date fair value.

For part 2, costs are 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. No 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 2022.

The following amounts have been recognized in the profit or loss statement of the period:

in EUR million	2017	2016
Expenses for equity-settled share-based payments	51.9	–
Thereof relating to		
Members of the Managing Board of the company	31.3	–
Members of the Managing Board of a subsidiary	0	–
Senior leadership team of the company and its subsidiaries	18.1	–
Other	2.5	–

Annual Bonus Program

The Annual Bonus awards are applicable for identified staff not participating in the LTIP. The target bonus of this subgroup depends on annual results and pre-set external targets. If the individual bonus exceeds a certain threshold, 20% of the bonus will be awarded in cash, and 80% will be awarded in the form of shares of BAWAG Group AG. Shares actually granted to beneficiaries represent an equity-settled share-based transaction which is accounted for in accordance with IFRS 2. As this bonus program has not been formally communicated to the identified staff, this share-based payment transaction will be accounted for in the financial statements for 2018. All bonus awards expected for identified staff for services rendered in 2017 have been provided for in the financial statements as of 31 December 2017 by recognizing a liability.

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 EUR million	Key management of the entity or its parent 31.12.2017	Other related parties 31.12.2017	Key management of the entity or its parent 31.12.2016	Other related parties 31.12.2016
Current account deposits	2	2	10	3
Savings deposits	0	3	0	3
Loans	0	3	1	3
Building savings deposits	–	0	–	–
Leasing	–	0	–	0
Securities	–	0	–	0
Interest income	0.0	0.0	0.0	0.0
Interest expense	0.0	0.0	0.0	0.0

Number of shares	Key management of the entity or its parent 31.12.2017	Other related parties 31.12.2017	Key management of the entity or its parent 31.12.2016	Other related parties 31.12.2016
Shares of BAWAG Group AG	24,173	147	–	–

37 | Major changes in the Group's holdings

Acquisition of Südwestbank Aktiengesellschaft

On 7 December 2017, the Group acquired 100% of the shares of Südwestbank Aktiengesellschaft ("Südwestbank"), after receiving all the relevant approvals. For details regarding its subsidiaries, associates and participations, please refer to Note 49 and Note 50. The following additional real-estate subsidiaries have been consolidated in the Group financial statements for 2017 in accordance with IFRS 10:

- SWB Immowert GmbH
- SWB Stuttgart 1 GmbH
- SWB Stuttgart 2 GmbH
- SWB Stuttgart 3 GmbH
- SWB Mainz 1 GmbH
- SWB München 1 GmbH
- SWB Darmstadt 1 GmbH

Südwestbank operates in the state of Baden-Württemberg, Germany, with a focus on the state capital of Stuttgart and the surrounding area. Its main business activities include lending business, deposit business and brokerage activities with private and commercial customers offering a broad product portfolio. Focused in the economically strong southwestern Germany, the expertise, reputation and deep relationships with small and medium-sized businesses of Südwestbank make the bank an attractive partner to help BAWAG Group expand its footprint and customer base in Germany.

The main purpose of the real estate subsidiaries is to hold investment property (according to IAS 40).

The purchase price was a fixed amount of EUR 641 million and was transferred in cash.

According to IFRS 3, the consolidation result was recognized in the Profit or Loss Statement in the line item Other operating income and expenses.

The Group incurred acquisition-related costs of EUR 1.2 million in consulting fees. These costs have been included in the line item Other operating income and expenses.

BAWAG Group was able to buy the bank at a discount, due to low profitability, an ongoing transition in the banking environment, high regulatory requirements and the rapid technological developments in the banking sector.

The following table compares the recognized amounts of assets and liabilities at the date of acquisition with the total consideration transferred:

in EUR million	2017
Cash reserves	190
Financial assets held for trading	57
Loans and receivables	4,744
Customers	4,280
Credit institutions	464
Hedging derivatives	36
Financial assets designated at fair value through profit or loss	265
Available-for-sale financial assets	1,693
Property, plant and equipment	67
Investment properties	116
Intangible non-current assets	27
Tax assets for current taxes	8
Tax assets for deferred taxes	0
Other assets	10
Financial liabilities held for trading	55
Financial liabilities at amortized cost	6,139
Customers	5,018
Issued bonds, subordinated and supplementary capital	62
Credit institutions	1,059
Hedging derivatives	5
Provisions	46
Tax liabilities for current taxes	25
Tax liabilities for deferred taxes	3
Other liabilities	27
Total identifiable net assets acquired	**912**
Total consideration transferred	**641**
Consolidation result[1)]	***271***

1) Recognized in other operating income and expenses.

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Real estate (investment properties and owner-occupied property)

Fair values are based on external appraisals prepared by an independent third party, and are measured using the income approach based on the rental income of the respective property.

The basis of the income approach is the sustained net annual income from the premises, which is the balance between the gross annual income and the non-recoverable expenses normally to be covered by the landlord. The gross annual income includes all revenues sustainably achievable from the property, in particular the rents and leases. The net income from the buildings is capitalized, depending on the remaining useful life of the buildings, using an appropriate interest rate.

Intangible assets

BAWAG Group has identified customer relationships and a brand name as separately identifiable intangible assets. The valuation has been carried out with the assistance of an external advisor using state-of-the-art valuation models.

Customer relationships have been valued using a multi-period excess earnings method (MPEEM). The valuation of the brand “Südwestbank” is based on a brand equity approach (relief from royalty method). The following table summarizes the main assumptions:

	Customer relationships Retail/SME	Customer relationships Private Banking	Customer relationships Corporates	Brand name “Südwestbank”
Valuation method	MPEEM	MPEEM	MPEEM	brand equity approach
Customer group	Retail/SME customers	Private Banking customers	Corporate customers	all
Income/expenses	Derived from BAWAG Group’s business plan assumption			
Term of the model	20 years	30 years	20 years	Indefinite
Cost of capital	7.72%	8.04%	7.70%	8.63%

Financial assets

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 Level 2 instruments (OTC derivatives), modeling techniques applied follow industry standard models, for example, discounted cash flow analysis and standard option pricing models. Market parameters such as interest rates, FX rates or volatilities are used as input to the valuation model to determine 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 either be derived from market data or from internal information of the acquired company (e.g. expected credit losses). The discount rates which 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 which reflect current fair value spreads).

The discount curves used to determine the pure time value of money contain only instruments which assume no or only low default risk, such as swap rates. Spread curves that reflect the refinancing costs of the acquired company are either derived from outstanding funding instruments, distinguished by seniority (senior unsecured, subordinated, collateralized funding), benchmark yield curves (e.g. bond indices) or funding costs observed for new business conducted recently (by the company itself or comparable products offered by competitors). The assignment of a credit spread curve to a financial asset depends on the industry of the underlying counterparty and the liquidity of the relevant instrument. Whenever available, single name credit default swap (CDS) spreads are used for valuation purposes. If a single name CDS spread or a proxy is not deemed sufficiently liquid, MarkIt sector curves are applied. In case no reliable market data is available, spread curves are built based on internal rating based probabilities of default. For all credit spread curves applied, available collateralization is taken into account (i.e. only unsecured exposure at risk). Cost of capital is used as a spread component of the discount factors as well.

The acquired loans and receivables from customers in the amount of EUR 4,280 million represent the fair value as of the acquisition date. Additionally, loans and receivables from credit institutions in the amount of EUR 464 million were acquired. The total loans and receivables comprise gross amounts of EUR 4,846 million, of which EUR 102 million was expected to be uncollectable at the date of acquisition.

The business combination is based on provisional amounts as the closing of the acquisition took place shortly before the balance sheet date. The amounts measured on a provisional basis are fair values of intangible assets and of financial assets and liabilities, pending completion of a final valuation. In case we obtain new information about facts or circumstances that existed as of the acquisition date and that – if known – would have resulted in the recognition of additional assets or liabilities, the accounting for the business combination would have to be adapted according to IFRS 3.45. However, currently the Group does not expect any major impacts.

For the month of December, Südwestbank contributed core revenues (net interest income and net commission income) of EUR 10 million and a profit of EUR 1 million to the consolidated financial statements. If the acquisition had occurred on 1 January 2017, management estimates that Südwestbank would have contributed core revenues of EUR 118 million, and consolidated profit of EUR 18 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Acquisition of the issuing business of SIX Payment Services GmbH (PayLife)

The acquisition of the issuing business of SIX Payment Services GmbH (PayLife) took place on 6 October 2017, following receipt of all regulatory approvals and fulfillment of all contractual requirements. By taking over the issuing business PayLife, which is organizationally integrated into easybank AG, BAWAG Group significantly strengthens its presence in the issuing and management of credit cards and expands its market position. The funding, which is required by the assumption of the credit card receivables, is ensured by easybank AG, which has many years of experience in the credit card sector and also issues and manages credit cards with cooperation partners.

According to IFRS 3, the consolidation result was recognized in the Profit or Loss Statement in the line item Other operating income and expenses.

This gain is due to the fact that the former owner of the company wanted to discontinue the issuing business and that from the acquirer's point of view a need for restructuring existed. The total consideration transferred at the date of acquisition was paid in cash and amounted to EUR 40 million. The payment was made at the shareholder level by BAWAG P.S.K. AG to SIX Holding GmbH. The final purchase price is based on a closing accounts mechanism. We expect that final closing accounts will only be available in the second quarter of 2018. The purchase price allocation included in the financial statements as of 31 December 2017 includes the expected additional payment in the amount of EUR 4 million to the seller.

The Group did not incur any material acquisition-related costs for the acquisition mentioned above.

The following table compares the recognized amounts of assets and liabilities at the date of acquisition with the total consideration transferred.

in EUR million	2017
Loans and receivables	204
Intangible non-current assets	11
Other assets	1
Financial liabilities at amortized cost	152
Customers	18
Credit institutions	134
Provisions	4
Tax liabilities for current taxes	2
Tax liabilities for deferred taxes	2
Other obligations	3
Total identifiable net assets acquired	**53**
Total consideration expected	**45**
***Consolidation result*[1]**	***8***

1) Recognized in other operating income and expenses.

The acquired loans and receivables in the amount of EUR 204 million mainly represent loans and receivables from customers and the fair value as of the acquisition date. The total loans and receivables comprise gross amounts of EUR 209 million, of which EUR 5 million was expected to be uncollectable at the date of acquisition.

The capitalized customer relationships were calculated using the multi-period excess earnings method. With regard to the fair value of financial assets and liabilities, we refer to the explanations of the acquisition of Südwestbank.

The business combination is based on provisional amounts. The amounts measured on a provisional basis are, in addition to the purchase price mentioned earlier, fair values of intangible assets which are pending until completion of a final valuation. In case we obtain new information about facts or circumstances that existed as of the acquisition date and that – if known – would have resulted in the recognition of additional assets or liabilities, the accounting for the business combination would have to be adapted according to IFRS 3.45. However, currently the Group does not expect any major impacts.

From the acquisition date until 31 December 2017, the acquired business contributed core operating income (net interest income and net commission income) of EUR 11 million and a profit of EUR 6 million. If the acquisition had taken place on 1 January 2017, management estimates that the acquired business would have contributed EUR 40 million to the core operating income and EUR 11 million to the consolidated profit. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Adjustment of provisional amounts of the acquisition of start:bausparkasse AG and IMMO-BANK AG according to IFRS 3

BAWAG Group acquired 100% of the group start:gruppe (consisting of start:bausparkasse AG and IMMO-BANK AG) on 1 December 2016. The initial accounting for the purchase price allocation was accounted for in the financial year 2016. This purchase price allocation was based on provisional amounts, due to the closing of the acquisition taking place shortly before the balance sheet date and due to the complexity of the transaction a complete fair valuation of customer relationships and brand name as well as parts of the financial instruments such as loans, building-society loans, building-society savings accounts and own issues was only provisional.

The purchase price allocation was finalized in November 2017. According to IFRS 3, prior-year figures were adjusted as if the final values had been accounted for from the beginning. This includes adjustments to assets and liabilities, the total consideration transferred and the consolidation result. The final total consideration transferred was calculated via a closing account mechanism and amounted to EUR 193 million. The adjustments to the assets and liabilities also led to impacts on the Profit or Loss Statement due to amortization of the adjusted values in the financial years 2016 and 2017.

The following table shows the final fair values of assets and liabilities and the final consideration transferred, which have been adjusted in part within the measurement period according to IFRS 3.45 due to new information on facts and circumstances that existed as of the acquisition date but were not known.

in EUR million	2016 (provisional)	**2016 (final)**
Cash reserves	93	93
Loans and receivables	3,664	3,667
Customers	2,813	2,816
Credit institutions	851	851
Held-to-maturity investments	3	3
Intangible non-current assets	12	30
Tax assets for current taxes	1	1
Tax assets for deferred taxes	3	–
Other assets	3	3
Financial liabilities designated at fair value through profit or loss	89	89
Financial liabilities held for trading	2	2
Financial liabilities at amortized cost	3,283	3,316
Customers	2,106	2,139
Issued bonds, subordinated and supplementary capital	496	496
Credit institutions	681	681
Provisions	18	18
Tax liabilities for current taxes	14	14
Tax liabilities for deferred taxes	32	25
Other obligations	26	26
Total identifiable net assets acquired	**316**	**307**
Total consideration transferred	**190**	**193**
Consolidation result[1)]	***126***	***114***

1) Recognized in other operating income and expenses.

The following table shows the impacts on the P&L in the financial year 2017 and in the prior year 2016 resulting from the adjustments of the purchase price allocation.

in EUR million	Line item in the Statement of Financial Position	Result from the adjustment of the provisional purchase price allocation 2016	Line item in the Profit or Loss Statement	Result from the amortization adjustment 2017	Result from the amortization adjustment 2016
IMMO-BANK/ start:bausparkasse	Loans and receivables – Customers	2.5	Interest income	(10.2)	1.7
start:bausparkasse	Financial liabilities at amortized cost – Customers	(32.9)	Interest expense	9.7	0.5
IMMO-BANK/ start:bausparkasse	Brand name and customer relationships	17.7	Depreciation and amortization on tangible and intangible non-current assets	(0.8)	(0.1)
IMMO-BANK/ start:bausparkasse	Deferred tax assets/Deferred tax liabilities	3.2	Income taxes	0.3	(0.5)
IMMO-BANK/ start:bausparkasse		**(9.5)**		**(1.0)**	**1.6**

The impact on the Profit or Loss Statement in the line item net interest income from loans and receivables at amortized cost results from the amortization of the adjusted fair values.

The impact on the Profit or Loss Statement from the line item intangible assets results from depreciation and amortization of the adjusted fair values.

Details to the Cash Flow Statement

BAWAG Group paid EUR 641 million for the acquisition of Südwestbank and took over cash reserves in the amount of EUR 190 million, EUR 40 million were paid for the Issuing Business of SIX Payment Services GmbH (PayLife), while no cash reserves were taken over. The remaining difference to the position “Acquisition of subsidiaries, net of cash acquired” in the Cash Flow Statement stems from the additional purchase price payment relating to the acquisition of start:bausparkasse and IMMO-BANK.

Other major changes in the Group’s holdings

P.S.K. Beteiligungsverwaltung GmbH, a 100% subsidiary of BAWAG Group, sold its 24% stake in WBG Wohnen und Bauen Gesellschaft mbH, a Vienna-based housing cooperative, effective 30 May 2017 to the co-shareholder.

