BAWAG Group

CONSOLIDATED ANNUAL REPORT 2018

2018 HIGHLIGHTS

January	Agreement on a strategic partnership with Spotcap
March	BAWAG Group elected "Austria's Best Bank 2018" by *Global Finance* for the second consecutive year
April	Issuance of € 300 million Additional Tier 1 (AT1) capital
May	Agreement on a strategic partnership with MediaMarktSaturn Austria
July	BAWAG Group awarded by *Euromoney* with two awards: "Western Europe's Best Bank Transformation" and "Austria's Best Bank" Share buyback program launched for up to 1,285,000 shares Tender offer for the € 300 million 8.125% Tier 2 Notes of BAWAG P.S.K. due 30 October 2023
September	Acquisition of Deutscher Ring Bausparkasse successfully closed
October	Agreement on strategic partnership with METRO Cash & Carry Austria
November	Share buyback program completed with 1,285,000 shares
December	Launch of *Qlick* in Germany, our online German lending platform Agreements signed to acquire BFL Leasing, Health AG and Zahnärztekasse AG easybank again awarded "Best Direct Bank in Austria" by *Börsianer;* start:bausparkasse honored as "Best Building Society in Austria" for the first time € 573 million full-year 2018 record profit before tax achieved

ALL 2018 TARGETS OUTPERFORMED

Targets 2018	Performance 2018
Profit before tax >5% annual growth	€ 573 million / +14%
Return on tangible equity (@12% CET1) >15%	17.1%
Cost-income ratio <46%	44.2%
Common Equity Tier 1 capital ratio (fully loaded) ≥12%	14.5%

TARGETS

Targets	2019	2020
Profit before tax growth	>6%	>6%
Profit before tax (absolute)	>€ 600 million	>€ 640 million
Cost-income ratio	<43%	<40%
Return on tangible equity	15-20%	15-20%
Common Equity Tier 1 capital ratio (fully loaded)	12-13%	12-13%
Pre-tax earnings per share[1)]	>€ 6.00	>€ 6.40
After-tax earnings per share[1)]	>€ 4.50	>€ 4.80

1) Before deduction of AT1 coupon; before capital measures.

KEY FINANCIAL FIGURES

Profit or loss statement (in € million)	**2018**	2017	Change (%)	2016	Change (%)
Net interest income	840.5	793.1	6.0	732.2	14.8
Net fee and commission income	282.8	216.9	30.4	192.9	46.6
Core revenues	**1,123.3**	**1,010.0**	**11.2**	**925.1**	**21.4**
Other income[1)]	47.4	110.4	(57.1)	40.4	17.3
Operating income	**1,170.7**	**1,120.4**	**4.5**	**965.5**	**21.3**
Operating expenses	**(517.9)**	**(528.5)**	**(2.0)**	**(439.4)**	**17.9**
Regulatory charges	(40.1)	(33.8)	18.6	(46.1)	(13.0)
Total risk costs	(45.1)	(61.8)	(27.0)	(42.7)	5.6
Profit before tax	**572.7**	**500.4**	**14.4**	**445.4**	**28.6**
Income taxes	(136.2)	(51.2)	>100	12.9	–
Net profit	**436.5**	**449.1**	**(2.8)**	**458.1**	**(4.7)**

Performance ratios (figures annualized)	**2018**	2017	Change (pts)	2016	Change (pts)
Return on equity[2)]	12.2%	13.4%	(1.2)	15.1%	(2.9)
Return on equity (@12% CET1)	**14.3%**	**15.1%**	**(0.8)**	**16.2%**	**(1.9)**
Return on tangible equity[2)]	14.2%	15.4%	(1.2)	17.1%	(2.9)
Return on tangible equity (@12% CET1)	**17.1%**	**17.6%**	**(0.5)**	**18.5%**	**(1.4)**
Net interest margin	2.21%	2.24%	(0.03)	2.32%	(0.11)
Cost-income ratio	44.2%	47.2%	(3.0)	45.5%	(1.3)
Risk costs / interest-bearing assets	0.12%	0.17%	(0.05)	0.14%	(0.02)

Statement of financial position (in € million)	**2018**	2017	Change (%)	2016	Change (%)
Total assets	44,698	46,056	(2.9)	39,746	12.5
Customer loans	30,482	30,793	(1.0)	28,485	7.0
Customer deposits and own issues	34,620	36,611	(5.4)	32,045	8.0
Common equity	3,706	3,576	3.6	3,108	19.2
Tangible common equity	3,202	3,088	3.7	2,737	17.0
Risk-weighted assets	20,465	21,494	(4.8)	19,047	7.4

Balance sheet ratios	**2018**	2017	Change (pts)	2016	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**14.5%**	**13.5%**	**1.0**	**13.6%**	**0.9**
Total capital ratio (fully loaded)	16.3%	15.2%	1.1	16.2%	0.1
Leverage ratio (fully loaded)	7.1%	6.2%	0.9	6.4%	0.7
Liquidity coverage ratio (LCR)	179%	150%	29	138%	41
NPL ratio	1.7%	1.8%	(0.1)	1.7%	0.0

1) The term "Other Income" includes gains and losses on financial instruments and other operating income and expenses.
2) Excl. AT1 capital.
Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on pages 245-248. Figures of prior years were adjusted. For further details, please refer to Note 1.

SHARE-RELATED FIGURES

Share & stock market data	2018	2017	Change (%)	2016	Change (%)
Pre-tax earnings per share (in €)[1]	5.75	5.00	14.9	–	–
After-tax earnings per share (in €)[1]	4.38	4.49	(2.4)	–	–
Book value per share (in €)	37.51	35.76	4.9	–	–
Tangible book value per share (in €)	32.41	30.88	4.9	–	–
Dividend per share (in €)	2.18[2]	0.58	>100	–	–
Share price high (in €)	48.20	48.00	0.4	–	–
Share price low (in €)	34.16	41.20	(17.1)	–	–
Closing price (in €)	35.84	44.46	(19.4)	–	–
Price/book ratio	0.96	1.24	(23.2)	–	–
Price/tangible book ratio	1.11	1.44	(23.2)	–	–
Shares outstanding at the end of the period	98,794,893	100,000,000	(1.2)	–	–
Weighted average number of shares outstanding	99,597,178	100,000,000	(0.4)	–	–
Market capitalization (in € billion)	3.5	4.4	(20.4)	–	–

1) Before deduction of AT1 coupon.
2) Dividend proposal for the AGM.

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 and Deutscher Ring Bausparkasse (since January 2019 start:bausparkasse) 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

- **Growing 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.
- **Driving efficiency and operational excellence**– 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.
- **Maintaining a safe and secure risk profile**– A strong capital position, stable deposits and a low risk profile are fundamental cornerstones for the execution of our strategy.

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LETTER FROM THE CEO

Dear Shareholders,

We just wrapped up our first full year as a listed company. It was a memorable one as we adapted to operating as a public company and continued to execute on our strategy. European financials experienced one of the most challenging years on record, however, 2018 marked yet another successful year for BAWAG Group, as we delivered record pre-tax profits of € 573 million (+14% versus prior year). We outperformed all of our targets, focused on the things we control and delivered on our promise of being good stewards of capital, all while continuing to shape the BAWAG Group of tomorrow. It's a real testimony to the Bank and the quality of our team that we were able to complete multiple acquisitions, make progress on integrations, and never lose sight of executing on our day-to-day operational and strategic initiatives. For 2018, we delivered a return on tangible equity (@12% CET1) of 17.1% and generated approximately 260 basis points of gross capital. We will propose to the AGM a dividend payment of € 2.18 per share and are actively evaluating share buyback options. Expectations are high, but I'm convinced that with our team we will continue to deliver value to our customers, shareholders and employees.

Delivering record results

BAWAG Group again generated a record year of financial results and exceeded all of our 2018 targets:

Targets 2018	Performance 2018
Profit before tax >5% annual growth	€ 573 million/+14%
Return on tangible equity (@12% CET1) >15%	17.1%
Cost-income ratio <46%	44.2%
Common Equity Tier 1 capital ratio (fully loaded) ≥12%	14.5%

We achieved a profit before tax (PBT) of € 573 million, up 14% compared to 2017. The increase was mainly driven by higher core revenues, lower expenses and lower risk costs, the latter reflecting the benign credit environment and our focus on developed markets.

Capital distribution

At year-end 2018, our fully loaded CET1 capital ratio was 14.5%, while generating 260 basis points of gross capital. This figure already takes into account a proposed dividend payout of 50% of our net profit attributable to shareholders, or € 2.18 per share (€ 215 million), in line with our dividend policy. During the course of 2018, we also absorbed 50 basis points of capital impact from a minor share buyback of approximately 1.3 million BAWAG Group AG shares and a Tier 2 buyback. We are starting off the year 2019 with a strong capital base. With our high organic capital generation, we have the ability to continue growing and investing in our core businesses while at the same time pursuing further M&A opportunities. Additionally, we are actively evaluating share buyback options.

Strategic focus

As we look ahead to 2019 and beyond, I wanted to share a few thoughts on our business, strategy and key focus areas. Our business model and strategy is based on four pillars:

- Growing in our core markets
- Making our customers' lives easier
- Driving efficiency and operational excellence
- Maintaining a safe and secure risk profile

Growing in our core markets

Our focus is, and will continue to be, on growing in developed markets with Austria as our core and foundation. BAWAG P.S.K. Retail recorded record PBT of € 243 million (+25%) and easygroup € 145 million (+6%) year-over-year, demonstrating the resilience of the overall franchise. Besides growth in our core products across our Austrian Retail & SME businesses, we've planted the seeds with new customer acquisition channels. We signed three retail partnerships in 2018, which complement our omni-channel strategy aimed at strengthening our presence in the consumer lending space and leveraging our full offering of banking products. Furthermore, we released new digital products and expanded our broker platforms. We also successfully integrated PayLife, which provides us with a comprehensive credit card offering across BAWAG Group. In the corporate lending space, we experienced very strong growth in our International Lending segment, offsetting softness in the DACH Corporates & Public Sector business.

Our focus in the corporate lending space is, and will always be, on risk-adjusted returns and never chasing volume for the sake of growth.

In the past year, we made great progress with our expansion into Germany, setting the foundation for growing our German retail platform by integrating Südwestbank and closing the acquisition of Deutscher Ring Bausparkasse. These acquisitions were strategic in helping grow our customer franchise, enter new markets, offer new products, leverage talented teams and continue to improve our operating performance. In December, we signed two bolt-on acquisitions in Germany and one in Switzerland, which paved the path to expand our footprint into Switzerland. BFL Leasing, headquartered near Frankfurt, Germany, is a specialist financing provider offering technology and equipment leasing products and services. Health AG, headquartered in Hamburg, Germany, and Zahnärztekasse AG, headquartered in Wädenswil, Switzerland, are two leading dental factoring market players offering dental financing products and services. These transactions are part of our larger DACH regional strategy and complement BAWAG Group's business model by providing access to excellent customers in highly attractive markets. BFL Leasing, with its unique distribution model, creates a foundation for BAWAG Group to establish its leasing franchise in Germany, while Health AG and Zahnärztekasse AG offer an opportunity for us to enter the factoring space, a niche business segment, as well as drive new strategic partnerships. We continue to assess M&A opportunities, but will remain disciplined in following our underwriting guidelines on both strategic fit and value.

Making our customers' lives easier

Customers are looking for a more rewarding and engaging experience with targeted products and services while having 24/7 access to manage their financial lives. We aim to fulfill these needs and to better leverage new and existing technologies as well as optimize our data and technology spend.

A key strategic development was set in February 2018 by signing a separation agreement with Austrian Post for a consensual and gradual wind-down of the partnership. Since then, we have made tremendous progress on our network transformation, known both internally and externally as *Concept 21*, which stands for a re-imagined, right-sized branch network of up to 100 branches by the end of 2019. Our goal is to provide our customers with a truly differentiated, high-quality customer experience, high-quality advisory and substantive engagement as well as leveraging technology to be able to address administrative and transactional activities. By the end of 2018, we completed 85% of the branch transition with a customer retention rate of approximately 95%. We're excited about the many opportunities ahead as we manage our own independent right-sized branch network, digital channels and salesforce.

Driving efficiency and operational excellence

The focus on efficiency and driving operational excellence is part of our team's DNA. We believe this is one of the few things we truly control and it is therefore a non-negotiable. We also believe that striving for operational excellence and driving productivity is a constant, striving for continuous improvement year in and year out. With a cost-income ratio in the low 40s and a return on tangible equity (@12% CET1) of north 17%, BAWAG Group remains one of the most profitable and efficient banks in Europe.

We've fully embraced the fact that technology will ultimately be the key differentiator across the banking landscape and that we needed to lead, and not follow. Therefore, we rolled out our Technology Roadmap across the group during 2018. This relates to how we address our overall technology infrastructure, development and personnel. We aim to embrace technology across everything we do in the Bank. We benefit from a simple business model, which allows for more meaningful adoption of technology across the group.

Maintaining a safe and secure risk profile

We take great pride in running the bank in a safe and secure manner. We primarily focus on developed markets as we believe in doing business in countries with stable legal systems and sound macroeconomic fundamentals. We have, and will continue, to run the bank with a conservative risk profile, focused on high asset quality and disciplined underwriting. Our NPL ratio was 1.7% (excluding the City of Linz case: 1.2%) and our cost of risk was 12 basis points. The results of the ECB stress test in 2018, where we were among the best across Europe, demonstrated the resiliency of our business model, the markets we operate in and our asset quality. We are primarily a retail deposit funded bank with a strong liquidity, leverage and capitalization profile.

Customer business performance

Across our customer business segments, we continued to deliver results, with each business segment growing PBT year-over-year. Our Retail & SME businesses account for approximately 70% of our PBT, focused primarily on the DACH region.

Segment	PBT (€ million)	Pre-tax RoTE[1)]	CIR
BAWAG P.S.K. Retail	243 / +25%	41.2%	44.9%
easygroup	145 / +6%	36.2%	31.5%
International Business	123 / +47%	30.9%	19.5%
DACH Corporates & Public Sector	46 / +6%	15.1%	53.3%
Südwestbank	50 / >100%	14.5%	60.2%

1) @ 12% CET1.

BAWAG P.S.K. Retail delivered record PBT of € 243 million, up 25% versus 2017. The focus in 2018 was on transforming our retail model by exploring new customer acquisition channels through partnerships and accelerating our preferred stand-alone strategy, *Concept 21*. We have reshaped our network by successfully consolidating the majority of our advisors into our target branch network, helping to drive growth in sales per FTE, while delivering significant cost reduction and providing outstanding services to customers.

easygroup delivered record PBT of € 145 million, up 6% versus 2017. We successfully integrated PayLife and completely repositioned the business by the end of the year. PayLife already reached a significant milestone, achieving net credit card growth (the first time since 2013) and successfully launched its credit card issuing business in Germany. Additionally, in December 2018, we launched *Qlick*.

The **International Business** segment also delivered record results with profit before tax of € 123 million, up 47% versus 2017. This mainly reflects the solid net asset growth of 21% and the release of prior-year provisions. The asset quality is best reflected in an NPL ratio of 50 basis points.

The focus of **DACH Corporates & Public Sector** business continues to be on maintaining and acquiring sustainable customer relationships in a very competitive and challenging environment. We believe risk-adjusted returns are currently out of balance. However, we will remain patient for a more normalized pricing environment while also pursuing further efficiency and funding optimization measures.

Südwestbank's strategy focuses on developing new customer acquisition strategies to reposition Südwestbank into a broader Retail & SME franchise with a more comprehensive set of retail products distributed through multiple channels. The strong integration momentum has reached an advanced state with a focus on profitability, capital, operational efficiency and risk management aimed at delivering results in line with the overall BAWAG Group targets.

Outlook and targets

The banking industry across Europe continues to undergo a significant transformation and faces continuing 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, well capitalized and profitable business.

Given our strong operating performance in 2018, we have revised our original 3-year Group targets covering 2018 thru 2020. Essentially, we've moved our targets one year forward, reflecting an annual PBT growth rate of 6% for both 2019 and 2020 as well as an absolute PBT target of greater than € 600 million in 2019 and € 640 million in 2020.

Our **targets** for 2019-2020 are as follows:

Targets	2019	2020
Profit before tax annual growth	>6%	>6%
Profit before tax (absolute)	>€ 600 million	>€ 640 million
Cost-income ratio	<43%	<40%
Return on tangible equity	15-20%	15-20%
Common Equity Tier 1 capital ratio (fully loaded)	12-13%	12-13%
Pre-tax earnings per share[1]	>€ 6.00	>€ 6.40
Post-tax earnings per share[1]	>€ 4.50	>€ 4.80

1) Before deduction of AT1 coupon; before capital measures.

In terms of capital generation and return, we target an annual dividend payout of 50% of net profit attributable to shareholders and will deploy additional excess capital to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our group RoTE targets.

The Managing Board will propose to the Annual General Meeting to distribute a dividend for the financial year 2018 of € 2.18 per share (€ 215 million) and actively evaluates share buyback options.

Our continued strong operating results in 2018 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, providing our customers with simple, transparent and best-in-class products and services.

Thank you

2018 was a challenging year for European banks. All the successes mentioned earlier have only been possible due to the trust all our customers, shareholders and employees put in BAWAG Group. I would like to take this opportunity to thank all of them for their continued, unwavering support.

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 on the BAWAG Group of tomorrow. The strong work ethic, the unbelievable commitment and the outstanding performance and execution of the team members across BAWAG Group is truly unique!

Anas Abuzaakouk, CEO of BAWAG Group AG

STRATEGY

GROWING 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 72% of our customer loans in the DACH region, thereof approximately 55% in Austria.

The DACH region has attractive features including:

- Growing population with over 100 million people
- Annual GDP of € 4 trillion and GDP per capita of more than € 40,000
- Projected GDP growth of 1-2% over the 2019–2020 period; and
- An average unemployment rate of less than 4%

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.
- Our newly acquired operations in Germany provide unique distribution channels and new Retail and SME product offerings that complement existing product offerings within BAWAG Group.
- Our lean, centralized organizational structure enables 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 lending 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.

The year 2018 was again very successful in terms of delivering on our growth strategy. We were able to make progress on several acquisitions while integrating our German beachhead Südwestbank into BAWAG Group. We closed the acquisition of Deutscher Ring Bausparkasse, providing us access to the German building society market as well as to the broker-driven mortgage business in Germany. Furthermore, we signed definitive agreements regarding the full purchase of BFL Leasing GmbH, a Frankfurt area based leasing company specialized in IT financing, as well as two dental factoring companies, the Hamburg-based Health AG, covering the German market, and Zahnärztekasse AG, Swiss market leader and at the same time BAWAG Group's first footprint in Switzerland. All three targets have a long-lasting market presence and significant market shares in their respective core markets.

Going into 2019, we plan to continue executing on our growth strategy. Our M&A activities 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 approximately € 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.
- Better understanding of new and existing customers, enabling us to personalize and customize product offerings.
- Strengthening our successful partnerships and building new ones 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.

DRIVING EFFICIENCY AND OPERATIONAL EXCELLENCE

The banking industry across Europe is facing several challenges in the form of a 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 2019, 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 technology 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.

MAINTAINING A SAFE AND SECURE RISK PROFILE

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.

One key focus is on strong common and total capital and a conservative leverage ratio. We believe our fully loaded CET1 ratio target should be 12-13.0% over time. We consider this to be a prudent level to manage through various economic cycles and it provides us with the flexibility to consistently support our organic and inorganic 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 12.1 times equity-to-total assets and a fully loaded regulatory leverage ratio of 7.1% as of year-end 2018.

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 primary 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 14% as of 31 December 2018, which highlights the low overall encumbrance of our balance sheet assets. Our liquidity coverage ratio was 179% at year-end 2018.

The focus of our securities portfolio is on low credit risk, high liquidity and solid diversification in terms of geography and issuers. More than 95% of the portfolio is allocated to investment grade rated exposure. In addition, market risks are managed with a clear focus on a low risk profile, with a conservative hedging approach to ensure limited income volatility. Consequently, BAWAG Group does not engage in proprietary trading activities.

Our underwriting guidelines are reviewed on a regular basis. In 2018, we took industry-leading prudential measures to proactively tighten our mortgage lending criteria relating to maximum tenor and loan to value parameters. The low risk profile is also attached to our strategy towards developed markets with a strong focus on Austria and Germany. As of December 2018, we neither had any relevant exposures to emerging markets or CEE countries nor operations in countries with elevated AML risk. We have a solid asset quality with an NPL ratio of 1.7% as of year-end 2018.

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKETS

Equity markets in Europe and the US were influenced by elevated political risks and relatively high but decreasing macroeconomic growth momentum. After rather stable share price developments in 2017, the year 2018 was characterized by an increase in price volatility. The Euro Stoxx Banks, a subindex of Euro Stoxx 600 and the benchmark index for banks operating in the Euro area, decreased by 28% compared to year-end 2017.

A stable economic environment translated into a solid financial performance by the corporate sector. Earnings per share of the ATX, Euro Stoxx 600, Euro Stoxx Banks and S&P 500 increased in 2018. With increasing earnings and decreasing prices, valuation metrics decreased in Europe and in the United States in 2018. While the price-to-earnings ratio of the ATX, Euro Stoxx 600 and the Euro Stoxx Banks decreased to 9.7, 14.9 and 11.5, respectively, the price-to-earnings ratio of the S&P 500 still remained at a more elevated level of 17.1.

Despite four interest rate hikes in the United States and a reduction of quantitative easing measures by the European Central Bank, global liquidity conditions remained ample and interest rates remained low in 2018.

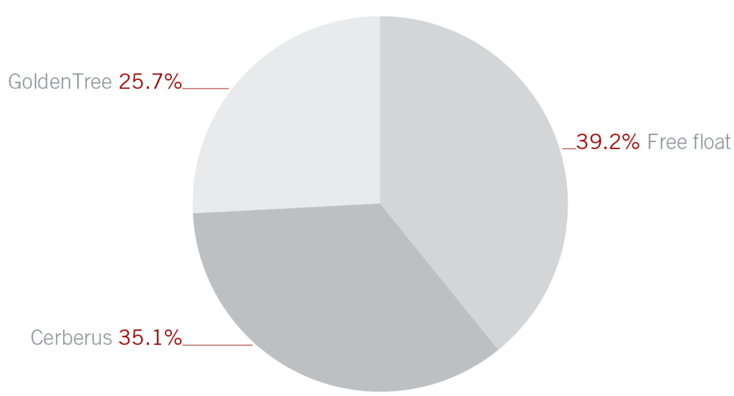
Higher price volatility was caused by uncertainties surrounding mutual protectionist trade policies of various countries and regions including the United States, China and the European Union, as well as signs of decelerating global economic growth momentum.

SHARE PERFORMANCE

BAWAG Group AG's shares closed the year 2018 at a share price of € 35.84 compared to € 44.46 as of year-end 2017. During the same period, the share price high was at € 48.20 and the low at € 34.16.

Including the distribution of € 58 million in dividend for the fourth quarter 2017 and € 51 million in share buybacks, BAWAG Group AG's shares had a total return of minus 18% versus a total return of minus 26% for the Euro Stoxx Banks. Thus, BAWAG Group AG's shares outperformed the benchmark index for banks in the Euro area.

SHAREHOLDER STRUCTURE OVERVIEW (AS OF 31.12.2018)



FUNDING AND INVESTOR RELATIONS

In 2018, BAWAG Group executed the main elements of its planned total capital optimization. In April 2018, BAWAG Group successfully completed its inaugural Additional Tier 1 issuance with an issuance volume of € 300 million.

In June 2018, BAWAG Group announced an any and all cash tender for the € 300 million 8.125% Tier 2 notes of BAWAG P.S.K. due 30 October 2023. Investor take-up was very strong with a total principal amount of € 268 million tendered, with a take-up rate of approximately 90%.

In 2018, members of the Managing Board together with the Investor Relations team met with a number of investors in the United States, the United Kingdom, Germany, Switzerland and Austria. BAWAG Group's strategy was presented and the financial performance discussed.

As of 31 December 2018, eight analysts gave buy recommendations and one analyst rated the share neutral. The average target price as of 31.12.2018 was € 49.8.

Information on BAWAG Group, BAWAG Group share and 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 2018, 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 will be presented in the section “Boards and Officers of BAWAG Group AG” and in the Consolidated Corporate Governance Report 2018.

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 2018, 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 under 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 will be disclosed in the Consolidated Corporate Governance Report 2018. 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 2018, the Supervisory Board consisted of nine members. The Supervisory Board focused on the annual financial statements and the consolidated financial statements for 2017 and discussed the appointment of the external auditor for 2019.

Other material topics which the Supervisory Board dealt with were BAWAG Group's strategy, regular updates on digital transformation, M&A and integration (Südwestbank), discussions on the 2019 budget, the mid-term plan and the acquisition and integration of Deutscher Ring Bausparkasse. Furthermore, the Supervisory Board was regularly informed about the progress of the new headquarters (ICON), the new branch concept (*Concept 21*) and several retail initiatives.

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 2019 audit plans of Internal Audit and of Compliance. The annual audit process for 2018 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 2018 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 amendments of 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. Furthermore, the committee dealt with succession planning.

Related Parties Special Audit Committee

The Related Parties Special Audit Committee acknowledged the overview of the related parties transactions.

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 2018 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft 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 2018.

March 2019

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 be solid in Austria throughout the year 2018. Austria's real gross domestic product growth reached a rate of around 2.7%, thus clearly outpacing growth in Germany and in the euro area as a whole. The relatively high growth 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, real wage growth and a stable savings rate. Corporates as well as private households continued to prove financially sound. On the back of increasing revenues, government finances concluded the year 2018 with a relatively balanced budget. The debt to GDP ratio decreased to below 76% and is expected to decrease further.

In 2018, the population of the DACH region surpassed 100 million. The DACH region comprises a market of more than € 4 trillion in GDP with a common culture and language, a GDP per capita significantly above the euro area aggregate, a sound labor market and healthy government finances. GDP growth in Germany reached 1.5% in 2018 driven by softer international trade and uncertainties surrounding the automotive sector. The labor market is at full employment. Government finances are in surplus, representing ample capacities to support growth.

Market developments

The dynamic economic environment in 2018 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, outweighing a moderate reduction in loans for non-housing purposes. Real estate prices continued to increase, with the driver of growth continuing to shift from apartments in g Board for submission to the Supervisory Board on a. Deposits from Austrian households increased despite the low-interest rate environment. Growing investments were accompanied by increasing loan demand from Austrian corporations. Home ownership as well as the ratio of housing loans to GDP remain low in Austria compared to the European average. The number of branches of Austrian banks continued to decline in 2018, with one in five branches being closed since 2012. The overall balance sheet of the Austrian banking sector increased driven by growth in customer assets and customer liabilities.

Despite four interest rate hikes in the United States and a reduction of quantitative easing measures by the ECB as of year-end 2018, global liquidity conditions remained ample and interest rates remained low in 2018. Political risks and signs of decelerating global economic growth momentum caused increased volatility and increased risk premia on financial markets, especially in the second half 2018.

Outlook

Structural as well as cyclical dynamics continue to support the outlook for the Austrian and German economy in 2019. Loan growth is sustainable and well supported by underlying macroeconomic developments. Automation and digitalization will continue to drive the well-established trends towards more operational efficiency and enhanced customer experience in the banking sector. In the United States, key interest rates are close to the neutral rate while the ECB has not yet started its rate hike cycle. During 2019, the ECB deposit rate will likely be the first interest rate to be increased in Europe since 2011. However, an interest rate hike is not expected until the second half 2019 and is expected to be moderate, with key euro money market rates continuing to be in negative territory for the majority of 2019.

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 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 2018 were business models and profitability drivers, credit risk, risk management and activities comprising multiple risk dimensions.

With an amendment of the Austrian Banking Act (BWG) and the publication of a circular of the Financial Market Authority (FMA), the Joint ESMA and EBA Guidelines on the assessment of suitability of members of the management body and key function holders (EBA-GL-2017-12) and the Guidelines on Internal Governance (EBA-GL-2017-11) were implemented in Austria. The amendment of the BWG requires a minimum number of independent supervisory board members and the implementation of a BWG Compliance function while the FMA circular describes the independence criteria for supervisory board members and several other requirements for managing board members, supervisory members and key function holders. The new provisions concerning the internal governance of BAWAG Group were successfully implemented during 2018.

Due to the planned withdrawal of the United Kingdom (UK) from the European Union (EU), uncertainties exist not only on the financial markets about the future status of the UK, but also within the regulatory environment. In order to assess the impact of Brexit on the UK operations and to reflect potential risks, BAWAG Group has established a Brexit team, supported by external advisors in Austria and in the UK. Based on the information available at the preparation of the consolidated annual report, there will be a Temporary Permission Regime (TPR) for credit institutions during the first two years. Due to the size of the UK branch of BAWAG P.S.K. and the fact that business activities in the UK are carried out by the branch as an agent for BAWAG P.S.K., the effects of a hard Brexit will cause a minor organizational impact.

On 19 July 2018, the EBA published its final guidance to strengthen the Pillar 2 framework. The aim is to further enhance institutions' risk management and supervisory convergence within the supervisory review and examination process (SREP). Additionally, the EBA sets out new requirements for SREP, the management of interest rate risk arising from non-trading activities and on institutions' stress testing.

Furthermore, in 2018 the supervisory authorities, specifically EBA, ECB and the European Commission, continued to enforce the Action Plan on reducing non performing exposures (NPE) in the EU. The key areas include sufficient loss coverage by banks for future NPE, development of a secondary market for NPLs and facilitating out-of-court collateral enforcement, supervisory expectations for prudential provisioning of NPEs and the management of NPE by banks with high NPL rates.

In November 2016, the European Commission published a CRR Review-Package. The negotiations on the proposals between The European Council, the European Parliament and the European Commission started in July 2018 and the finalization is expected by mid 2019. Changes in Regulation (EU) No. 575/2013 (CRR – Capital Requirements Regulation) and Directive 2013/36/EU (CRD IV – Capital Requirements Directive IV) include Pillar 2 add-ons, liquidity, waivers, leverage ratio and the net stable funding ratio. While the final amendments are yet to be finalized, BAWAG Group started a gap analysis and expects only a de-minimis impact. Going into 2019, we expect the pace of regulatory changes for European financial institutions to remain high, with the finalization of the comprehensive reforms of the CRR, the CRD IV and the BRRD being the primary area of focus.

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

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	2018	2017	Change	Change (%)
Interest income	1,141.4	1,084.9	56.5	5.2
Interest expense	(309.5)	(299.8)	(9.7)	3.2
Dividend income	8.6	8.0	0.6	7.5
Net interest income	**840.5**	**793.1**	**47.4**	**6.0**
Fee and commission income	372.9	303.6	69.3	22.8
Fee and commission expenses	(90.1)	(86.7)	(3.4)	3.9
Net fee and commission income	**282.8**	**216.9**	**65.9**	**30.4**
Core revenues	**1,123.3**	**1,010.0**	**113.3**	**11.2**
Gains and losses on financial instruments and other operating income and expenses[1]	47.4	110.4	(63.0)	(57.1)
Operating income	**1,170.7**	**1,120.4**	**50.3**	**4.5**
Operating expenses[1]	**(517.9)**	**(528.5)**	**10.6**	**(2.0)**
Regulatory charges	(40.1)	(33.8)	(6.3)	18.6
Operating profit	**612.7**	**558.1**	**54.6**	**9.8**
Total risk costs	(45.1)	(61.8)	16.7	(27.0)
Share of the profit or loss of associates accounted for using the equity method	5.1	4.1	1.0	24.4
Profit before tax	**572.7**	**500.4**	**72.3**	**14.4**
Income taxes	(136.2)	(51.2)	(85.0)	>100
Profit after tax	**436.5**	**449.2**	**(12.7)**	**(2.8)**
Non-controlling interests	0.0	(0.1)	–	–
Net profit	**436.5**	**449.1**	**(12.6)**	**(2.8)**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 36.1 million for 2018. The item Operating expenses includes regulatory charges in the amount of € 4.0 million for 2018 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.
Note: Prior-year figures were adjusted. For details, please refer to the chapter Restatement in accordance with IAS 8.41.

Profit before tax increased by € 72.3 million, or 14.4%, to € 572.7 million in 2018. The increase was driven by higher core revenues as well as lower operating expenses and risk costs.

Net interest income increased by € 47.4 million, or 6.0%, to € 840.5 million in 2018 with a **net interest margin** of 2.21%.

Net fee and commission income increased by € 65.9 million, or 30.4%, compared to 2017, mainly due to the acquisitions of PayLife and Südwestbank, which were closed in the fourth quarter 2017, and lower commission expenses paid to Austrian Post.

Gains and losses on financial instruments and other operating income and expenses decreased by € 63.0 million to € 47.4 million in 2018.

Operating expenses decreased by 2.0% to € 517.9 million in 2018, despite the acquisition of PayLife and Südwestbank in the fourth quarter 2017 and the acquisition of Deutscher Ring Bausparkasse in September 2018.

Total risk costs decreased by € 16.7 million to € 45.1 million in 2018.

Income taxes amounted to € 136.2 million in 2018.

Total assets

in € million	**2018**	2017	Change	Change (%)
Cash reserves	1,069	1,180	(111)	(9.4)
Financial assets				
Held for trading	351	458	(107)	(23.4)
Fair value through profit or loss	504	448	56	12.5
Fair value through OCI	3,039	4,408	(1,369)	(31.1)
At amortized cost	38,334	38,016	318	0.8
Customers	30,482	30,793	(311)	(1.0)
Debt instruments	3,512	3,563	(51)	(1.4)
Credit institutions	4,340	3,660	680	18.6
Valuation adjustment on interest rate risk hedged portfolios	1	–	1	>100
Hedging derivatives	401	517	(116)	(22.4)
Tangible non-current assets	234	223	11	4.9
Intangible non-current assets	505	488	17	3.5
Tax assets for current taxes	15	12	3	25.0
Tax assets for deferred taxes	75	116	(41)	(35.3)
Other assets	170	190	(20)	(10.5)
Total assets	**44,698**	**46,056**	**(1,358)**	**(2.9)**

Note: Due to the application of IFRS 9 from 1 January 2018 and the decision to not restate the accounts, as permitted in the regulations, the balance sheet from 2018 is not comparable with previous reporting periods. Prior-year figures for 2017 have been presented in accordance with the new categories, without a reclassification or remeasurement according to the new standards.
Furthermore, prior-year figures were adjusted. For details, please refer to the chapter Restatement in accordance with IAS 8.41.

The item **at amortized cost** increased by € 318 million, or 1.0%, and stood at € 38,334 million as of 31 December 2018.

Tax assets for deferred taxes decreased by € 41 million, or 35.3%, to € 75 million as of 31 December 2018.

Total liabilities and equity

in € million	2018	2017	Change	Change (%)
Total liabilities	**40,693**	**42,479**	**(1,786)**	**(4.2)**
Financial liabilities				
Fair value through profit or loss	576	726	(150)	(20.7)
Held for trading	301	345	(44)	(12.8)
At amortized cost	38,325	39,894	(1,569)	(3.9)
Customers	30,195	30,947	(752)	(2.4)
Issued securities	3,849	4,938	(1,089)	(22.1)
Credit institutions	4,281	4,009	272	6.8
Financial liabilities associated with transferred assets	150	–	150	>100
Valuation adjustment on interest rate risk hedged portfolios	156	116	40	34.5
Hedging derivatives	104	94	10	10.6
Provisions	465	450	15	3.3
Tax liabilities for current taxes	8	14	(6)	(42.9)
Tax liabilities for deferred taxes	11	5	6	>100
Other obligations	597	835	(238)	(28.5)
Total equity	**4,005**	**3,577**	**428**	**12.0**
Common equity	3,706	3,576	130	3.6
AT1 capital	298	–	–	–
Non-controlling interests	1	1	0	0.0
Total liabilities and equity	**44,698**	**46,056**	**(1,358)**	**(2.9)**

Note: Due to the application of IFRS 9 from 1 January 2018 and the decision to not restate the accounts, as permitted in the regulations, the balance sheet from 2018 is not comparable with previous reporting periods. Prior-year figures for 2017 have been presented in accordance with the new categories, without a reclassification or remeasurement according to the new standards.
Furthermore, prior-year figures were adjusted. For details, please refer to the chapter Restatement in accordance with IAS 8.41.

Financial liabilities at amortized cost decreased by € 1,569 million, or 3.9%, to € 38,325 million as of 31 December 2018 compared to 31 December 2017, primarily driven by the reduction of customer fixed saving deposits and corporate sight deposits.

Total equity including Additional Tier 1 capital stood at € 4,005 million as of 31 December 2018.

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 12-13% on a fully loaded basis. The target CET1 ratio takes the regulatory capital requirements into account, and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

For 2019, the expected regulatory minimum CET1 ratio applicable to BAWAG Group according to the SREP is 10.36% (based on the Pillar 1 minimum of 4.50%, a Pillar 2 requirement of 2.25%, a capital conservation buffer of 2.50%, a systemic risk buffer of 1.0% and a countercyclical buffer of 0.11%[1)]. 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 11.36% (10.36% SREP requirement plus 1% Pillar 2 guidance).

As of 31 December 2018, a fully loaded CET1 ratio of 14.5%, a fully loaded Tier 1 ratio of 16.0% and a fully loaded total capital ratio of 16.3% significantly exceed both the target ratio and the regulatory requirements detailed above. These ratios include the dividend which will be proposed to the AGM of € 215 million for 2018 based on a 50% payout ratio.

Based on the fully loaded capital ratios as of 31 December 2018, the maximum distributable amount above the regulatory requirements for 2019 (Pillar 1 minimum ratios, Pillar 2 requirement and combined buffer requirements) is € 506 million (after taking the € 215 million dividend for 2018 into account). Available distributable items as defined in Art. 4.1 (128) CRR on the level of BAWAG Group AG amount to € 3,277 million as of 31 December 2018.

Our strong capital position enables significant further growth and our capital distribution strategy. We target an annual dividend payout of 50% of net profit attributable to shareholders 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 target. Additionally, we are actively evaluating share buyback options.

BAWAG Group expects to receive its first formal MREL requirement from the Single Resolution Board ("SRB") during the second quarter 2019. The MREL requirement is expected to be set on the basis of a Single Point of Entry resolution strategy with BAWAG P.S.K. being the resolution entity. This MREL requirement will be based on the SRB's "2018 SRB Policy for the first wave of resolution plans" published in November 2018.

In light of the ongoing legislative process on the level of the European Union (CRR2, CRD V, BRRD2, etc.) and public statements of the SRB regarding planned changes to its MREL policy, we expect that future MREL decisions are likely to impose additional requirements (e.g. subordination requirement and restrictions on the eligibility of MREL instruments that were not issued by the resolution entity). In line with our overall capital management approach, we aim to proactively take measures to address MREL requirements on an accelerated basis.

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 successfully placed our inaugural Additional Tier 1 instrument amounting to € 300 million in the second quarter 2018.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 179% at the end of 2018. BAWAG Group thereby significantly exceeds the regulatory LCR requirement of 100%. No additional LCR requirements were imposed on BAWAG Group as a result of the SREP for 2018 and 2019.

1) Based on RWA as of 31 December 2018.

KEY QUARTERLY PERFORMANCE INDICATORS

in € million	**Q4 2018**	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net interest income	216.3	213.0	203.1	208.0	203.2
Net fee and commission income	70.2	66.6	71.5	74.5	66.1
Core revenues	286.5	279.6	274.6	282.5	269.3
Operating income	289.9	298.5	284.4	297.9	350.6
Operating expenses	(136.4)	(126.5)	(124.8)	(130.0)	(207.5)
Total risk costs	(13.2)	(11.2)	(4.9)	(15.8)	(18.2)
Profit before tax	143.0	160.4	153.0	116.5	121.8
Income taxes	(34.4)	(35.5)	(36.5)	(29.9)	26.1
Net profit	108.6	124.8	116.5	86.6	147.9
(figures annualized)					
Return on equity[1)]	11.8%	13.8%	13.1%	9.9%	17.0%
Return on equity (@12% CET1)	14.6%	16.9%	15.6%	11.2%	20.3%
Return on tangible equity[1)]	13.7%	16.0%	15.3%	11.5%	19.5%
Return on tangible equity (@12% CET1)	17.5%	20.2%	18.6%	13.4%	23.9%
Net interest margin	2.25%	2.28%	2.15%	2.15%	2.25%
Cost-income ratio	47.1%	42.4%	43.9%	43.6%	59.2%
Risk costs / interest-bearing assets	0.14%	0.12%	0.05%	0.16%	0.20%
Tax rate	24.1%	22.1%	23.9%	25.7%	(21.4)%

1) Excl. AT1 capital.
Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on pages 245-248.
Furthermore, prior-quarters' figures were adjusted. For details, please refer to the chapter Restatement in accordance with IAS 8.41.

BUSINESS SEGMENTS

BAWAG P.S.K. RETAIL

Overview and strategy

The BAWAG P.S.K. Retail segment services 1.2 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.

We are focused on meeting the ever-changing needs of our customers and continuing to adapt to a constantly evolving banking landscape. In 2018, we continued to make progress on our retail franchise across several areas. In February 2018, we signed a separation agreement with Austrian Post 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 advisory service model. Strategically, this was necessary to offer our customers the quality advice that they need and make our footprint more efficient. We have been able to reconstitute our branch network designed around our customer base activity and potential as well as our core strength of advisory, and fully update our network with digital integration and education formats for our customers, leading to enhanced customer service and an improved environment on an optimized cost base.

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.

We are enhancing our strengths as a market-leading advisory-focused network, complemented with customized, digital processes and platforms as we continue to see a significant move towards digital platforms, more demand for qualitative sales advisory and many opportunities brought about by new technologies. Our reshaped franchise will reflect this model, serving to increase our customer engagement and improve the customer experience, while providing a strengthened offering to our customers for the advice they need to be successful in their financial lives. This philosophy is reflected in our new claim "**B**essere **A**ntworten **W**ie **A**lles **G**eht!" which is creatively formed from the letters BAWAG and translates to "better answers for how things work!"

We are continuously optimizing our online banking user experience through added functionality and features, simplified servicing and purchasing journeys and virtual support. As an example, interactive and easy-to-understand tutorials have been added to the online banking to maximize accessibility for all our customers. Additionally, our newly launched ExpressFinanzierung product will allow small and medium enterprises (SMEs) access to same-day business financing with an application that takes only minutes.

2018 business review

From a network perspective, we made further progress on *Concept 21*, our retail transformation roadmap. In 2018, we reshaped our network by successfully consolidating the majority of our advisors into our target branch network, helping to drive growth in sales per FTE, while delivering significant cost reduction and providing outstanding services to customers. We initiated a targeted shift of a portion of our customers to new branches as part of our target network to be finalized in 2019. Only 35% of our customers will need to visit a new branch, most with minimal disruption due to our coverage design. We have already shifted nearly all of our advisory services to our target network of up to 100 branches and welcomed more than 50% of our shifting customers to their new branch. We received positive feedback from our customers and continued to demonstrate steady strength in our deposit base and our current account market share, which has remained stable at around 14% over the past few years.

In October 2018, we opened our first newly designed branch near Vienna, shortly followed by another redesigned branch in Vienna in December 2018. These branches offer our customers the first opportunity to experience the benefits of our new branch concept, with many others to follow in 2019. The branch layout employs a natural design with integrated digital components, a streamlined welcoming procedure, enhanced self-service terminals and an abundance of consultation rooms coupled with group space for educational seminars, providing all the necessary components of a high-touch, high-tech customer experience.

Through our ongoing retail franchise transformation, we grew profit before tax by 25% to € 243 million and generated growth in key product areas, with net asset growth of approximately 3% 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. These results were delivered while maintaining our disciplined underwriting standards.

Additionally, we made substantial progress on our retail partnership strategy in 2018, initiated by our exclusive long-term sales partnership with MediaMarktSaturn Austria. This strategic partnership complements our omni-channel strategy aimed at strengthening our presence in the consumer lending space and leveraging our full offering of banking products. Our partnership strategy was further complemented by our cooperation with METRO Cash & Carry Austria to provide tailored financial products and services to their more than 500,000 customers, most of which are small and medium-sized enterprises. This partnership represents another step forward towards the development of a new customer acquisition model and reinforces our presence and commitment to Austrian small businesses. Both retail partnerships will be fully operational in 2019 and represent exciting new opportunities for the Group.

We continued to recognize additional opportunities to streamline operational processes, reduce costs and enhance the customer experience, with a firm commitment to innovating via digital channels and offering best-in-class products. For example, through our partnership with Spotcap and our “ExpressFinanzierung” product, a fully digital, same-day funding credit, we brought a new product to the Austrian market for SMEs to address unmet needs, while enhancing our digital and analytical ecosystems.

In parallel, we are delivering technological developments to our branch network, including investments made to digitize applications, operational documentation (paperless branch) and drive further automation and security in cash management. In 2018, there continued to be a significant shift in transactions from over-the-counter services to online and self-service devices. While overall transactions remained at a similar level compared with 2017, over-the-counter transactions represented only approximately 10% of total transactions, down 20% from 2017.

Outlook

In 2019, we will continue to execute on our long-term strategy by using the strength of our depository relationships and data-based customer analytics to offer value and assistance to our customers in their financial lives when most appropriate. As we are focused on providing a superior experience unified through all channels, we are progressing towards a consolidated, digitally integrated platform designed for our customers’ needs. Most importantly, we will be realizing the impact of our shift in new customer acquisition to a partnership-led model with Austria’s leading retailers, but providing financial products at the time and place of the customer need. The partnerships are targeted at our areas of growth in consumer lending and SME, and we will continue to broaden our collaborations in 2019 as well. This will drive new customer growth at BAWAG Group to higher levels. All our efforts are targeted at driving a better customer journey while maintaining a relentless focus on productivity throughout the organization.

Financial results

Income metrics (in € million)	2018	2017	Change (%)	Q4 2018	Q4 2017	Change (%)
Net interest income	386.5	378.1	2.2	97.2	95.1	2.2
Net fee and commission income	156.9	151.0	3.9	37.7	39.1	(3.6)
Core revenues	**543.4**	**529.1**	**2.7**	**134.9**	**134.2**	**0.5**
Gains and losses on financial instruments	16.7	0.8	>100	8.2	(2.2)	–
Other operating income and expenses	1.9	1.8	5.6	0.5	0.3	66.7
Operating income	**562.0**	**531.7**	**5.7**	**143.6**	**132.3**	**8.5**
Operating expenses	**(252.3)**	**(272.8)**	**(7.5)**	**(66.3)**	**(71.0)**	**(6.6)**
Regulatory charges	(11.7)	(13.4)	(12.7)	3.3	(0.8)	–
Total risk costs	(54.8)	(51.1)	7.2	(14.4)	(17.7)	(18.6)
Profit before tax	**243.2**	**194.4**	**25.1**	**66.2**	**42.8**	**54.7**

Key ratios	2018	2017	Change (pts)	Q4 2018	Q4 2017	Change (pts)
Pre-tax return on tangible equity	34.0%	26.8%	7.2	35.5%	22.5%	13.0
Pre-tax return on tangible equity (@12% CET1)	41.2%	30.7%	10.5	45.4%	27.7%	17.7
Net interest margin	4.04%	3.92%	0.12	4.04%	3.98%	0.06
Cost-income ratio	44.9%	51.3%	(6.4)	46.2%	53.7%	(7.5)
Risk costs / interest-bearing assets	0.57%	0.53%	0.04	0.60%	0.74%	(0.14)
NPL ratio	1.9%	2.4%	(0.5)	1.9%	2.4%	(0.5)

Business volumes (in € million)	2018	2017	Change (%)
Assets	9,547	9,502	0.5
Risk-weighted assets	3,354	3,679	(8.8)
Customer deposits	16,288	16,092	1.2
Own issues	2,483	2,862	(13.2)

Operating income increased by 5.7% to € 562.0 million compared to 2017. This results from an improvement in net interest income, driven by higher average margins on lending products and an increase in net fee and commission income mainly driven by current account products and lower commission expenses paid to Austrian Post.

Gains and losses on financial instruments comprise income from the sale of non-performing loans in January and December 2018.

Operating expenses decreased by 7.5% to € 252.3 million.

Risk costs amounted to € 54.8 million, translating into a risk cost ratio of 57 basis points with a decreased NPL ratio of 1.9%.

The segment delivered **profit before tax** of € 243.2 million and a pre-tax return on tangible equity (@12% CET1) of 41.2%.

Assets increased slightly by 0.5% compared to year-end 2017, mostly coming from housing loans.

Customer deposits increased by 1.2% compared to year-end 2017, due to higher sight deposits.

EASYGROUP

Overview and strategy

With approximately 1.4 million customers and 1.6 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.

easygroup consists of all our non-branch related origination channels, which includes

- the #1 rated direct bank in Austria, easybank
- the #3 auto lessor in Austria, easyleasing
- the leading credit card issuer in Austria, easypay with PayLife
- the #1 rated building society start:bausparkasse and
- our international retail business.

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.

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.

2018 business review

During 2018, there were a number of accomplishments across the group that have led to sustainable growth within 2018 and beyond, most notably:

- in April 2018, we launched the new website of easybank, which significantly improves the direct bank's digital customer acquisition capabilities
- in September 2018, we closed on the acquisition of Deutscher Ring Bausparkasse and
- in December 2018, we officially launched our online German lending platform, *Qlick*

In addition to the achievements above, easygroup has continued to receive industry accolades for our dedication to innovation and customer experience. Each year, the Austrian Financial Marketing Association (FMVÖ) performs a customer survey to determine which banks have the highest customer satisfaction through its Net Promoter Score (NPS). easybank won the award for the best direct bank for the eigth consecutive year in 2018. easybank's NPS also was higher than any other bank's NPS in any other category. In addition, both easybank and start:bausparkasse received the award for best bank in their respective categories from *Börsianer*, one of Austria's leading financial magazines.

These achievements were coupled with another year of strong financial performance. The easygroup segment ended 2018 with total segment assets of € 5.7 billion and customer deposits of € 6.1 billion. At easybank, online consumer loan origination increased by 20% year-over-year, with loans to new customers up over 90%. Additionally, we saw a positive trend in our online current accounts, with net growth in our "easy konto" fee-bearing account of over 7% year-over-year.

This continued growth is the result of a vigilant focus on improving our ability to provide our existing and future customers with easier ways to bank. During 2018, we implemented multiple improvements in the way customers can upgrade or sign up for new products. The technology and processes behind these accomplishments lay the foundation for future innovation and future growth.

Within easyleasing, the focus remains on growing our asset base. Auto leasing origination was up 5% year-over-year, resulting in easyleasing net asset growth of 2% for the year. We continued to evaluate different organic and inorganic options when it comes to pursuing further growth and successfully acquired a number of new dealers and brokers at easyleasing.

In 2018, we also successfully integrated PayLife and fundamentally repositioned the business. Following the integration, PayLife reached a major milestone: For the first time since 2013, the credit card portfolio had positive net card growth. Prior to PayLife being part of easygroup, the credit card portfolio was experiencing an annual decrease of approximately 6%. The teams worked on locking in long-term issuing partnerships, which led to the strong cards growth. In addition, PayLife launched its credit card issuing business in Germany with its first banking partner, Südwestbank.

start:bausparkasse, our building society and housing product origination channel in Austria, ended the year 2018 with solid results, achieving new volume origination of € 151 million. We successfully integrated the start:bausparkasse team and management into easygroup, unlocking innovative banking synergies, enabling us to provide unique product structures through our product “easy start” to building society customers. The acquisition of Deutscher Ring Bausparkasse provides a bolt-on opportunity in Germany.

Outlook

Looking forward to 2019, easygroup expects to continue to accelerate its positive growth trends. The launch of *Qlick* in Germany allows us to penetrate this market by leveraging the strengths we have developed in Austria. The *Qlick* platform is agile and capable of providing German consumers with the best customer experience. We have already negotiated agreements with partners that will allow us direct and immediate access to the broader German market and will quickly be able to ramp up operations in Germany with our scalable platform. In Austria, we will continue to focus on consumer lending, current accounts, credit cards, leasing and housing products and further invest in improvements to customer journeys and optimizing the digital onboarding experience on our website. We expect strong double-digit growth in our consumer loan origination under easybank. The project and partnership pipeline for our PayLife brand is strong and we expect the portfolio to continue to show growth as we move into 2019 and beyond. The international mortgage portfolio run-off is in line with our expectations as we continue to explore different organic and inorganic opportunities that would further drive our customer franchise growth.

Financial results

Income metrics (in € million)	2018	2017	Change (%)	Q4 2018	Q4 2017	Change (%)
Net interest income	164.1	170.6	(3.8)	43.0	39.6	8.6
Net fee and commission income	58.4	28.0	>100	15.8	14.5	9.0
Core revenues	**222.5**	**198.6**	**12.0**	**58.8**	**54.1**	**8.7**
Gains and losses on financial instruments	0.0	0.0	0.0	0.0	2.2	>(100)
Other operating income and expenses	0.0	2.5	>(100)	0.0	3.3	>(100)
Operating income	**222.5**	**201.1**	**10.6**	**58.8**	**59.6**	**(1.3)**
Operating expenses	**(70.1)**	**(59.7)**	**17.4**	**(18.5)**	**(22.6)**	**(18.1)**
Regulatory charges	(3.9)	(4.2)	(7.1)	0.3	(0.1)	–
Total risk costs	(3.4)	0.1	–	(1.2)	(4.4)	(72.7)
Profit before tax	**145.1**	**137.3**	**5.7**	**39.3**	**32.5**	**20.9**

Key ratios	2018	2017	Change (pts)	Q4 2018	Q4 2017	Change (pts)
Pre-tax return on tangible equity	30.0%	24.3%	5.7	32.8%	23.2%	9.6
Pre-tax return on tangible equity (@12% CET1)	36.2%	27.8%	8.4	41.9%	28.6%	13.3
Net interest margin	2.87%	2.80%	0.07	2.96%	2.65%	0.31
Cost-income ratio	31.5%	29.7%	1.8	31.5%	37.9%	(6.4)
Risk costs / interest-bearing assets	0.06%	0.00%	0.06	0.08%	0.29%	(0.21)
NPL ratio	1.9%	1.9%	0.0	1.9%	1.9%	0.0

Business volumes (in € million)	2018	2017	Change (%)
Assets	5,682	5,938	(4.3)
Risk-weighted assets	3,254	4,193	(22.4)
Customer deposits	6,148	5,550	10.8
Own issues	324	431	(24.8)

Operating income increased by 10.6% to € 222.5 million compared to the same period last year. While net interest income was affected by the run-off of the international mortgage portfolio, the increase in net fee and commission income stems from the acquisition of the card issuing business PayLife in early fourth quarter 2017.

Operating expenses were up 17.4% to € 70.1 million compared to 2017 due to the acquisitions of PayLife in October 2017 and Deutscher Ring Bausparkasse in September 2018.

Risk costs amounted to € 3.4 million, translating into a risk cost ratio of only 6 basis points with a stable NPL ratio of 1.9%.

The segment contributed **profit before tax** of € 145.1 million with a pre-tax return on tangible equity (@12% CET1) of 36.2%.