BAWAG P.S.K. LEASING GmbH was merged with easyleasing GmbH effective 11 July 2017 and was subsequently stricken from the companies register.

Upon the closing on 18 July 2017, BAWAG Group sold its 26.3% stake in media.at GmbH along with the other shareholders. Together with media.at GmbH as head of the group, the group members MediaSelect GmbH, mediastrategen GmbH, OmniMedia GmbH and former pilot@media.at GmbH were also sold.

Upon entry into the companies register on 22 December 2017, Einlagensicherung Austria Ges. m.b.H. was founded and each affiliated bank of BAWAG Group acquired a small share. The company was established pursuant to the new Austrian deposit protection scheme and will be operational from 2019 onwards.

Effective 30 November 2017, the Slovak-based BAWAG Leasing & Fleet s.r.o. was merged with the Czech-based BAWAG Leasing & fleet s.r.o.

AI ALTERNATIVE INVESTMENTS LTD, Jersey, was dissolved and stricken from the companies register on 21 November 2017.

For further details, please refer to Notes 49 and 50.

Acquisition of Deutscher Ring Bausparkasse

In December 2017, BAWAG Group entered into a definitive agreement to purchase 100% of Deutscher Ring Bausparkasse AG, headquartered in Hamburg, from Basler Versicherungen and Signal Iduna Group. Furthermore, BAWAG Group signed a Memorandum of Understanding with Basler Versicherungen Germany, part of the Baloise Group, to pursue a long-term strategic cooperation. The transaction is subject to customary closing conditions and regulatory approvals.

38 | Assets pledged as collateral

in EUR million	31.12.2017	31.12.2016
Receivables and securities assigned to Oesterreichische Kontrollbank AG	285	409
Collateral pledged to the European Investment Bank	148	376
Cover pool for trust savings deposits	25	22
Cover pool for covered bonds	3,378	3,077
Collateral for Residential Mortgage-Backed Securities (RMBS)	683	878
Collateral for tender facilities	2,851	871
Other collateral	208	20
Cash collateral for derivatives	59	163
Assets pledged as collateral	**7,637**	**5,816**

The Group pledges assets for repurchase agreements which 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. Regarding export financing, receivables and securities assigned to Oesterreichische Kontrollbank AG are pledged. 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 at the European Investment Bank.

39 | Total collateralized debt

The collateral listed in the table above corresponded to the following payables of BAWAG P.S.K.:

in EUR million	31.12.2017	31.12.2016
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	286	371
Payables arising due to refinancing by the European Investment Bank	91	370
Trust savings deposits	19	19
Payables secured by the cover pool for covered bonds	2,229	2,078
RMBS	431	584
Tender facilities	2,344	700
Negative market values of derivatives	53	105
Other collateral	23	–
Total collateralized debt	**5,476**	**4,227**

40 | Genuine repurchase agreements

in EUR million	31.12.2017	31.12.2016
Lender – receivables from credit institutions	–	–
Repurchaser – payables to credit institutions	–	300
Repurchase agreements	**–**	**300**

41 | Transferred assets that are not derecognized in their entirety

	Financial assets designated at fair value through profit or loss	
in EUR million	31.12.2017	31.12.2016
Carrying amount of transferred assets[1)]	–	340
Carrying amount of associated liabilities	–	300

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.

42 | Subordinated assets

Line items on the assets side of the Statement of Financial Position included the following subordinated assets:

in EUR million	31.12.2017	31.12.2016
Loans and receivables	–	8
Subordinated assets designated at fair value through profit or loss	7	6
Subordinated assets designated as available-for-sale	192	153
Subordinated assets	**199**	**167**

43 | Offsetting financial assets and financial liabilities

BAWAG Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In 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 set out 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

31.12.2017 in EUR 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: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral received	Net amount
Derivatives (excl. hedging derivatives)	458	–	458	155	204	**99**
Hedging derivatives	517	–	517	245	264	**8**
Loans to and receivables from customers	1,059	447	612	–	–	**612**
Total	**2,034**	**447**	**1,587**	**400**	**468**	**719**

31.12.2016 in EUR 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: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral received	Net amount
Derivatives (excl. hedging derivatives)	652	–	652	278	254	**120**
Hedging derivatives	677	–	677	446	207	**24**
Loans to and receivables from customers	243	127	116	–	–	**116**
Total	**1,572**	**127**	**1,445**	**724**	**461**	**260**

Financial liabilities

31.12.2017 in EUR 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)	345	–	345	292	21	**32**
Hedging derivatives	94	–	94	62	32	**–**
Repo transactions	–	–	–	–	–	**–**
Customer deposits	447	447	–	–	–	–
Total	**886**	**447**	**439**	**354**	**53**	**32**

31.12.2016 in EUR 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)	617	–	617	548	50	**19**
Hedging derivatives	260	–	260	209	50	**1**
Repo transactions	300	–	300	300	–	**–**
Customer deposits	127	127	–	–	–	–
Total	**1,304**	**127**	**1,177**	**1,057**	**100**	**20**

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

31.12.2017 in EUR 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	458	–	458
Hedging derivatives	Hedging derivatives	517	–	517
Loans to and receivables from customers	Loans to and receivables from customers	30,804	30,192	612
Total		**31,779**	**30,192**	**1,587**

31.12.2016 in EUR 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	652	–	652
Hedging derivatives	Hedging derivatives	677	–	677
Loans to and receivables from customers	Loans to and receivables from customers	28,498	28,382	116
Total		**29,827**	**28,382**	**1,445**

Financial liabilities

31.12.2017 in EUR 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	345	–	345
Hedging derivatives	Hedging derivatives	94	–	94
Repo transactions	Financial liabilities associated with transferred assets	–	–	–
Customer deposits	Deposits from customers	30,947	30,947	–
Total		**31,386**	**30,947**	**439**

31.12.2016 in EUR 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	617	–	617
Hedging derivatives	Hedging derivatives	260	–	260
Repo transactions	Financial liabilities associated with transferred assets	300	–	300
Customer deposits	Deposits from customers	26,030	26,030	–
Total		**27,207**	**26,030**	**1,177**

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

in EUR million	31.12.2017	31.12.2016
Contingent assets	–	–
Contingent liabilities	**307**	**193**
Arising from guarantees	307	193
Unused customer credit lines	**7,691**	**4,567**
Thereof terminable at any time and without notice	6,484	3,174
Thereof not terminable at any time	1,207	1,393

In the course of 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. From the current point of view, the Group does not expect any payments resulting from this guarantee.

45 | Foreign currency amounts

BAWAG Group had assets and liabilities in the following foreign currencies:

in EUR million	31.12.2017	31.12.2016
USD	2,169	2,754
CHF	1,538	1,954
GBP	2,666	3,176
Other	193	269
Foreign currency	**6,566**	**8,153**
EUR	**39,505**	**31,608**
Total assets	**46,071**	**39,761**
USD	477	423
CHF	245	330
GBP	610	917
Other	168	196
Foreign currency	**1,500**	**1,866**
EUR	**44,571**	**37,895**
Total liabilities	**46,071**	**39,761**

This table includes only Statement of Financial Position items and does not provide information about open currency positions due to off-balance hedging transactions.

46 | Information about geographical areas – Non-current assets

in EUR million	31.12.2017	31.12.2016
Austria	587	497
Western Europe	206	0
Total	**793**	**497**

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.

47 | 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):

31.12.2017 in EUR million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	833	390	2	**1,225**
As yet unrealized financial income	35	29	–	**64**
Receivables from finance leases (net investment value)	**798**	**361**	**2**	**1,161**

31.12.2016 in EUR million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	434	758	79	**1,271**
As yet unrealized financial income	27	38	4	**69**
Receivables from finance leases (net investment value)	**407**	**720**	**75**	**1,202**

As of 31 December 2017, the non-guaranteed residual value amounts to EUR 31 million (2016: EUR 42 million).

There were no impairments recognized in respect of irrecoverable minimum lease installments (2016: EUR 0.0 million).

Operating leasing from the view of BAWAG Group as lessee

The Group leases the majority of its offices and branches 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.

Future minimum lease payments required under operating leases

in EUR million	31.12.2017	31.12.2016
Future minimum rental payments		
Not later than one year	20	23
Over one year and not later than five years	45	41
Over five years	136	136
Total future minimum rental payments[1)]	**201**	**200**
less: Future minimum rentals to be received	1	1
Net future minimum rental payments	**200**	**199**
Rental payments for lease agreements	(23)	(23)
Rental income from sublease contracts	1	2

1) Gross future minimum rental payments amount to EUR 242 million.

48 | Derivative financial transactions

Derivative financial transactions as of 31.12.2017

31.12.2017 in EUR million		Nominal amount/maturity[1]				Fair value[1]	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**7,207**	**17,392**	**15,971**	**40,570**	**888**	**(346)**
Thereof	interest rate swaps banking book	**5,989**	14,402	14,422	34,813	712	(254)
	interest rate options banking book	**115**	543	204	862	35	(30)
	forward rate agreements banking book	**–**	–	–	–	–	–
	interest rate swaps trading book	672	1,808	1,120	3,601	124	(46)
	interest rate options trading book	431	639	225	1,294	17	(16)
	forward rate agreements trading book	–	–	–	–	–	–
Currency related business		**3,321**	**2,764**	**1,342**	**7,427**	**82**	**(88)**
Thereof	currency swaps banking book	323	2,611	1,342	4,276	50	(81)
	foreign currency forward transactions and options banking book	2,599	143	–	2,742	30	(5)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	399	10	–	409	2	(2)
Securities related business		**8**	**48**	**37**	**92**	**5**	**(5)**
Thereof	securities related business banking book	8	48	37	92	5	(5)
Total		**10,536**	**20,204**	**17,350**	**48,089**	**975**	**(439)**
Thereof	banking book business	9,034	17,747	16,005	42,785	832	(375)
	trading book business	1,502	2,457	1,345	5,304	143	(64)

1) Banking book derivatives include fair value hedging instruments.

Derivative financial transactions as of 31.12.2016

31.12.2016 in EUR million		Nominal amount/maturity[1]				Fair value[1]	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**3,785**	**16,084**	**13,044**	**32,913**	**1,166**	**(472)**
Thereof	interest rate swaps banking book	2,369	12,550	10,963	25,882	909	(343)
	interest rate options banking book	20	212	454	686	47	(32)
	forward rate agreements banking book	100	–	–	100	–	–
	interest rate swaps trading book	765	2,180	1,422	4,367	168	(74)
	interest rate options trading book	531	1,142	205	1,878	42	(23)
	forward rate agreements trading book	–	–	–	–	–	–
Currency related business		**4,477**	**2,512**	**1,513**	**8,502**	**157**	**(400)**
Thereof	currency swaps banking book	471	2,427	1,360	4,258	71	(299)
	foreign currency forward transactions and options banking book	2,892	84	153	3,129	66	(55)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	1,114	1	–	1,115	20	(46)
Securities related business		**22**	**60**	**38**	**120**	**6**	**(5)**
Thereof	securities related business banking book	22	60	38	120	6	(5)
Total		**8,284**	**18,656**	**14,595**	**41,535**	**1,329**	**(877)**
Thereof	banking book business	5,874	15,333	12,968	34,175	1,099	(734)
	trading book business	2,410	3,323	1,627	7,360	230	(143)

1) Banking book derivatives include fair value hedging instruments.

49 | List of consolidated subsidiaries

	31.12.2017		31.12.2016	
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%
easybank AG, Vienna	F	100.00%	F	100.00%
IMMO-BANK Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
start:bausparkasse AG, Vienna	F	100.00%	F	100.00%
Südwestbank Aktiengesellschaft, Stuttgart	F	100.00%	–	–
Real estate				
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	F	100.00%	F	100.00%
BPI Holding GmbH & Co KG., Vienna	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%	–	–
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 GmbH, Vienna (formerly: BAWAG P.S.K. Autoleasing GmbH)	–	–	F	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna (formerly: BAWAG P.S.K. LEASING GmbH)	F	100.00%	F	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
CVG Immobilien GmbH, Vienna	F	100.00%	F	100.00%
easyleasing GmbH, Vienna (formerly: VB Leasing Finanzierungsgesellschaft m.b.H.)	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%
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	F	100.00%	F	100.00%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
RF 17 BAWAG Immobilienleasing 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%	F	100.00%
START Immobilienleasing GmbH, Vienna	F	100.00%	F	100.00%

	31.12.2017		31.12.2016	
Other non-credit institutions				
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
BV Vermögensverwaltung GmbH, Vienna	F	100.00%	–	–
E2E Kreditmanagement GmbH, Vienna	F	100.00%	F	100.00%
E2E Service Center Holding GmbH, Vienna	F	100.00%	F	100.00%
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[1)]	F	0.00%	F	0.00%
Feldspar 2016-1 PLC, London[1)]	F	0.00%	F	0.00%
Pa-Zweiundsechzigste WT Beteiligungsverwaltungs 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%
SWB Immowert GmbH, Stuttgart	F	100.00%	–	–

F … Full consolidation, E … Equity method

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. is obligated to consolidate these entities according to IFRS 10.

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 which 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.

50 | List of subsidiaries and associates not consolidated due to immateriality

	31.12.2017	31.12.2016
Real estate		
ROMAX Immobilien GmbH, Vienna	100.00%	100.00%
Leasing		
BAWAG Leasing & fleet s.r.o., Bratislava	–	100.00%
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	50.00%	50.00%
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
Realplan Beta Liegenschaftsverwaltung Gesellschaft m.b.H., Vienna	50.00%	50.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	100.00%
Other non credit institutions		
AI-ALTERNATIVE INVESTMENTS LTD., St. Helier	–	100.00%
Athena Burgenland Beteiligungen AG, Eisenstadt	38.30%	38.30%
Athena Wien Beteiligungen AG, Vienna	50.00%	50.00%
AUSTOST ANSTALT, Balzers	100.00%	100.00%
AUSTWEST ANSTALT, Triesen	100.00%	100.00%
BAWAG Finance Malta Ltd., Sliema	100.00%	100.00%
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	100.00%	100.00%
BAWAG P.S.K. Deutschland Holding GmbH, Stuttgart	100.00%	–
BAWAG P.S.K. Equity Finance Limited, St. Helier	100.00%	100.00%
BV Vermögensverwaltung GmbH, Vienna	–	100.00%
easy green energy GmbH, Vienna	49.00%	49.00%
easy green energy GmbH & Co KG, Vienna	49.00%	49.00%
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H., Vienna	36.03%	36.03%
ESG Entwicklungsgesellschaft mbH., Stuttgart	100.00%	–
GemeloLux S.A., Luxembourg	100.00%	–
media.at GmbH, Vienna	–	26.30%
MediaSelect GmbH, Vienna	–	26.30%
mediastrategen GmbH, Vienna	–	26.30%
MF BAWAG Blocker LLC, Wilmington	100.00%	100.00%
OmniMedia GmbH, Vienna	–	26.30%
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	50.00%	50.00%
Dentsu Aegis Network Central Services GmbH, Vienna (formerly: pilot@media.at GmbH)	–	26.30%
SWB Treuhand GmbH, Stuttgart	100.00%	–
Tresides Asset Management GmbH, Stuttgart	51.00%	–
TwinLux Value Invest S.A., Luxembourg	100.00%	–
Vertiva Family Office GmbH, Stuttgart	52.50%	–
WBG Wohnen und Bauen Gesellschaft mbH, Vienna	–	24.00%

51 | 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 EUR million	31.12.2017	31.12.2016
Carrying amounts of all associates	44	45
Aggregated amount of the Group's share of profit or loss	4.1	8.0
Aggregated amount of the Group's share of other comprehensive income	(0.2)	(2.3)
Aggregated amount of the Group's share of total comprehensive income	3.9	5.7

52 | 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 the determination of 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 EUR 98 million (2016: EUR 103 million) best measure their size. For securitizations, this is the notional of notes in issue in the amount of EUR 713 million (2016: EUR 0 million).