Assets decreased by 4.3% compared to year-end 2017. The run-off of the international mortgage portfolio was partly compensated by the consolidation of Deutscher Ring Bausparkasse.

Customer deposits increased by € 0.6 billion to € 6.1 billion due to the acquisition of Deutscher Ring Bausparkasse and higher sight deposits of easybank.

INTERNATIONAL BUSINESS

Overview and strategy

The International Business segment includes the international corporate lending and international real estate financing business outside the DACH region with a focus on developed countries within Western Europe as well as the United States. International Business focuses on senior secured lending to strong sponsors on cash flow generating companies and assets.

2018 business review

We continued to focus on our loan origination opportunities primarily in select developed markets. The International Business segment generated new business of € 4.0 billion in 2018.

Our **international corporate lending business** was able to increase net assets by 10% to € 2.6 billion. Our business mix remained similar to previous years with a general focus on higher quality leveraged loan transactions in defensive industries, asset backed financings and lender finance.

Our **international real estate financing business** was able to grow net assets by approximately 31%. This growth was driven by the closing of transactions signed in 2017 as well as increased exposure to lending on residential real estate portfolios. The business maintained its focus on credit quality and kept its LTV ratio on the overall portfolio at less than 60%. The transactions focused primarily on real estate financings with attractive LTVs, strong cash flow, shorter weighted expected maturities and solid covenant characteristics.

Outlook

We see a solid pipeline with diversified opportunities in 2019, particularly from our real estate lending business. However, competition for defensive, high-quality transactions will remain high. We will continue to stay focused on risk-adjusted returns versus volume growth.

Financial results

Income metrics (in € million)	2018	2017	Change (%)	Q4 2018	Q4 2017	Change (%)
Net interest income	134.0	129.1	3.8	37.8	30.1	25.6
Net fee and commission income	0.3	0.4	(25.0)	0.0	0.2	>(100)
Core revenues	**134.3**	**129.5**	**3.7**	**37.8**	**30.3**	**24.8**
Gains and losses on financial instruments	10.1	(0.4)	––	7.4	0.0	>100
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**144.4**	**129.1**	**11.9**	**45.2**	**30.3**	**49.2**
Operating expenses	**(28.1)**	**(29.0)**	**(3.1)**	**(7.8)**	**(7.1)**	**9.9**
Total risk costs	6.6	(16.3)	–	(2.9)	(0.5)	>100
Profit before tax	**122.9**	**83.8**	**46.7**	**34.5**	**22.7**	**52.0**

Key ratios	2018	2017	Change (pts)	Q4 2018	Q4 2017	Change (pts)
Pre-tax return on tangible equity	25.2%	19.6%	5.6	25.6%	19.4%	6.2
Pre-tax return on tangible equity (@12% CET1)	30.9%	22.4%	8.5	32.7%	24.0%	8.7
Net interest margin	2.45%	2.48%	(0.03)	2.50%	2.36%	0.14
Cost-income ratio	19.5%	22.5%	(3.0)	17.3%	23.4%	(6.1)
Risk costs / interest-bearing assets	(0.12)%	0.31%	–	0.19%	0.04%	0.15
NPL ratio	0.5%	0.9%	(0.4)	0.5%	0.9%	(0.4)

Business volumes (in € million)	2018	2017	Change (%)
Assets	6,284	5,174	21.5
Risk-weighted assets	5,303	4,318	22.8

Operating income increased by 11.9% to € 144.4 million compared to 2017 as a result of a higher net interest income and realization of gains on financial instruments from the sale of bonds.

Operating expenses decreased by 3.1% to € 28.1 million compared to the prior year.

Risk costs reflect a release of provisions from the sale of a non-performing loan in oil & gas in the second quarter 2018. The recovery recognized on this transaction reflects the adequacy of our provisioning standards and conservative underlying risk profile.

The segment contributed **profit before tax** of € 122.9 million with a pre-tax return on tangible equity (@12% CET1) of 30.9%.

Assets increased by 21.5% to € 6.3 billion compared to year-end 2017. This development is due to the successful realization of new financings, particularly in our international real estate financing business.

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 at the same time remaining disciplined on pricing despite the competitive landscape.

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 maintain the right capital allocation. 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 seek to 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. We do this by focusing on payments with existing top clients, acquiring 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.

2018 business review

The segment's assets stood at € 5.6 billion at the end of 2018, down 17% compared to year-end 2017. This decrease was mainly driven by the reduction of short-term lending to municipalities and social insurance companies. Our focus on risk-adjusted returns has required us to pull back from a number of corporate lending transactions that do not offer the right price, credit terms or overall risk-adjusted returns.

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. We believe risk-adjusted returns are currently out of balance. However, we will remain patient for a more normalized pricing environment while also pursuing further efficiency and funding optimization measures.

Financial results

Income metrics (in € million)	2018	2017	Change (%)	Q4 2018	Q4 2017	Change (%)
Net interest income	58.7	70.6	(16.9)	13.5	17.9	(24.6)
Net fee and commission income	36.7	39.1	(6.1)	9.0	10.1	(10.9)
Core revenues	**95.4**	**109.7**	**(13.0)**	**22.5**	**28.0**	**(19.6)**
Gains and losses on financial instruments	0.6	(10.9)	–	(0.2)	(11.4)	98.2
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**96.0**	**98.8**	**(2.8)**	**22.3**	**16.6**	**34.3**
Operating expenses	**(51.2)**	**(47.5)**	**7.8**	**(13.1)**	**(12.0)**	**9.2**
Total risk costs	1.3	(8.0)	–	3.8	(15.0)	–
Profit before tax	**46.1**	**43.3**	**6.5**	**13.0**	**(10.4)**	**–**

Key ratios	2018	2017	Change (pts)	Q4 2018	Q4 2017	Change (pts)
Pre-tax return on tangible equity	12.5%	10.4%	2.1	14.1%	(9.2)%	–
Pre-tax return on tangible equity (@12% CET1)	15.1%	11.8%	3.3	18.1%	(11.3)%	–
Net interest margin	0.91%	0.92%	(0.01)	0.87%	0.99%	(0.12)
Cost-income ratio	53.3%	48.1%	5.2	58.7%	72.3%	(13.6)
Risk costs / interest-bearing assets	(0.02)%	0.10%	–	(0.24)%	0.83%	–
NPL ratio	1.1%	1.4%	(0.3)	1.1%	1.4%	(0.3)

Business volumes (in € million)	2018	2017	Change (%)
Assets	5,581	6,725	(17.0)
Risk-weighted assets	1,951	2,410	(19.0)
Customer deposits (incl. other refinancing) and own issues	6,411	6,762	(5.2)

Operating income decreased by 2.8% to € 96.0 million compared to 2017, which is a result of a mix of lower asset volumes and margins.

Operating expenses increased by 7.8% to € 51.2 million, primarily resulting from higher allocated overhead costs.

Risk costs recorded a net release of € 1.3 million in 2018 and a lower NPL ratio of 1.1% as of year-end 2018.

The segment contributed **profit before tax** of € 46.1 million with a pre-tax return on tangible equity (@12% CET1) of 15.1%.

Assets decreased by 17.0% compared to year-end 2017. The majority of this reduction can be attributed to term loans, which were reduced due to our focus on risk-adjusted returns as well as the sale of public sector loans to investors.

Liabilities stood at € 6.4 billion due to a reduction of deposits in current accounts.

SÜDWESTBANK

Strategy

Südwestbank, with its headquarters in Stuttgart, Germany, has been part of BAWAG Group since December 2017. The strategy focuses on developing new customer acquisition strategies in Germany to reposition Südwestbank into a broader Retail and SME franchise with a more comprehensive set of retail products distributed through multiple channels.

2018 business review

In 2018, the integration and transformation progressed well, with a number of initiatives ranging from capital efficiency to operational restructuring and transformation yielding operational results and financial benefits. In the second half 2018, several digitization initiatives were implemented to improve and simplify core processes.

Operational transformation: In April 2018, an agreement with the workers' council on a comprehensive social plan was reached, enabling Südwestbank to rightsize its branch footprint and adjust overall staffing levels. Südwestbank was fully integrated in all processes leveraging tools and standards of BAWAG Group. In the fourth quarter 2018, Südwestbank made the strategic decision to outsource the e2e business to BAWAG Group.

Product mix optimization: Initiatives have been launched to optimize Südwestbank's product offer and penetrate our core products across Germany versus enhancing Südwestbank's physical and regional footprint. Examples of such initiatives include:

- Consumer lending channel integration by linking the *Qlick* digital platform to Südwestbank's infrastructure
- Migration of Südwestbank's credit card product offer to PayLife
- Roll-out of Südwestbank's housing loan campaigns and distribution expansion to broader national market

Outlook

We will continue to execute on key principles of the integration and business transformation strategy.

Operational efficiency: Further streamline and digitize core business processes to better and more efficiently serve our customers, including digital archiving, digital credit files, automated workflows in loan origination and servicing as well as increasing online penetration.

Capital efficiency: Focus on profitability and risk-adjusted returns at the product, customer and business channel levels, continue the process of launching growth plans for key products with high performance.

Grow share of wallet: Expand our business cooperation within profitable customer segments, drive digital initiatives and leverage the digital infrastructure of BAWAG Group to revitalize the consumer retail franchise.

New customer acquisition and bolt-on acquisitions: 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.

Low risk profile: Maintain pricing and risk management discipline, ensure full integration into BAWAG Group's risk appetite and underwriting standards, drive provisioning adequacy and the transition from a standardized to an IRB risk management approach.

Financial results

Income metrics (in € million)	**2018**	2017	Change (%)	**Q4 2018**	Q4 2017	Change (%)
Net interest income	82.5	5.6	>100	18.9	5.6	>100
Net fee and commission income	32.4	3.0	>100	8.1	3.0	>100
Core revenues	**114.9**	**8.6**	**>100**	**27.0**	**8.6**	**>100**
Gains and losses on financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**114.9**	**8.6**	**>100**	**27.0**	**8.6**	**>100**
Operating expenses	**(69.2)**	**(8.0)**	**>100**	**(14.2)**	**(8.0)**	**77.5**
Regulatory charges	(2.1)	(0.1)	>100	0.7	(0.1)	–
Total risk costs	5.8	(0.2)	–	2.7	(0.2)	–
Profit before tax	**49.5**	**0.3**	**>100**	**16.2**	**0.3**	**>100**

Key ratios	**2018**	2017	Change (pts)	**Q4 2018**	Q4 2017	Change (pts)
Pre-tax return on tangible equity	12.0%	–	–	15.4%	–	–
Pre-tax return on tangible equity (@12% CET1)	14.5%	–	–	19.8%	–	–
Net interest margin	2.02%	–	–	2.01%	–	–
Cost-income ratio	60.2%	–	–	52.6%	–	–
Risk costs / interest-bearing assets	(0.14)%	–	–	(0.29)%	–	–
NPL ratio	2.3%	1.6%	0.7	2.3%	1.6%	0.7

Business volumes (in € million)	**2018**	2017	Change (%)
Assets	3,821	4,183	(8.7)
Risk-weighted assets	3,184	3,349	(4.9)
Customer deposits and own issues	4,952	6,146	(19.4)

Operating income amounted to € 114.9 million. Customer loans are the main contributor to net interest income. Net fee and commission income stems mainly from securities, loans and payment services.

Operating expenses came in at € 69.2 million.

The segment contributed € 49.5 million to BAWAG Group's **profit before tax** with a pre-tax return on tangible equity (@12% CET1) of 14.5%.

Assets amounted to € 3.8 billion, which is a decrease of 8.7% compared to year-end 2017, following the capital efficiency review as part of the business transformation.

Liabilities decreased compared to year-end 2017 by € 1.2 billion to € 5.0 billion due to a decrease in sight deposits.

CORPORATE CENTER AND TREASURY SERVICES & MARKETS

Overview and strategy

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

Treasury Services & Markets continued to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our hold to collect and sell portfolio to preserve the flexibility of redeployment into customer loans or other balance sheet management activities. The overall composition of the portfolio reflects our strategy of maintaining high credit quality, shorter duration and strong liquidity in the securities portfolio in order to balance the goals of generating interest income while also minimizing fair value volatility.

2018 business review

In 2018, we continued to pursue our strategy. At closing of the Südwestbank and Deutscher Ring Bausparkasse transactions, we integrated the respective Treasury portfolios containing largely similar assets with respect to credit, geography, duration, liquidity and seniority. During the year 2018, we sold € 2.0 billion assets (e.g. investment funds) that did not fit to our strategy. As of year-end 2018, the investment portfolio amounted to € 6.3 billion and the liquidity reserve was € 3.8 billion. The investment portfolio's average maturity was five years, comprised 96% of investment grade rated securities, of which 87% were rated in the single A category or higher with no exposure to CEE. As of 31 December 2018, 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.

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 liquidity supply and ECB tapering as well as elevated political risks will remain important factors on the financial markets. However, we are committed to maintaining high credit quality and highly liquid investments with solid diversification.

Financial results

Income metrics (in € million)	2018	2017	Change (%)	Q4 2018	Q4 2017	Change (%)
Net interest income	14.7	39.1	(62.4)	5.9	14.9	(60.4)
Net fee and commission income	(1.9)	(4.6)	58.7	(0.4)	(0.8)	50.0
Core revenues	**12.8**	**34.5**	**(62.9)**	**5.5**	**14.1**	**(61.0)**
Gains and losses on financial instruments	(7.9)	22.2	–	(15.1)	(20.4)	26.0
Other operating income and expenses	26.0	94.4	(72.5)	2.6	109.5	(97.6)
Operating income	**30.9**	**151.1**	**(79.5)**	**(7.0)**	**103.1**	**–**
Operating expenses	**(46.9)**	**(111.5)**	**(57.9)**	**(16.5)**	**(86.9)**	**(81.0)**
Regulatory charges	(22.4)	(16.1)	39.1	(2.8)	(3.0)	(6.7)
Total risk costs	(0.7)	13.7	–	(1.2)	19.6	–
Share of the profit or loss of associates accounted for using the equity method	5.1	4.1	24.4	1.2	1.1	9.1
Profit before tax	**(34.0)**	**41.3**	**–**	**(26.3)**	**34.0**	**–**
Income taxes	(136.2)	(51.2)	>100	(34.4)	26.1	–
Net profit	**(170.2)**	**(9.9)**	**>(100)**	**(60.7)**	**60.1**	**–**

Volumes (in € million)	2018	2017	Change (%)
Assets and liquidity reserve	13,783	14,534	(5.2)
Risk-weighted assets	3,419	3,545	(3.6)
Equity	4,010	3,610	11.1
Own issues and other liabilities	4,075	4,603	(11.5)

Operating income decreased by 79.5% to € 30.9 million. Net interest income was down mainly due to the lower result for FTP in BAWAG Group.

Operating expenses came in at € 46.9 million in 2018, which is 57.9% less than in 2017. The main driver for this development is the long-term incentive program, for which the expenses were booked in 2017.

Regulatory charges amounted to € 22.4 million and included charges to the resolution fund, the bank levy and supervisory charges. The increase stems from acquisitions.

Assets (including the liquidity reserve) decreased by 5.2% compared to year-end 2017, mainly driven by de-risking activities in the investment book.

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

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

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

According to the internationally recognized COSO framework for the design of risk management systems and the EBA Guideline for Internal Governance (EBA/GL/2017/11), the internal control system is one part of an organization-wide risk management system. Other aspects include the management and monitoring of risks that can affect the correctness and reliability of the accounting records.

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

CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Control environment

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

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

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

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

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

Risk assessment and control measures

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

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

The Accounting division is integrated into BAWAG Group's entire organizational, structural and operational workflows. Customer and transaction data 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 is contained in SAP New GL. The preparation of the consolidated financial statements under IFRS is done in SAP-ECCS, which receives the values of the individual financial statements of consolidated companies through interfaces. The accounting and all upstream systems are protected by access permission and automatic and obligatory manual control steps provided for in the process.

Information and communication

A comprehensive report about the balance sheet, the profit or loss statement and other financial and risk data is submitted to the Supervisory Board at least every quarter. Highly detailed reports about this information are also submitted to the 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). Risk minimization measures are tracked proactively by the Operational Risk and Internal Control System department with regard to implementation. Loss incidents are documented separately and reported on a regular basis. Loss incidents are also used to identify necessary improvements in the systems and in the monitoring and control measures.

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

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

As of 31 December 2018, BAWAG Group AG's share capital amounted to € 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 2018, BAWAG Group AG held 1,205,107 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. (in the meantime merged into Promontoria Holding 213 B.V.), (iv) Promontoria Holding 215 B.V. and (v) Promontoria Holding 216 B.V. (in the meantime merged into Promontoria Holding 2015 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 at 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 the 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 at 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 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 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. Based on BAWAG Group AG's information as of 31 December 2018, the (i) Cerberus Shareholders held 35,098,312 shares in BAWAG Group AG, corresponding to 35.10% of BAWAG Group AG's share capital (Promontoria Holding 212 B.V.: 12.90%, Promontoria Holding 213 B.V.: 11.10%, Promontoria Holding 215 B.V.: 11.10%) and (ii) GoldenTree Shareholders held 25,688,389 shares in BAWAG Group AG, corresponding to 25.69% of BAWAG Group AG's share capital, whereas none of the GoldenTree Shareholders held shares corresponding to at least 10% of BAWAG Group AG's share capital taken individually. With effectiveness as of 21 February 2019, the shareholding of (i) Promontoria Holding 215 B.V. decreased to a number of shares corresponding to 11.08% of BAWAG Group AG's share capital, (ii) Promontoria Holding 213 B.V. decreased to a number of shares corresponding to 11.05% of BAWAG Group AG's share capital and (iii) Promontoria Holding 212 B.V. decreased to a number of shares corresponding to 12.87% of BAWAG Group AG's share capital. Thus, the aggregate shareholding of the Cerberus Shareholders decreased to a number of shares corresponding to 34.99% of BAWAG Group AG's share capital.

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 € 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 unfavorable 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 € 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 redeem 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 2018 was again on planning career paths and human resource development. The focus was on keeping the staff up to date for new challenges 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 "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 is 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 won numerous awards, including the award 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 and managers 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/coaching 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 and a cornerstone to handle all business challenges. 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 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 2018, 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 21st group started the program in October 2018.

Experienced leaders and management teams were again supported 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 2018. 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

Developing and retaining talented and qualified employees who show commitment and engagement is key for BAWAG Group. The banking landscape is undergoing constant changes and therefore it is our ultimate goal to promote a high-performing work environment, where we can strive together as a team for long-term success. While we promote professional as well as personal development, we at the same time work on mitigating succession risk by following a succession and career planning. With the talent identification and development process we have in place, we assess high potentials and develop into to potential successors for key functions in tailored programs. At the end of every year, the Managing Board discusses all potential successors in the so-called "Talent Review." For this purpose, key functions were reviewed and a coordinated plan of action was adopted for succession risks.

For our central unit, we have the "forTalents" talent program. This program is especially tailored to support the participants, who are groomed for new management and expert positions, in both professional and personal development. Furthermore, they can broaden their network as this covers all different functions within the central unit.

For the branches, we have the "leaders basics" talent program for recruiting branch managers for retail and corporate banking from our own staff. The participants are all talented 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.

To attract young top talents from universities, we offer the "Start & Move" traineeship, mostly pursued by university graduates. During this one-year program, the trainees get a detailed overview of the organization and its processes, and allows the new employees to get well-connected within the bank.

Diversity is very important to us. One pillar of this is equality between women and men. A key aspect of our women's promotion plan has been to encourage women to participate in personnel development programs. As an example, more than half of the participants in the "forTalents" program in 2018 were female.

MBO PROCESS (MANAGEMENT BY OBJECTIVES)

BAWAG Group's remuneration policy is balanced in rewarding the performance, the competence and level of responsibility of the employees. Our "Management by Objectives" (MbO) approach remains a key management tool for supporting our business strategy. Setting targets in the yearly MbO process is important for the development of the bank and the performance of the employees. The performance evaluation reflects the employee's professional and social competence and the achievements of the individual as well as Group targets. The MbO dialogues are held on a top down basis to guarantee that the overall bank targets are spread across each level. Two dialogues are part of the yearly MbO process, while based on a flat hierarchy within the bank, the regular dialogue between employees and the respective superior is given.

CAREER AND FAMILY AUDIT

Our employees are key for our long-term success and therefore we are committed to enabling a good work-life balance. Also in regards to creating a family-friendly work environment, we successfully completed the re-auditing process at year-end 2016 by the Ministry of Science, Research and Economy as a “family-friendly company.”

Moreover, we are a member of the “Network of Family-Friendly Companies”. We also have a company kindergarden at our headquarters in Vienna. We assess our initiatives on a regular basis in order to ensure that they fit our employees’ needs,.

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 extended and specified the reporting obligation for non-financial information (environmental, social and employee issues, respect for human rights and anti-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 is in accordance with Section 267a UGB obliged to produce a consolidated non-financial report. In 2018, BAWAG Group again used the statutory option provided for in Section 267a Para 6 UGB to produce a separate consolidated non-financial report. This report is published together with the Group Management Report and 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 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. This will be supported by favorable economic growth prospects for the DACH region, with projected GDP growth of approximately 1-2% over the 2019 and 2020 period.

Given our strong operating performance in 2018, we have revised our original 3-year Group targets covering 2018 thru 2020. Essentially, we've moved our targets one year forward:

Our **targets for 2019 and 2020** are as follows:

Targets	2019	2020
Profit before tax growth	>6%	>6%
Profit before tax (absolute)	>€ 600 million	>€ 640 million
Cost-income ratio	<43%	<40%
Return on tangible equity	15-20%	15-20%
Common Equity Tier 1 capital ratio (fully loaded)	12-13%	12-13%
Pre-tax earnings per share[1)]	>€ 6.00	>€ 6.40
After-tax earnings per share[1)]	>€ 4.50	>€ 4.80

1) Before deduction of AT1 coupon; before capital measures.

In terms of capital generation and return, we target an annual dividend payout of 50% of net profit attributable to shareholders and will deploy additional excess capital to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our Group RoTE 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.

The Managing Board will propose to the Annual General Meeting to distribute a dividend for the financial year 2018 of € 2.18 per share (€ 215 million; based on shares outstanding as of 28 February 2019) and is actively evaluating share buyback options.

Our continued strong operating results in 2018 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, providing our customers with simple, transparent and best-in-class products and services.

11 March 2019

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)

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CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in € million	[Notes]	2018	2017 restated
Interest income		1,141.4	1,084.9
thereof calculated using the effective interest method		870.4	835.4
Interest expense		(309.5)	(299.8)
Dividend income		8.6	8.0
Net interest income	**[2]**	**840.5**	**793.1**
Fee and commission income		372.9	303.6
Fee and commission expense		(90.1)	(86.7)
Net fee and commission income	**[3]**	**282.8**	**216.9**
Gains and losses on financial assets and liabilities	[4]	19.5	11.7
thereof gains from the derecognition of financial assets measured at amortized cost		24.1	31.6
thereof losses from the derecognition of financial assets measured at amortized cost		(0.7)	(0.7)
Other operating income	[5]	64.1	286.0
Other operating expenses	[5]	(72.3)	(218.0)
Operating expenses		(521.9)	(531.6)
thereof administrative expenses	[6]	(477.2)	(491.7)
thereof depreciation and amortization on tangible and intangible non-current assets	[7]	(44.7)	(39.9)
Risk costs	[8]	(45.1)	(61.8)
thereof according to IFRS 9		(42.4)	
Share of the profit or loss of associates accounted for using the equity method	[9]	5.1	4.1
Profit before tax		**572.7**	**500.4**
Income taxes	[10]	(136.2)	(51.2)
Profit after tax		**436.5**	**449.2**
Thereof attributable to non-controlling interests		0.0	0.1
Thereof attributable to owners of the parent		**436.5**	**449.1**

In accordance with IFRS, the item Other operating expenses also includes regulatory charges (bank levy, contributions to the deposit guarantee scheme and to the single resolution fund). For further details, please refer to Note 5. The item Administrative expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of € 4.0 million for 2018 as well (2017: € 3.2 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.

The gains and losses from the derecognition of financial assets measured at amortized cost result from sales of financial instruments to third parties.

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

Earnings per share pursuant to IAS 33

	2018	2017 restated
Net result attributable to owners of the parent (in € million)	436.5	449.1
AT1 coupon (in € million)	(6.2)	–
Net result attributable to owners of the parent after deduction of AT1 coupon (in € million)	**430.3**	**449.1**
Weighted average number of outstanding shares	99,597,178	100,000,000
Basic earnings per share (in €)	**4.32**	**4.49**
Weighted average diluted number of outstanding shares	99,636,540	100,000,000
Diluted earnings per share (in €)	**4.32**	**4.49**

Supplemental information on basic earnings per share according to BAWAG Group's internal definition (before deduction of AT1 coupon; not compliant with IAS 33)

	2018	2017 restated
Basic earnings per share (in €)	4.38	4.49

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

Changes in number of outstanding shares

	2018	2017
Shares outstanding at the beginning of the period	100,000,000	100,000,000
Shares outstanding at the end of the period	98,794,893	100,000,000
Weighted average number of outstanding shares	99,597,178	100,000,000
Weighted average diluted number of outstanding shares	99,636,540	100,000,000

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. Some of these shares that are bought back are used for a part of our long-term incentive program, which only has a service condition. For these shares, a potential dilutive effect is calculated. The Managing Board of BAWAG Group AG resolved on 27 June 2018 to carry out a share buyback program with a volume of up to 1,285,000 BAWAG Group AG shares for a total consideration of up to € 70 million. The share buyback commenced on 3 July 2018 and was completed on 7 November 2018 because the maximum buyback volume of 1,285,000 shares was reached.

STATEMENT OF OTHER COMPREHENSIVE INCOME

in € million	2018	2017 restated
Profit after tax	**436.5**	**449.2**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on defined benefit plans	(6.8)	(5.0)
Fair value changes of shares and other equity investments at fair value through other comprehensive income	(9.2)	
Change in credit spread of financial liabilities	8.3	
Income tax on items that will not be reclassified	1.7	1.3
Total items that will not be reclassified to profit or loss	**(6.0)**	**(3.7)**
Items that may be reclassified subsequently to profit or loss		
Foreign exchange differences	(0.1)	
Cash flow hedge reserve	(13.9)	(4.7)
thereof transferred to profit (-) or loss (+)[1)]	(5.5)	(7.2)
Fair value changes of debt instruments at fair value through other comprehensive income	(78.5)	
thereof transferred to profit (-) or loss (+)	(29.3)	
Available-for-sale reserve		33.2
thereof transferred to profit (-) or loss (+)		(14.2)
Share of other comprehensive income of associates accounted for using the equity method	(0.9)	(0.2)
Income tax relating to items that may be reclassified	23.6	(6.4)
Total items that may be reclassified subsequently to profit or loss	**(69.8)**	**21.9**
Other comprehensive income	**(75.8)**	**18.2**
Total comprehensive income, net of tax	**360.7**	**467.4**
Thereof attributable to non-controlling interests	0.0	0.1
Thereof attributable to owners of the parent	**360.7**	**467.3**

1) To net interest income.

For further details, please refer to Note 30 Equity.

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

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	31.12.2018	31.12.2017 restated	01.01.2017 restated
Cash reserves	[11]	1,069	1,180	1,020
Financial assets at fair value through profit or loss	[12]	504	448	202
Financial assets at fair value through other comprehensive income	[13]	3,039		
Available-for-sale financial assets	[13]		4,408	3,209
Held-to-maturity investments			2,274	2,353
Financial assets held for trading	[14]	351	458	652
At amortized cost	[15]	38,334		
Customers		30,482		
Credit institutions		4,340		
Securities		3,512		
Loans and receivables	[15]		35,742	30,812
Customers			30,793	28,485
Credit institutions			3,660	1,635
Securities			1,289	692
Valuation adjustment on interest rate risk hedged portfolios		1	–	–
Hedging derivatives	[29]	401	517	677
Property, plant and equipment	[17]	116	103	53
Investment properties	[17]	118	120	3
Goodwill	[18]	59	59	58
Brand name and customer relationships	[18]	264	272	184
Software and other intangible assets	[18]	182	157	128
Tax assets for current taxes		15	12	10
Tax assets for deferred taxes	[19]	75	116	204
Associates recognized at equity	[50]	45	44	45
Other assets	[20]	125	146	135
Total assets		**44,698**	**46,056**	**39,746**

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 31.

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

Total liabilities and equity

in € million	[Notes]	31.12.2018	31.12.2017 restated	01.01.2017 restated
Total liabilities				
Financial liabilities designated at fair value through profit or loss	[21]	576	726	1,115
Financial liabilities held for trading	[22]	301	345	617
Financial liabilities at amortized cost	[23]	38,325	39,894	32,994
Customers		30,195	30,947	26,030
Issued bonds, subordinated and supplementary capital		3,849	4,938	4,900
Credit institutions		4,281	4,009	2,064
Financial liabilities associated with transferred assets	[38]	150	–	300
Valuation adjustment on interest rate risk hedged portfolios		156	116	223
Hedging derivatives	[29]	104	94	260
Provisions	[27]	465	450	404
Tax liabilities for current taxes		8	14	19
Tax liabilities for deferred taxes	[19]	11	5	21
Other obligations	[28]	597	835	683
Total equity	**[30]**	**4,005**	**3,577**	**3,110**
Equity attributable to the owners of the parent (ex AT1 capital)		3,706	3,576	3,108
AT1 capital		298	–	–
Non-controlling interests		1	1	2
Total liabilities and equity		**44,698**	**46,056**	**39,746**

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

STATEMENTS OF CHANGES IN EQUITY

in Mio. €	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates
Balance as of 01.01.2017 published	**100.0**	**1,094.4**	**–**	**1,956.9**	**6.3**	**(73.2)**	**–**
Adjustments	–	–	–	(15.3)	–	–	–
Balance as of 01.01.2017 adjusted	**100.0**	**1,094.4**	**–**	**1,941.6**	**6.3**	**(73.2)**	**–**
Transactions with owners	–	52.0	–	(51.6)	–	–	–
Share based payment	–	52.0	–	–	–	–	–
Dividends	–	–	–	(51.6)	–	–	–
Total comprehensive income	–	–	–	466.6	(3.5)	(3.7)	–
Adjustments	–	–	–	(17.4)	–	–	–
Balance as of 31.12.2017	**100.0**	**1,146.4**	**–**	**2,339.2**	**2.8**	**(76.9)**	**–**
Effect of the initial application of IFRS 9	–	–	–	(61.0)	–	–	47.4
Balance as of 01.01.2018	**100.0**	**1,146.4**	**–**	**2,278.2**	**2.8**	**(76.9)**	**47.4**
Changes in treasury shares	(1.2)	–	–	(46.6)	–	–	–
Transactions with owners	–	4.2	–	(58.3)	–	–	–
Share based payment	–	4.2	–	–	–	–	–
Dividends	–	–	–	(58.3)	–	–	–
AT1 capital	–	–	297.6	–	–	–	–
AT1 coupon	–	–	–	(6.2)	–	–	–
Total comprehensive income	–	–	–	436.5	(10.5)[1)]	(5.1)	(58.3)[2)]
Balance as of 31.12.2018	**98.8**	**1,150.6**	**297.6**	**2,603.6**	**(7.7)**	**(82.0)**	**(10.9)**

1) Thereof transferred to profit or loss: minus € 4.1 million.
2) Thereof transferred to profit or loss: minus € 22.1 million.

	Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	AFS reserve net of tax excluding equity associates	AFS reserve net of tax from equity associates	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
	–	**–**	**–**	**36.5**	**2.5**	**–**	**3,123.4**	**1.6**	**3,125.0**
	–	–	–	–	–	–	(15.3)	–	(15.3)
	–	**–**	**–**	**36.5**	**2.5**	**–**	**3,108.1**	**1.6**	**3,109.7**
	–	–	–	–	–	–	0.4	(0.3)	0.1
	–	–	–	–	–	–	52.0	–	52.0
	–	–	–	–	–	–	(51.6)	(0.3)	(51.9)
	–	–	–	25.6	(0.2)	–	484.8	0.1	484.9
	–	–	–	–	–	–	(17.4)	–	(17.4)
	–	**–**	**–**	**62.1**	**2.3**	**–**	**3,575.9**	**1.4**	**3,577.3**
	2.3	12.5	(58.6)	(62.1)	(2.3)	–	(121.8)	–	(121.8)
	2.3	**12.5**	**(58.6)**	**–**	**–**	**–**	**3,454.1**	**1.4**	**3,455.5**
	–	–	–	–	–	–	(47.8)	–	(47.8)
	–	–	–	–	–	–	(54.1)	(0.3)	(54.4)
	–	–	–	–	–	–	4.2	–	4.2
	–	–	–	–	–	–	(58.3)	(0.3)	(58.6)
	–	–	–	–	–	–	297.6	–	297.6
	–	–	–	–	–	–	(6.2)	–	(6.2)
	(0.9)	(7.1)	6.2	–	–	(0.1)	360.7	0.0	360.7
	1.4	**5.4**	**(52.4)**	**–**	**–**	**(0.1)**	**4,004.3**	**1.1**	**4,005.4**

For further details, please refer to Note 30 Equity.

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

CASH FLOW STATEMENT

in € million	[Notes]	2018	2017 restated
I. Profit (after tax, before non-controlling interests)	Profit or Loss Statement	**437**	**449**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities			
Depreciation, amortization, impairment losses, write-ups	[7], [8]	58	81
Changes in provisions	[27]	26	4
Changes in other non-cash items		278	(196)
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	[4], [5]	6	(15)
Share of profit of equity-accounted investees, net of tax	Profit or Loss Statement	(5)	(4)
Other adjustments (mainly received interest less paid interest)		(876)	(791)
Subtotal		**(77)**	**(472)**
Change in assets and liabilities arising from operating activities after corrections for non-cash items			
Loans and advances to customers and credit institutions		–	(47)
Financial assets at amortized cost		(266)	–
Other financial assets (not including investing activities)		408	595
Other assets		10	(11)
Financial liabilities at amortized cost		(776)	320
Other financial liabilities (not including financing activities)		(846)	(989)
Other obligations		(310)	41
Interest receipts		1,151	1,075
Dividend receipts	Profit or Loss Statement	9	8
Dividends from equity-accounted investees		1	6
Interest paid		(348)	(282)
Income taxes paid		(7)	(6)
II. Net cash from operating activities		**(1,052)**	**238**
Cash receipts from sales of			
Financial investments		3,145	1,742
Tangible and intangible non-current assets		2	–
Cash paid for			
Financial investments		(1,923)	(1,215)
Tangible and intangible non-current assets	[17], [18]	(62)	(66)
Cash receipts from sales of associates		1	11
Acquisition of subsidiaries, net of cash acquired	[35]	–	(493)
III. Net cash used in investing activities		**1,163**	**(21)**
Changes in treasury shares	Statement of Changes in Equity	(48)	–
Dividends paid	Statement of Changes in Equity	(58)	(52)
Issuance of AT1 capital	Statement of Changes in Equity	298	–
AT1 coupon	Statement of Changes in Equity	(9)	–
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)		(405)	(5)

IV. Net cash from financing activities	**(222)**	**(57)**
Cash and cash equivalents at end of previous period	**1,180**	**1,020**
Net cash from operating activities	**(1,052)**	**238**
Net cash used in investing activities	**1,163**	**(21)**
Net cash from financing activities	**(222)**	**(57)**
Cash and cash equivalents at end of period	**1,069**	**1,180**

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.

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

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 24). Thus, the following table discloses the changes from subordinated and supplementary capital in the reporting period:

in € million	01.01.2018	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/ Redemption/ Cash Change	Others	31.12.2018
Financial liabilities designated at fair value through profit or loss							
Subordinated and supplementary capital	528	–	–	(18)	(379)	–	131
Financial liabilities measured at amortized cost							
Subordinated and supplementary capital	128	–	–	–	(26)	–	102

in € 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

In 2018, BAWAG P.S.K. Leasing Holding GmbH sold its shares in RF 17 BAWAG Immobilienleasing GmbH. The profit from the sale was shown in the line item Gains and losses on financial assets and liabilities. There were no sales of subsidiaries in 2017.

in € million	2018	2017
Sales proceeds	**1**	**–**
Assets sold	**16**	**–**
Financial assets	16	–
Other assets	0	–
Debts sold	**15**	**–**
Financial liabilities	15	–
Other obligations	0	–
Net assets sold	**1**	**–**
Profit from the sale	**0**	**–**
Sales proceeds	1	–
Cash and cash equivalents contained in the assets sold	–	–
Proceeds from the sale	**1**	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Accounting policies

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

The consolidated financial statements were prepared applying section 59a BWG, 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 2018.

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 2018. 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 of the requirements pursuant to IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers (both from 1 January 2018; previous year not adjusted).

We have maintained the accounting and valuation methods that were applied in the consolidated financial statements as of 31 December 2017, 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 2018, the consolidated financial statements included 47 (2017: 44) fully consolidated companies and 2 (2017: 2) companies that are accounted for using the equity method in Austria and abroad. In the first quarter 2018, BAWAG P.S.K. Datendienst Gesellschaft m.b.H. was included in the scope of consolidation. In the second quarter 2018, RF 17 BAWAG Immobilienleasing GmbH was sold. In September 2018, Deutscher Ring Bausparkasse AG was consolidated for the first time. In November 2018, AUSTWEST ANSTALT GmbH and MF BAWAG Blocker LLC 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 47 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 € 16 million (2017: € 16 million) on 31 December 2018. Controlled companies with a carrying amount of € 18 million (2017: € 27 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 47 and 48.

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 € 59 million (2017: € 59 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 (€ 59 million), BAWAG P.S.K. Versicherung AG (€ 12 million) and PSA Payment Services Austria GmbH (€ 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. Further details on the entities accounted for using the equity method can be found in Note 34 and Note 50.

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

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

All non-consolidated equity instruments are measured according to IFRS 9 and classified as fair value through OCI or fair value through profit or loss. Further details can be found in Note 48.

IFRS 9 Financial Instruments

IFRS 9 became mandatory for BAWAG Group for the reporting period beginning on 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard IFRS 9 establishes three primary measurement categories for financial assets – amortized cost, fair value through profit or loss and fair value through other comprehensive income – and brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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.

Prior-year figures are based on IAS 39. For better comparability, the Notes to the financial statements include a balance sheet with adjusted opening balances as of 1 January 2018 according to IFRS 9 as well as the tables required by IFRS 7.

The following tables show the development of the balance sheet in 2018 pursuant to IFRS 9:

Total assets pursuant to IFRS 9

in € million	31.12.2018	01.01.2018
Cash reserves	1,069	1,180
Financial assets at fair value through profit or loss	504	795
Financial assets at fair value through other comprehensive income	3,039	4,133
Financial assets held for trading	351	439
At amortized cost	38,334	37,880
Customers	30,482	30,546
Credit institutions	4,340	3,660
Securities	3,512	3,674
Valuation adjustment on interest rate risk hedged portfolios	1	–
Hedging derivatives	401	517
Property, plant and equipment	116	103
Investment properties	118	120
Goodwill	59	59
Brand name and customer relationships	264	272
Software and other intangible assets	182	157
Tax assets for current taxes	15	12
Tax assets for deferred taxes	75	144
Associates recognized at equity	45	44
Other assets	125	160
Total assets	**44,698**	**46,015**

Total liabilities and equity pursuant to IFRS 9

in € million	31.12.2018	01.01.2018
Total liabilities	**40,693**	**42,560**
Financial liabilities designated at fair value through profit or loss	576	1,140
Financial liabilities held for trading	301	345
Financial liabilities at amortized cost	38,325	39,563
Customers	30,195	30,947
Issued bonds, subordinated and supplementary capital	3,849	4,607
Credit institutions	4,281	4,009
Financial liabilities associated with transferred assets	150	–
Valuation adjustment on interest rate risk hedged portfolios	156	116
Hedging derivatives	104	94
Provisions	465	448
Tax liabilities for current taxes	8	14
Tax liabilities for deferred taxes	11	5
Other obligations	597	835
Total equity	**4,005**	**3,455**
Equity attributable to the owners of the parent (ex AT1 capital)	3,706	3,454
AT1 capital	298	–
Non-controlling interests	1	1
Total liabilities and equity	**44,698**	**46,015**

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. If the structured financial asset contains an embedded derivative and therefore does not fulfill the SPPI criteria, the financial instrument is assessed in its entirety and measured at fair value through profit or loss.

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

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

Please see the Impairment section for information about the formation of provisions.

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

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

- Held for Trading
  This category covers financial assets and liabilities held for trading purposes. These financial instruments are recognized at their fair value. All derivatives in the 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.

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

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

Assessment Whether Contractual Cash Flows Are Solely Payments of Principal and Interest for Financial Assets

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

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

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

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

Financial Liabilities

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

are measured at amortized cost.

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.

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

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

Reclassifications

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

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 (P&L). Only dividends are recognized in P&L. This designation can only be made at inception and cannot be changed afterwards.

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

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 a point-in-time component. The through-the-cycle component represents idiosyncratic characteristics of the borrower, whereas 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 collateral 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:

- Financial assets that are recorded at amortized cost or at fair value through other comprehensive income;
- Lease receivables;
- Loan commitments and financial guarantees that are not measured at fair value through profit or loss;
- Contract assets according to IFRS 15.

Risk provisioning of expected credit losses in staging concept:

Stage 1: 12-month ECLs

The 12-month calculation applies to all financial instruments at initial recognition (with a few exceptions, e.g. for purchased or originated financial assets that are credit-impaired on initial recognition "POCI") and those which do not show a significant increase in credit risk since initial recognition (in the case of POCI, only the cumulative changes in lifetime expected losses since initial recognition are recognized).

Stages 2 and 3: Lifetime ECLs

The measurement of the risk provisions for stage 2 and stage 3 positions based on the lifetime expected credit loss model applies when a significant increase in credit risk since initial recognition has occurred. It must be pointed 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 term (time between reporting date and maturity date), and
- vintage of the financial instrument (time-lapsed 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).

As long as no staging factor is active, the exposure is automatically reassigned to stage 1. A default cure period of 30 days for financial instruments in stage 3 is in place complying with the default definition according to CRR.

Stage 3: Lifetime ECLs

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if:

- there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the reporting date ("a loss event");
- the loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- a reliable estimate of the loss amount can be made.

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.

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

Classification and Measurement

- **Business model:** BAWAG Group holds a small portfolio of loans to the public sector with a book and also fair value of € 5 million as of 1 January 2018 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 were accounted for as loans and receivables under IAS 39.

  With regard to a bond portfolio – with a book value of € 117 million as of 1 January 2018 – 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 € 4 million before taxes arose. 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 € 4 million.

- **SPPI test:** Loans with a book value of € 182 million as of 1 January 2018 failed the SPPI test due to their interest rate indicator being non-compliant. These loans show a hidden reserve in the amount of € 1 million. With regard to the bond portfolio, a portfolio with a book value of € 91 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 € 9 million. Therefore, the total impact on equity arising from the SPPI test amounts to minus € 8 million.

- **Changes in fair value option:** The fair value option is newly applied for an own issue (Tier 2; XS0987169637) where an accounting mismatch exists with a nominal value of € 300 million, leading to an impact of minus € 82 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 € 28 million at fair value through OCI. This led to a reclassification of an AFS reserve to retained earnings in the amount of € 1 million. All other participations and equity instruments are classified at fair value through OCI.

The total impact on equity before taxes from the classification and measurement under IFRS 9 thus amounts to minus € 95 million (thereof € 82 million due to the new application of the fair value option for the Tier 2 own issue mentioned before) 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 amounted to minus € 118 million. Of this amount, € 6 million belonged to financial instruments measured at Fair Value through OCI. Total impact on equity amounted to minus € 112 million. This impact was counterbalanced by the release of a major part of the IBNR in the amount of € 44 million, leading to a total impact from changes in loan loss provision accounting in the amount of minus € 69 million. BAWAG Group has no significant impact from changes in stage 3.

in € million	on balance	off balance	on+off balance
Stage 1	61	6	67
Stage 2	50	1	51
Total	**111**	**7**	**118**

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 € 42 million, this leads to a total impact on equity of minus € 122 million.

in € million	
Equity under IAS 39	**3,576**
Changes in accounting for impairment	(69)
Changes in accounting of classification and measurement	(95)
Overall deferred taxes	42
Total impact	(122)
Equity under IFRS 9	**3,454**

The fully loaded CET1 ratio under IFRS 9 as of 1 January 2018 amounts to 13.31% compared to 13.45% under IAS 39. CET1 decreases only slightly as the impact from expected credit loss is counterbalanced by a smaller shortfall deducted from CET1. RWAs increased slightly, mainly due to higher DTAs. BAWAG Group does not apply Regulation (EU) 2017/2395 regarding the transitional arrangements for mitigating the impact of IFRS 9 on own funds.

Adjustment Impact

Compared to the impact of the first-time application of IFRS 9 published in the first quarter, the figures of the opening balances have been adjusted with regard to the ECL. The ECL has been increased because the Bank has identified incorrect parameters within the course of the periodic monitoring of the IFRS 9 ECL. The Bank decided to apply the rules of accounting for errors according to IAS 8 and to adjust the opening balances, as no specific rules for the accounting of errors in interim reports for the first-time application of standards exist. Therefore, ECL as of 1 January 2018 has been increased by € 16 million, of which € 2 million come from FVOCI financial instruments whose ECL is accounted for equity neutral. Deferred taxes have been adjusted accordingly. The net impact on equity amounts to minus € 10 million compared to the figures published in the first quarter. The effect of the first-time application of IFRS 9 on the CET1 ratio remains unchanged.

BAWAG Group decided to use the initial application option of IFRS 9 which allows not to restate comparative periods in accordance with IFRS 9 for periods prior to initial application.

IAS 39 Financial Instruments (until 31 December 2017)

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

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;
  -

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.

  - 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 financial instrument.

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

Please see the 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 (until 31 December 2017)

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.

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 nsre 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 re-measured at its fair value, and any difference between its carrying amount and its fair value must be recognized in Other comprehensive income (AFS reserve).

Loan Loss Provisions (until 31 December 2017)

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, 15 and 54.

Hedge Accounting

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

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

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

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

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

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

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

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

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

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

Implications in connection with Brexit

As of 31 December 2018, BAWAG Group uses hedging derivatives with a notional of € 511 million and a market value of € 3 million in a hedging relationship that had been cleared via London Clearing House. According to the European commission, London Clearing House shall keep its status as central clearing counterparty (CCP) until the end of the financial year 2019. Thus, BAWAG Group does not expect any implications on the group financials 2019. BAWAG group will monitor the development of this topic and will set appropriate measures if necessary. Therefore, beyond the end of 2019, it cannot be excluded that the replacement of existing hedging derivatives with new hedging derivatives has impacts on the hedge inefficiency. No new tradings are concluded with London Clearing House.

Micro Fair Value Hedge

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

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

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

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

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

Portfolio Fair Value Hedge

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

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

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

Cash Flow Hedge

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

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

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

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in 2018 fair value losses in the amount of € 13.9 million (2017: losses in the amount of € 4.7 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied cash flow hedge accounting.

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

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 27.

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 31. 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 IFRS 9.

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

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

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

Credit-Linked Notes

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

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

Measurement for Asset Backed Investments

Each position of the collateralized loan obligation (CLO) portfolio of BAWAG Group is subject to the mark to model valuation, which is performed on a monthly basis within the pricing functionality developed by Moody's Analytics. Specifically, the measurement is performed within the CDOnet functionality of Moody's Structured Finance solutions, where the present value technique is applied. The model uses the inputs already available in Moody's Structured Finance (e.g. cash flows, original spreads for each tranche, weighted average maturity, etc.), as well as additional parameters, 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 potential dividends was calculated by using the risk-weighted pre-tax discount rate in the market applicable to the participation in question. For the sake of determining the pre-tax discount rate, Corporate Income Tax calculated with nominal tax rates is added to the potential dividends and discounted with a discount rate that delivers exactly the same result as the above-mentioned valuation.

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

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. To the extent necessary, proper company-specific profit retention in perpetuity was considered for the calculation of the continuing value.

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 2018, the following parameters are used:

- The risk-free rate (1.08%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank.
- The source for the country-specific market risk premium is the website 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%. Due to the low level of the risk-free rate, a market risk premium of 7.17% was chosen for Austria.
- The applied beta factor for banks and financial service companies (0.97) is the two-year weekly average beta of 11 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 and/or a high level of stock turnover qualify for the peer group. The applied beta factor for non-banks is 1.0 (except for stock exchanges with a beta factor of 0.82), 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.

Since there was no embedded value available, the Group’s interest in BAWAG P.S.K. Versicherung Aktiengesellschaft is also assessed by applying the above-mentioned discounted dividends method for the first time in 2018.

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 IFRS 9 (2017: 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. Brands are not amortized as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Intangible assets and property, plant and equipment with limited useful lives are recognized at cost less straight-line amortization or depreciation and impairments. Buildings are depreciated at an annual rate of between 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 3.51% and 100.0%. The high annual rates are due to 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 (2017: approximately 8–33 years) using a linear amortization rate. The amortization method and period are reviewed annually according to IAS 38. For details, please refer to Note 18.

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 17.

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 8.03%.

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 45.

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 2018, unused tax losses amounted to € 395 million (2017: € 383 million) at the level of BAWAG Group AG, € 5 million (2017: € 338 million) at the level of BAWAG P.S.K. AG, € 37 million (2017: € 44 million) at the level of members of the tax group included in the consolidated financial statements and € 0 million (2017: € 0 million) at the level of other companies included in the consolidated financial statements, hence a total of € 437 million (2017: € 765 million). Tax goodwill amortization will contribute another € 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 € 437 million (2017: € 765 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately € 109 million (2017: € 191 million) are recognized within BAWAG Group. If the forecasted taxable results varied by 10% compared to management estimations, deferred tax assets would remain unchanged (2017: would remain unchanged) if results improve and would remain unchanged (2017: 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 2018, the tax group consisted of the group parent and 24 domestic members, both consolidated and non-consolidated in these financial statements (2017: 24 members). Initially, 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.

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.

As of 31 December 2018, the exit of BAWAG Group AG from the tax group and the exit of all other group members, with the exception of the new members in 2017 and 2018, would not result in a corporate income tax back payment as of 31 December 2018 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 2017 and 2018 would incur a corporate income tax back payment in the amount of € 4 million (2017: € 8 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

	2018	2017
Interest rate	1.70% p.a.	1.60% p.a.
Wage growth	1.60%–2.0% 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

	2018	2017
Interest rate	1.70% p.a.	1.60% p.a.
Wage growth severance payments	3.10% p.a.	3.10% p.a.
Wage growth anniversary bonuses	1.60%–2.80% p.a.	2.80% p.a.
Fluctuation discount severance payments	0%–0.34% p.a.	0%–0.34% p.a.
Fluctuation discount anniversary bonuses	0%–9.75% p.a.[1)]	0%–9.75% p.a.
Retirement age	60–65 years[2)]	60–65 years[2)]

1) Südwestbank: 0%–100% p.a.
2) The earliest possible individual retirement age as per ASVG/APG (excl. corridor pension) was assumed.

The interest rate used in 2018 has been changed from 1.60% in the previous year to 1.70%.

The generation mortality tables *AVÖ 2008-P-Angestellte* were used when calculating the long-term employee benefit provisions in 2017.

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

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

The existing post-employment benefit plans in BAWAG Group 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 € 8 million in 2018 (2017: € 16 million).

Other provisions for uncertain obligations to third parties are formed in accordance with the expected amount of the obligation. For details, see Note 27.

Share-Based Payments

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments (equity-settled 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 recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions (not relevant for the current program) are fulfilled (the vesting period).

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest.

Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

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

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

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 42.

Equity

Equity is the capital provided by the Bank's owners (issued capital and capital reserves), AT1 capital and the capital generated by the Bank (retained earnings, reserves from currency translation, FVOCI reserve, cash flow hedge reserve, actuarial gains and losses, profit brought forward and the profit for the period). Details are provided in Note 30.

Revenue Recognition

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Accordingly, revenues coming from fees and commissions are recognized when control of goods and services is transferred and hence the contractual performance obligation to the customer has been satisfied.

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

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

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

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

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

Note 3 shows a breakdown of commission income and expenses by business segment.

Effects from initial application:

BAWAG Group applies IFRS 15 as of 1 January 2018 and recognizes those revenues, which are expected as exchange for the transfer of goods and services to customers. This is valid for all contracts with customers in connection with the sale of goods and services from the Group's ordinary business activity.

In BAWAG Group, IFRS 15 is relevant for fees and commissions, which are presented in net commission income. This contains revenues for services, which arise from the Group's core businesses and therefore fall within the scope of IFRS 15.

BAWAG Group elects to exercise the initial application relief and applies IFRS 15 to reporting periods beginning on or after 1 January 2018. Comparative information for reporting periods before 1 January 2018 are not restated, but are disclosed under IAS 18 Revenue.

Due to initial application no material impacts on the recognition of fees and commissions arise. Hence, there are no significant differences between the current period under IFRS 15 und the previous period under IAS 18.

Description of P&L lines

Interest Income and Interest Expense

Interest income consists primarily of interest income from loans and receivables, fixed income securities, variable rate securities and assets held for trading. Furthermore, regular income from equity investments, shares as well as fees and commissions similar to interest income are shown in this item. Interest income and interest expense also include premiums and discounts on securities and loans using the effective interest rate method and the amortization of day one profits. Also, the interest 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 as well as changes in expected credit losses. Also reported in this item are direct write-offs of loans and advances as well as recoveries on written-off loans removed from the balance sheet. Furthermore, this line item includes all charges resulting from operational risk events.

In addition, this line item includes impairment losses or reversals of impairment losses 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 IFRS 9 (2017: IAS 39) categories. The components are detailed for each IFRS 9 (2017: 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 31 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 18 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 19 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 from legal proceedings, supreme court rulings and inspections of regulatory authorities and the recognition of provisions regarding such risks
- assessment of the impact of the adoption of the new standard IFRS 16 Leases
- IFRS 9: assessments regarding the transfer of financial instruments from stage 1 to stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans
- fair value calculation for unquoted financial instruments where some parameters required for the valuation model are not observables in the market (Level 3).

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 (please note that the party to the transaction and consequently the law suit is BAWAG P.S.K., a subsidiary of BAWAG Group).

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 € 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 € 417.7 million. The court combined the two suits. The first hearings were held in the spring of 2013 and a court commissioned expert opinion as well as a supplementary opinion thereto were submitted in August 2016 and December 2017. The lawsuit continues to be pending at the court of first instance. No court hearings took place in 2018. 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.

BAWAG 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 a respective valuation adjustment.

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 € 254 million.

Restatement in accordance with IAS 8.41

Adjustments due to the results of the examination of the AFREP (Austrian Financial Reporting Enforcement Panel)

BAWAG Group was subject to an examination in accordance with Section 2 (1) 2 of the Accounting Control Act (RL-KG). The examination covered the consolidated financial statements as of 31 December 2017 and the half-year consolidated financial statements as of 30 June 2017 and 30 June 2018. The results of this examination was of qualitative nature and led to adjustments regarding the purchase price allocation of start:gruppe and Südwestbank AG. The adjustments are already taken into account in the present consolidated financial statements in accordance with IAS 8.41. At the time of the preparation/publication of the consolidated financial statements as of 31 December 2018, the results of the examination were already finalized by the AFREP. The FMA has already initiated the hearing with the opportunity to make statements in accordance with Section 5 (2) of the Accounting Control Act. After the expiration of the deadline for the hearing, a notification in accordance with Section 5 (2) of the Accounting Control Act is expected to be issued by the FMA. Therefore, the results of the examination are taken into account in the present consolidated financial statements.