The table below sets out 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. The increase compared to 2016 is due to investments in CLOs.

in EUR million	2017	2016
Carrying amounts of assets in connection with investments in structured entities	**761**	**51**
on the balance sheet shown under Loans and receivables	761	51
Carrying amounts of liabilities in connection with investments in structured entities	**0**	**0**
Income	**6.9**	**0.3**
Interest income	6.9	0.3
Losses incurred during reporting period	0	0
Maximum exposure to loss	761	51

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

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

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

Risk management policies are reviewed regularly to reflect adjustments to the business strategy, regulatory requirements as well as market conditions. Particular attention is paid to the need for adjustment as part of the Group's expansion strategy.

The following divisions oversee the implementation and execution of risk-related guidelines:

- Strategic Risk
- Market & Liquidity Risk Controlling
- Enterprise Risk Management
- Credit Risk Management
- European Retail Risk Management
- Non-Financial Risk Management & Regulatory Compliance

The following risks including their respective sub-risks are considered as material for BAWAG Group:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk/Non-financial risk

Furthermore, a risk self-assessment (RSA), which is conducted on an annual basis, provides an overview of the Group's risk situation and the risk management of the individual risk types 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, their impact on the Group as well as their coverage through existing risk management procedures. The quantification of these risks is considered in the risk-bearing capacity.

The material risks of BAWAG Group are described on the following pages.

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

The Group's economic risk-bearing capacity, which compares the quantified risks with the risk coverage capacity, is evaluated on a monthly basis. The risk quantification is based on a confidence level of 99.9%, which represents the probability of potential losses not exceeding the quantified risks. Limits are determined for all defined limit categories and steering portfolios as part of the risk strategy. Compliance with the limits is monitored in accordance with the established monitoring processes on a monthly basis. If the predefined warning levels are reached or the limits are exceeded, escalation processes are initiated.

In connection with the evaluation of the risk-bearing capacity, the individual and material risks are quantified, subsequently aggregated to the total risk and, in a further step, compared with BAWAG Group's risk coverage capacity. The following risk types are considered:

- Credit risk: the quantification of credit risk is based on the IRB approach for all portfolio segments. Additional capital surcharges are applied for concentration risk in connection with loans to major customers/to groups of affiliated customers, for the FX-induced credit risk as well as for the risk arising from credit lines not subject to capital requirements under legal regulations.

- Market risk: BAWAG Group has identified interest rate risk in the banking book and credit spread risk as the relevant market risks. Interest rate risk is measured using value-at-risk models, whereas a scenario-based approach is used for measuring credit spread risks. The interest rate risk in the banking book and the credit spread risk are aggregated taking conservative correlation assumptions into account.

- Liquidity risk: the structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of spreads in connection with a notional spread widening on the market. Dispositive liquidity risks as well as market and liquidity risk are quantified in Market & Liquidity Risk Controlling and are controlled operationally in Liquidity & Funding Management.
- Operational risk/Non-financial risk: the operational risk (including compliance risk) is quantified using a value-at-risk model.
- Other risks: this risk category includes participation risk, macroeconomic risk, strategic risk, reputation risk and capital risk. Participation risk is quantified using the PD/LGD approach based on IFRS book values, while capital is held for the macroeconomic risk based on expert assumptions. For all other mentioned risk types, the required economic capital is quantified using simplified valuation models.

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

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

The link between the internal stress tests and capital management is formally defined within the internal risk and capital governance.

The capital ratios defined within the capital planning process and monitored by the Capital Management Meeting are used as a benchmark for stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the internal stress tests, senior management reviews whether the stressed capital ratios remain above the recovery levels. A breach of the recovery levels needs to be soundly justified, or measures need to be taken to improve the capital position sufficiently in order to keep the capital ratios above the recovery levels even under a stressed scenario.

Furthermore, results of the ICAAP stress test are reported directly to the ERM. The ERM is in charge of assessing the results of the exercise and defining any corrective action for the risk appetite or business strategy, where necessary.

54 | Credit risk

Credit risk is defined as the risk of loss due to a party in a financial transaction failing to pay its obligation to the other party.

The operative credit risk division is specifically set up to ensure functional risk management expertise for commercial and institutional (non-retail) as well as the retail and small business customers (retail). The division Enterprise Risk Management is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

In addition to clearly defined lending guidelines for retail and small business customers, the creditworthiness is assessed via automated scorecards. The scoring is based on statistical models that cover both application scoring as well as behavioral scoring based on the customer's account usage. In addition, external data (e.g. credit bureau information) is also factored into the customer scoring. 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 that have been developed 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, exposure limits are defined, monitored and reported to the Managing Board and Supervisory Board on a regular basis.

BAWAG Group is a banking group that applies the Internal Rating-Based (IRB) approach and as such sets high standards with regards to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to risk quantification methods. Specific standards are in place for all sub-portfolios that are monitored and validated on a regular basis. Due to the centralized structure and coordination of the Group, new risk regulations or changing market situations are considered in a timely manner within the risk management strategies. The following sections provide an overview of the structure and the portfolio quality in the individual segments.

Loan and securities portfolio by business segment

31.12.2017 in EUR million	BAWAG P.S.K. Retail	easygroup	Südwest-bank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total portfolio
Book value	11,193	4,144	4,124	6,536	4,831	3,456	304	34,588
Securities	3	–	59	162	323	7,641	7	8,195
Off-balance business	1,134	3,083	1,381	463	205	255	1,107	7,628
Total	**12,332**	**7,227**	**5,564**	**7,159**	**5,359**	**11,352**	**1,418**	**50,411**
thereof collateralized[1)]	7,991	3,577	3,722	1,009	2,390	57	404	19,150
thereof NPLs (gross view)[2)]	283	140	91	97	50	–	255	917

1) Collateral comprises residential and commercial real estate, guarantees, life insurances, etc.
2) Taking into consideration the fair value at initial recognition according to IFRS 3.
The NPLs as of 31.12.2017 without IFRS 3 effect for Südwestbank would have been as follows: EUR 187 million and Total EUR 1,013 million.

31.12.2016 in EUR million	BAWAG P.S.K. Retail	easygroup	Südwest-bank	DACH Corporates & Public Sector	International Business	Treasury Services & Markets	Corporate Center	Total portfolio
Book value	11,558	4,436	n/a	7,344	5,242	1,326	372	30,278
Securities	–	–	n/a	446	392	5,366	23	6,227
Off-balance business	1,108	498	n/a	1,123	303	314	714	4,060
Total	**12,666**	**4,934**	**n/a**	**8,913**	**5,937**	**7,006**	**1,109**	**40,565**
thereof collateralized[1)]	6,016	3,897	n/a	2,403	2,167	193	1	14,677
thereof NPLs (gross view)	252	105	n/a	81	–	–	255	692

1) Collateral comprises residential and commercial real estate, guarantees, life insurances, etc.

The table below provides reconciliation between book values of loans and receivables, the Risk Report and the Segment Report.

	Note 16	Notes 12, 13, 14	Risk view		Segment Report
31.12.2017 in EUR million	Loans and receivables (L&R)	Loans, bonds, investment funds (not part of L&R)	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	11,193	3	11,197	154	11,351
easygroup	4,144	–	4,144	29	4,173
Südwestbank	4,124	59	4,183	–	4,183
DACH Corporates & Public Sector	6,536	162	6,698	27	6,725
International Business	4,964	190	5,154	21	5,174
Treasury Services & Markets	4,488	6,608	11,096	41	11,137
Corporate Center	304	7	311	3,017	3,328
Total	**35,753**	**7,030**	**42,783**	**3,289**	**46,071**

	Note 16	Notes 12, 13,14[1)]	Risk view		Segment Report
31.12.2016 in EUR million	Loans and receivables (L&R)	Loans, bonds, investment funds (not part of L&R)	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	11,558	–	11,558	101	11,659
easygroup	4,436	–	4,436	22	4,458
Südwestbank	n/a	n/a	n/a	n/a	n/a
DACH Corporates & Public Sector	7,580	210	7,790	22	7,812
International Business	5,392	242	5,634	–	5,634
Treasury Services & Markets	1,496	5,195	6,691	–	6,691
Corporate Center	363	32	396	3,111	3,507
Total	**30,825**	**5,680**	**36,505**	**3,256**	**39,761**

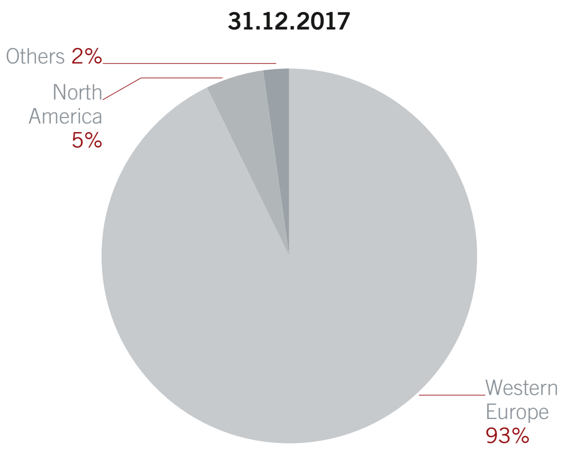
1) Shares and other variable rate securities of EUR 4 million are not included.

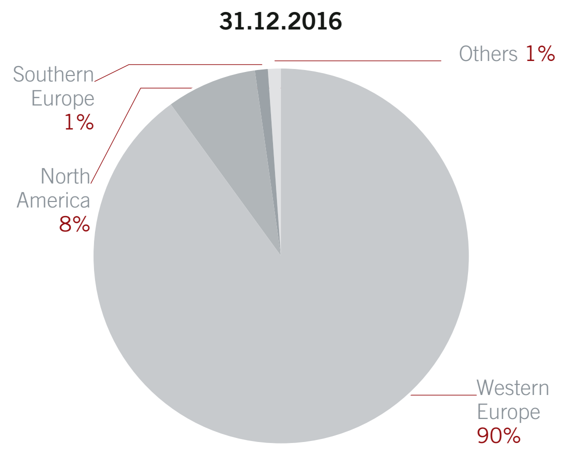
Geographical distribution of the loan and securities portfolio

The geographic distribution of the loan portfolio is in line with the Group's strategy to focus on stable geographies and currencies. A total of 98% (2016: 98%) of the loan portfolio[2)] and 86% (2016: 84%) of the securities portfolio[3)] is located in Western Europe and North America.

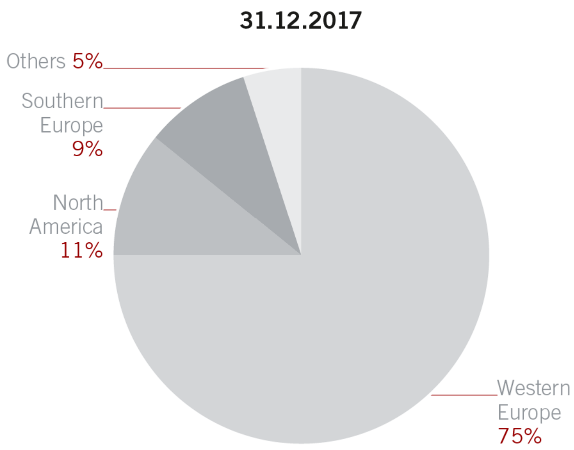
2) This includes Austria with 42% (Dec 2016: 67%), Germany with 35% (Dec 2016: 3%), Great Britain with 8% (Dec 2016: 10%), the United States with 5% (Dec 2016: 8%) and France with 4% (Dec 2016: 6%).
3) This includes Germany with 13% (Dec 2016: 3%), Great Britain with 13% (Dec 2016: 14%), the United States with 10% (Dec 2016: 13%), France with 7% (Dec 2016: 8%) and Austria with 6% (Dec 2016: 11%).

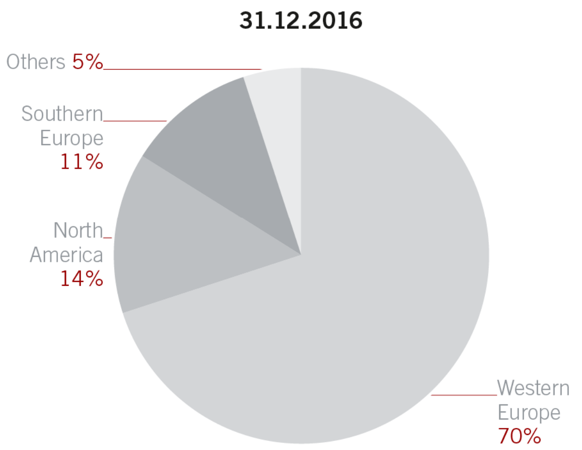
Geographical distribution of loans





Geographical distribution of securities





Loan and securities portfolio by currencies

Consistent with BAWAG Group's overall positioning, the majority of financing is denominated in EUR that has further increased in 2017. The following table captures the currency distribution of the loan and securities portfolio.

	Book value		in %	
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
EUR	36,306	28,702	84.9%	78.6%
GBP	2,545	2,970	5.9%	8.1%
USD	2,215	2,705	5.2%	7.4%
CHF	1,525	1,863	3.6%	5.1%
Others	192	265	0.4%	0.7%
Total	**42,783**	**36,505**	**100.0%**	**100.0%**

Credit quality overview: Loans, provisions, delinquencies and collaterals

The following table captures the days past due, NPL ratio and provisioning of the loan portfolio. The low risk profile is reflected by the low NPL ratio, low delinquency of loan volumes and good provision and collateral coverage across the portfolios. More than 81% (2016: 82%) of the total portfolio can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

	Book value[1]		in %	
in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Loans and receivables (gross)	**36,029**	**31,030**	**100.0%**	**100.0%**
Individual provisions	276	205	0.8%	0.7%
thereof IBNR	45	54	0.1%	0.2%
Loans and receivables (net)	35,753	30,825	99.2%	99.3%
NPL ratio[2][4]	**–**	**–**	**1.8%**	**1.7%**
NPL LLP coverage ratio[3][4]	–	–	33.9%	37.5%
NPL coverage ratio (collateral + LLP)[3][4]	–	–	77.7%	87.5%
Additional information:				
Total unprovisioned outstandings past due[5]	**229**	**217**	**0.6%**	**0.7%**
1–30 days	86	58	0.2%	0.2%
31–60 days	23	17	0.1%	0.1%
61–90 days	17	14	0.0%	0.0%
91–180 days	8	10	0.0%	0.0%
More than 180 days	95	117	0.3%	0.4%

1) Securities are not included since the securities portfolio does not show any days past due or any signs of non-performance.
2) NPLs including City of Linz; NPL ratio reflects a gross perspective.
3) NPL LLP coverage ratio and NPL coverage ratio (collateral + LLP) excluding City of Linz.
4) Taking into consideration the fair value at initial recognition according to IFRS 3.
Without the IFRS 3 effect the ratios as of 31.12.2017 would be: NPL ratio 2.0%, NPL LLP coverage ratio 42.4%, NPL coverage ratio (collateral + LLP) 84.1%.
5) Südwestbank not included due to IFRS 3 effect.