Below please find a description of the qualitative results of the examination and the corresponding adjustments identified by BAWAG Group:

start:gruppe

In course of the acquisition of start:gruppe (start:bausparkasse AG and IMMO-BANK AG), acquired assets and liabilities were recognized at fair value in line with IFRS 3.18 at the acquisition date (1 December 2016).

According to IFRS 13.9 fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Furthermore, in determining the fair value, risk premiums have to be considered in the valuation in accordance with IFRS 13.B15ff when applying present value techniques.

BAWAG Group used a cost-income ratio for the valuation of the customer relationships which could not be observed in the savings loan business and it could not be proved that this very low ratio would be applied in an orderly market transaction. In addition, no sufficient risk premiums were accounted for as required by IFRS 13.B15ff. This would have led to an adjustment of the valuation during the review in accordance with IFRS 3.36. Therefore the valuation of customer relationships does not meet the requirements of IFRS 13.9. Thus the equity in the balance sheet as of 1 January 2017 and in the subsequent consolidated financial statements is overstated.

The measurement of the customer relationships was based on a cost-income ratio of approximately 45% over the medium term which could not be observed in the savings loan business. Based on the recent analysis of the acquired companies conducted by the management of the BAWAG Group on the occasion of the examination by the AFREP, the cost-income ratio was increased to 50% over the medium term in the budgeted figures used as the basis for determining the fair value of the customer relationships. This resulted in a reduction of the fair value of the customer relationships of € 7.7 million as of 31 December 2016. The reduction of the fair value of the customer relationships as of 31 December 2017 amounted to € 7.3 million and the adjustment of the corresponding depreciation in the financial year 2017 amounted to € 0.4 million.

In course of the acquisition of start:bausparkasse all the identifiable assets acquired and the liabilities assumed were measured at their acquisition-date (1 December 2016) fair values in accordance with IFRS 3.18.

In course of the acquisition of start:bausparkasse an appreciation of the acquired loan portfolio was recognized. The appreciation resulted from the difference in the actual nominal market interest rates and the average contractual interest rates of start:bausparkasse for comparable loan products. Valuation was also based on such factors as ongoing and average expected early repayments. However the risk of contract modifications resulting from renegotiations with customers due to the low-interest environment was not accounted for.

According to IFRS 13.9 fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Furthermore, in determining the fair value, risk premiums have to be considered in the valuation in accordance with IFRS 13.B15ff when applying present value techniques.

When assessing the fair value of loans and advances to customers BAWAG Group has taken into account neither the risk of contract modifications resulting from renegotiations with customers nor an appropriate risk premium of the investor due to the uncertainty of the future cash flows. All these factors also should have been considered in the course of the reassessment in accordance with IFRS 3.36. Therefore valuation of the loan portfolio is not consistent with the requirements of the IFRS 13.9. This resulted in an overstatement of the equity in the opening financial statements as of 1 January 2017 and the consequent periods.

The revision of the assumptions on the occasion of the examination led to a reduction in the fair value of the acquired loans and advances to customers by € 12.7 million as of 31 December 2016. The reduction of the fair value of the acquired loans and advances to customers as of 31 December 2017 amounted to € 10.8 million and the corresponding adjustment of the net interest income in the financial year 2017 amounted to € 1.8 million.

The adjustments described above resulted in an increase in deferred tax assets of € 5.0 million and a reduction of the consolidation result of € 15.4 million in the financial year 2016.

Südwestbank Aktiengesellschaft

In course of the acquisition of Südwestbank AG, acquired assets and liabilities were recognized at fair value in line with IFRS 3.18 at the acquisition date (7 December 2017).

According to IFRS 13.9 fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Furthermore, in determining the fair value, risk premiums have to be considered in the valuation in accordance with IFRS 13.B15ff when applying present value techniques.

BAWAG Group used a cost-income ratio for the valuation of the customer relationships for which it could not be proved that this very low ratio would be applied in an orderly market transaction. In addition, no sufficient risk premiums were accounted for as required by IFRS 13.B15ff. This would have led to an adjustment of the valuation during the review in accordance with IFRS 3.36. Therefore the valuation of customer relationships does not meet the requirements of IFRS 13.9. Thus the profit after tax as well as the equity as of 31 December 2017 are overstated.

For the measurement of the customer relationship, a cost-income ratio of around 40% was applied over the medium term, which was based on the budget for the acquired company prepared by the purchaser. On the occasion of the examination by the AFREP, the cost-income ratio used in the valuation was increased to 50% over the medium term. As a result of this adjustment, the fair value of the customer relationship decreased by € 11.2 million as of 31 December 2017 whereas deferred tax assets increased by € 3.3 million. This adjustment led to a reduction of the consolidation result of € 7.9 million in the financial year 2017.

Other adjustment of the first-time consolidation of Südwestbank Aktiengesellschaft

The amount of tax liabilities for funds was calculated incorrectly in the financial year 2017 and was therefore reduced by € 3.3 million. In addition, property transfer tax was not accrued, which resulted in an increase of other obligations in the amount of € 8.7 million in the financial year 2017. This led to an increase of deferred tax assets by € 2.2 million. The above-mentioned adjustments resulted in a reduction of other operating income and expenses of € 3.2 million in the financial year 2017.

Other adjustment of the purchase price allocation of SIX Payment Services GmbH (PayLife)

BAWAG Group acquired the issuing business of SIX Payment Services GmbH (PayLife) on 6 October 2017.

The accounting of accruals for fee income from the credit card business of € 12.3 million as well as an increase in deferred tax assets of € 3.3 million have been adjusted. Fee income for credit cards was recognized upfront and was therefore not deferred correctly in the financial year 2017. In the revised financial statements, this fee income is deferred appropriately over the contract period. The above-mentioned adjustments resulted in a reversal of the consolidation result (badwill) of € 7.9 million and the recognition of a goodwill in the amount of € 0.6 million in 2017. The goodwill is an addition to the easybank goodwill and was designated to the CGU easybank. The goodwill was not impaired in 2018.

The effects of all-above mentioned adjustments on the balance sheet, income statement and earnings per share are shown in the following tables:

Assets

in € million	01.01.2017 published	Adjustments due to examination of AFREP	Other adjustments	01.01.2017 adjusted
Loans and receivables – Customers	28,498	(13)	–	28,485
Brand name and customer relationships	192	(8)	–	184
Tax assets for deferred taxes	199	5	–	204
Total assets	**39,761**	**(15)**	**–**	**39,746**

Liabilities and equity

in € million	01.01.2017 published	Adjustments due to examination of AFREP	Other adjustments	01.01.2017 adjusted
Equity attributable to the owners of the parent (ex AT1 capital)	3,123	(15)	–	3,108
Total liabilities and equity	**39,761**	**(15)**	**–**	**39,746**

Assets

in € million	31.12.2017 published	Adjustments due to examination of AFREP	Other adjustments	31.12.2017 adjusted
Loans and receivables – Customers	30,804	(11)	–	30,793
Goodwill	58	–	1	59
Brand name and customer relationships	291	(19)	–	272
Tax assets for deferred taxes	102	8	6	116
Total assets	**46,071**	**(22)**	**7**	**46,056**

Liabilities and equity

in € million	31.12.2017 published	Adjustments due to examination of AFREP	Other adjustments	31.12.2017 adjusted
Tax liabilities for current taxes	17	–	(3)	14
Other obligations	814	–	21	835
Equity attributable to the owners of the parent (ex AT1 capital)	3,609	(22)	(11)	3,576
Total liabilities and equity	**46,071**	**(22)**	**7**	**46,056**

Consolidated Profit or Loss Statement

in € million	2017 published	Adjustments due to examination of AFREP	Other adjustments	2017 adjusted
Interest income	1,083.1	1.8	–	1,084.9
Other operating income and expenses	87.1	(7.9)	(11.2)	68.0
Depreciation and amortization on tangible and intangible non-current assets	(40.3)	0.4	–	(39.9)
Profit before tax	**517.3**	**(5.7)**	**(11.2)**	**500.4**
Income taxes	(50.6)	(0.6)	0.0	(51.2)
Profit after tax	**466.7**	**(6.3)**	**(11.2)**	**449.2**

Earnings per share

	2017 published	Adjustments due to examination of AFREP	Other adjustments	2017 adjusted
Basic earnings per share (in €)	4.66	(0.06)	(0.11)	4.49
Diluted earnings per share (in €)	4.66	(0.06)	(0.11)	4.49

Effects of Adopting Amended and New Standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2018 consolidated financial statements:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Impact on BAWAG Group
IFRS 9 Financial Instruments (issued on 24 July 2014)	1 January 2018	22 November 2016	For details, please see above
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	22 September 2016	For details, please see above
Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)	1 January 2018	31 October 2017	For details, please see above
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
Annual Improvements to IFRS Standards 2014–2016 Cycle (issued on 8 December 2016)	1 January 2017 / 1 January 2018	7 February 2018	None
IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	1 January 2018	28 March 2018	None
Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions (issued on 20 June 2016)	1 January 2018	26 February 2018	Not applicable to the consolidated financial statements of BAWAG Group
Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)	1 January 2018	14 March 2018	Immaterial

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 2018. BAWAG Group does not plan an early application of endorsed but not yet effective standards:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Expected impact on BAWAG Group
IFRS 16 Leases (issued on 13 January 2016)	1 January 2019	31 October 2017	For details, please see below
Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)	1 January 2019	22 March 2018	No impact from a current perspective
IFRIC 23 Uncertainty over Income Tax treatments (issued on 7 June 2017)	1 January 2019	23 October 2018	None

IFRS 16 Leases

IFRS 16 is effective from 1 January 2019 and replaces the previous leases standard, IAS 17 Leases, and related interpretations. Compared to the previous standard IAS 17, the distinction between operating leases and finance leases is removed for the purpose of lessee accounting. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. One major effect for BAWAG Group as a lessee will therefore be the recognition of assets and liabilities also for operating lease contracts, which will result in increased assets and liabilities.

BAWAG Group will apply IFRS 16 as of 1 January 2019.

Definition of a lease

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

Lease term

The lease term starts at the commencement date of the lease contract, which is the date the lessor makes the underlying asset available for use by the lessee. It includes the non-cancellable period as well as periods where it is reasonably certain that the lessee exercises any extension option or does not exercise any termination option.

Additionally, BAWAG Group considers all relevant circumstances that provide an economical incentive for the execution of such options. Examples are:

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

Lease payments

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

BAWAG Group as a lessee

At commencement of a lease, a right-of-use asset as well as a lease liability are recognized. The lease liability is measured at the present value of the lease payments. For the purpose of discounting lease payments, the Group uses the effective interest rate in the lease or, if not readily available, the Group's incremental borrowing rate.

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

Recognition exemptions

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

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

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

Reassessment and modification

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

BAWAG Group as a lessor

The impact of the new standard mainly affects lessee accounting. A lessor continues to recognize lease contracts under IFRS 16 in a manner similar to the requirements of IAS 17 – i.e. classifies leases as either finance or operating leases. Hence, the Bank currently does not expect major impacts on lessor accounting.

Transition to IFRS 16

As of the effective date, BAWAG Group applies the practical expedient in IFRS 16.C3 not to reassess whether its existing contracts are, or contain, leases. Therefore, it will apply IFRS 16 to all leases entered into before 1 January 2019 that were previously identified as leases in accordance with IAS 17.

For transition, a lessee can choose to use either a full retrospective approach by applying IAS 8 or a modified retrospective approach. BAWAG Group has decided to apply the modified retrospective approach and recognize the cumulative effect of initial application as of 1 January 2019. Hence, comparative information for years prior to initial application are not restated, but are disclosed according to IAS 17. At the effective, date the lease liability is measured as the present value of the remaining lease payments and the right-of-use asset is recognized in the same amount.

Practical expedients on transition

As of 1 January 2019, BAWAG Group will elect to use the following practical exemptions for previously classified operating leases as permitted by IFRS 16.C10 for transition:

- application of a single discount rate to lease contracts with similar characteristics
- short-term exemption for contracts where the remaining lease term ends within 12 months from the date of initial application
- exclusion of initial direct costs from the measurement of the right-of-use asset
- use of hindsight regarding the lease term if the contract contains extension or termination options.

Quantitative impacts on transition to IFRS 16 as of 1 January 2019

Previously, BAWAG Group mainly classified its leases in which it is a lessee as operating leases. The major impact due to the new standard arises from the recognition of these lease contracts on the balance sheet, whereas the most significant changes are expected in connection with rented real estate – i.e. the Group's premises and branches. No significant impact is expected for the Group's finance leases. The evaluation of the impacts is subject to an ongoing validation.

The evaluation of the impacts is subject to an ongoing validation.

Impact on financial position

Currently, as of 1 January 2019 an entry for a right-of-use asset and a lease liability of approximately € 258 million in connection with the initial application and therefore an increase of the balance sheet volume is expected. Of this amount, € 251 million relate to rented buildings.

Impact on profit or loss

Due to the adoption of IFRS 16, rental expenses, which so far have been recognized on a straight-line basis, will be replaced by interest expenses for the lease liability and a depreciation of the "right-of-use" asset. For 2019, BAWAG Group expects the profit before tax to decrease by € 1 million due to the change in accounting of operating lease expenses. On the one hand, this results from the increasing interest expenses in the amount of € 3 million and the depreciation in the amount of € 23 million. On the other hand, the rental expenses for operating leases in the amount of € 25 million are eliminated.

Impact on own funds

The CET1 ratio (fully loaded) decreases from 14.51% under IAS 17 to 14.33% under IFRS 16. This effect mainly results from the increase of the risk-weighted assets due to the recognition of the right-of-use assets.

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
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
Amendments to IFRS 3: Definition of a Business (issued on 22 October 2018)	Immaterial
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	Immaterial

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

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

2 I Net interest income

in € million	2018	2017
Interest income	**1,141.4**	**1,084.9**
Financial assets at fair value through profit or loss	12.7	9.4
Financial assets at fair value through other comprehensive income	35.4	
Available-for-sale financial assets		57.1
Held-to-maturity investments		34.9
Financial assets held for trading	86.7	81.9
Financial assets at amortized cost	835.0	
Loans and receivables		743.4
Derivatives – Hedge accounting, interest rate risk	153.4	148.1
Interest income from financial liabilities	17.9	10.0
Other assets	0.3	0.1
Interest expense	**(309.5)**	**(299.8)**
Deposits at central banks	(10.2)	(5.9)
Financial liabilities designated at fair value through profit or loss	(30.0)	(26.0)
Financial liabilities held for trading	(55.8)	(41.0)
Financial liabilities measured at amortized cost	(117.4)	(148.5)
Derivatives – Hedge accounting, interest rate risk	(80.8)	(69.4)
Provisions for social capital	(5.6)	(6.4)
Interest expense from financial assets	(9.7)	(2.6)
Dividend income	**8.6**	**8.0**
Financial assets designated at fair value through profit and loss	4.3	
Financial assets at fair value through other comprehensive income	4.3	
Available-for-sale financial assets		8.0
Net interest income	**840.5**	**793.1**

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 2018 amounted to € 4.5 million (2017: € 3.5 million). In interest income, income from negative interest with an amount of € 17.9 million (2017: € 10.0 million) income is included. In interest expense, expense from negative interest with an amount of € 19.9 million (2017: € 8.5 million) expense is included. Dividend income from financial assets at fair value through other comprehensive income is related to investments held at the end of the reporting period.

3 | Net fee and commission income

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

Jan–Dec 2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank	Treasury Services & Markets	Corporate Center	BAWAG Group
Fee and commission income	**202.8**	**93.1**	**0.3**	**37.6**	**38.4**	**0.6**	**0.1**	**372.9**
Payment transfers	132.8	81.5	–	30.1	7.5	–	–	251.9
Lending	21.0	6.1	0.3	4.2	2.4	–	–	34.0
Securities and custody business	30.3	1.9	–	3.1	23.0	0.6	–	58.9
Other services	18.7	3.6	–	0.2	5.5	–	0.1	28.1
Fee and commission expense	**(45.9)**	**(34.7)**	**–**	**(0.9)**	**(6.0)**	**–**	**(2.6)**	**(90.1)**
Payment transfers	(33.3)	(30.7)	–	(0.1)	(0.8)	–	–	(64.9)
Lending	(0.1)	(3.5)	–	(0.8)	(1.1)	–	–	(5.5)
Securities and custody business	–	(0.2)	–	–	(3.2)	–	(2.5)	(5.9)
Others	(12.5)	(0.3)	–	–	(0.9)	–	(0.1)	(13.8)
Net fee and commission income	**156.9**	**58.4**	**0.3**	**36.7**	**32.4**	**0.6**	**(2.5)**	**282.8**

Jan–Dec 2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank	Treasury Services & Markets	Corporate Center	BAWAG Group
Fee and commission income	**218.4**	**42.8**	**0.4**	**40.2**	**3.5**	**–**	**(1.7)**	**303.6**
Payment transfers	127.4	29.0	–	32.4	0.6	–	(0.3)	189.1
Lending	21.4	3.2	0.4	4.3	0.5	–	(0.1)	29.7
Securities and custody business	36.2	2.0	–	2.5	1.9	–	(1.6)	41.0
Other services	33.4	8.6	–	1.0	0.5	–	0.3	43.8
Fee and commission expense	**(67.4)**	**(14.8)**	**–**	**(1.0)**	**(0.5)**	**–**	**(3.0)**	**(86.7)**
Payment transfers	(32.1)	(14.1)	–	(0.1)	–	–	–	(46.3)
Lending	(0.9)	–	–	(0.8)	(0.1)	–	–	(1.8)
Securities and custody business	–	–	–	–	(0.3)	–	(2.6)	(2.9)
Others	(34.4)	(0.7)	–	(0.1)	(0.1)	–	(0.4)	(35.7)
Net fee and commission income	**151.0**	**28.0**	**0.4**	**39.2**	**3.0**	**–**	**(4.7)**	**216.9**

In net fee and commission income, an amount of € 3.7 million (2017: € 0.6 million) for fiduciary transactions is included.

4 | Gains and losses on financial assets and liabilities

in € million	2018	2017
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**46.9**	**48.6**
Financial assets at fair value through other comprehensive income	28.3	
Available-for-sale financial assets		14.2
Loans and receivables		25.1
Held-to-maturity investments		5.7
Financial assets measured at amortized cost	23.4	
Financial liabilities measured at amortized cost	(0.7)	(1.6)
Gain from the sale of subsidiaries and associates	0.1	4.5
Net gain or loss from modification	(2.1)	
Other result	(2.1)	0.7
Gains (losses) on financial assets and liabilities held for trading, net	**(37.6)**	**(79.1)**
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	**12.2**	**40.3**
Gains (losses) from fair value hedge accounting	**(0.4)**	**3.4**
Fair value adjustment of hedged item	(41.9)	146.1
Fair value adjustment of hedging instrument	41.5	(142.7)
Exchange differences, net	**(1.6)**	**(1.5)**
Gains and losses on financial assets and liabilities	**19.5**	**11.7**

The item gains and losses on financial assets and liabilities was influenced primarily by the valuation and sales of our investments, the valuation of issued securities, sales gains and losses from non-performing loans and derivative transactions with customers.

5 | Other operating income and expenses

in € million	2018	2017
Other operating income	**64.1**	**286.0**
Income from investment properties	8.4	1.3
Gains from the sale of property, plant and equipment	0.2	0.0
Consolidation result from business combinations	37.4	260.3
Other income	18.1	24.4
Other operating expenses	**(72.3)**	**(218.0)**
Expenses relating to investment properties	(2.6)	(1.3)
Losses from the sale and derecognition of property, plant and equipment	(5.7)	(0.3)
Restructuring expenses relating to business combinations	(10.0)	(46.5)
Regulatory charges	(36.1)	(30.6)
One-time expenses for cancellation of cooperation agreement with Österreichische Post AG	(6.5)	(95.2)
Other expenses	(11.4)	(44.1)
Other operating income and expenses	**(8.2)**	**68.0**

For further details regarding the consolidation result from business combinations please refer to Note 35. The line item Regulatory charges includes the bank levy and the contributions to the deposit guarantee scheme and to the bank resolution fund. The bank levy included in this item amounts to € 5.0 million for 2018 (2017: € 4.6 million). The remeasurement of the collateral portion regarding the bank resolution fund in the amount of € 2.1 million (2017: € 1.2 million) is recognized in gains and losses on financial assets and liabilities.

Rental income from investment properties amounted to € 8.4 million in 2018 (2017: € 1.3 million); expenses amounted to € 2.6 million in 2018 (2017: € 1.3 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. In 2017, 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 € million	2018	2017
Staff costs	**(285.2)**	**(326.2)**
Wages and salaries	(211.6)	(256.0)
Statutory social security contributions	(58.2)	(57.2)
Staff benefit costs	(0.8)	(21.8)
Voluntary fringe benefits	(4.1)	(4.2)
Increase/Decrease of provision for severance payments	(4.6)	5.5
Increase/Decrease of provision for jubilee benefits	(4.3)	2.1
Staff benefit fund costs	(1.9)	(2.0)
Other administrative expenses	**(192.0)**	**(165.5)**
IT, data, communication	(59.5)	(42.4)
Real estate, utility, maintenance expenses	(41.3)	(45.0)
Advertising	(21.3)	(16.4)
Legal, consulting, outsourcing	(24.4)	(19.2)
Postage fees and logistics	(17.7)	(17.2)
Regulatory and audit fees	(12.7)	(6.8)
Other general expenses	(15.0)	(18.4)
Administrative expenses	**(477.2)**	**(491.7)**

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

in € million	2018	2017
Depreciation and amortization		
Brand name and customer relationships	(8.7)	(6.8)
Software and other intangible assets	(25.1)	(23.9)
Property, plant and equipment	(10.9)	(9.2)
Depreciation and amortization	**(44.7)**	**(39.9)**

8 | Risk costs

in € million	2018	2017
Loan loss provisions of loans and receivables	–	(89.6)
Provisions for financial assets at amortized cost	(29.2)	–
Stage 1	23.0	–
Stage 2	17.3	–
Stage 3	(69.5)	–
Changes in provisions for off-balance credit risk	(15.5)	2.2
Stage 1	(7.9)	–
Stage 2	(0.5)	–
Stage 3	(7.1)	–
Impairment losses on financial assets	–	(9.9)
Provisions for financial assets at fair value through other comprehensive income	2.3	–
Stage 1	2.3	–
Provisions and expenses for operational risk	(2.2)	(26.0)
Impairment and appreciation of non-current assets	–	61.5
Provisions – other	(0.5)	–
Provisions and impairment losses	**(45.1)**	**(61.8)**

Impairment and appreciation of non-current assets

in € million	2018	2017
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)
Impairment and appreciation of non-current assets	**–**	**51.6**

As of 31 December 2018, the impairment test for the brand name BAWAG P.S.K. indicated no impairment requirement. 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 8.03% (2017: 8.11%). 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 € 72.0 million in its consolidated accounts for 2017. In the segment reporting, this reversal of impairment was shown in the Corporate Center. In 2017, the position property, plant and equipment included write-downs of business equipment in the branches that are operated together with Österreichische Post AG in the amount of € 8.6 million. In the segment reporting, these write-downs were 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 € 9.9 million for its stake in Oesterreichische Kontrollbank AG. In the segment reporting, this impairment was shown in the Corporate Center.

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

The profit reported for 2018 of € 5.1 million (2017: loss of € 4.1 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 € 0.0 million (2017: € 0.0 million).

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

Associates accounted for using the equity method

in € million	2018	2017
Cumulated assets	2,379	2,499
Cumulated liabilities	2,243	2,362
Cumulated equity	136	137
Earned premiums (gross)	211	217
Fee and commission income	198	186
Cumulated net profit	17	18

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 34 Related parties.

10 | Income taxes

in € million	2018	2017
Current tax expense/income	(16.1)	11.1
Deferred tax expense	(120.1)	(62.3)
Income taxes	**(136.2)**	**(51.2)**

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

in € million	2018	2017
Profit before tax	572.7	500.4
Tax rate	25%	25%
Computed tax expenses	**(143.2)**	**(125.1)**
Reductions in tax		
Due to tax-exempt income from equity investments	1.2	4.1
Due to gains and losses from the valuation of equity investments	19.9	35.7
Due to first-time consolidation	10.5	65.1
Due to differing foreign tax rates	–	2.4
Due to use of tax loss carryforwards of the tax group parent	–	1.7
Due to valuation of deferred taxes on tax loss carryforwards	–	(1.0)
Due to other tax effects	1.8	5.1
Increases in tax		
Due to gains and losses from the valuation of equity investments	(2.8)	(2.6)
Due to unrecognized deferred taxes on tax loss carryforwards	(3.4)	–
Due to non-tax deductible expenses	(15.5)	(26.5)
Due to differing foreign tax rates	(3.3)	–
Due to other tax effects	(2.6)	(8.9)
Income tax in the period	**(137.4)**	**(50.1)**
Out-of-period income tax	1.2	(1.0)
Reported income tax (expense)	**(136.2)**	**(51.2)**

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 € 109 million (2017: € 191 million). The tax losses can be carried forward for an unlimited period. The taxed portion of the liability reserve was € 372.9 million (2017: € 372.9 million). The total liability reserve amounted to € 613.7 million as of 31 December 2018 (2017: € 613.7 million).

As of 31 December 2018, unused tax losses amounted to € 395 million (2017: € 383 million) at the level of BAWAG Group AG, € 5 million (2017: € 338 million) at the level of BAWAG P.S.K. AG, € 37 million (2017: € 44 million) at the level of members of the tax group included in the consolidated financial statements and € 0 million (2017: € 5 million) at the level of other companies included in the consolidated financial statements, for a total of € 437 million (2017: € 765 million). Tax goodwill amortization will contribute another € 76 million per year as tax-deductible expenses until 2021.

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

11 | Cash reserves

in € million	31.12.2018	31.12.2017
Cash on hand	477	572
Balances at central banks	592	608
Cash reserves	**1,069**	**1,180**

12 | Financial assets at fair value through profit or loss

in € million	31.12.2018	31.12.2017
Financial assets designated at fair value through profit or loss	114	448
Financial assets mandatorily at fair value through profit or loss	390	–
Financial assets at fair value through profit or loss	**504**	**448**

The category Financial assets designated at fair value through profit or loss contains all financial instruments that are carried at their fair value through profit or loss because the fair value option defined in IFRS 9 (2017: 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.

13 | Financial assets at fair value through other comprehensive income

in € million	31.12.2018	31.12.2017
Debt instruments	**2,804**	–
Bonds and other fixed income securities	2,804	–
Bonds of other issuers	2,704	–
Public sector debt instruments	100	–
Subsidiaries and other equity investments	**235**	–
AT1 capital	145	–
Investments in non-consolidated subsidiaries	14	–
Interests in associates	16	–
Other shareholdings	60	–
Financial assets at fair value through other comprehensive income	**3,039**	–
Debt instruments	–	**4,308**
Bonds and other fixed income securities	–	4,294
Bonds of other issuers	–	3,981
Public sector debt instruments	–	313
Other variable rate securities	–	14
Investment certificates	–	14
Subsidiaries and other equity investments	–	**100**
Shares and other equity instruments	–	19
Investments in non-consolidated subsidiaries	–	27
Interests in associates	–	16
Other shareholdings	–	38
Available-for-sale financial assets	–	**4,408**

In 2018, the 12-month ECL Stage 1 for financial assets at fair value through other comprehensive income amounted to € 3.8 million.

14 | Financial assets held for trading

in € million	31.12.2018	31.12.2017
Derivatives in trading book	**118**	**143**
Foreign currency derivatives	–	2
Interest rate derivatives	118	141
Derivatives in banking book	**233**	**315**
Foreign currency derivatives	11	26
Interest rate derivatives	222	289
Financial assets held for trading	**351**	**458**

15 | At amortized cost

The following breakdown depicts the composition of the item "At amortized cost" (2017: "Loans and receivables") of the Group.

31.12.2018 in € million	Total gross carrying amount	Loss allowance Stage 1	Loss allowance Stage 2	Loss allowance Stage 3	Total net carrying amount
Receivables from customers	30,747	(38)	(32)	(195)	30,482
Securities	3,515	(1)	(2)	0	3,512
Public sector debt instruments	487	–	–	–	487
Debt instruments of other issuers	3,028	(1)	(2)	–	3,025
Receivables from credit institutions	4,340	0	0	–	4,340
Total	**38,602**	**(39)**	**(34)**	**(195)**	**38,334**

31.12.2017 in € 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
Receivables from customers	30,354	715	(195)	(81)	30,793
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
Total	**35,303**	**715**	**(195)**	**(81)**	**35,742**

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

in € million	31.12.2018	31.12.2017
Loans	27,500	27,455
Current accounts	1,454	1,581
Finance leases	1,173	1,159
Cash advances	268	291
Money market	87	307
Receivables from customers	**30,482**	**30,793**

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

31.12.2018 in € million	Lifetime ECL – not impaired	Lifetime ECL – impaired	Purchased/ originated credit impaired
Amortized cost before modification in the current reporting period	207	–	–
Net gain or loss from modification	0	–	–

Modified financial assets whose risk provision was allocated to stage 2 or stage 3 at the time of modification and that have been reallocated to stage 1 during the reporting period had a gross book value as of 31 December 2018 of € 84 million.

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

31.12.2018 in € million	Total gross carrying amount	Loss allowance Stage 1	Loss allowance Stage 2	Loss allowance Stage 3	Total net carrying amount
BAWAG P.S.K. Retail	9,419	(7)	(6)	(79)	9,327
easygroup	5,678	(3)	(5)	(47)	5,623
International Business	6,243	(10)	(4)	(16)	6,213
DACH Corporates & Public Sector	5,407	(3)	(11)	(20)	5,373
Südwestbank	3,765	(15)	(5)	(25)	3,720
Treasury Services & Markets	7,178	(1)	(2)	–	7,175
Corporate Center	912	0	(1)	(8)	903
Total	**38,602**	**(39)**	**(34)**	**(195)**	**38,334**

31.12.2017 in € 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	9,296	206	(104)	(28)	9,370
easygroup	5,835	100	(43)	(7)	5,885
International Business	4,934	50	(21)	–	4,963
DACH Corporates & Public Sector	6,521	42	(27)	0	6,536
Südwestbank	4,124	–	–	–	4,124
Treasury Services & Markets	4,488	–	–	–	4,488
Corporate Center	104	317	0	(45)	376
Total	**35,302**	**715**	**(195)**	**(80)**	**35,742**

According to IFRS 3 Business Combinations, any allowances for individual impairment until closing are reflected in the fair value of the individual asset at the acquisition date.

16 | Asset maturities

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

Financial assets – breakdown by remaining period to maturity 2018

31.12.2018 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	4	11	41	58	114
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	4	5	13	59	95	176
Bonds and other fixed income securities	–	10	11	73	75	169
Financial assets at fair value through other comprehensive income						
Bonds and other fixed income securities	–	118	132	1,702	852	2,804
At amortized cost						
Receivables from customers	1,699	1,243	1,941	10,839	14,760	30,482
Receivables from credit institutions	612	3,596	11	6	115	4,340
Bonds and other fixed income securities	–	145	129	994	2,244	3,512
Total	**2,315**	**5,121**	**2,248**	**13,714**	**18,199**	**41,597**

Financial assets – breakdown by remaining period to maturity 2017

31.12.2017 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	3	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	2,062	1,986	10,278	15,138	30,793
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**	**4,625**	**2,833**	**13,707**	**18,692**	**42,490**

17 | Property, plant and equipment, Investment properties

Changes in property, plant and equipment and investment properties 2018

in € million	Carrying amount 31.12.2017	Acquisition cost 01.01.2018	Change in scope of consolidation Acquisition cost	Additions	Disposals	Write-downs cumulative	Carrying amount 31.12.2018	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equipment	**103**	**233**	**–**	**24**	**(8)**	**(133)**	**116**	**(9)**
Land and buildings used by the enterprise for its own operations	65	76	–	1	–	(13)	64	(1)
Office furniture and equipment	38	157	–	6	(8)	(120)	35	(8)
Plant under construction	–	–	–	17	–	–	17	–
Investment properties	**120**	**142**	**–**	**–**	**–**	**(24)**	**118**	**(3)**

Changes in property, plant and equipment and investment properties 2017

in € million	Carrying amount 31.12.2016	Acquisition cost 01.01.2017	Change in scope of consolidation Acquisition cost	Additions	Disposals	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**

In 2017, the position Depreciation (-), impairments (-) and reversal of impairments of office furniture and equipment included write-downs in the branches that are operated jointly with Österreichische Post AG in the amount of € 8.6 million. In the segment reporting, these write-downs were shown in the Corporate Center.

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

The brand name "BAWAG P.S.K." with a book value of € 114 million (2017: € 114 million), customer relationships of group companies with a total book value of € 147 million (2017: € 155 million) and software and other intangibles assets with a total book value of € 182 million (2017: € 157 million) are the Bank's most important intangible non-current assets. The book value of the majority of 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 2018

in € million	Carrying amount 31.12.2017	Acquisition cost 01.01.2018	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2018	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**59**	**624**	**–**	**–**	**–**	**–**	**(565)**	**59**	**–**
Brand name and customer relationships	**272**	**456**	**–**	**–**	**–**	**–**	**(192)**	**264**	**(8)**
Software and other intangible assets	**157**	**485**	**–**	**55**	**(7)**	**–**	**(351)**	**182**	**(25)**
Software and other intangible non-current assets	126	439	–	35	(3)	22	(336)	157	(25)
Thereof purchased	103	410	–	24	(3)	14	(334)	111	(18)
Thereof internally generated	23	29	–	11	–	8	(2)	46	(7)
Intangible non-current assets in development	31	31	–	20	(4)	(22)	–	25	–
Thereof purchased	20	20	–	13	(2)	(14)	–	17	–
Thereof internally generated	11	11	–	7	(2)	(8)	–	8	–
Rights and compensation payments	–	15	–	–	–	–	(15)	–	–

Changes in Goodwill, Software and other intangible assets 2017

in € 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**	**1**	**–**	**–**	**–**	**(566)**	**59**	**–**
Brand name and customer relationships	**184**	**432**	**24**	**–**	**–**	**–**	**(184)**	**272**	**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)

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

Intangible asset	Book value as of 31.12.2018 in € million	Remaining useful life	Book value as of 31.12.2017 in € million
Total goodwill	**59**		**59**
thereof: goodwill easybank	59	Indefinite	59
Total brand names	**117**		**117**
thereof: brand name BAWAG P.S.K.	114	Indefinite	114
Total customer relationships	**147**		**155**
thereof: customer relationships BAWAG P.S.K.	110	12–21 years	115
Total other intangibles	**182**		**157**
thereof: core banking system for Austrian operations (Allegro)	44	15 years	43

Impairments in the amount of € 0.0 million have been recognized in profit or loss in the financial year 2018 (2017: € 1.2 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 BAWAG 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 relevant CGUs, 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 CGUs shows a value that is higher than the net assets and the individual impairment tests of the brand names show a recoverable amount higher than the book value of the brand names.

As of 31 December 2018, the individual impairment tests for the brand names indicated no impairment requirement. 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.

BAWAG Group recognized the reversal of the impairment of the brand name BAWAG P.S.K. in the amount of € 72.0 million in its consolidated accounts for 2017. In the segment reporting, this reversal of impairment was shown in the Corporate Center.

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 8.03% (2017: 8.11%).

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 € million	31.12.2018	31.12.2017
easybank AG, Vienna	59	59
Goodwill	**59**	**59**

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 %	2018	2017
Discount rate	10.5%	11.8%
Planned profit growth rate (average for the next five years)	1.0%	6.1%
Sustainable growth rate	1.0%	1.0%

The discount rate is before taxes and was estimated based on average equity returns in the sector. 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 in Austria 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. In order to keep easybank's growth properly equity backed, profit retentions have been considered in the valuation, both in the planned period and in the calculation of the continuing value.

Sensitivity analysis as of 31.12.2018

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 2019 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 2019 (in %)
easybank AG, Vienna	4.39	(3.05)%

Sensitivity analysis as of 31.12.2017

	Change in discount rate (in percentage pts)	Change in growth after 2018 (in %)
easybank AG, Vienna	12.12	(3.68)%

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

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

in € million	31.12.2018	31.12.2017
Financial liabilities designated at fair value through profit or loss	35	22
Financial liabilities at amortized cost	117	
Loans and receivables		116
Provisions	56	69
Tax loss carryforwards	109	191
Other	4	16
Deferred tax assets	**321**	**413**
Financial assets designated at fair value through profit or loss	12	12
Financial assets at fair value through other comprehensive income	7	
Financial assets at amortized cost	58	
Loans and receivables		64
Available-for-sale financial assets		29
Assets held for trading	19	41
Hedging derivatives	79	82
Internally generated intangible assets	3	6
Other intangible assets	75	65
Property, plant and equipment	3	3
Deferred tax liabilities	**256**	**302**
Net deferred tax assets	**65**	**111**
Deferred tax assets reported on the balance sheet	**76**	**116**
Deferred tax liabilities reported on the balance sheet1)	**11**	**5**

1) Representing deferred tax liabilities of companies which were not part of the tax group as of 31 December 2018. (2017: Representing deferred tax liabilities of four newly acquired companies which were not part of the tax group as of 31 December 2017.)

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 € 437 million (2017: € 599 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.

20 | Other assets

in € million	31.12.2018	31.12.2017
Accruals	23	28
Leasing objects not in operation yet	1	1
Other items	101	117
Other assets	**125**	**146**

The other items include accounts relating to payment and miscellaneous other assets. As of 31 December 2018, other assets in the amount of € 27 million (31 December 2017: € 20 million) have a maturity of more than one year.

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

in € million	31.12.2018	31.12.2017
Issued bonds, subordinated and supplementary capital	**570**	**726**
Issued debt securities and other securitized liabilities	57	93
Subordinated capital	131	114
Short-term notes and non-listed private placements	382	519
Deposits from customers	**6**	**–**
Financial liabilities designated at fair value through profit or loss	**576**	**726**

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 2018 was € 38 million above their repayment amount (2017: € 34 million above the repayment amount).

22 | Financial liabilities held for trading

in € million	31.12.2018	31.12.2017
Derivatives trading book	**51**	**64**
Foreign currency derivatives	–	2
Interest rate derivatives	51	62
Derivatives banking book	**250**	**281**
Foreign currency derivatives	88	50
Interest rate derivatives	162	231
Financial liabilities held for trading	**301**	**345**

23 | Financial liabilities measured at amortized cost

in € million	31.12.2018	31.12.2017
Deposits from credit institutions	**4,281**	**4,009**
Deposits from customers	**30,195**	**30,947**
Savings deposits – fixed interest rates	882	968
Savings deposits – variable interest rates	6,988	6,945
Deposit accounts	5,758	5,649
Current accounts – Retail	9,375	9,909
Current accounts – Corporates	3,993	5,288
Other deposits[1)]	3,199	2,188
Issued bonds, subordinated and supplementary capital	**3,849**	**4,938**
Issued debt securities	3,381	3,732
Subordinated capital	87	429
Supplementary capital	15	30
Other obligations evidenced by paper	366	747
Financial liabilities at amortized cost	**38,325**	**39,894**

1) Primarily time deposits.

The issued bonds are mainly listed securities.

24 | Issued bonds, subordinated and supplementary capital

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

	Recognized at fair value		Recognized at amortized cost		Total	
in € million	**2018**	2017	**2018**	2017	**2018**	2017
Issued bonds (own issues)	57	93	3,381	3,732	3,438	3,825
Subordinated capital	131	114	87	429	218	543
Supplementary capital	–	–	15	30	15	30
Short-term notes and unlisted private placements	382	519	366	747	748	1,266
Total	**570**	**726**	**3,849**	**4,938**	**4,419**	**5,664**

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

ISIN	Type	Currency	Nominal value in € million	Type of interest payment	Coupon	Maturity date
XS1514988689	RMBS	GBP	749	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[1)]	Fixed	8.125%	30.10.2023

1) Thereof € 268 million bought back.

25 | Deposits from customers

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

Deposits from customers – breakdown by product class and segments

	At amortized cost	
in € million	31.12.2018	31.12.2017
Savings deposits	**7,870**	**7,913**
Savings accounts	5,387	5,219
Building savings deposits	2,129	1,717
Fixed-term investment savings accounts	354	976
Savings associations	–	1
Other deposits	**22,325**	**23,034**
BAWAG P.S.K. Retail	10,733	10,136
easygroup	3,968	3,805
International Business	8	1
DACH Corporates & Public Sector	3,220	3,581
Südwestbank	4,211	5,299
Treasury Services & Markets	23	58
Corporate Center	162	154
Deposits from customers	**30,195**	**30,947**

26 | 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 2018

31.12.2018 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	–	–	–	6	6
Bonds	–	15	15	12	15	57
Subordinated capital	–	–	–	98	33	131
Short-term notes and non-listed private placements	–	27	141	168	46	382
Liabilities at amortized cost						
Deposits from customers	24,161	693	2,511	1,811	1,019	30,195
Deposits from credit institutions	325	507	256	1,835	1,358	4,281
Bonds	–	20	516	1,164	840	2,540
Subordinated capital	–	–	–	87	–	87
Supplementary capital	–	5	10	–	–	15
Short-term notes and non-listed private placements	–	11	56	407	733	1,207
Total	**24,486**	**1,278**	**3,505**	**5,582**	**4,050**	**38,901**

Financial liabilities – breakdown by remaining period to maturity 2017

31.12.2017 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
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 credit institutions	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**

27 | Provisions

in € million	31.12.2018	31.12.2017
Provisions for social capital	382	375
Thereof for severance payments	93	96
Thereof for pension provisions	257	250
Thereof for jubilee benefits	32	29
Anticipated losses from pending business	33	20
Credit promises and guarantees	33	20
Other items including legal risks	50	55
Provisions	**465**	**450**

Provisions for social capital are long-term liabilities. Provisions for anticipated losses on pending business in the amount of € 29 million and other risks including legal risks in the amount of € 27 million are expected to be used after more than 12 months.

Changes in social capital

in € million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2018	**256**	**96**	**29**	**381**
Service cost	1	5	2	8
Interest cost	4	2	0	6
Actuarial gain/loss				
from demographic assumptions	8	(1)	4	11
from financial assumptions	–	(1)	(1)	(2)
due to other reasons, mainly experience results	3	(2)	–	1
Gain from settlements	(9)	–	–	(9)
Other				
Payments	(42)	(9)	(3)	(54)
Change in scope of consolidation	42	3	1	46
Defined benefit obligation as of 31.12.2018	**263**	**93**	**32**	**388**
Fair value of plan assets	(6)	–	–	(6)
Provision as of 31.12.2018	**257**	**93**	**32**	**382**

in € million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2017	**270**	**97**	**29**	**397**
Service cost	1	4	2	7
Interest cost	4	2	–	6
Actuarial gain/loss				
from financial assumptions	4	2	–	6
due to other reasons, mainly experience results	–	(1)	(1)	(2)
Gain from settlements	(4)	–	–	(4)
Other				
Payments	(52)	(10)	(3)	(65)
Change in scope of consolidation	33	2	2	37
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**

On 31 December 2018, the weighted average duration was 11.88 years (2017: 13.97 years) for defined benefit obligations relating to pension plans and 11.47 years (2017: 10.77 years) for obligations arising from entitlement to severance payments (excluding Südwestbank and Deutscher Ring Bausparkasse).

On 31 December 2018, the weighted average duration was 15.81 years for defined benefit obligations relating to pension plans of Deutscher Ring Bausparkasse.

On 31 December 2018, the weighted average duration was 9.16 years (2017: 11.29 years) for defined benefit obligations relating to pension plans of Südwestbank.

Assignable unit-linked pension fund assets

in € million	2018	2017
Pension fund assets as of 01.01.2018	**6**	**10**
Additions	0	0
Payments	0	(4)
Pension fund assets as of 31.12.2018	**6**	**6**

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 %	2018	2017
Bonds	73%	75%
Equities	16%	16%
Cash and cash equivalents	1%	0%
Other	10%	8%

Bonds issued by BAWAG P.S.K. amount to 0.00% 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 49% government bonds, 24% corporates, 16% equities and 11% other investments;
- the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: bonds: 25%–100%, equities: 10%–18%, other investments: 0%–33%;
- interest rate risk is monitored and managed through active duration risk management of all fixed income assets;
- currency risk is managed with the objective of reducing the risk to a maximum of 30%.

BAWAG Group expects that payments in the amount of € 0.2 million will have to be made to the pension fund in 2019 (2018: € 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 2018 in the amount of € 356 million (2017: € 352 million):

Sensitivity analysis as of 31 December 2018

in € million	Provisions for post-employment benefits and severance payments – Increase of variable	Provisions for post-employment benefits and severance payments – Decrease of variable
Discount rate – percentage point movement	317	401
Future salary growth – percentage point movement	398	318
Attrition – percentage point movement	344	356
Future mortality – percentage point movement (post-employment benefits only)	262	263

Sensitivity analysis as of 31 December 2017

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

Changes in other provisions

in € million	Balance 01.01.2018	Change in scope of consolidation	Added	Used	Released	**Balance 31.12.2018**
Other provisions	**75**	**4**	**21**	**(9)**	**(8)**	**83**
Anticipated losses from pending business	20	4	20	(7)	(4)	33
Other items	55	–	1	(2)	(4)	50

in € 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.

28 | Other obligations

in € million	31.12.2018	31.12.2017
Accounts relating to payment transactions	237	301
Liabilities resulting from restructuring	129	170
Other liabilities	214	359
Accruals	17	5
Other obligations	**597**	**835**

As of 31 December 2018, other obligations in the amount of € 189 million (31 December 2017: € 172 million) have a maturity of more than one year.

29 | Hedging derivatives

in € million	31.12.2018	31.12.2017
Hedging derivatives in fair value hedges		
Positive market values	383	456
Negative market values	45	50
Hedging derivatives in cash flow hedges		
Positive market values	18	61
Negative market values	59	44

Fair value hedge

in € million	Notional of hedged items		Net book value of hedging instruments		Net result of hedged item and hedging instrument recognized in the financial year	
	31.12.2018	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Financial assets at fair value through other comprehensive income	**1,967**		**(6)**		**(0)**	
Securities	1,967		(6)		(0)	
Available-for-sale financial assets		**2,835**		**(10)**		**–**
Securities		2,835		(10)		–
Financial instruments recognized at amortized cost	**15,186**	**15,303**	**334**	**415**	**–**	**3**
Securities	–	79	–	–	–	0
Own issues	2,635	3,503	107	171	(2)	1
Savings deposits of customers	1,914	2,372	3	8	(1)	0
Loans to customers	467	380	(21)	(27)	(0)	0
Liabilities to customers	10,170	8,969	245	263	3	2
Total	**17,153**	**18,138**	**328**	**405**	**(0)**	**3**

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:

31.12.2018 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	669	1,945	969	3,583

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

31.12.2018 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	9	22	–	31

Disclosure according to IFRS 7.24B a)

31.12.2018 in € million	Micro hedges	Hedge adjustments on micro hedges		Macro hedges
	Carrying amount	Hedge adjustments included in the carrying amount of assets/liabilities	Remaining adjustments for discontinued micro hedges including hedges of net positions	Hedged items in portfolio hedge of interest rate risk
Assets				
Financial assets measured at fair value through other comprehensive income				
Interest rate related	2,164	(3)	0	–
Financial assets measured at amortized cost				
Interest rate related	543	37	0	329
Liabilities				
Financial liabilities measured at amortized costs				
Interest rate related	5,240	114	(4)	9,202

30 | Equity

Share capital

The share capital of BAWAG Group was reduced by € 1.2 million due to the share buyback which was completed by 7 November 2018. Therefore, the fully paid in share capital of BAWAG Group amounts to € 98.8 million (2017: € 100 million). The share capital as of 31 December 2018 is divided into 98,794,893 bearer shares (2017: 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 € 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. Due to the share buyback which was completed by 7 November 2018, the retained earnings reserve was reduced by € 46.6 million, and amounts to € 2,603.6 million.

AT1 capital

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

Dividends

The Managing Board decided to propose to the general assembly that a dividend of € 215.2 million (around € 2.18 per share; based on shares outstanding as of 28 February 2019) shall be paid for the financial year 2018 (2017: € 58.3 million; around € 0.58 per share).

Non-controlling interests

The 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests in the amount of € 1 million (2017: € 1 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 € million	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt securities at fair value through other comprehensive income net of tax excluding equity associates	Debt securities at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2018	**436.5**	**(10.5)**	**(5.1)**	**(58.3)**	**(0.9)**	**(7.1)**	**6.2**	**(0.1)**	**360.7**	**–**	**360.7**
Consolidated profit/loss	436.5	–	–	–	–	–	–	–	436.5	–	436.5
Income and expenses recognized directly in equity	**–**	**(10.5)**	**(5.1)**	**(58.3)**	**(0.9)**	**(7.1)**	**6.2**	**(0.1)**	**(75.8)**	**–**	**(75.8)**
Change in cash flow hedge reserve	–	(13.9)	–	–	–	–	–	–	(13.9)	–	(13.9)
Change in debt securities at fair value through other comprehensive income	–	–	–	(78.5)	–	–	–	–	(78.5)	–	(78.5)
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	(0.9)	–	–	–	(0.9)	–	(0.9)
Actuarial gains (losses) on defined benefit pension plans	–	–	(6.8)	–	–	–	–	–	(6.8)	–	(6.8)
Shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	(9.2)	–	–	(9.2)	–	(9.2)
Change in credit spread of financial liabilities	–	–	–	–	–	–	8.3	–	8.3	–	8.3
Foreign exchange differences	–	–	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Income taxes	–	3.4	1.7	20.2	–	2.1	(2.1)	–	25.3	–	25.3

in € 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	**449.1**	**25.4**	**(3.5)**	**(3.7)**	**467.3**	**0.1**	**467.4**
Consolidated profit/loss	449.1	–	–	–	449.1	0.1	449.2
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)

Deferred income taxes recognized in Other comprehensive income

in € million	Before taxes	Income taxes	After taxes
	01.01.–31.12.2018		
Cash flow hedge reserve	(13.9)	3.4	(10.5)
Actuarial gains (losses) on defined benefit pension plans	(6.8)	1.7	(5.1)
Debt securities at fair value through other comprehensive income net of tax excluding equity associates	(78.5)	20.2	(58.3)
Debt securities at fair value through other comprehensive income net of tax from equity associates	(0.9)	–	(0.9)
Shares and other equity investments at fair value through other comprehensive income net of tax	(9.2)	2.1	(7.1)
Change in credit spread of financial liabilities net of tax	8.3	(2.1)	6.2
Foreign exchange differences	(0.1)	–	(0.1)
Income and expenses recognized directly in equity	**(101.1)**	**25.3**	**(75.8)**

in € million	Before taxes	Income taxes	After taxes
	01.01.–31.12.2017		
Cash flow hedge reserve	(4.7)	1.2	(3.5)
AFS reserve	33.0	(7.6)	25.4
Actuarial gains (losses) on defined benefit pension plans	(5.0)	1.3	(3.7)
Income and expenses recognized directly in equity	**23.3**	**(5.1)**	**18.2**

SEGMENT REPORTING

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

This information is based on the Group structure as of 31 December 2018.

The segment reporting presents the results of the operating business segments of BAWAG Group. The following segment information is based on IFRS 8 *Operating Segments*, which follows the management approach. In this, the segment information is prepared based on the internal reports used by the 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 considering allocated liquidity costs and premiums. According to this method, it is assumed that asset and liability items are refinanced by means of money and capital market transactions with corresponding maturities, and that there is therefore no interest rate risk. The interest rate risk is managed actively through asset and liability management, and the related results are reported in the Corporate Center. The remaining earnings components and the directly allocable costs are assigned to the respective business units based on where they are incurred. The overhead costs are assigned to the individual segments according to allocation keys.

As of March 2018, certain changes in the business segment reporting were made to better reflect the developments and our progress in the individual business segments going forward. The prior year's figures have been adjusted accordingly. The changes comprise the following topics:

- start:bausparkasse and real estate leasing was shifted from the segment BAWAG P.S.K. Retail to the segment easygroup to bundle non-branch sales channels in the easygroup segment and focus on the omni-channel (physical and digital) approach in BAWAG P.S.K. Retail.
- The cost transfer pricing was adjusted to have a higher share of direct and allocated cost in terms of total costs, simplifying keys for transparency and shifting from a fixed to a key-based assignment of overhead costs to the segments.

As of September 2018, easygroup includes start:bausparkasse AG (former name: Deutscher Ring Bausparkasse AG). This acquisition was closed in September 2018.

BAWAG Group is managed in accordance with the following seven 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 as well as own issues covered with retail assets and Wohnbaubank bonds.

- **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, mobile and real estate leasing platforms, building society loans and savings, as well as lending to our international retail borrowers, including own issues covered with an international mortgage portfolio.

- **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.

- **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 and own issues covered with corporate or public assets are included in this segment as well.