The following table shows the days past due and the NPL ratio for the segments BAWAG P.S.K. Retail, easygroup, Südwestbank as well as DACH Corporates & Public Sector and International Business.

31.12.2017 in EUR million	BAWAG P.S.K. Retail	easygroup	Südwestbank	DACH Corporates & Public Sector	International Business
Total	**11,197**	**4,144**	**4,183**	**6,698**	**5,154**
1–30 days	0.4%	0.4%	0.5%	0.3%	1.0%
31–60 days	0.1%	0.1%	0.1%	–	–
61–90 days	0.1%	0.1%	0.1%	–	–
NPL ratio[1)2)]	**2.3%**	**1.9%**	**1.6%**	**1.4%**	**0.9%**
NPL LLP coverage ratio[2)]	50.4%	19.8%	–	38.6%	34.1%
NPL coverage ratio (collateral + LLP)[2)]	82.3%	92.7%	58.1%	78.6%	44.7%

1) The NPL ratio reflects a gross perspective.
2) Taking into consideration the fair value at initial recognition according to IFRS 3.
The NPL and coverage ratios of Südwestbank as of 31.12.2017 without IFRS 3 effect would have been as follows: NPL ratio 3.3%, NPL LLP coverage ratio 51.2%, NPL coverage ratio (collateral + LLP) 93.6%.

31.12.2016 in EUR million	BAWAG P.S.K. Retail	easygroup	Südwestbank	DACH Corporates & Public Sector	International Business
Total	**11,558**	**4,436**	**n/a**	**7,790**	**5,634**
1–30 days	0.3%	0.2%	n/a	0.2%	–
31–60 days	0.1%	0.2%	n/a	–	–
61–90 days	0.1%	0.1%	n/a	–	–
NPL ratio[1)]	**2.0%**	**2.0%**	**n/a**	**0.9%**	**–**
NPL LLP coverage ratio	42.6%	20.4%	n/a	46.3%	–
NPL coverage ratio (collateral + LLP)	85.0%	88.4%	n/a	97.0%	–

1) The NPL ratio reflects a gross perspective.

The following table shows the distribution by ratings for the portfolio which is neither overdue nor impaired. The low risk profile is stable.

31.12.2017 in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	Südwestbank	DACH Corporates & Public Sector	International Business
Rating class 1	14.4%	0.4%	0.3%	–	35.7%	–
Rating class 2	4.5%	1.7%	0.8%	0.1%	19.4%	–
Rating class 3	13.4%	20.9%	16.9%	10.6%	13.0%	1.8%
Rating class 4	32.5%	26.8%	34.2%	49.4%	16.5%	66.3%
Rating class 5	28.7%	39.8%	36.8%	36.0%	11.2%	29.9%
Rating class 6	4.3%	7.2%	5.3%	3.4%	3.7%	1.3%
Rating class 7	2.2%	3.2%	5.7%	0.5%	0.5%	0.7%

31.12.2016 in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	Südwestbank	DACH Corporates & Public Sector	International Business
Rating class 1	12.9%	0.6%	0.4%	n/a	45.5%	–
Rating class 2	6.0%	4.6%	0.1%	n/a	15.8%	0.1%
Rating class 3	11.1%	14.7%	19.2%	n/a	5.5%	6.2%
Rating class 4	46.6%	41.5%	51.7%	n/a	21.4%	83.4%
Rating class 5	18.4%	30.0%	20.1%	n/a	10.6%	8.5%
Rating class 6	3.7%	6.2%	5.2%	n/a	1.1%	1.8%
Rating class 7	1.3%	2.3%	3.2%	n/a	0.1%	–

Internal rating classes correspond to Moody's rating in the following way: Rating class 1 corresponds to Moody's rating Aaa–Aa2, rating class 2 to Aa3–A1, rating class 3 to A2–A3, rating class 4 to Baa1–Baa3, rating class 5 to Ba1–B1, rating class 6 to B2–Caa2 and rating class 7 to Caa3.

Collateral

The following table contains the split of collateral by categories. It shows a strong focus on real estate.

31.12.2017 in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	Südwestbank	DACH Corporates & Public Sector	International Business
Real estate	77.5%	91.0%	53.5%	83.2%	39.9%	99.8%
thereof residential	73.8%	97.8%	99.6%	56.0%	43.2%	–
thereof commercial	26.2%	2.2%	0.4%	44.0%	56.8%	100.0%
Guarantees	10.4%	0.3%	15.4%	1.6%	58.3%	–
Other collateral	9.1%	3.0%	30.9%	12.6%	0.5%	0.2%
Financial collateral	3.0%	5.7%	0.2%	2.6%	1.3%	–

31.12.2016 in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	Südwestbank	DACH Corporates & Public Sector	International Business
Real estate	79.0%	88.1%	82.4%	n/a	30.1%	100.0%
thereof residential	78.3%	95.8%	99.8%	n/a	21.4%	–
thereof commercial	21.7%	4.2%	0.2%	n/a	78.6%	100.0%
Guarantees	10.0%	0.6%	–	n/a	68.1%	–
Other collateral	8.2%	3.8%	17.5%	n/a	0.4%	–
Financial collateral	2.8%	7.5%	0.1%	n/a	1.3%	–

Impaired loans

Provisions are booked on loans for which full recovery is unlikely. The main components of the provisioning framework are shown in the following paragraphs. The volume reported as NPLs includes all claims against customers classified as being in default and against customers for which specific impairment provisions have been formed[1)].

Automatic loan loss provision
Loan loss provisions are booked automatically in the core banking system based on defined standards in the case of 90 days past due or when legal action is initiated.

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

General impairment provisions
A general provision is booked on a portfolio basis for incurred but not reported (IBNR) losses as of the reporting date. The general loan loss provision is formed for on- and off-balance-sheet claims in the Group's credit portfolio. As of 31 December 2017, the IBNR portfolio provision amounted to EUR 54.4 million, thereof off balance EUR 9.5 million (as of 31 December 2016: EUR 59 million, thereof off balance EUR 5.5 million).

1) The IBNR portfolio provision does not lead to a classification as "in default." On the other hand, the two further impairment provision types described in the Impaired loans section lead to the immediate default of the customer.

Non-performing loans (NPLs)

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

Forborne loans and forbearance measures

Measures of forbearance are extended if borrowers face financial difficulties and are considered to be unable to meet contractual obligations. The Group has sound and transparent processes in place to define the conditions under which concessions, in the form of 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.

Measures of forbearance or refinancing are instruments 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 appropriate in terms of time and scope, the 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 clients or a group of clients where a default is identified, a provision is booked in accordance to internal guidelines.

For reporting as well as internal risk management purposes, the 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.

Collateral and valuation of residential and commercial real estate

All types of acceptable collateral are listed in the Group Collateral Catalogue. Adequate haircuts are defined for each type of collateral.

The central group Residential Real Estate Appraisal determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. 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 on the INSEE statistics (L'Institut national de la statistique et des études économiques) for French residential properties.

The values of commercial properties are appraised individually by experts in the central group Commercial Real Estate Appraisal, by selected external appraisers commissioned by the Group or by a syndicate partner after an inspection of the property and completion of a full appraisal report.

Workout department

The workout department is responsible for the processing and administration of troubled and defaulted loan commitments. The primary objective is to minimize losses by providing restructuring expertise and maximizing repayments.

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.

BAWAG P.S.K. Retail and easygroup

The BAWAG P.S.K. Retail portfolio is comprised of 60% mortgages (2016: 58%), 24% consumer lending (2016: 29%), 11% social housing (2016: 8%) and 5% small business lending (2016: 5%). The portfolio is characterized by strong collateral coverage in the secured products: 71% LTV across the mortgage portfolio (2016: 65%), 40% in private and small business lending (2016: 55%) and 43% (2016: 47%) across the social housing portfolio. As specified in the retail strategy, new business volumes were originated primarily from consumer lending and mortgages.

The easygroup portfolio is comprised of 52% mortgages (2016: 74%), 47% consumer lending (2016: 29%) and 1% small business lending (2016: 1%). New business volumes were also originated primarily from consumer lending.

The core products have detailed underwriting standards that focus on collateral coverage, overall customer indebtedness and assessing customers' ability to service the loan. In addition to that, special emphasis is placed on fraud detection via sophisticated techniques and sound processes to proactively prevent inflow of fraudulent new business.

New business is managed using clear and strict credit guidelines. Decisions at the point of sale are taken on the basis of automated scoring systems or, in certain cases, manual decisions by the Risk department. A key focus in this portfolio is placed on compliance with policies and ensuring high data quality already at the time of application. Therefore a central monitoring function drives ongoing quality assurance and sustains lending discipline.

For existing business, comprehensive portfolio steering (e.g. monitoring of portfolio trends, delinquency reporting along with default type analyses, NPL remediation and lending policy adjustments) is key to proactively managing the risks of the Group's retail lending business.

Therefore, having well-defined policies, procedures and analytical tools in place is essential for this flow-oriented business. The credit risk is measured continuously using the following methods:

- Portfolio trends in terms of overdue / late payments (e.g. vintage and flow rate analyses)
- Portfolio trends in terms of risk class distribution and risk concentrations
- Portfolio trends in terms of credit affordability and collateralization
- Portfolio trends with regard to defaulted loan facilities
- Portfolio trends in terms of incurred risk costs and losses
- Scorecard performance: Approval rate and manual decisions
- Performance monitoring of fraud detection

The results of the analysis are presented to the Managing Board and the relevant decision makers as part of the established operating rhythm. This process ensures a regular and standardized flow of information and enables the Group to respond directly to changes in risk parameters and market conditions.

Credit portfolio and securities by products

	Book value		NPL ratio[1)]	NPL coverage ratio	LTV[2)]
BAWAG P.S.K. Retail in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	**31.12.2017**	**31.12.2017**
Mortgage loans	6,746	6,675	1.4%	90.6%	70.5%
Consumer lending[3)]	2,702	3,346	3.4%	77.8%	n/a
Social housing loans	1,153	985	–	n/a	42.7%
Small business lending	596	552	5.5%	87.2%	40.2%
Total	**11,197**	**11,558**	**2.3%**	**82.3%**	**67.7%**

	Book value		NPL ratio[1)]	NPL coverage ratio	LTV[2)]
easygroup in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	**31.12.2017**	**31.12.2017**
Mortgage loans[4)]	2,163	3,267	4.0%	95.0%	25.0%
Consumer lending[4)]	1,944	1,137	1.0%	89.6%	n/a
Social housing loans	–	–	–	n/a	n/a
Small business lending	37	31	13.3%	83.6%	70.0%
Total	**4,144**	**4,436**	**1.9%**	**92.7%**	**47.2%**

1) The NPL ratio reflects a gross perspective.
2) The LTV for the total unprovisioned outstandings past due is close to the LTVs shown above.
3) Decrease due to updated product distribution of IMMO-BANK and start:bausparkasse.
4) Changes due to updated product distribution of the French mortgage portfolio.

The NPL ratio of the BAWAG P.S.K. Retail portfolio changed from 2.0% to 2.3% compared to the previous year. The NPL coverage ratio of 82.3% (2016: 85.0%) and the LTV of 67.7% (2016: 58.9%) convey the risk profile of this portfolio.

The mortgage portfolio of BAWAG P.S.K. Retail is characterized by standard LTVs, a low NPL ratio, a high coverage ratio and good geographic diversification. The weighted average tenor of the mortgage portfolio is less than 19 years (2016: 17 years).

Mortgages comprise both EUR- and CHF-denominated mortgages. The CHF-denominated mortgage portfolio stands at EUR 1.2 billion at year-end 2017 (2016: EUR 1.5 billion). The volume in CHF-denominated mortgages is down by over CHF 1.3 billion since the discontinuation of the product in 2008 (reduction of almost 50%). This is a portfolio that is proactively being wound down and/or converted to EUR-denominated loans. Specific programs have been in place for the past few years that were established between the Risk and Market organizations to convert customers to EUR-denominated loans. The LTV of the CHF portfolio was 69% as of year-end 2017 (2016: 77%).

The consumer lending portfolio is comprised of unsecured one-stop and online loans, overdrafts and a mix of leasing assets (consumer auto, real estate and equipment leasing). The focus has been on developing robust risk scorecards and processes to support the growth of this core segment. The risk profile of the portfolio is characterized by a weighted average tenor of above eight years.

Small business lending are proactively monitored to ensure the potential identification of weakening credits and if required, countermeasures are initiated.

The NPL ratio of the easygroup portfolio amounts to 1.9% (2016: 2.0%). The NPL coverage ratio amounts to 88.4% (2016: 100%) and an LTV of 47.2% (2016: 38.3%).

The acquired UK mortgage portfolio has an exposure-weighted remaining tenor of 14 years with an LTV of 49%. The French mortgage portfolio acquired in 2016 has an exposure-weighted remaining tenor of 11 years with an LTV of 24%.

For both segments, the overall NPL and coverage ratios reflect a stable and low-risk portfolio. The 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, there were further improvements in early detection, collection and debt recovery processes through successful repayments achieved by improvements in settlement and the risk management view.

Forbearance by products

	Consumer lending		Mortgage loans		Small business lending		Total	
BAWAG P.S.K. Retail in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Forborne assets	123	117	68	84	15	18	206	218
thereof non-performing	35	15	10	16	4	4	49	34
Impairments	24	8	3	4	1	1	28	13
Collateral	4	7	56	69	11	12	71	88

	Consumer lending		Mortgage loans		Small business lending		Total	
easygroup in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Forborne assets	12	6	80	143	1	1	93	149
thereof non-performing	4	–	26	27	–	–	30	28
Impairments	1	1	2	–	–	–	3	2
Collateral	6	–	72	134	1	–	78	134

Days past due – credit quality

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 full repayment of loans.

The BAWAG P.S.K. Retail portfolio is 94.4% (2016: 97.8%) current (i.e. no days past due). The easygroup portfolio is 98.3% (2016: 97.4%) current. 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 lending		Mortgage loans		Small business lending		Social housing loans	
BAWAG P.S.K. Retail in EUR million	**31.12. 2017**	31.12. 2016	**31.12. 2017**	31.12. 2016	**31.12. 2017**	31.12. 2016	**31.12. 2017**	31.12. 2016
Total	**2,702**	**3,346**	**6,746**	**6,675**	**596**	**552**	**1,153**	**985**
1–30 days	1.1%	1.0%	0.1%	0.1%	0.7%	0.9%	–	–
31–60 days	0.5%	0.3%	–	–	0.5%	0.2%	–	–
61–90 days	0.3%	0.2%	–	–	0.1%	–	–	–

	Consumer lending		Mortgage loans		Small business lending		Social housing loans	
easygroup in EUR million	**31.12. 2017**	31.12. 2016	**31.12. 2017**	31.12. 2016	**31.12. 2017**	31.12. 2016	**31.12. 2017**	31.12. 2016
Total	**1,944**	**1,137**	**2,163**	**3,267**	**37**	**31**	**–**	**–**
1–30 days	0.4%	0.4%	0.3%	0.1%	3.7%	–	–	–
31–60 days	0.2%	0.4%	0.1%	0.1%	0.7%	–	–	–
61–90 days	0.1%	0.4%	0.1%	–	–	–	–	–

Retail assets – Regional distribution

	Book value		in %		NPL ratio[1]	NPL coverage ratio
BAWAG P.S.K. Retail in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	**31.12.2017**
Vienna[2]	2,986	4,911	26.7%	42.5%	2.7%	81.9%
Lower Austria	2,619	1,818	23.4%	15.7%	2.0%	82.1%
Styria	1,942	1,821	17.3%	15.8%	1.5%	84.1%
Upper Austria	1,024	784	9.1%	6.8%	2.6%	83.2%
Tyrol/Vorarlberg	895	706	8.0%	6.1%	3.4%	81.6%
Carinthia	736	659	6.6%	5.7%	2.1%	80.8%
Salzburg	557	452	5.0%	3.9%	2.2%	82.5%
Burgenland	438	407	3.9%	3.5%	1.6%	87.9%
Total portfolio	**11,197**	**11,558**	**100.0%**	**100.0%**	**2.3%**	**82.3%**

1) The NPL ratio reflects a gross perspective.
2) Book values for December 2016 from IMMO-BANK and start:bausparkasse portfolios are grouped in BAWAG P.S.K. Retail – Vienna region.

	Book value		in %		NPL ratio[1]	NPL coverage ratio
easygroup in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	**31.12.2017**
Vienna	453	317	10.9%	7.1%	0.8%	83.3%
Tyrol/Vorarlberg	340	144	8.3%	3.2%	0.5%	84.0%
Upper Austria	197	127	4.7%	2.9%	0.7%	81.1%
Lower Austria	166	283	4.0%	6.4%	0.6%	82.0%
Styria	169	136	4.1%	3.1%	0.7%	77.0%
Carinthia	146	118	3.5%	2.7%	0.6%	85.0%
Salzburg	86	68	2.1%	1.5%	0.6%	83.6%
Burgenland	34	29	0.8%	0.7%	3.7%	92.1%
Portfolio Austria	**1,590**	**1,222**	**38.4%**	**27.6%**	**0.7%**	**82.0%**
United Kingdom	1,427	1,777	34.4%	40.1%	3.7%	92.1%
France	1,127	1,435	27.2%	32.4%	5.1%	99.2%
Total portfolio	**4,144**	**4,436**	**100.0%**	**100.0%**	**1.9%**	**92.7%**

1) The NPL ratio reflects a gross perspective.
2) Book values for December 2016 from IMMO-BANK and start:bausparkasse portfolios are grouped in BAWAG P.S.K. Retail – Vienna region.

The BAWAG P.S.K. Retail portfolio is regionally diverse across Austria, with two-thirds of the exposure distributed across the stronger economic regions of Vienna, Lower Austria and Styria similar to 2016. For the easygroup portfolio, the most significant regions in Austria are Vienna, Tyrol/Vorarlberg and Upper Austria, while the international mortgage portfolio comprises portfolios in UK and France.

Südwestbank

The following sections provide an overview of the Südwestbank portfolio structure and quality in the individual segments.

	Retail & SME		Corporates & Institutional Clients		Total	
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Book value	1,625	n/a	2,499	n/a	4,124	n/a
Securities[1]	–	n/a	59	n/a	59	n/a
Off-balance business	377	n/a	1,004	n/a	1,381	n/a
Total	**2,002**	**n/a**	**3,562**	**n/a**	**5,564**	**n/a**
thereof collateralized[2]	1,630	n/a	2,090	n/a	3,720	n/a
thereof NPLs (gross view)[3]	15	n/a	76	n/a	91	n/a

1) Securities included in the Treasury Services & Markets portfolio.
2) Collateral comprises residential and commercial real estate, guarantees, life insurances, etc.
3) Taking into consideration the fair value at initial recognition according to IFRS 3.
The NPLs of 31.12.2017 without IFRS 3 effect would have been as follows: Retail & SME EUR 26 million, Corporates & Institutional Clients EUR 161 million, Total EUR 187 million.

Credit quality overview

	Book value[1]		in %	
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Loans and receivables (gross)	**4,124**	**n/a**	**100.0%**	**n/a**
Individual provisions	–	n/a	–	n/a
thereof IBNR	–	n/a	–	n/a
Loans and receivables (net)	4,124	n/a	100.0%	n/a
NPL ratio[2]	**–**	**–**	**1.6%**	**n/a**
NPL LLP coverage ratio[2]	–	–	–	n/a
NPL coverage ratio (collateral + LLP)[2]	–	–	58.1%	n/a

1) Securities are not included since the securities portfolio does not show any days past due or any signs of non-performance.
2) NPL ratios reflect a gross perspective. Taking into consideration the fair value at initial recognition according to IFRS 3.
The NPL and coverage ratios as of 31.12.2017 without IFRS 3 effect would have been as follows: NPL ratio 3.3%, NPL LLP coverage ratio 51.2%, NPL coverage ratio (collateral + LLP) 93.6%.

	Book value[1]		NPL ratio[1)2)]	NPL coverage ratio[2]	LTV
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2017	31.12.2017
Retail & SME	1,625	n/a	0.8%	56.5%	44.5%
Corporates & Institutional Clients	2,558	n/a	2.1%	58.4%	41.6%
Total	**4,183**	**n/a**	**1.6%**	**58.1%**	**42.9%**

1) Securities are not included since the securities portfolio does not show any days past due or any signs of non-performance.
2) Taking into consideration the fair value at initial recognition according to IFRS 3.
The NPL and coverage ratios as of 31.12.2017 without IFRS 3 effect would have been as follows:
Retail & SME: NPL ratio 1.3%, NPL coverage ratio 89.6%,
Corporates & Institutional Clients: NPL ratio 4.4%, NPL coverage ratio 94.3%,
Total: NPL ratio 3.3%, NPL coverage ratio 93.6%.

Geographical distribution of the loan and securities portfolio[1)]

	Book value		in %	
in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Germany	4,010	n/a	95.9%	n/a
Others	72	n/a	1.7%	n/a
France	51	n/a	1.2%	n/a
Switzerland	35	n/a	0.8%	n/a
Austria	15	n/a	0.4%	n/a
Total	**4,183**	**n/a**	**100.0%**	**n/a**

Currency distribution of the loan and securities portfolio[1)]

	Book value		in %	
in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
EUR	4,164	n/a	99.5%	n/a
USD	2	n/a	–	n/a
CHF	17	n/a	0.5%	n/a
Others	–	n/a	–	n/a
Total	**4,183**	**n/a**	**100.0%**	**n/a**

Forbearance

	Retail & SME		Corporates & Institutional Clients		Total	
in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Forborne	9	n/a	51	n/a	60	n/a
thereof non-performing	2	n/a	23	n/a	25	n/a
Impairments	–	n/a	–	n/a	–	n/a
Collateral	9	n/a	39	n/a	48	n/a

1) Including investment funds.

Risk concentrations by industry segmentation

The framework for the management of concentration risk is based on the requirements imposed by the senior management of the Group in line with the rules and recommendations of national and international regulators. Concentration risks are managed, limited and reported to the Managing Board as part of the overall monthly risk management reporting.

The principles and methodological framework for the measurement and monitoring of these credit risk concentrations are outlined in risk manuals and guidelines. Concentration risks at the level of individual transactions and products are managed in a sub-portfolio category.

Country and sector limits are managed using a standard process in accordance with internal guidelines.

Concentration risk at the level of individual borrowers and groups of affiliated customers as well as for sectors, countries and currencies is quantified on the basis of allocated economic capital. Corresponding limits and warning thresholds are specified for countries, sectors, currencies and groups of customers and form an integral part of the management of overall risk in the Group. All limits are monitored on an ongoing basis and in accordance with the estimated risk potential.

	Book value		in %	
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Services	528	n/a	20.6%	n/a
Beverages, Food & Tobacco	378	n/a	14.8%	n/a
Leasing	356	n/a	13.9%	n/a
Real Estate	313	n/a	12.2%	n/a
Engineering and B-2-B	298	n/a	11.6%	n/a
Utilities	216	n/a	8.5%	n/a
Chemicals	74	n/a	2.9%	n/a
Insurance	62	n/a	2.4%	n/a
B-2-C Products	58	n/a	2.3%	n/a
Gaming & Leisure	49	n/a	1.9%	n/a
Automotive	48	n/a	1.9%	n/a
Pharmaceuticals & Health Care	38	n/a	1.5%	n/a
Mining & Metals	37	n/a	1.4%	n/a
Wood & Paper	30	n/a	1.2%	n/a
Hotels	28	n/a	1.1%	n/a
Construction & Building Materials	24	n/a	0.9%	n/a
Transport	6	n/a	0.2%	n/a
Commodity	5	n/a	0.2%	n/a
Media	5	n/a	0.2%	n/a
Retail – Food	4	n/a	0.2%	n/a
Banks	1	n/a	0.0%	n/a
Total	**2,558**	**n/a**	**100.0%**	**n/a**

DACH Corporates & Public Sector and International Business

	Book value		NPL ratio[1]	NPL coverage ratio	Investment grade
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2017	31.12.2017
DACH Corporates & Public Sector	6,698	7,790	1.4%	78.6%	83.3%
International Business	5,154	5,634	0.9%	44.7%	67.2%
IB Corporates	2,371	2,817	2.0%	44.7%	49.4%
IB Real Estate	2,783	2,817	–	–	83.2%
Total	**11,852**	**13,424**	**1.2%**	**65.6%**	**76.4%**

1) The NPL ratio reflects a gross perspective.

The segments DACH Corporates & Public Sector and International Business are split between DACH Corporates & Public Sector assets and the International Business assets. The business was characterized by proactive risk management, disciplined growth in stable Western economies and maintaining a disciplined approach to risk-adjusted pricing. The overall portfolio is comprised of 76.4% investment grade between both DACH Corporates & Public Sector and International Business assets (2016: 88.8%). The total NPL ratio changed from 0.4% to 1.2%. Among the NPL volume, 65.6% are covered (2016: 95.1%).

All material credit decisions are taken within a specific credit committee that meets weekly and is comprised of all Managing Board members. Individual credit applications are thoroughly reviewed, discussed and voted on. The Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international experience. For loan applications below a certain threshold, risk managers are granted authority to approve credits outside of the credit committee.

Corporate exposure in the international business is characterized predominantly by a moderate (net) debt/EBITDA ratio of ≤4x and a very good risk/return profile. The international real estate finance portfolio has an average LTV of below 60% (2016: 47%) and is very well diversified in terms of regions and asset classes.

Currency distribution of the loan and securities portfolio

	Book value		in %	
DACH Corporates & Public Sector in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
EUR	6,339	7,352	94.6%	94.4%
USD	99	111	1.5%	1.4%
GBP	18	43	0.3%	0.6%
CHF	220	250	3.3%	3.2%
Others	22	34	0.3%	0.4%
Total	**6,698**	**7,790**	**100.0%**	**100.0%**

International Business in EUR million	Book value		in %	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016
EUR	2,133	1,965	41.4%	34.9%
USD	1,853	2,418	36.0%	42.9%
GBP	1,038	1,069	20.1%	19.0%
CHF	–	–	–	–
Others	130	182	2.5%	3.2%
Total	**5,154**	**5,634**	**100.0%**	**100.0%**

Forbearance

	DACH Corporates & Public Sector		International Business		Total	
in EUR million	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Forborne	64	102	93	21	157	123
thereof non-performing	34	34	52	–	86	34
Impairments	7	12	19	–	26	12
Collateral	39	70	5	–	45	70

Particular risk concentrations in the credit portfolio

A major focus of risk management in the DACH Corporates & Public Sector and International Business segments is centered on managing concentration risk. Concentration risk arises from both large exposures in individual customer segments and large industry/country/foreign currency exposures.

Risk concentrations by industry segmentation

DACH Corporates & Public Sector in EUR million	Book value		in %	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Government	2,182	2,711	32.6%	34.8%
Real Estate	1,127	1,498	16.8%	19.2%
Public Sector	963	1,208	14.4%	15.5%
Services	537	509	8.0%	6.5%
Engineering & B-2-B	226	300	3.4%	3.9%
Banks	209	189	3.1%	2.4%
Telecommunication	202	0	3.0%	–
Retail – Food	172	131	2.6%	1.7%
Automotive	157	163	2.3%	2.1%
Social Housing	155	157	2.3%	2.0%
Leasing	145	85	2.2%	1.1%
Gaming & Leisure	121	154	1.8%	2.0%
Utilities	116	131	1.7%	1.7%
Wood & Paper	85	134	1.3%	1.7%
Media	82	54	1.2%	0.7%
Pharmaceuticals & Health Care	46	75	0.7%	1.0%
Beverages, Food & Tobacco	33	35	0.5%	0.4%
Chemicals	31	83	0.5%	1.1%
Construction & Building Materials	29	44	0.4%	0.6%
Hotels	22	30	0.3%	0.4%
NGO	18	22	0.3%	0.3%
B-2-C Products	17	25	0.3%	0.3%
Transport	15	26	0.2%	0.3%
Mining & Metals	4	21	0.1%	0.3%
Investment Funds	2	0	0.0%	–
Commodity	2	2	0.0%	0.0%
Total	**6,698**	**7,790**	**100.0%**	**100.0%**

International Business in EUR million	Book value 31.12.2017	Book value 31.12.2016	in % 31.12.2017	in % 31.12.2016
Real Estate	2,784	2,777	54.0%	49.3%
Services	1,273	876	24.7%	15.6%
Pharmaceuticals & Health Care	225	238	4.4%	4.2%
Chemicals	200	375	3.9%	6.7%
Gaming & Leisure	143	234	2.8%	4.2%
Investment Funds	155	210	3.0%	3.7%
Engineering and B-2-B	76	206	1.5%	3.7%
B-2-C Products	73	213	1.4%	3.8%
Commodity	71	91	1.4%	1.6%
Retail – Food	60	50	1.2%	0.9%
Automotive	35	28	0.7%	0.5%
Transport	28	135	0.5%	2.4%
Telecommunication	17	181	0.3%	3.2%
Beverages, Food & Tobacco	9	–	0.2%	–
Leasing	5	7	0.1%	0.1%
Construction & Building Materials	–	9	–	0.2%
Banks	–	4	–	0.1%
Total	**5,154**	**5,634**	**100.0%**	**100.0%**

Treasury Services & Markets

in EUR million	Book value[1)] 31.12.2017	Book value[1)] 31.12.2016	Investment grade 31.12.2017	Investment grade 31.12.2016
Banks	5,154	4,035	98.5%	99.0%
Sovereigns	992	1,112	97.7%	100.0%
CLOs	714	–	100.0%	–
Others	781	218	86.6%	100.0%
Total	**7,641**	**5,366**	**97.4%**	**99.2%**

1) Investment book only. Includes Südwestbank securities and investment funds.

Treasury Services & Markets acts as a service center for BAWAG Group's customers, subsidiaries and partners through treasury activities such as ALM, funding, market execution and select investment activities.