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

- **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 the 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), tangible and intangible assets as well as select results related to subsidiary and participation holdings and reconciliation positions. 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:

2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total
Net interest income	386.5	164.1	134.0	58.7	82.5	48.1	(33.4)	840.5
Net fee and commission income	156.9	58.4	0.3	36.7	32.4	0.6	(2.5)	282.8
Core revenues	**543.4**	**222.5**	**134.3**	**95.4**	**114.9**	**48.7**	**(35.9)**	**1,123.3**
Gains and losses on financial instruments	16.7	0.0	10.1	0.6	0.0	27.6	(35.5)	19.5
Other operating income and expenses	1.9	0.0	0.0	0.0	0.0	0.0	26.0	27.9
Operating income	**562.0**	**222.5**	**144.4**	**96.0**	**114.9**	**76.3**	**(45.4)**	**1,170.7**
Operating expenses	**(252.3)**	**(70.1)**	**(28.1)**	**(51.2)**	**(69.2)**	**(31.5)**	**(15.5)**	**(517.9)**
Regulatory charges	(11.7)	(3.9)	0.0	0.0	(2.1)	0.0	(22.4)	(40.1)
Total risk costs	(54.8)	(3.4)	6.6	1.3	5.8	0.2	(0.8)	(45.1)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	5.1	5.1
Profit before tax	**243.2**	**145.1**	**122.9**	**46.1**	**49.5**	**45.0**	**(79.1)**	**572.7**
Income taxes	0.0	0.0	0.0	0.0	0.0	–	(136.2)	(136.2)
Profit after tax	**243.2**	**145.1**	**122.9**	**46.1**	**49.5**	**45.0**	**(215.3)**	**436.5**
Non-controlling interests	–	–	–	–	–	–	0.0	0.0
Net profit	**243.2**	**145.1**	**122.9**	**46.1**	**49.5**	**45.0**	**(215.3)**	**436.5**
Business volumes								
Assets	9,547	5,682	6,284	5,581	3,821	10,192	3,591	44,698
Liabilities	18,771	6,472	7	6,411	4,952	2,460	5,625	44,698
Risk-weighted assets	3,354	3,254	5,303	1,951	3,184	1,703	1,716	20,465

2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total
Net interest income	378.1	170.6	129.1	70.6	5.6	49.4	(10.3)	793.1
Net fee and commission income	151.0	28.0	0.4	39.1	3.0	0.0	(4.6)	216.9
Core revenues	**529.1**	**198.6**	**129.5**	**109.7**	**8.6**	**49.4**	**(14.9)**	**1,010.0**
Gains and losses on financial instruments	0.8	0.0	(0.4)	(10.9)	0.0	21.6	0.6	11.7
Other operating income and expenses	1.8	2.5	0.0	0.0	0.0	0.0	94.4	98.7
Operating income	**531.7**	**201.1**	**129.1**	**98.8**	**8.6**	**71.0**	**80.1**	**1,120.4**
Operating expenses	**(272.8)**	**(59.7)**	**(29.0)**	**(47.5)**	**(8.0)**	**(21.6)**	**(89.9)**	**(528.5)**
Regulatory charges	(13.4)	(4.2)	0.0	0.0	(0.1)	0.0	(16.1)	(33.8)
Total risk costs	(51.1)	0.1	(16.3)	(8.0)	(0.2)	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	**194.4**	**137.3**	**83.8**	**43.3**	**0.3**	**49.4**	**(8.1)**	**500.4**
Income taxes	–	–	–	–	–	–	(51.2)	(51.2)
Profit after tax	**194.4**	**137.3**	**83.8**	**43.3**	**0.3**	**49.4**	**(59.3)**	**449.2**
Non-controlling interests	–	–	–	–	–	–	(0.1)	(0.1)
Net profit	**194.4**	**137.3**	**83.8**	**43.3**	**0.3**	**49.4**	**(59.4)**	**449.1**
Business volumes								
Assets	9,502	5,938	5,174	6,725	4,183	11,137	3,397	46,056
Liabilities	18,954	5,981	1	6,762	6,146	2,477	5,735	46,056
Risk-weighted assets	3,679	4,193	4,318	2,410	3,349	2,124	1,421	21,494

As the internal and external reporting of BAWAG Group 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.

In its meeting in December 2018 the Supervisory Board of BAWAG Group approved an adjustment of the operating business segments and steering approach of BAWAG Group which will also have an impact on the segment reporting. DACH Corporates & Public Sector, International Business, the corporate business from Südwestbank and the MidCaps (currently in Retail BAWAG P.S.K.) will be merged into one new segment Corporates & Public Sector. BAWAG P.S.K. Retail, easygroup and the retail business of Südwestbank will be merged into one new segment Retail & SME. Treasury Services & Markets and Corporate Center remain unchanged. The new segmentation will become effective with January 2019 hence will be reported from first quarter 2019 onwards. Previous year's figures will be adjusted retrospectively.

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 69% 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:

2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total
DACH	540.0	176.0	1.8	91.9	110.9	22.9	(35.9)	907.6
thereof Austria	538.3	172.1	0.0	82.4	0.0	22.5	(37.3)	778.0
thereof Germany	1.4	3.8	1.8	9.2	110.6	0.1	1.4	128.3
Western Europe	0.3	46.9	76.0	0.5	3.3	15.9	0.0	142.9
thereof UK	0.1	21.9	32.4	0.1	0.1	5.4	0.0	60.0
thereof France	0.1	25.0	3.9	0.0	0.1	0.7	0.0	29.8
thereof Ireland	0.0	0.0	24.1	0.0	0.0	2.9	0.0	27.0
North America	0.2	0.0	37.2	0.1	0.1	1.8	0.0	39.4
thereof USA	0.2	0.0	36.1	0.1	0.1	1.8	0.0	38.3
Southern Europe	0.4	0.1	15.7	0.1	0.1	7.2	0.0	23.6
Others	2.5	(0.5)	3.6	2.8	0.5	0.9	0.0	9.8
Total	**543.4**	**222.5**	**134.3**	**95.4**	**114.9**	**48.7**	**(35.9)**	**1,123.3**

2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total
DACH	525.8	130.8	0.0	106.7	8.5	21.3	(14.7)	778.4
thereof Austria	523.8	130.7	0.0	89.0	0.0	19.6	(16.9)	746.2
thereof Germany	1.6	0.1	0.0	17.3	8.5	0.5	2.3	30.3
Western Europe	0.4	67.8	81.6	0.1	0.1	15.2	(0.2)	165.0
thereof UK	0.1	27.3	38.4	0.1	0.0	6.4	0.0	72.3
thereof France	0.1	40.5	3.2	0.0	0.0	0.8	0.0	44.6
thereof Ireland	0.0	0.0	27.4	0.0	0.0	2.1	0.0	29.5
North America	0.2	0.0	39.2	0.3	0.0	2.8	0.0	42.5
thereof USA	0.2	0.0	36.7	0.3	0.0	2.8	0.0	40.0
Southern Europe	0.4	0.0	6.0	0.1	0.0	9.0	0.0	15.5
Others	2.3	0.0	2.7	2.5	0.0	1.1	0.0	8.6
Total	**529.1**	**198.6**	**129.5**	**109.7**	**8.6**	**49.4**	**(14.9)**	**1,010.0**

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

in € million	2018	2017
Gains and losses on financial instruments according to segment report	19.5	11.7
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	**19.5**	**11.7**

in € million	2018	2017
Other operating income and expenses according to segment report	27.9	98.6
Regulatory charges	(36.1)	(30.6)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**(8.2)**	**68.0**

in € million	2018	2017
Operating expenses according to segment report	(517.9)	(528.5)
Regulatory charges	(4.0)	(3.2)
Operating expenses according to Consolidated Profit or Loss Statement	**(521.9)**	**(531.6)**

in € million	2018	2017
Profit before tax according to segment report	572.7	500.4
Gains and losses on financial assets attributable to non-controlling interests	–	–
Profit before tax according to Consolidated Profit or Loss Statement	**572.7**	**500.4**

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 and optimizing the own funds position when necessary and reports to the Bank's Enterprise Risk Meeting once a month.

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

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

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

Additionally, the Capital Management Team tracks all regulatory changes, e.g. MREL or Basel IV. The impact of the 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. Expected future regulatory requirements (e.g. introduction of MREL and leverage ratio requirements) are proactively integrated into the capital management process. This is intended to ensure that the Bank adapts its capital management procedures to the new prudential requirement in time.

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

The following table shows the breakdown of own funds of BAWAG Group applying transitional rules and its own funds requirement as per 31 December 2018 and 31 December 2017 pursuant to CRR applying IFRS figures and the CRR scope of consolidation. Prior year figures differ from those as of 31 December 2018 inter alia due to the changed requirements pursuant to IFRS 9. Prior-year figures were adjusted. For details, please refer to the chapter Restatement in accordance with IAS 8.41 and below.

	BAWAG Group	
in € million	**31.12.2018[2)]**	31.12.2017
Share capital and reserves (including funds for general banking risk)[1)]	3,636	3,484
Deduction of intangible assets	(427)	(343)
Other comprehensive income	(153)	9
IRB risk provision shortfalls	(34)	(38)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	0	(33)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(49)	(91)
Excess of deduction from AT1 items over AT1 capital	–	(90)
Common Equity Tier I	**2,974**	**2,898**
Capital instruments eligible as additional Tier 1 capital	**300**	**0**
IRB risk provision shortfalls	–	(5)
Deduction of intangible assets	–	(85)
Excess of deduction from AT1 items over AT1 capital	–	90
Additional Tier I	**300**	**0**
Tier I	**3,274**	**2,898**
Supplementary and subordinated debt capital	96	347
Tier II capital in grandfathering	6	15
Excess IRB risk provisions	4	35
Less significant investments, IRB risk provision shortfalls	(33)	(27)
Tier II	**73**	**370**
Own funds	**3,347**	**3,268**

1) In this position, dividends in the amount of € 215.2 million were deducted in accordance with the dividend policy of BAWAG Group. (2017: dividends in the amount of € 109.9 million (consisting of an interim dividend in the amount of € 51.6 million and a year-end dividend in the amount of € 58.3 million) and a voluntary prudential filter of € 44 million on the distributable result.)

2) Own funds as of 31 December 2018 differ from those as of 31 December 2017 inter alia because of different CRR transitional rules for 2018 and 2017 for the eligibility of capital and deductions from own funds (mainly intangible assets and IRB risk provision shortfall).

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

	BAWAG Group	
in € million	31.12.2018	31.12.2017
Credit risk	18,601	19,719
Market risk	51	52
Operational risk	1,821	1,705
Capital requirements (risk-weighted assets)	**20,473**	**21,476**

Supplemental information on a fully loaded basis

	BAWAG Group	
	31.12.2018	31.12.2017
Common Equity Tier 1 capital ratio based on total risk	14.5%	13.5%
Total capital ratio based on total risk	16.3%	15.2%

Key figures according to CRR including its transitional rules

	BAWAG Group	
	31.12.2018	31.12.2017
Common Equity Tier 1 capital ratio based on total risk	14.5%	13.5%
Total capital ratio based on total risk	16.4%	15.2%

During the financial year 2018, BAWAG Group always complied with the regulatory capital requirement imposed by the SREP. Our target CET1 ratio in 2018 was 12% on a fully loaded basis. We delivered a much stronger ratio, coming in at 14.5%. Going forward, we will continue to maintain a fully loaded CET1 ratio of 12% to 13%.

Restatement of prior period comparatives in accordance with IAS 8

In the financial year 2018, certain comparative information was restated in accordance with IAS 8.41. For details, please refer to the section Restatement in accordance with IAS 8.41. The following table presents the restatement of the capital disclosures affected:

	31.12.2017	
in € million	Adjusted	Published
Capital requirements (risk-weighted assets) on a fully loaded basis	21,494	21,491
Common Equity Tier I	2,898	2,906
Own funds	3,268	3,276
Common Equity Tier 1 capital ratio based on total risk (incl. interim profit) on a fully loaded basis	13.5%	13.5%
Total capital ratio based on total risk (incl. interim profit) on a fully loaded basis	15.2%	15.2%
Common Equity Tier 1 capital ratio based on total risk (incl. interim profit) on a transitional basis	13.5%	13.5%
Total capital ratio based on total risk (incl. interim profit) on a transitional basis	15.2%	15.3%

FURTHER DISCLOSURES REQUIRED BY IFRS

31 | Fair value

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

in € million	Carrying amount 31.12.2018	Fair value 31.12.2018	Carrying amount 31.12.2017	Fair value 31.12.2017
Assets				
Cash reserves	1,069	1,069	1,180	1,180
Financial assets designated at fair value through profit or loss	114	114	448	448
Financial assets mandatorily at fair value through profit or loss	390	390		
Financial assets at fair value through other comprehensive income	3,039	3,039		
Debt instruments	2,804	2,804		
Subsidiaries and other equity investments	235	235		
Available-for-sale financial assets			4,408	4,408
Debt instruments			4,308	4,308
Subsidiaries and other equity investments			100	100
Held-to-maturity investments			2,274	2,347
Financial assets held for trading	351	351	458	458
At amortized cost	38,334	38,596		
Customers	30,482	30,704		
Credit institutions	4,340	4,338		
Securities	3,512	3,554		
Loans and receivables			35,742	35,918
Customers			30,793	30,951
Credit institutions			3,660	3,657
Securities			1,289	1,310
Valuation adjustment on interest rate risk hedged portfolios	1	1	–	–
Hedging derivatives	401	401	517	517
Property, plant and equipment	116	n/a	103	n/a
Investment properties	118	121	120	121
Intangible non-current assets	505	n/a	488	n/a
Other assets	260	n/a	318	n/a
Total assets	**44,698**		**46,056**	

in € million	Carrying amount 31.12.2018	Fair value 31.12.2018	Carrying amount 31.12.2017	Fair value 31.12.2017
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	576	576	726	726
Issued debt securities and other securitized liabilities	439	439	606	606
Subordinated and supplementary capital	131	131	114	114
Deposits from customers	6	6	6	6
Financial liabilities held for trading	301	301	345	345
Financial liabilities at amortized cost	38,325	38,336	39,894	40,044
Deposits from credit institutions	4,281	4,300	4,009	4,026
Deposits from customers	30,195	30,172	30,947	30,959
Issued bonds, subordinated and supplementary capital	3,849	3,864	4,938	5,059
Financial liabilities associated with transferred assets	150	150	–	–
Valuation adjustment on interest rate risk hedged portfolios	156	156	116	116
Hedging derivatives	104	104	94	94
Provisions	465	n/a	450	n/a
Other obligations	616	n/a	854	n/a
Equity	4,004	n/a	3,576	n/a
Non-controlling interests	1	n/a	1	n/a
Total liabilities and equity	**44,698**		**46,056**	

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.

Fair value hierarchy

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

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

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

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

  For customer receivables accounted for at fair value, modeling techniques following industry standard models are applied, for example discounted cash flow analysis and standard option pricing models. Market parameters such as interest rates, FX rates or volatilities are used as input to the valuation models to determine fair value. 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 respective borrower are either derived from outstanding funding instruments, distinguished by seniority (senior unsecured, subordinated, collateralized funding), or benchmark yield curves (e.g. indices).

Linear derivative financial instruments containing no optional components (such as interest rate swaps, currency forwards and futures) were also measured using a present value technique (discounting of future cash flows applying the current swap curve, derivatives with counterparties with a Credit Support Annex [CSA] agreement are discounted by the 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 departments, which ensures the separation of front office functions from back office processing and control.

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

Standard providers such as 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 2018, the portion of change in fair values of securities issued by BAWAG Group accounted for solely by changes in our credit spreads was plus € 8.9 million (minus € 12.4 million as of 31 December 2017). This is defined as the product of the credit spread base point value with the respective spread change, supplemented by the pull-to-par effect. As of 31 December 2018, the cumulative fair value change resulting from changes in our credit rating amounted to € 0.5 million (€ 7.3 million as of 31 December 2017).

A one basis point narrowing of the credit spread is expected to change their valuation by minus € 0.1 million (minus € 0.1 million as of 31 December 2017).

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 € 0.5 million as of 31 December 2018 (minus € 0.1 million as of 31 December 2017) 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 € 4.3 million (minus € 0.9 million as of 31 December 2017).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.07 million (plus € 0.08 million as of 31 December 2017).

- **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. This also pertains to stakes in non-consolidated subsidiaries that are classified as mandatorily at fair value through profit or loss or at fair value through other comprehensive income.

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.

31.12.2018 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	114	–	114
Financial assets mandatorily at fair value through profit or loss	54	110	226	390
Financial assets at fair value through other comprehensive income	2,819	129	91	3,039
Debt instruments	2,674	129	1	2,804
Subsidiaries and other equity investments	145	–	90	235
Financial assets held for trading	0	351	–	351
At amortized cost	2,246	5,174	31,176	38,596
Valuation adjustment on interest rate risk hedged portfolios	–	1	–	1
Hedging derivatives	–	401	–	401
Investment properties	–	–	121	121
Total assets	**5,119**	**6,280**	**31,614**	**43,013**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	316	260	576
Issued debt securities and other securitized liabilities	–	179	260	439
Subordinated and supplementary capital	–	131	–	131
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	301	–	301
Financial liabilities at amortized cost	–	6,138	32,198	38,336
Financial liabilities associated with transferred assets	–	150	–	150
Valuation adjustment on interest rate risk hedged portfolios	–	156	–	156
Hedging derivatives	–	104	–	104
Total liabilities	**–**	**7,165**	**32,458**	**39,623**

31.12.2017 in € million	Level 1	Level 2	Level 3	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
Debt instruments	4,077	210	21	4,308
Subsidiaries and other equity investments	–	–	100	100
Held-to-maturity investments	2,340	7	–	2,347
Financial assets held for trading	–	458	–	458
Loans and receivables	–	4,058	31,860	35,918
Hedging derivatives	–	517	–	517
Investment properties	–	–	121	121
Total assets	**6,684**	**5,430**	**32,103**	**44,217**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	363	363	726
Issued debt securities and other securitized liabilities	–	243	363	606
Subordinated and supplementary capital	–	114	–	114
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	345	–	345
Financial liabilities at amortized cost	–	6,803	33,241	40,044
Valuation adjustment on interest rate risk hedged portfolios	–	116	–	116
Hedging derivatives	–	94	–	94
Total liabilities	**–**	**7,721**	**33,604**	**41,325**

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 2018, securities at fair value through other comprehensive income with a book value of € 69 million (Available-for-sale 2017: € 4 million) were moved from Level 1 to Level 2 due to subsequent illiquid market prices. securities at fair value through other comprehensive income with a book value of € 0 million (Available-for-sale 2017: € 102 million) were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 Financial Instruments Measured at Fair Value

The changes in financial instruments accounted for at fair value in the Level 3 category were as follows:

			Financial assets at fair value through other comprehensive income		
in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Debt instruments	Subsidiaries and other equity investments	Financial liabilities
Opening balance as of 01.01.2018	**295**	**–**	**1**	**54**	**363**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	6	–	0	–	(10)
for assets no longer held at the end of the period	2	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	0	3
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	33	–	0	36	0
Redemptions	(72)	–	0	–	(96)
Sales	(38)	–	–	0	–
Foreign exchange differences	0	–	–	0	–
Change in scope of consolidation	0	–	–	0	–
Transfers into or out of other levels	–	–	–	–	–
Closing balance as of 31.12.2018	**226**	**–**	**1**	**90**	**260**

in € million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets: Debt instruments	Available-for-sale financial assets: Subsidiaries and other equity investments	Financial liabilities
Opening balance as of 01.01.2017	**1**	**1**	**0**	**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/Additions	–	–	–	–
Redemptions	–	–	–	(101)
Sales	–	–	–	–
Foreign exchange differences	–	–	–	–
Change in scope of consolidation	–	20	19	0
Transfers into or out of other levels	–	–	81	–
Closing balance as of 31.12.2017	**1**	**21**	**100**	**363**

Valuation (including the parameterization of observable input factors) is performed by a market-independent back office division within the risk group on a monthly basis. Changes that have occurred are verified, as far as possible, by comparing them to references observable on the market.

Quantitative and qualitative information regarding the valuation of Level 3 financial instruments

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank and IMMO-BANK is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The gross spread premium for own issues of BAWAG P.S.K. Wohnbaubank is currently 100 basis points (31 December 2017: 100 basis points) for all maturities (mid). For issues of IMMO-BANK, the spreads depend on the seniority of the bond and the maturity.

In general, the mentioned input parameter is dependent on the general market development of credit spreads within the banking sector and in detail on the credit rating development of the housing banks, with spread increases having a positive effect.

In general, the discounted cash flow method (DCF) is used to determine the fair values of loans. Caps, floors or simple call options, if existing, are measured using the Bachelier model. The discount factor used in the DCF consists of various parameters: the funding curve (derived from a peer group of European banks with the same rating as BAWAG P.S.K.) and a customer-specific credit spread curve (derived from the CDS or CDS Markit Sector curve, depending on availability; for retail and SME from an internally derived default probability), which is adjusted by the respective collateral ratio.

For 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. The funds are reported under Financial assets mandatorily at fair value through profit or loss.

For a significant part of the investments in equity instruments, the dividend discount and discounted earnings method is applied. A smaller portion is valued based on external price indications and pro-rata equity.

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 € 317 million as of 31 December 2018 (31 December 2017: € 122 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 2018 would have increased by € 0.8 million (31 December 2017: € 1.3 million). If the credit spread used in calculating the fair value of own issues decreased by 20 basis points, the accumulated valuation result as of 31 December 2018 would have decreased by € 0.8 million (31 December 2017: € 1.3 million).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to plus € 1.2 million as of 31 December 2018 (31 December 2017: n/a) 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 plus € 1.3 million (31 December 2017: n/a).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.09 million (31 December 2017: n/a).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 31 December 2018 would have decreased by € 7.5 million (31 December 2017: no fair value loans in Level 3). If the credit spread used in calculating the fair value of loans decreased by 100 basis points, the accumulated valuation result as of 31 December 2018 would have increased by € 8.2 million (31 December 2017: no fair value loans in Level 3).

If the liquidity discount of Südwestbank funds is increased by 10 percentage points, the valuation result as of 31 December 2018 would have decreased by € 2.0 million (31 December 2017: € 4.2 million). If the liquidity discount of Südwestbank funds had been decreased by 10 percentage points, the valuation result as of 31 December 2018 would have increased by € 2.0 million (31 December 2017: € 4.2 million).

For the valuation of a part of the investments in equity instruments, the main input parameters are the discount factor, dividend income or earnings as well as (possibly) necessary capital measures. If the discount rate for investments in equity instruments decreased by 100 basis points, the fair value would increase by € 7.0 million (thereof € 4.7 million FVTOCI and € 2.3 million FVTPL); whereas if the discount rate increased by 100 basis points, the fair value would decrease by € 5.2 million (thereof € 3.5 million FVTOCI and € 1.7 million FVTPL). If changes in dividend income or net profit where applicable rose by 20%, the fair value of those assets would rise by € 1.6 million (thereof € 1.3 million FVTOCI and € 0.3 million FVTPL); if changes in dividend income or net profit where applicable declined by 20%, the fair value would decrease by € 1.5 million (thereof € 1.2 million FVTOCI and € 0.3 million FVTPL).

A part of the investments in equity instruments is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 6.7 million (thereof € 5.4 million FVTOCI and € 1.3 million FVTPL). If these indications were 10% higher, the fair value of this portion would increase by € 6.7 million (thereof € 5.4 million FVTOCI and € 1.3 million FVTPL).

The smallest portion is valued based on pro-rata equity. If the equity was 10% lower, this would result in a decrease of € 1.1 million (thereof € 0.8 million FVTOCI and € 0.3 million FVTPL), whereas if the equity was 10% higher, there would be an increase of € 1.1 million (thereof € 0.8 million FVTOCI and € 0.3 million FVTPL).

32 | Treatment of day one gain

IFRS 9.B5.1.2A states that the fair value on initial recognition will normally be equal to the transaction price. If the entity determines that the fair value on initial recognition differs from the transaction price and this fair value measurement is not evidenced by a valuation technique that uses only data from observable markets, the carrying amount of the financial instrument on initial recognition is adjusted. If the fair value of a loan portfolio differs from the transaction price, the initial recognition must be based on the fair value but will be adjusted for any day one profit or loss; this will eventually lead to a book value of the loan portfolio that equals the transaction price.

In the case of the acquisition of three loan portfolios, market interest rates on the transaction date were lower than when prices were negotiated. In all three cases, the seller wanted to exit the respective business. Therefore, the transaction prices in these cases did not represent the fair value of the loans. The initial recognition is based on the fair value of the acquired loans and receivables determined 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. IFRS 9 does not state how to subsequently measure this difference.

IFRS does not provide guidance on the presentation of the amortization of day one profits. As the day one profit will be amortized on a systematic basis, BAWAG Group is of the view that this regular amortization income is similar to interest income. From an economic point of view, BAWAG Group earns a higher margin on the loans acquired. Consequently, BAWAG Group presents the systematic amortization of day one profits in the line item Interest income.

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

in € million	31.12.2018	31.12.2017
Balance at the beginning of the period	**70**	**104**
New transactions	15	–
Amounts recognized in profit or loss during the period	(22)	(33)
FX effects	0	(1)
Balance at the end of the period	**63**	**70**

33 | 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 € million	31.12.2018	31.12.2017
Receivables from customers	32	37
Receivables from subsidiaries	**32**	**37**
Deposits from customers	9	15
Payables to subsidiaries	**9**	**15**

Interest income from business with subsidiaries in 2018 totaled € 1 million (2017: € 4 million) and interest expense € 1 million (2017: € 1 million).

Receivables from and payables to associates

in € million	31.12.2018	31.12.2017
Receivables from customers	77	86
Securities	22	22
Receivables from associates	**99**	**108**
Deposits from customers	21	80
Payables to associates	**21**	**80**

34 | 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% and (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% as of 31 December 2018.

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 48 for a list of all non-consolidated subsidiaries.

Transactions with related parties

The following table shows transactions with related parties:

31.12.2018 in € 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	–	957	35	1	77	–
Unutilized credit lines	–	294	4	1	33	–
Securities	–	35	–	22	–	–
Other assets (incl. derivatives)	–	–	5	–	–	–
Financial liabilities – customers	–	0	9	99	1	0
Other liabilities (incl. derivatives)	–	–	–	1	–	–
Guarantees provided	–	–	0	–	1	–
Interest income[1)]	–	25.8	0.7	0.3	0.3	0.0
Interest expense	–	6.8	0.1	1.5	0.0	0.0
Net fee and commission income	–	–	0.0	9.6	0.0	0.0

1) Gross income; hedging costs not offset.

31.12.2017 in € 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.

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to € 0.0 million in 2018 (2017: € 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 € 31.2 million (2017: € 25.4 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 € 29.6 million (2017: € 18.9 million). Expenses for remuneration in 2018 for former members of the Managing Board amounted to € 0.0 million (2017: € 2.1 million). In 2017, € 4.5 million were reimbursed by the then shareholder Promontoria Sacher Holding N.V.

As of 31 December 2018, contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members.

Bonus awards in the amount of € 6.6 million (2017: € 0.0 million) for the Managing Board are anticipated for 2018. Under consideration of the regulatory principles, a long-term incentive program was implemented in 2017, 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 € 0.1 million (2017: € 0.2 million). In addition, an amount of € 0.2 million has been drawn under a credit line in the amount of € 0.8 million (2017: an amount of € 0.2 million has been drawn under a credit line in the amount of € 0.8 million). Loans, building society loans and leasing financing to members of the Supervisory Board totaled € 0.0 million (2017: € 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 (2017: € 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 € 0 million in December 2018 (2017: € 0 million). Turnovers of guaranteed credit cards that belong to members of the Supervisory Board amounted to € 0 million in December 2018 (2017: € 0 million).

The remuneration scheme for Supervisory Board members approved at the Annual General Meeting stipulates that the Chairman of the Supervisory Board shall receive € 300,000 per calendar year, the Deputy Chairmen shall receive € 225,000 per calendar year and the members of the Supervisory Board selected at the Annual General Meeting shall each receive € 150,000 per calendar year. The Chairperson of the Audit and Compliance Committee receives € 35,000 and the compensation for chairing a committee other than the Audit and Compliance Committee is € 25,000. The (ordinary) seat in a committee is compensated with € 20,000.

Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG amounted to € 1.2 million in 2018 (2017: € 0.5 million). Works Council delegates to the Supervisory Board do not receive any incremental remuneration. Remuneration of members of the Supervisory Board of BAWAG Group AG amounted to € 0.4 million (2017: € 0.1 million).

In 2017, consulting expenses for four members of the former Supervisory Board (prior to IPO) of BAWAG Group AG amounted to € 1.9 million. There were no consulting expenses in 2018.

Pension payments to former members of the Managing Board and their surviving dependents came to € 1.5 million (2017: € 25.1 million).

Expenditures for severance pay for former members of the Managing Board came to € 0.0 million (2017: € 3.8 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 were granted in early 2018 by BAWAG Group, based on an assessment of the individual's performance in 2017 (and earlier years).