The investment portfolio is comprised 97.4% of investment grade rated securities (2016: 99.2%), of which 87% were rated in the single A category or higher (2016: 83%). Exposure to CEE represented less than 2% of the portfolio. As of 31 December 2017, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK is moderate and focuses on internationally diversified issuers with solid credit quality. Exposure to Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers. This overall composition reflects our strategy of maintaining high credit quality, shorter 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.

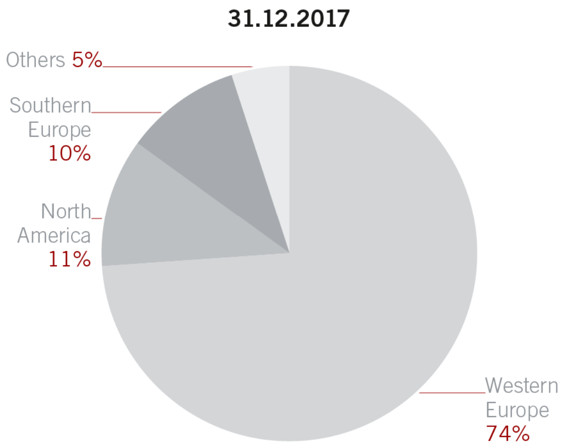
Currency distribution of the credit and securities portfolio

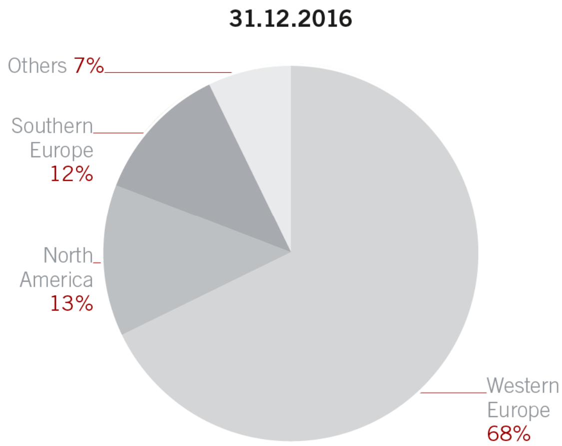
	Book value[1]		in %	
in EUR million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
EUR	10,812	5,176	97.4%	96.5%
USD	242	162	2.2%	3.0%
Others	42	28	0.4%	0.5%
Total	**11,096**	**5,366**	**100.0%**	**100.0%**

1) Includes Südwestbank bonds.

Geographical distribution of the securities portfolio[1]

Geographical distribution of securities





Corporate Center

The Corporate Center includes unallocated items related to support functions for the entire Bank, 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. The focus is set on non-business related positions.

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential impairments 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. In December 2017, the economic capital amounted to EUR 26 million (Dec. 2016: EUR 26 million).

Impairment tests are conducted every year to validate the values of the equity investments in the Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. cash flow, P&L and balance sheet) 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 company based on the Group's shareholding is then compared with the carrying amount of the investment.

In contrast to the procedure described above, more simplified techniques are adopted for micro-participations and those amounts covered either by pro rata equity, by

1) These regions include Great Britain with 12% (2016: 15%), Germany with 10% (2016: 2%), the United States with 9% (2016: 13%) and France with 8% (2016: 10%).

pro rata capitalized average earnings before taxes of the last three years or by other value indicators – e.g. net asset values for real estate companies. The overall results of the impairment tests are reviewed and confirmed by the Participation Risk team.

55 | 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.

The primary market risk components for BAWAG Group are interest rate and credit spread risk. Both risk categories are measured via sensitivity, value-at-risk (VaR) and scenario-based approaches. In addition, the financial treatment of the positions is considered in the risk reporting concepts.

In the trading book, only risk mitigating measures are performed if necessary. The monitoring within the framework of ICAAP is carried out using a parametric VaR model.
The regulatory capital requirement is calculated using the Standardized Approach. Regulatory capital requirements for specific risk in the trading book are still calculated using the regulatory standard method.

Market risk in the trading book

The strategy to discontinue proprietary trading activities resulted in a further reduction in derivative volume in the trading book in 2017. In 2017, the average value-at-risk of the trading book was measured at minus EUR 0.45 million (2016 average: minus EUR 0.60 million) and the value-at-risk as of 31 December 2017 was measured at minus EUR 0.45 million (31 December 2016: minus EUR 0.74 million) based on a confidence interval of 99% and a one-day holding period. The Group employs the value-at-risk (VaR) approach for internal risk monitoring and steering. The VaR limits are further supplemented by sensitivity and worst-case limits.

The following table depicts the total trading book VaR based on a confidence interval of 99% and a holding period of one day.

VaR trading book

in EUR thousand	31.12.2017	31.12.2016
Average VaR	(447)	(602)
Year-end VaR	(450)	(739)

Market risk in the banking book

The primary components of market risk for BAWAG Group are interest rate risk, credit spread risk and liquidity 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 (SALCO) has assigned interest rate risk limits to the Treasury & Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the Group level. The Market & Liquidity Risk Controlling division reports to the SALCO on a daily basis for some areas as well as monthly at the Group level on limit utilization and the distribution of risk.

The target interest rate risk structure mandated by the SALCO is implemented by the Treasury & Markets division. Interest rate derivatives are employed to this end in order to manage interest rate risk. BAWAG Group uses interest rate derivatives:

- to implement the interest risk strategy within the requirements and limits defined by the SALCO,
- to manage the sensitivity of the valuation result and the revaluation reserve,
- and 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 value interest rate risk hedges of the balance sheet:

- Micro fair value hedge: hedging against the risk of interest rate changes for fixed-interest instruments held as assets and liabilities
- Portfolio fair value hedge ("EU carve-out"): application to sub-portfolios of sight deposits that are available for the long term after derivation of a bottom layer

Interest rate derivatives that are not assigned to a hedge accounting relationship are recognized at their fair values.

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. The following table depicts the Group's interest rate risk sensitivities as of 31 December 2017 on the basis of the PVBP concept:

Interest rate sensitivity

31.12.2017 in EUR thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	(366)	(315)	0	(82)	156	(233)	(839)
USD	19	28	10	1	9	(1)	66
CHF	(11)	(6)	(4)	23	(12)	(22)	(31)
GBP	25	15	(11)	(10)	2	(2)	19
Other currencies	(5)	(7)	(5)	(1)	(1)	0	(18)
Total	**(337)**	**(284)**	**(10)**	**(68)**	**154**	**(259)**	**(804)**

31.12.2016 in EUR thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	(14)	(122)	(97)	(397)	(379)	(287)	(1,295)
USD	7	17	19	6	(8)	(1)	40
CHF	(12)	(13)	(10)	54	11	(38)	(7)
GBP	24	9	(1)	(7)	(5)	(9)	12
Other currencies	4	(21)	(3)	0	1	2	(17)
Total	**9**	**(129)**	**(91)**	**(344)**	**(380)**	**(332)**	**(1,267)**

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 minus EUR 156 thousand on 31 December 2017 (average 2017: plus EUR 172 thousand, 31 December 2016: minus EUR 150 thousand). For the available-for-sale financial assets, the sensitivity amounted to minus EUR 359 thousand (31 December 2016: minus EUR 631 thousand).

Furthermore, a value-at-risk calculation for the 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 the 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 the Group along with the breakout by accounting categories impacting the Profit or Loss Statement and Other Comprehensive Income:

Credit spread sensitivity

in EUR thousand	31.12.2017	31.12.2016
Total portfolio	(2,839)	(2,304)
Financial assets designated at fair value through profit or loss	73	302
Available-for-sale financial assets	(1,743)	(1,251)
Held-to-maturity assets & Loans and receivables	(1,070)	(1,355)

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 the 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 backtesting.

FX risk in the banking book

The extent of open foreign exchange positions in the 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. FX risk from the future margins is mitigated by implementation of the Cash Flow Hedge. Currently, GBP and USD margin cash flows are hedged.

The following table shows sensitivities of foreign currencies due to the open currency positions. None of the currencies poses a significant valuation risk.

in EUR thousand	USD		GBP		CHF		Other FX	
FX change (in %)	(10)	10	(10)	10	(10)	10	(10)	10
Impact	424	(424)	61	(61)	368	(368)	(802)	802

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, volatility) 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 divided, calculated, reported and limited by risk factor category in order to identify any correlations within a single risk factor.

56 | Liquidity risk

In addition to the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk), liquidity risk also relates to the risk of increased refinancing costs, which can influence the Group’s earnings situation (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold, or that they can only be closed or sold at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The Risk Manual for Liquidity Risks specifies how liquidity risks are to be controlled. The risk measurement is performed by the department Market Risk Management, which is part of the Market & Liquidity Risk Controlling division.

Liquidity management

The liquidity management is performed under a Group perspective.

For managing the short-term liquidity, a 30-day liquidity forecast is prepared daily for ongoing liquidity position management by Treasury & Markets. This allows for close tracking and the management of the short-term liquidity position.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared every month and reported in the SALCO (Strategic Asset Liability Committee). It also takes scenario calculations for planned measures and various assumptions about customer behavior into account. The regulatory and internal liquidity indicators are also projected. The FACE (Free Available Cash Equivalent), a benchmark for the short-term liquidity potential, represents the most important ratio for liquidity purposes.

Liquidity stress tests are used to determine the outflow of liquidity that may be incurred under different stress scenarios (systemic stress, idiosyncratic stress, combined stress) in order to calibrate the liquidity buffer.

Long-term liquidity management is conducted for the coming five years as part of the annual planning process. Strategic measures are also analyzed during the course of the year.

Major decisions regarding liquidity risk are made in the SALCO, in which all board members are represented. The limits applied for liquidity steering are monitored by the Market & Liquidity Risk Controlling division.

Liquidity buffer

The Liquidity & Funding Management in the division Treasury & Markets ensures that the Group holds a well-diversified portfolio of high-quality, liquid assets and that the liquidity buffer, whose volume is derived from stress testing, fulfills all regulatory requirements and is sufficient for future refinancing purposes. Additionally, the Liquidity & Funding Management centrally manages the liquidity buffer required for LCR purposes in designated portfolios. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the composition of the liquidity buffer on the basis of the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in EUR million	31.12.2017	31.12.2016
Money market	3,430	1,456
Bonds	5,121	4,548
ECB pledged credit claims	460	1,623
Short-term liquidity buffer	**9,011**	**7,627**
Bonds	1,487	915
Credit claims available for covered bonds	242	285
Medium-term liquidity buffer	**1,730**	**1,200**
Total	**10,741**	**8,827**

Maturity analysis of contractual undiscounted cash flows of financial assets and liabilities

31.12.2017 in EUR thousand	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Assets						
Loans to customers	37,005	793	1,299	2,666	13,672	18,575
Bonds	8,854	151	238	849	3,791	3,825
Money market assets	3,670	3,670	–	–	–	–
Subtotal	**49,529**	**4,614**	**1,537**	**3,515**	**17,463**	**22,400**
Liabilities						
Deposits from banks	(4,150)	(631)	(53)	(91)	(2,794)	(581)
Deposits from customers	(32,585)	(23,296)	(841)	(1,563)	(4,412)	(2,473)
Debt securities issued	(6,260)	(229)	(118)	(353)	(3,133)	(2,427)
Subtotal	**(42,995)**	**(24,156)**	**(1,012)**	**(2,007)**	**(10,339)**	**(5,481)**
Derivatives						
Inflow	6,679	1,009	1,219	376	2,740	1,335
Outflow	(6,687)	(1,006)	(1,207)	(351)	(2,782)	(1,341)
Other off-balance-sheet financial obligations	(1,514)	(1,514)	–	–	–	–
Total	**5,012**	**(21,053)**	**537**	**1,533**	**7,082**	**16,913**

31.12.2016 in EUR million	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Assets						
Loans to customers	34,920	2,454	943	2,452	12,835	16,235
Bonds	6,681	230	223	471	3,169	2,588
Money market assets	1,643	1,643	–	–	–	–
Subtotal	**43,244**	**4,327**	**1,166**	**2,923**	**16,004**	**18,823**
Liabilities						
Deposits from banks	(2,406)	(1,361)	(325)	(127)	(333)	(260)
Deposits from customers	(25,895)	(21,361)	(602)	(1,480)	(1,996)	(457)
Debt securities issued	(6,335)	(70)	(150)	(374)	(2,990)	(2,749)
Subtotal	**(34,636)**	**(22,792)**	**(1,078)**	**(1,981)**	**(5,319)**	**(3,466)**
Derivatives						
Inflow	6,868	1,238	1,177	2,258	898	1,297
Outflow	(7,139)	(1,258)	(1,190)	(2,427)	(907)	(1,356)
Other off-balance-sheet financial obligations	(1,586)	(1,586)	–	–	–	–
Total	**6,751**	**(20,072)**	**76**	**774**	**10,676**	**15,298**

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial assets and liabilities. They are assigned to time buckets on the basis of their contractual maturities. All daily callable loans and deposits were placed into 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 our strong liquidity coverage ratio (LCR) of 150% at the end of 2017. BAWAG Group thereby significantly exceeds the regulatory LCR requirement applicable for 2017 (80%) and 2018 (100%).

The year 2017 was characterized by a solid liquidity situation as well as stable core refinancing sources and a balanced liability structure. The funding strategy is still focused on retail deposits. This reduces the dependency on international capital markets and interbank funding, which is also reflected in a wholesale funding ratio[1)] of less than 25% (2016: less than 25%). The strong liquidity situation of the Group was used for strategic asset investments.

In addition to our strong deposit base, we issued a EUR 500 million public sector covered bond in the first quarter of 2017. In March 2017, we also participated in the ECB's targeted longer-term refinancing operations (TLTRO II), which provide four-year funding at attractive rates.

57 | Operational risk/Non-financial risk

The Group continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements according to Regulation (EU) No 575/2013 Article 317 to assess operational risk. However, the realized OpRisk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The OpRisk RWAs are assigned to the segments on the basis of revenues.

For the purpose of internal economic capital steering (ICAAP), a statistical model is used to calculate the value-at-risk based on operational risk losses and risk potential resulting from the risk control self-assessments (RCSAs).

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

Key Risk Indicators (KRI) are implemented as additional steering instruments to identify and forecast negative trends or a changed risk profile in company workflows and divisions/ subsidiaries in a timely manner. Each KRI is

1) Wholesale funding ratio = 1 – (customer liabilities/(financial liabilities – liabilities held for trading)).

monitored via a traffic light system (green/yellow/red). For KRIs with a red status, the definition and implementation of appropriate countermeasures is mandatorily required.

In addition to recipient-oriented reporting, the risk organization applies a RCSA concept in managing operational risk. All business units assess their material operational risks and the effectiveness of their control measures on a yearly basis using this 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 required.

Additionally, the new division Non-Financial Risk Management & Regulatory Compliance ensures a comprehensive and integrated management of all non-financial risks. This setup helps to address and mitigate potentially upcoming or increased risks (e.g. cyber risk, integration risk) at an early stage and to optimally use synergies when implementing risk preventing measures. The Managing Board receives monthly reports about current developments in the dedicated Non-Financial Risk Committee (NFRC).

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

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

58 I Fiduciary assets

in EUR million	31.12.2017	31.12.2016
Fiduciary assets	**82**	**97**
Receivables from customers	82	97
Fiduciary liabilities	**83**	**97**
Deposits from banks	7	8
Deposits from customers	76	89

59 I Breakdown of securities pursuant to the Federal 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 2017 (IFRS figures):

in EUR million	Not listed	Listed			BAWAG Group total 2017
		Total	Loans and receivables	Other measurements	
Bonds and other fixed income securities	1,247	4,389	520	3,869	**5,636**
Shares and other variable income securities	299	2	–	2	**301**
Shares in associates and other shares	54	–	–	–	**54**
Shares in non-consolidated subsidiaries	27	–	–	–	**27**
Total securities	**1,627**	**4,391**	**520**	**3,871**	**6,018**

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 was EUR 50 million (2016: EUR 65 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG was EUR 9 million (2016: EUR 9 million).

Own issues amounting to a repayment amount of EUR 494 million and bonds and other fixed income securities amounting to a repayment amount of EUR 1,117 million will come due under the corresponding contracts in 2018.

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are all bullet bonds. Supplementary and subordinated capital bonds are subscribed by private Austrian and German investors and sold to major domestic and international investors.

As of 31 December 2017, the average weighted nominal interest rate on supplementary and subordinated capital bonds was 6.76% (2016: 6.8%), and the average remaining term to maturity was 5.6 years (2016: 6.6 years).

60 | 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 EUR 495 million (2016: EUR 470 million) and paid consideration (collateral deals) in the amount of EUR 59 million (2016: EUR 163 million).

in EUR million	Collateralized on-balance-sheet claims	Collateralized off-balance-sheet claims	Total
Financial collateral			
Stocks	15	–	15
Cash deposits	42	483	525
Bonds	7	–	7
Real estate			
Commercial properties	946	30	976
Private properties	8,870	89	8,959
Personal collateral			
Guarantees	1,951	17	1,968
Other forms of collateral			
Assignation of claims	1	–	1
Life insurance policies	160	1	161
Collateral received	**11,993**	**620**	**12,613**

61 | Human resources

Headcount – salaried employees

	31.12.2017	31.12.2016
Number of employees on reporting date	4,079	3,528
Average number of employees	3,469	3,615

Full-time equivalents – salaried employees

	31.12.2017	31.12.2016
Number of employees on reporting date	3,437	2,951
Average number of employees	2,894	3,048
Active employees[1)]	2,959	2,496

1) Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme.

62 | Branches

in EUR million	31.12.2017	31.12.2016
Name of branch	BAWAG P.S.K. International	BAWAG P.S.K. International
Business segment	International Business	International Business
Country of residence	Great Britain	Great Britain
Net interest income	0.0	0.0
Operating revenue[1)]	34.8	11.6
Number of full-time employees	22	14
Profit/Loss before tax[1)]	15.7	(3.5)
Income tax accrued	3.0	2.9
Government aid received	0	0

1) BAWAG P.S.K. International: income is based on internal funds transfer pricing.

in EUR million	31.12.2017	31.12.2016
Name of branch	easybank branch Germany	easybank branch Germany
Business segment	easygroup	easygroup
Country of residence	Germany	Germany
Net interest income	0.0	0.0
Operating revenue	0.0	0.0
Number of full-time employees	5	1
Profit/Loss before tax	(1.7)	(0.2)
Income tax accrued	0.0	0.0
Government aid received	0	0

The easybank branch in Germany is not fully operational yet.

63 | Trading book

BAWAG Group maintains a securities trading book, which breaks down by volume as follows:

in EUR million	31.12.2017	31.12.2016
Derivative financial instruments in the trading book (nominal value)	4,921	7,359
Money market transactions (book values, recognized under receivables from credit institutions and payables to credit institutions)	–	31
Trading book by volume	**4,921**	**7,390**

64 | Geographical regions

Gross income of BAWAG Group relates to the following geographical regions.

in EUR million	Domestic	Western Europe	Central and Eastern Europe	North America	Rest of the world	Total
Interest and similar income	631.7	315.1	8.1	99.2	29.0	**1,083.1**
Income from securities and equity interests	7.2	0.8	0.0	0.0	0.0	**8.0**
Fee and commission income	296.6	5.4	0.7	0.5	0.4	**303.6**
Gains and losses on financial instruments	9.9	1.8	0.0	0.0	0.0	**11.7**
Other operating income	298.7	1.5	0.0	0.0	0.0	**300.2**

65 | Other disclosures required by BWG and Austrian GAAP (UGB) including remuneration policy

The Statement of Financial Position entry for Land and buildings shows property with a carrying amount of EUR 177 million (2016: EUR 2 million).

Obligations arising from the use of tangible non-current assets not recognized on the Statement of Financial Position were expected to come to EUR 26 million for the period subsequent to 2017 (2016: EUR 25 million); the expected amount in the five years following the year under review was EUR 98 million (2016: EUR 93 million).

The Statement of Financial Position as of 31 December 2017 contains accrued interest on supplementary capital bonds in the amount of EUR 0 million (2016: EUR 0 million).

Expenses for subordinated liabilities amounted to EUR 33 million (2016: EUR 33 million).

Expenses for BAWAG Group's group auditor in the current financial year amount to EUR 2.0 million (2016: EUR 1.7 million) and comprise audit fees in the amount of EUR 1.7 million (2016: EUR 1.6 million), tax advisory fees of EUR 0.0 million (2016: EUR 0.0 million) as well as other advisory fees in the amount of EUR 0.3 million (2016: EUR 0.1 million). In addition, fees relating to the initial public offering of shares of BAWAG Group AG in the amount of EUR 2.9 million have been paid to the group auditor. These fees were borne by the former shareholders.

As of 31 December 2017, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 1.01% (2016: 1.19%).

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.

Remuneration policy

BAWAG Group AG and BAWAG P.S.K. AG have a Nomination and Remuneration Committee, which is a Supervisory Board committee. The Nomination and Remuneration Committee specifies the remuneration policy, monitors its implementation and submits regular reports on its activities to the full Supervisory Board. The committee consists of the chairman of the Supervisory Board, who heads it, and five further Supervisory Board members, including two members of the Works Council.

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

For employees whose activities have a material influence on the Bank's risk profile (identified staff), this guideline stipulates a remuneration policy that does not impede effective risk management. It is designed to align the objectives of the employees with the long-term interests of the Bank and to ensure an appropriate balance between fixed and variable remuneration components. It also takes into account the legal regulations stipulating that the policy must be applied to the management and to risk purchasers, to employees with controlling duties as well as to employees who are in the same wage group as the management and the risk purchasers and whose activities have a material influence on the risk profile of the Bank.

In accordance with the above-mentioned legal framework, identified staff receive the bonus distributed over a period of five years and at least 80% in shares of BAWAG Group AG provided a certain amount of the variable remuneration is reached. For selected persons out of the group of identified staff, a long-term incentive program was implemented under consideration of the regulatory principles, which is awarded 100% in shares of BAWAG Group AG under the precondition of long-term corporate success.

The annual budget for variable remuneration components is based on the degree to which the Bank achieves its earnings targets.

Approval for the awarding of bonuses to Managing Board members and employees is granted by the Committee for Management Board Matters upon proposal by the Managing Board, taking into account the market conditions and development, the appropriateness of bonus payments, the development of risk and the strengthening of the Bank's equity base.

The rules were implemented in the remuneration guideline as follows:

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

The variable remuneration is determined on the basis of the individual's success (in quantitative and qualitative terms) as well as on the success of the respective organizational unit and the Bank.

For individual matters concerning the remuneration of Managing Board members, a Committee for Management Board Matters has been set up taking into account the framework of the Austrian Labor Constitution Act.

66 | Own funds of BAWAG P.S.K. AG (individual financial institution)

The following table depicts the composition of BAWAG P.S.K. AG's own funds applying transitional rules as of 31 December 2017 and 2016 according to CRR:

in EUR million	31.12.2017	31.12.2016
Share capital and reserves (including funds for general banking risk)	250	250
Reserves including profit for the fiscal year 2017	2,275	2,220
Deduction of intangible assets	(107)	(97)
IRB risk provision shortfalls	(38)	(22)
Common Equity Tier I	**2,380**	**2,351**
Supplementary and subordinated debt capital	448	460
Deduction participations	(22)	(20)
Excess IRB risk provisions	36	25
IRB risk provision shortfalls	(4)	(6)
Tier II	**458**	**459**
Own funds	**2,838**	**2,810**

67 | Date of release for publication

The Group financial statements were approved by the Managing Board for submission to the Supervisory Board on 7 March 2018. The Supervisory Board is responsible for reviewing and acknowledging the Group financial statements.

68 | Events after the reporting date

Change in shareholder structure

On 21 February 2018, BAWAG Group AG was informed that, with effectiveness as of 20 February 2018, its direct shareholder Promontoria Holding 214 B.V. was merged into Promontoria Holding 213 B.V. and Promontoria Holding 216 B.V. was merged into Promontoria Holding 215 B.V. As a result of these mergers, the shareholding of each of Promontoria Holding 213 B.V. and Promontoria Holding 215 B.V. increased to a number of shares corresponding to 11.1% of BAWAG Group AG's share capital, while the shareholding of each of Promontoria Holding 214 and Promontoria Holding 216 B.V. decreased to a number of shares corresponding to 0% of BAWAG Group AG's share capital. These mergers did not affect the aggregate shareholding of the Cerberus shareholders.

HSH Nordbank

BAWAG Group participated in a consortium to acquire 100% of the shares in HSH Nordbank AG, Hamburg, with a 2.5% stake. The share purchase agreement was signed on 28 February 2018. Closing is expected in the second half 2018.

Separation agreement with Österreichische Post AG

After having cancelled the cooperation agreement in November 2017, a separation agreement with Österreichische Post AG was concluded in February 2018 replacing the former cooperation agreement. It transforms a letter of intent concluded in December 2017 into a binding agreement with retroactive effect from 1 January 2018.

7 March 2018

Anas Abuzaakouk
Chief Executive Officer

David O'Leary
Member of the Managing Board

Enver Sirucic
Member of the Managing Board

Andrew Wise
Member of the Managing Board

Stefan Barth
Member of the Managing Board

Sat Shah
Member of the Managing Board

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."

7 March 2018

Anas Abuzaakouk
Chief Executive Officer

David O'Leary
Member of the Managing Board

Enver Sirucic
Member of the Managing Board

Andrew Wise
Member of the Managing Board

Stefan Barth
Member of the Managing Board

Sat Shah
Member of the Managing Board

BOARDS AND OFFICERS OF BAWAG GROUP AG

MANAGING BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2017

Anas ABUZAAKOUK
(Chairman of the Managing Board of BAWAG Group AG from 19 August 2017,
Managing Director of BAWAG Holding GmbH from 31 July 2014 until 19 August 2017)

Stefan BARTH
(Member of the Managing Board of BAWAG Group AG from 19 August 2017,
Managing Director of BAWAG Holding GmbH from 3 April 2017 until 19 August 2017)

David O'LEARY
(Member of the Managing Board of BAWAG Group AG from 19 August 2017,
Managing Director of BAWAG Holding GmbH from 3 April 2017 until 19 August 2017)

Sat SHAH
(Member of the Managing Board of BAWAG Group AG from 19 August 2017,
Managing Director of BAWAG Holding GmbH from 3 April 2017 until 19 August 2017)

Enver SIRUCIC
(Member of the Managing Board of BAWAG Group AG from 19 August 2017,
Managing Director of BAWAG Holding GmbH from 3 April 2017 until 19 August 2017)

Andrew WISE
(Member of the Managing Board of BAWAG Group AG from 19 August 2017,
Managing Director of BAWAG Holding GmbH from 3 April 2017 until 19 August 2017)

Further members in 2017

Byron HAYNES
(Managing Director of BAWAG Holding GmbH from 9 November 2009 until 30 June 2017)

Jeffrey L. LOMASKY
(Managing Director of BAWAG Holding GmbH from 1 August 2012 until 31 July 2017)

Corey PINKSTON
(Managing Director of BAWAG Holding GmbH from 1 August 2012 until 22 March 2017)

SUPERVISORY BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2017

Chairman

Pieter KORTEWEG

(Chairman of the Supervisory Board of BAWAG Group AG from 15 September 2017,
Deputy Chairman of the Supervisory Board of BAWAG Holding GmbH from 25 March 2010, Member of the Supervisory Board of BAWAG Holding GmbH from 14 September 2007, Member of the Supervisory Board of BAWAG Group AG from 19 August 2017 until revoked)

Deputy Chairmen

Christopher BRODY

(Deputy Chairman 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 2017)

Egbert FLEISCHER

(Deputy Chairman 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 2017)

Members

Kim FENNEBRESQUE

(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 2017)

Frederick HADDAD

(Member of the Supervisory Board of BAWAG Group AG from 19 August 2017 until revoked,
Member of the Supervisory Board of BAWAG Holding GmbH from 4 April 2013 until 19 August 2017)

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 2017)

Further members in 2017

Richard ALEXANDER

(Deputy Chairman of the Supervisory Board of BAWAG Holding GmbH from 8 March 2017 until 19 August 2017 and of BAWAG Group AG from 19 August 2017 until 15 September 2017)

Manuel GONZALEZ CID

(Chairman of the Supervisory Board of BAWAG Holding GmbH from 8 March 2017 until 19 August 2017 and of BAWAG Group AG from 19 August 2017 until 15 September 2017)

Anthony J. GUIDO

(Member of the Supervisory Board of BAWAG Holding GmbH from 9 April 2013 until 8 March 2017)

Franklin W. HOBBS

(Chairman of the Supervisory Board of BAWAG Holding GmbH from 1 August 2013 until 8 March 2017, Member of the Supervisory Board of BAWAG Holding GmbH from 4 April 2013 until 1 August 2013)

Cees MAAS

(Deputy Chairman of the Supervisory Board of BAWAG Holding GmbH from 1 August 2013 until 19 August 2017 and of BAWAG Group AG from 19 August 2017 until 15 September 2017, Chairman of BAWAG Holding GmbH from 15 October 2009 until 1 August 2013)

Walter OBLIN

(Member of the Supervisory Board of BAWAG Holding GmbH from 18 April 2012 until 19 August 2017 and of BAWAG Group AG from 19 August 2017 until 15 September 2017)

Keith TIETJEN

(Deputy Chairman of the Supervisory Board of BAWAG Holding GmbH from 31 March 2015 until 8 March 2017, Member of the Supervisory Board of BAWAG Holding GmbH from 31 July 2014 until 31 March 2015)

André WEISS

(Member of the Supervisory Board of BAWAG Holding GmbH from 4 April 2013 until 8 March 2017)

Leland WILSON

(Member of the Supervisory Board of BAWAG Holding GmbH from 8 March 2017 until 19 August 2017 and of BAWAG Group AG from 19 August 2017 until 15 September 2017)

Works Council Delegates

Ingrid STREIBEL-ZARFL

(from 25 October 2017)

Beatrix PRÖLL

(from 25 October 2017)

Verena SPITZ

(from 25 October 2017)

COMMITTEES OF BAWAG GROUP AG AS OF 31 DECEMBER 2017

Risk and Credit Committee

Christopher BRODY
Chairman

Frederick HADDAD
Deputy Chairman

Egbert FLEISCHER

Adam ROSMARIN

Ingrid STREIBEL-ZARFL
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

Audit and Compliance Committee

Adam ROSMARIN
Chairman

Kim FENNEBRESQUE
Deputy Chairman

Egbert FLEISCHER

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Verena SPITZ
Works Council Delegate

Nomination and Remuneration Committee

Pieter KORTEWEG
Chairman

Kim FENNEBRESQUE
Deputy Chairman

Christopher BRODY

Egbert FLEISCHER

Ingrid STREIBEL-ZARFL
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

Related Parties Special Audit Committee

Christopher BRODY
Chairman

Adam ROSMARIN
Deputy Chairman

Kim FENNEBRESQUE

Egbert FLEISCHER

Ingrid STREIBEL-ZARFL
Works Council Delegate

Beatrix PRÖLL
Works Council Delegate

Committee for Management Board Matters

Pieter KORTEWEG
Chairman

Kim FENNEBRESQUE
Deputy Chairman

Christopher BRODY

Egbert FLEISCHER

Frederick HADDAD

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 their subsidiaries (the Group), which comprise the consolidated balance sheet as of 31 December 2017, and the consolidated income statement/total 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, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, 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) and the additional requirements in accordance with Section 245a UGB and Section 59a BWG.

Basis for our Opinion

We conducted our audit in accordance with EU regulation Nr 537/2014 and with the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities given those standards are described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

During the course of the audit, the following key audit matters were identified:

- Valuation of loans and advances to customers
- Valuation of claims and provisions from litigation with City of Linz
- Initial recognition of assets and liabilities from a business acquisition
- Recognition of deferred tax assets on tax losses carried forward

Valuation of loans and advances to customers

Risk to the Consolidated Financial Statements

The receivables from customers amount to EUR 31 billion and mainly comprise the segments "BAWAG P.S.K. Retail", "DACH Corporates & Public Sector" and "International Business".

Management describes the approach to determine the risk provisions in Note 1 "Accounting policies" section "Loan Loss Provisions" as well as the section "Latitude of Judgment and Uncertainty of Estimates". A breakdown of loans and receivables as well as loan loss provisions is provided in Note 16 "Loans and receivables".

The bank evaluates in the context of credit risk management whether identifiable risks exist and specific loan loss provisions need to be recognized. This includes an assessment whether customers are able to meet their contractual liabilities in full.

The calculation of the risk provision for defaulted individually significant customers is based on an analysis of the estimated future recoveries. This analysis reflects the assessment of the economic situation and development of the individual customer, the valuation of collateral and the estimation of the amount and timing of future cashflows derived thereof.

The bank calculates the loan loss provision for defaulted individually not significant customers automatically on the basis of unpaid instalments and continuous overdraft of current accounts. This automatically calculated general loan loss provision is determined either by days past due or a legal case as well as corresponding general provisioning levels. The parameters used in the valuation model are based on statistical assumptions.

For all non-defaulted loans and off-balance exposures a rating based portfolio loan loss provision is implemented. The portfolio provision is based on the regulatory Expected Loss Model. The incurred loss is derived by application of the average time until detection of the credit event. Individual, customer-specific parameters as well as statistical assumptions and empirical values are used to determine the amount of the provision.

The risk to the consolidated financial statements results from the fact that the identification of impending loan defaults as well as the calculation of the provisioning amounts significantly depend on the assumptions and estimates stated above, leading to margins of discretions and estimate uncertainty with regard to the amount of the provision.

Our Audit Approach

We have analyzed the existing documentation regarding the processes of underwriting, monitoring and the risk provisioning for customer loans and critically assessed whether these processes are suitable to identify impairment triggers and to adequately reflect the valuation of loans and advances to customers. Moreover, we have evaluated the process workflows as well as significant controls by inspecting the IT-Systems and testing the design and implementation of key controls. Furthermore, we have evaluated the effectiveness of key controls through sample testing.

We have examined individual specific loan loss provision on the basis of a sample of loans and assessed whether indications of credit defaults exist and whether loan loss provisions have been recognized in an adequate amount. The selection of the sample was performed risk-oriented and with special regard to ratings and industries with higher probability of default risk. In the case of identified impairment triggers we assessed the bank's assumptions with respect to conclusiveness, constituency and consistency. In order to determine the amount and timing of repayments from liquidation of real estate collateral, we have consulted our real estate experts to analyze appraisal reports or valuation calculations obtained from the bank by applying benchmark tests, market comparisons and external data.

With regard to automatically calculated specific loan loss provisions and the portfolio provision we have analyzed the models applied as well as the parameters used. Based on the bank's backtesting of provisions and validations of actual parameters, we have evaluated the adequacy of the assumptions regarding the customers or the customer portfolio. We have consulted our valuation experts when analyzing the models and backtesting reports. Our IT-experts have analyzed the system's automated processes in calculating automatic provisions, the programmed calculation process flow as well as the application of the correct reference fields from the systems of the bank. We have tested the calculation of the provision amount through re-calculations.

Furthermore, we have evaluated the adequacy of the disclosures on the valuation of loans and advances to customers in the notes.

Valuation of claims and provisions from litigation with City of Linz

Risk to the Consolidated Financial Statements

Management describes the uncertainty of estimates and the course of the litigation with regard to a Swiss Franc swap with the City of Linz in the Note 1 "Accounting principles" section "Latitude of Judgment and Uncertainty of Estimates – City of Linz".

Since November 2011, BAWAG P.S.K. is engaged in a lawsuit with the City of Linz in connection with this Swiss Franc swap. City of Linz has filed a lawsuit at the Commercial Court of Vienna (Handelsgericht Wien) against BAWAG P.S.K. claiming a payment of CHF 31 million. BAWAG P.S.K. filed a (counter)suit against the City of Linz to enforce its contractual entitlements in the amount of EUR 418 million.

The claim against the City of Linz is presented under the receivables from customers and amounts to the market value of the swap on the date of early termination. The assessment of the carrying amount of the receivables was based on management estimate taking into consideration the risks related to this assessment. These estimates comprise the duration and costs of the lawsuit as well as its outcome, especially from negligent actions from one of the parties as well as assumptions regarding claims resulting thereof. Management based its assessment for the valuation and the related uncertainties on legal opinions from external legal counsels, who represent the bank legally, as well as opinions of the internal legal department and the analysis of the professional opinions of the appointed court experts.

The risk to the consolidated financial statements results from the assessment of the above-mentioned factors, especially the probability of success of the ongoing litigation and the amount and timing of cash flows arising from the outcome of the litigation. Moreover, the lawsuit has gained increased public and political interest. The proceeding, which is already ongoing for several years, has not been decided by the court of first instance. Thus the valuation of the claims and provisions from the lawsuit against the City of Linz are affected by estimate uncertainties.

Our Audit approach

We have evaluated whether the valuation of the claims against the City of Linz as well as provisions connected to the lawsuit have been determined adequately and whether the estimates with regard to this litigation are appropriate.

We have critically assessed the estimations of the board and of the bank's internal and external legal experts. We have obtained and analyzed statements of the involved law firms addressing the state of the lawsuit as of 31 December 2017. We have analyzed whether the amount of the claim is consistent with the current assessment of the progress of the litigation. We have consulted our internal legal experts to analyze the experts' statements provided.

Finally, we have evaluated whether the disclosures in Note 1 "Accounting principles" section "Latitude of Judgment and Uncertainty of Estimates – City of Linz" are adequate.

Initial recognition of assets and liabilities from a business combination

Risk to the Consolidated Financial Statements

On 7 December 2017 (date of acquisition) the bank acquired 100 % of the shares of Südwestbank AG, Deutschland, for a purchase price of EUR 641 million. On 6 October 2017 (date of acquisition) the bank acquired the "Issuing Business" of SIX Payment Services GmbH (PayLife), for a preliminary purchase price of EUR 40 million. The bank describes both transactions in Note 37 "Major changes in the Group's holdings". Further disclosures on the determination of fair values is given in Note 1 "Accounting policies" section "Latitude of Judgment and Uncertainty of Estimates".

The identification and determination of fair values of assets and liabilities on the acquisition date depend on management's estimates, assumptions and valuation models. Such estimates and assumptions in particular include the valuation of receivables from and payables to customers and credit institutions as well as intangible assets identified in the course of the purchase price allocation. For the determination of the fair values of intangible assets management's assessment is based on calculations from external experts.

The risk to the consolidated financial statements results from the recognition and the valuation of the identified assets and liabilities acquired in connection with the purchase price allocation, which are significantly influenced by management's estimate and margins of discretions.

Our Audit approach

We have analyzed the purchase agreements and assessed whether the criteria of power over the acquired company Südwestbank AG, Deutschland, as well as over the "Issuing Business" of SIX Payment Services GmbH (PayLife) and the definition as a business combination is fulfilled on the acquisition date.

We have consulted with our valuation experts for the analysis of the assumptions and estimates as well as the valuation models applied for determining the fair values of the acquired positions. In this course we also assessed whether the budgeted figures and the underlying planning assumptions were conclusive and consistent and the discount rates applied can be derived from publicly available information and market data within a reasonable range. Moreover, we have verified on a sample basis the mathematical accuracy of the valuation models used to determine the fair values.

Finally, we have analyzed the adequacy of the disclosure in connection with the business combinations provided in the notes to the consolidated financial statements.

Recognition of deferred tax assets on tax losses carried forward

Risk to the Consolidated Financial Statements

The consolidated financial statements include deferred tax assets in the amount of EUR 102 million that mainly result from unused tax losses carried forward. Management provides disclosures on these deferred tax assets in Note 1 "Accounting policies" section "Income taxes and deferred taxes" as well as in Note 21 "Net deferred tax assets and liabilities on the Statement of Financial Positions".

Deferred tax asset based on unused tax losses have to be recognized in the amount that is probable to be offset against future taxable income. The amount of tax losses carried forward that can be used to offset future taxable income has to be grounded on the business forecast and tax planning. The recognition of the deferred tax assets on tax losses carried forward therefore highly depends on management's assumptions in respect to business forecast and the realization of sufficient taxable income.

The risk to the consolidated financial statements results from the uncertainty connected to estimates and discretionary judgements for determining the future taxable income that forms the basis of the recognition of a respective deferred tax asset from tax losses carried forward.

Our Audit approach

We have evaluated the assumptions and significant parameters for forecasting the future taxable income with regard to derivability from externally available data, such as macroeconomic forecasts and the banks own historical data and operating results. Moreover, we have analyzed whether corporate planning is consistent with the bank's corporate and risk strategy. We have tested the consistency of management's assumptions used for corporate planning with the assumptions used for tax planning calculation and have evaluated the planning quality by determining whether the tax planning calculation is reliable. We have tested this by comparing the observable ranges of deviations of actual versus budgeted figures and planned inverse effects from deferred tax assets. We have analyzed the tax planning calculation, which leads to the realization of deferred tax assets based on unused tax losses, and have verified the mathematical accuracy of the calculation.

We have analyzed the tax planning strategies, which lead to the realization of deferred tax assets based on unused tax losses. We have acknowledged the tax collection agreement and have verified the mathematics of the tax allocation calculations based on the contractually determined guidelines.

Furthermore, we have evaluated the adequacy of the disclosures in the notes regarding the recognition of deferred tax assets based on unused tax losses.

Management's Responsibility and Responsibility of 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 in Section 245a UGB and 59a BWG. Further, management is responsible for internal controls as determined 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' Responsibility

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 the EU 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 the EU 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 misstatement 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 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 Group'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 the Austrian Generally Accepted Accounting Principles, the group 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 group management report in accordance with the Austrian Generally Accepted Accounting Principles.

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 (Austrian Commercial Code) are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

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 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.

Additional Information in accordance with Article 10 EU Regulation

At the Annual General Meeting dated 9 August 2016, we were elected as auditors. We were appointed by the supervisory board on the same day. We have been the Group's auditors from the year ended 31 December 2015, without interruption.

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 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner

The engagement partner is Mr. Bernhard Mechtler.

Vienna, 7 March 2018

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 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.

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
After-tax earnings per share	Net profit / weighted average number of shares outstanding	After-tax earnings per share is the portion of net profit per every individual share of the stock.
Book value per share	IFRS equity / number of shares outstanding	Book value per share represents the total amount of shareholder's equity divided by the number of shares outstanding at the end of the period.
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 by the management 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	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.
IFRS equity	Equity attributable to the owners of the parent; excluding minorities	IFRS equity as presented in the consolidated financial statements
IFRS tangible equity	IFRS equity reduced by the carrying amount of intangible assets	IFRS tangible 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).
Leverage ratio	Common Equity Tier 1 (CET1) capital / total exposure (calculation according to CRR) – as of September 2016, the total exposure calculation was adapted from 3-month averages to an end-of-period figure in line with changed regulatory requirements	The leverage ratio is a regulatory metric and – similar to the CET1 ratio – expresses the relationship between the bank's CET1 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.
Market capitalization	Closing price multiplied by the number of shares outstanding	Market capitalization refers to the market value of equity based on the total number of shares outstanding and the closing price at the end of the period.
Net interest margin	Net interest income / average interest-bearing assets – as of year-end 2016, the ratio's denominator was changed from average total assets to average interest-bearing assets and applied retroactively	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 in absolute amounts for the respective period as presented in the consolidated financial statements that is available for profit distribution to the shareholders.
NPL ratio	Non-performing loans (NPLs) / exposure; as of June 2017, the ratio's denominator was changed from loans and receivables (incl. provisions) to exposure in line with regulatory requirements and applied retroactively	The NPL ratio is an economic ratio to demonstrate the proportion of loans that have been classified as "non-performing" in relation to the entire loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collateral is expected and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and of the bank's credit risk management.
NPL coverage ratio	Loan loss provisions and collateral / NPL	The total of impairment write-downs and collateral relative to the NPL exposure
NPL LLP coverage ratio	Loan loss provision / NPL	Impairment write-downs relative to the NPL exposure
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses	As presented in the respective line item in the income statement
Operating profit	Operating income less operating expenses and regulatory charges	As presented in the respective line item in the income statement
Pre-tax earnings per share	Profit before tax / weighted average number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax per every individual share of the stock.
Price/book ratio	Market capitalization / IFRS equity	Price/book ratio measures the market value of equity in relation to its equity value based on accounting principles at the end of the period.
Price/tangible book ratio	Market capitalization / IFRS tangible equity	Price/tangible book ratio measures the market value of equity in relation to its tangible equity based on accounting principles at the end of the period.
Return on equity	Net profit / average IFRS equity	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).
RoE (@12% CET1)	Return on equity calculated at a fully loaded CET1 ratio of	

	12%	Return on equity and return on tangible equity demonstrate profitability of the bank on the capital invested by its shareholders and thus the success of their investment. Return on total assets or return on risk-weighted assets is a business indicator and a measure for economic success of the management's business activities. The "Return on …" measures are useful for easily comparing the profitability of the bank with other financial institutions.
Return on tangible equity	Net profit / average IFRS tangible equity	
RoTE (@12% CET1)	Return on tangible equity calculated at a fully loaded CET1 ratio of 12%	
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 / loans and receivables	Provisions and loan-loss provisions, impairment losses and operational risk (total risk costs) / average loans and receivables (including provisions)	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 balance of the loan portfolio 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.
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.
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.
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.
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
HICP	Harmonized Index of Consumer Prices; basis for a comparative measurement of inflation in Europe and for evaluating the stability of monetary values within the Eurozone
IBNR	Allowance for incurred but not reported losses.
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.
Investment properties	Properties held as financial investments, primarily to generate rental income.
Loss identification period (LIP)	The time span from the default of the client until the recognition of the default in the Bank.
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.
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.

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