Vesting of 75% of the shares of each participant 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 2018:

	Number of shares	Fair value in € million	Fair value per share as of 31.12.2018
A: Granted 18.01.2018	1,459,476	52.3	35.84
Thereof awarded in part 1 of the LTIP program	1,094,607	39.2	35.84
B: Granted after 18.01.2018	4,005	0.1	35.84
Thereof awarded in part 1 of the LTIP program	3,004	0.1	35.84

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

Group of beneficiaries	Number of shares awarded in part 1 of the LTIP program	Number of shares awarded in part 2 of the LTIP program	Maximum number of shares to be actually allocated	Minimum number of shares to be actually allocated	Number of shares actually allocated on Grant date
Members of the Management Board of the company					
Anas Abuzaakouk	169,880	56,626	226,506	–	–
Stefan Barth	60,497	20,166	80,663	–	–
David O'Leary	108,395	36,131	144,526	–	–
Sat Shah	136,979	45,660	182,639	–	–
Enver Sirucic	60,497	20,166	80,663	–	–
Andrew Wise	124,573	41,524	166,097	–	–
Senior leadership team of the company and its subsidiaries	388,571	129,524	518,095	–	–
Other	48,219	16,073	64,292	–	–
Total	**1,097,611**	**365,870**	**1,463,481**	**–**	**–**

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 Group 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.

For A applies: 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 were recognized in the financial statements as of 31 December 2017 based on the grant date fair value.

For B applies: recognized in 2018 (both expense and increase in equity).

For part 2 (A and B), 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. Pro-rata expense was recognized in the financial statements for awards relating to part 2 of the LTIP program as these relate to the service periods 2018 to 2022.

The following amounts have been recognized in the Profit or Loss Statement for the period:

in € million	2018	2017
Expenses for equity-settled share-based payments	4.0	51.9
Thereof relating to		
Members of the Managing Board of the company	2.4	31.3
Senior leadership team of the company and its subsidiaries	1.4	18.1
Other	0.2	2.5

Annual Bonus Program

Annual Bonus Awards are granted to selected employees. The target bonus of this group is based on the annual result and defined external targets. If the individual bonus exceeds a certain limit, 50% (previous year: 20%) of the bonus is paid in cash and 50% (previous year: 80%) in the form of BAWAG Group AG shares. Shares that are actually allocated to the beneficiaries are share-based payments settled in equity instruments. The shares of BAWAG Group AG are acquired by BAWAG Group AG on the capital market. In 2018, 55,025 shares of BAWAG Group AG were granted to employees of the Group for the services rendered in 2017. Of these, 22,600 shares with a purchase value of € 0.9 million have already been transferred to the employee trustee.

The share bonus for 2018 benefits was not formally communicated to the selected employees. All expected bonus allocations for these employees that are granted for services rendered in 2018 were taken into account in the consolidated financial statements as of 31 December 2018 by recognition of a provision.

Employee participation

In 2018, an employee stock option plan was adopted. Under this program, all employees of BAWAG Group in Austria who did not participate in the LTIP received 23 shares of BAWAG Group AG. A total of 57,293 shares with a purchase value of € 2.2 million were transferred to the employees of BAWAG Group.

Business relations with related party individuals

The following breakdowns depict the business relations with related individuals and their family members. All business is conducted at standard industry and group terms for employees or at standard market terms.

in € million	Key management of the entity or its parent 31.12.2018	Other related parties 31.12.2018	Key management of the entity or its parent 31.12.2017	Other related parties 31.12.2017
Current account deposits	6	4	2	2
Savings deposits	0	5	0	3
Loans	0	6	0	3
Building savings deposits	–	0	–	0
Leasing	–	0	–	0
Securities	0	0	–	0
Interest income	0.0	0.1	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 31.12.2018	Other related parties 31.12.2018	Key management of the entity or its parent 31.12.2017	Other related parties 31.12.2017
Shares of BAWAG Group AG	46,923	1,530	24,173	147

35 | Major changes in the Group's holdings

Acquisition of Deutscher Ring Bausparkasse

On 4 September 2018, BAWAG P.S.K. acquired 100% of the shares in Deutscher Ring Bausparkasse AG after receiving all the relevant approvals.

Deutscher Ring Bausparkasse AG operates in the city of Hamburg and focuses on building society loans and savings deposits. Its main business activities in the economically strong northern part of Germany and its expertise make the bank an attractive partner to help BAWAG Group further expand its footprint and customer base in Germany.

The purchase price was a fixed amount of € 1.

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 € 2.6 million. These costs have been included in the line item Other operating and expenses.

BAWAG P.S.K. was able to buy the bank at a discount due to low profitability and an ongoing transition in the banking environment.

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

in € million	2018
Financial assets at fair value through other comprehensive income	132
Financial assets at amortized cost	468
Customers	344
Credit institutions	101
Securities	23
Other assets	17
Financial liabilities at amortized cost	513
Customers	513
Provisions	63
Other liabilities	4
Total identifiable net assets acquired	**37**
Total consideration transferred	**0**
Consolidation result	**37**
Restructuring expenses	10
Result after restructuring expenses[1)]	27

1) Recognized in other operating income and expenses.

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

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 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. In addition to the contractual terms and conditions of the underlying building society contracts, assumptions on customer behavior were used to determine expected future cash flows. These assumptions include early terminations of existing building society contracts, loan waiver rates, conditional prepayment rates and savings continuation rates. Behavioral assumptions taken into consideration were applied based on empirical observations of the portfolio as well as on expected interest rate-related behavior in the future.

The acquired loans and receivables from customers in the amount of € 344 million represent the fair value as of the acquisition date. Additionally, loans and receivables from credit institutions in the amount of € 101 million were acquired. The total loans and receivables comprise gross amounts of € 448 million, of which € 3 million was expected to be uncollectable at the date of acquisition.

The purchase price allocation was finalized in the fourth quarter 2018.

For the period from the acquisition date to 31 December 2018, Deutscher Ring Bausparkasse contributed core revenues (net interest income and net commission income) of € 3.6 million and a loss of € 1 million to the consolidated financial statements. If the acquisition had occurred on 1 January 2018, management estimates that Deutscher Ring Bausparkasse would have contributed core revenues of € 8.7 million, and a consolidated loss of € 2.6 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018. Furthermore, a provision for restructuring in the amount of € 10.0 million was booked in December 2018.

For further details, please refer to Notes 47 and 48.

36 | Assets pledged as collateral

in € million	31.12.2018	31.12.2017
Receivables and securities assigned to Oesterreichische Kontrollbank AG	303	285
Collateral pledged to the European Investment Bank	121	148
Cover pool for trust savings deposits	23	25
Cover pool for covered bonds	2,594	3,378
Collateral for RMBS	403	683
Collateral for tender facilities	3,018	2,851
Cash collateral for derivatives	34	59
Other collateral	73	208
Assets pledged as collateral	**6,569**	**7,637**

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.

37 | Total collateralized debt

The collateral listed in the table above corresponded to the following payables of BAWAG Group:

in € million	31.12.2018	31.12.2017
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	247	286
Payables arising due to refinancing by the European Investment Bank	61	91
Trust savings deposits	19	19
Payables secured by the cover pool for covered bonds	2,251	2,229
RMBS	324	431
Tender facilities	2,336	2,344
Negative market values of derivatives	37	53
Other collateral	51	23
Total collateralized debt	**5,326**	**5,476**

38 | Genuine repurchase agreements

in € million	31.12.2018	31.12.2017
Lender – receivables from credit institutions	–	–
Repurchaser – payables to credit institutions	150	–
Repurchase agreements	**150**	**–**

39 | Transferred assets that are not derecognized in their entirety

	Financial assets at fair value through other comprehensive income	
in € million	31.12.2018	31.12.2017
Carrying amount of transferred assets[1]	153	–
Carrying amount of associated liabilities	150	–

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.

40 | Subordinated assets

Line items on the assets side of the Statement of Financial Position included the following subordinated assets:

in € million	31.12.2018	31.12.2017
Subordinated assets designated at fair value through profit or loss	74	7
Subordinated assets designated as available-for-sale		192
Subordinated assets at fair value through other comprehensive income	145	
Subordinated assets	**219**	**199**

41 | 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

31.12.2018 in € million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: Financial instruments	Amounts not offset in the Statement of Financial Position: Cash collateral received	Net amount
Derivatives (excl. hedging derivatives)	351	–	351	92	175	**84**
Hedging derivatives	401	–	401	197	200	**4**
Loans to and receivables from customers	489	408	81	–	–	**81**
Total	**1,241**	**408**	**833**	**289**	**375**	**169**

31.12.2017 in € million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position: 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**

Financial liabilities

31.12.2018 in € million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives (excl. hedging derivatives)	301	–	301	253	18	**30**
Hedging derivatives	104	–	104	86	15	**3**
Repo transactions	150	–	150	150	–	**–**
Customer deposits	408	408	–	–	–	**–**
Total	**963**	**408**	**555**	**489**	**33**	**33**

31.12.2017 in € million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives (excl. hedging derivatives)	345	–	345	292	21	**32**
Hedging derivatives	94	–	94	62	32	**–**
Repo transactions	–	–	–		–	**–**
Customer deposits	447	447	–	–	–	–
Total	**886**	**447**	**439**	**354**	**53**	**32**

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

31.12.2018 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	351	–	351
Hedging derivatives	Hedging derivatives	401	–	401
Loans to and receivables from customers	Loans to and receivables from customers	30,482	30,401	81
Total		**31,234**	**30,401**	**833**

31.12.2017 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	458	–	458
Hedging derivatives	Hedging derivatives	517	–	517
Loans to and receivables from customers	Loans to and receivables from customers	30,793	30,181	612
Total		**31,768**	**30,181**	**1,587**

Financial liabilities

31.12.2018 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	301	–	301
Hedging derivatives	Hedging derivatives	104	–	104
Repo transactions	Financial liabilities associated with transferred assets	150	–	150
Customer deposits	Deposits from customers	30,195	30,195	–
Total		**30,750**	**30,195**	**555**

31.12.2017 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	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**

42 | Contingent assets, contingent liabilities and unused lines of credit

in € million	31.12.2018	31.12.2017
Contingent assets	–	–
Contingent liabilities	**291**	**307**
Arising from guarantees	291	307
Unused customer credit lines	**8,157**	**7,691**
Thereof terminable at any time and without notice	6,270	6,484
Thereof not terminable at any time	1,887	1,207

Due to the acquisition of Südwestbank, BAWAG Group has, according to paragraph 5 section 10 of the statutes of the deposit protection fund, committed to release the Association of German Banks (Bundesverband deutscher Banken e. V.), Berlin, from any potential losses that might arise due to actions supporting credit institutions that are controlled by BAWAG Group or where BAWAG Group owns a majority stake. From the current point of view, the Group does not expect any payments resulting from this guarantee.

43 | Foreign currency amounts

BAWAG Group had assets and liabilities in the following foreign currencies:

in € million	31.12.2018	31.12.2017
USD	2,264	2,169
CHF	1,411	1,538
GBP	2,230	2,666
Other	244	193
Foreign currency	**6,149**	**6,566**
EUR	**38,549**	**39,490**
Total assets	**44,698**	**46,056**
USD	297	477
CHF	163	245
GBP	462	610
Other	147	168
Foreign currency	**1,069**	**1,500**
EUR	**43,629**	**44,556**
Total liabilities	**44,698**	**46,056**

This table includes only Statement of Financial Position items and does not provide information about open currency positions due to off-balance hedging transactions.

44 | Information about geographical areas – Non-current assets

in € million	31.12.2018	31.12.2017
Austria	617	580
Western Europe	194	195
Total	**811**	**775**

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.

45 | 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):

31.12.2018 in € million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	421	707	60	**1,188**
As yet unrealized financial income	23	33	2	**58**
Receivables from finance leases (net investment value)	**398**	**674**	**58**	**1,130**

31.12.2017 in € 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**

As of 31 December 2018, the non-guaranteed residual value amounts to € 30 million (2017: € 31 million).

There were no impairments recognized in respect of irrecoverable minimum lease installments (2017: € 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 € million	31.12.2018	31.12.2017
Future minimum rental payments		
Not later than one year	20	20
Over one year and not later than five years	51	45
Over five years	125	136
Total future minimum rental payments[1)]	**196**	**201**
less: Future minimum rentals to be received	1	1
Net future minimum rental payments	**195**	**200**
Rental payments for lease agreements	(26)	(23)
Rental income from sublease contracts	1	1

1) Gross future minimum rental payments amount to € 233 million (2017: € 242 million).

46 | Derivative financial transactions

Derivative financial transactions as of 31.12.2018

31.12.2018 in € 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		**6,483**	**17,683**	**15,350**	**39,516**	**722**	**(256)**
Thereof	interest rate swaps banking book	5,264	15,819	13,469	34,552	593	(176)
	interest rate options banking book	155	400	509	1,064	11	(29)
	interest rate swaps trading book	768	1,127	1,151	3,046	101	(44)
	interest rate options trading book	296	337	221	854	17	(7)
Currency related business		**2,859**	**2,493**	**1,310**	**6,662**	**27**	**(145)**
Thereof	currency swaps banking book	675	2,341	1,310	4,326	15	(133)
	foreign currency forward transactions and options banking book	2,172	151	–	2,323	12	(12)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	12	1	0	13	0	0
Securities related business		**16**	**37**	**32**	**85**	**3**	**(4)**
Thereof	securities related business banking book	16	37	32	85	3	(4)
Total		**9,358**	**20,213**	**16,692**	**46,263**	**752**	**(405)**
Thereof	banking book business	8,282	18,748	15,320	42,350	634	(354)
	trading book business	1,076	1,465	1,372	3,913	118	(51)

1) Banking book derivatives include fair value hedging and cash flow hedging instruments.

The table above includes the following figures for fair value hedges and cash flow hedges:

31.12.2018 in € million		Nominal amount/maturity				Fair value	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business	Fair value hedge – Interest rate risk	1,651	7,082	8,436	**17,169**	383	(45)
Currency related business	Cash flow hedge – FX risk	623	1,806	933	**3,362**	18	(59)
Total		**2,274**	**8,888**	**9,369**	**20,531**	**401**	**(104)**

Derivative financial transactions as of 31.12.2017

31.12.2017		Nominal amount/maturity[1]				Fair value[1]	
in € million		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 and cash flow hedging instruments.

47 | List of consolidated subsidiaries

	31.12.2018		31.12.2017	
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%
DEUTSCHER RING Bausparkasse AG, Hamburg	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%	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%	F	100.00%
SWBI Mainz 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI München 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 2 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 3 GmbH, Stuttgart	F	100.00%	F	100.00%
Leasing				
ACP IT-Finanzierungs GmbH, Vienna	F	75.00%	F	75.00%
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna (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%
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%

	31.12.2018		31.12.2017	
Other non-credit institutions				
AUSTWEST ANSTALT GmbH, Triesen	F	100.00%	–	–
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	F	100.00%	–	–
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
BV Vermögensverwaltung GmbH, Vienna	F	100.00%	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%
MF BAWAG Blocker LLC, Wilmington	F	100.00%	–	–
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	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.

48 | List of subsidiaries and associates not consolidated due to immateriality

	31.12.2018	31.12.2017
Real estate		
N & M Immobilienentwicklungs GmbH, Vienna	100.00%	–
ROMAX Immobilien GmbH, Vienna	100.00%	100.00%
Leasing		
BAWAG Leasing & fleet s.r.o., Prague	100.00%	100.00%
BAWAG Leasing s.r.o., Bratislava	100.00%	100.00%
Fides Leasing GmbH, Vienna	50.00%	50.00%
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%	100.00%
HFE alpha Handels-GmbH, Vienna	50.00%	50.00%
Kommunalleasing GmbH, Vienna	50.00%	50.00%
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
Realplan Beta Liegenschaftsverwaltung Gesellschaft m.b.H., Vienna	–	50.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	100.00%
Other non-credit institutions		
AUSTWEST ANSTALT GmbH, Triesen	–	100.00%
Athena Burgenland Beteiligungen AG, Eisenstadt	38.30%	38.30%
Athena Wien Beteiligungen GmbH in Liqu., Vienna	50.00%	50.00%
AUSTOST ANSTALT, Balzers	100.00%	100.00%
BAWAG Education Trust Corp., Wilmington	100.00%	–
BAWAG Finance Malta Ltd., Sliema	100.00%	100.00%
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	–	100.00%
BAWAG P.S.K. Deutschland Holding GmbH, Stuttgart	100.00%	100.00%
BAWAG P.S.K. Equity Finance Limited, St. Helier	100.00%	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	35.92%	36.03%
ESG Entwicklungsgesellschaft mbH., Stuttgart	100.00%	100.00%
FlexSi Finanz Vermittlungsgesellschaft m.b.H.	100.00%	–
GemeloLux S.A., Luxembourg	100.00%	100.00%
MF BAWAG Blocker LLC, Wilmington	–	100.00%
OMNITEC Informationstechnologie-Systemservice GmbH, Vienna	50.00%	50.00%
SWB Treuhand GmbH, Stuttgart	100.00%	100.00%
Tresides Asset Management GmbH, Stuttgart	–	51.00%
TwinLux Value Invest S.A., Luxembourg	100.00%	100.00%
Vertiva Family Office GmbH, Stuttgart	100.00%	52.50%

49 | Associates not accounted for using the equity method due to immateriality

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

in € million	31.12.2018	31.12.2017
Cumulated assets	246	261
Cumulated equity	9	9
Cumulated net profit	2	2

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 2018 were being prepared, financial statements as of 31 December 2017 were available for the majority of the respective entities (prior year: 31 December 2016).

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% (2017: 47%).

For further details, please refer to Note 34 Related parties.

50 | Involvement with associated companies

Investments in associates disclosed in this note are accounted for using the equity method. BAWAG Group includes two companies that are accounted for using the equity method: BAWAG P.S.K. Versicherung AG, Vienna, and PSA Payment Services Austria GmbH, Vienna. The table below presents aggregated financial information on the Group's share in associates that are considered to be immaterial compared to the Group's total assets and profit or loss.

in € million	31.12.2018	31.12.2017
Carrying amounts of all associates	45	44
Aggregated amount of the Group's share of profit or loss	5.1	4.1
Aggregated amount of the Group's share of other comprehensive income	(0.9)	(0.2)
Aggregated amount of the Group's share of total comprehensive income	4.2	3.9

51 | 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 € 92 million (2017: € 98 million) best measure their size. For securitizations, this is the notional of notes in issue in the amount of € 957 million (2017: € 713 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.

in € million	2018	2017
Carrying amounts of assets in connection with investments in structured entities	**1,002**	**761**
on the balance sheet shown under At amortized cost	1,002	761
Carrying amounts of liabilities in connection with investments in structured entities	**0**	**0**
Income	**7.0**	**6.9**
Interest income	7.0	6.9
Losses incurred during reporting period	0	0
Maximum exposure to loss	1,002	761

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.

52 | Reconciliation IAS 39 to IFRS 9

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018

in € million	(i) IAS 39 carrying amount 31 December 2017	(ii) Reclassifications	(iii) Remeasurements	(iv) = (i) + (ii) + (iii) IFRS 9 carrying amount 1 January 2018	(v) = (iii) Retained earnings effect on 1 January 2018 before taxes
Carrying amount 31.12.2017 IAS 39 – Financial assets designated at fair value through profit or loss, Financial assets held for trading, Hedging derivatives	**1,423**	**–**	**–**	**1,423**	**–**
Additions:					
From available for sale (IAS 39) – Equity investments	–	28	–	28	–
From available for sale (IAS 39) – required reclassification – Debt instruments	–	130	–	130	–
From amortized cost (IAS 39) – required reclassification – Receivables from customers	–	189	1	190	1
Subtractions:					
To amortized cost (IFRS 9) – reclassifications due to embedded derivatives	–	–	(19)	(19)	(19)
Total change to fair value through profit or loss	**1,423**	**347**	**(18)**	**1,751**	**(18)**
Carrying amount 31.12.2017 IAS 39 - Available-for-sale financial assets	**4,408**	**–**	**–**	**4,408**	**–**
Subtractions:					
To fair value through profit or loss (IFRS 9) – required reclassification – Equity investments	–	(28)	–	(28)	–
To fair value through profit or loss - required reclassification – Debt instruments	–	(130)	–	(130)	–
To amortized cost - Debt instruments	–	(117)	–	(117)	–
Total change to fair value through other comprehensive income	**4,408**	**(275)**	**–**	**4,133**	**–**
Carrying amount 31.12.2017 IAS 39 – Cash reserves, Loans and receivables, Held-to-maturity investments	**39,196**	**–**	**–**	**39,196**	**–**
Additions:					
From available for sale (IAS 39) – Debt instruments	–	117	(4)	113	(4)
From fair value through profit or loss (IAS 39) – required reclassification – changes due to embedded derivatives	–	–	10	10	10
Subtractions:					
To fair value through profit or loss – required reclassification – Receivables from customers	–	(189)	–	(189)	–
Total change to financial assets at amortized cost	**39,196**	**(72)**	**6**	**39,131**	**6**
Total financial asset balances, reclassifications and remeasurements at 1 January 2018	**45,027**	**–**	**(12)**	**45,015**	**(12)**

in € million	(i) IAS 39 carrying amount 31 December 2017	(ii) Reclassifications	(iii) Remeasurements	(iv) = (i) + (ii) + (iii) IFRS 9 carrying amount 1 January 2018	(v) = (iii) Retained earnings effect on 1 January 2018 before taxes
Carrying amount 31.12.2017 IAS 39 – Financial liabilities designated at fair value through profit or loss, Financial liabilities held for trading, Hedging derivatives, Valuation adjustment on interest rate risk hedged portfolios	**1,281**	**–**	**–**	**1,281**	**–**
Additions:					
From amortized cost (IAS 39) – fair value option elected at 1 January 2018	–	331	82	414	(82)
Total change to financial liabilities designated at fair value through profit or loss	**1,281**	**331**	**82**	**1,695**	**(82)**
Carrying amount 31.12.2017 IAS 39 – Financial liabilities at amortized cost	**39,894**	**–**	**–**	**39,894**	**–**
Subtractions:					
To fair value through profit or loss (IFRS 9) – fair value option elected at 1 January 2018	–	(331)	–	(331)	–
Total change to financial liabilities at amortized cost	**39,894**	**(331)**	**–**	**39,563**	**–**
Total financial liability balances, reclassifications and remeasurements at 1 January 2018	**41,175**	**–**	**82**	**41,257**	**(82)**

in € million

Measurement category IAS 39	Carrying amount IAS 39	Measurement category IFRS 9	Carrying amount IFRS 9 before measurement	Measure-ment IFRS 9	Carrying amount IFRS 9
Loans and receivables	36,922	At amortized cost	39,124	6	39,131
Held-to-maturity investments	2,274	Financial assets at fair value through other comprehensive income – Subsidiaries and other equity investments	72	–	72
Available-for-sale financial assets	4,408	Financial assets at fair value through other comprehensive income – Debt securities	4,061	–	4,061
Financial assets designated at fair value through profit or loss	448	Financial assets designated at fair value through profit or loss	310	–	310
Financial assets held for trading	458	Financial assets mandatorily at fair value through profit or loss	943	(18)	924
Hedging derivatives	517	Hedging derivatives	517	–	517
Financial assets	**45,027**		**45,027**	**(12)**	**45,015**

in € million

Measurement category IAS 39	Carrying amount IAS 39	Measurement category IFRS 9	Carrying amount IFRS 9 before measurement	Measure-ment IFRS 9	Carrying amount IFRS 9
Financial liabilities designated at fair value through profit or loss	726	Financial liabilities designated at fair value through profit or loss	1,057	82	1,140
Financial liabilities held for trading	345	Financial liabilities held for trading	345	–	345
Financial liabilities at amortized cost	39,894	Financial liabilities at amortized cost	39,563	–	39,563
Valuation adjustment on interest rate risk hedged portfolios	116	Valuation adjustment on interest rate risk hedged portfolios	116	–	116
Hedging derivatives	94	Hedging derivatives	94	–	94
Financial liabilities	**41,175**		**41,175**	**82**	**41,257**

Reconciliation of statement of financial position balances and of classes of financial assets and liabilities from IAS 39 to IFRS 9 before impairments at 1 January 2018

in € million

Class	Measurement category IAS 39	Measurement category IFRS 9	IAS 39 carrying amount	Reclassifi-cations	Remea-sure-ments	Carrying amount IFRS 9
Cash reserves	Loans and receivables	At amortized cost	1,180	–	–	1,180
Receivables from credit institutions	Loans and receivables	At amortized cost	3,660	–	–	3,660
Receivables from customers	Loans and receivables	At amortized cost	30,793	(189)	10	30,615
	Financial assets designated at fair value through profit or loss	Financial assets designated at fair value through profit or loss	128	–	–	128
		Financial assets mandatorily at fair value through profit or loss	–	189	1	190
Debt instruments	Financial assets designated at fair value through profit or loss	Financial assets designated at fair value through profit or loss	52	130	–	182
	Available-for-sale financial assets	Financial assets at fair value through other comprehensive income - Debt securities	4,308	(247)	–	4,061
	Held-to-maturity investments	At amortized cost	2,274	–	–	2,274
	Loans and receivables	At amortized cost	1,289	117	(4)	1,402
		Financial assets mandatorily at fair value through profit or loss	–	–	–	–
Equity investments	Available-for-sale financial assets	Financial assets at fair value through other comprehensive income – Subsidiaries and other equity investments	100	(28)	–	72
	Financial assets designated at fair value through profit or loss	Financial assets mandatorily at fair value through profit or loss	268	28	–	296
Derivatives in trading book	Financial assets held for trading	Financial assets held for trading	143	–	–	143
Derivatives in banking book	Financial assets held for trading	Financial assets held for trading	315	–	(19)	296
	Hedging derivatives	Hedging derivatives	517	–	–	517
Financial assets			**45,027**	**–**	**(12)**	**45,015**

in € million

Class	Measurement category IAS 39	Measurement category IFRS 9	IAS 39 carrying amount	Reclassifi-cations	Remea-sure-ments	Carrying amount IFRS 9
Issued bonds, subordinated and supplementary capital	Financial liabilities designated at fair value through profit or loss	Financial liabilities designated at fair value through profit or loss	726	331	82	1,140
	Financial liabilities at amortized cost	Financial liabilities at amortized cost	4,938	(331)	–	4,607
Derivatives in trading book	Financial liabilities held for trading	Financial liabilities held for trading	64	–	–	64
Derivatives in banking book	Financial liabilities held for trading	Financial liabilities held for trading	281	–	–	281
	Hedging derivatives	Hedging derivatives	94	–	–	94
Deposits from banks	Financial liabilities at amortized cost	Financial liabilities at amortized cost	4,009	–	–	4,009
Deposits from customers	Financial liabilities at amortized cost	Financial liabilities at amortized cost	30,947	–	–	30,947
	Valuation adjustment on interest rate risk hedged portfolios	Valuation adjustment on interest rate risk hedged portfolios	116	–	–	116
Financial liabilities			**41,175**	**–**	**82**	**41,257**

The following table shows the FV and the FV loss of the financial assets if the financial assets had not been reclassified from fair value through other comprehensive income to at amortized cost:

		FV loss if the financial assets had not been reclassified	
in € million	Fair value as of 30 December 2018	At fair value through profit or loss	At fair value through other comprehensive income net of tax
Financial assets at amortized cost			
Additions:			
From available for sale (IAS 39) – Debt instruments	59	–	(1)

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018:

in € million	31 December 2017	Reclassifications	Remeasurements	1 January 2018
Loans and receivables and held to maturity securities under IAS 39/Financial assets at amortized cost under IFRS 9	254	–	69	323
Available-for-sale debt investment securities under IAS 39/Debt financial assets at FVOCI under IFRS 9	–	–	6	6
Finance lease receivables	22	–	2	24
Loan loss provisions for financial assets	**276**	**–**	**77**	**353**
Provisions for credit promises and guarantees	20	–	(2)	18
Total	**296**	**–**	**75**	**371**

RISK REPORT

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

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 BAWAG Group is exposed to. At all organizational levels, business 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 non-financial 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 following BAWAG Group's expansion strategy.

The following divisions oversee the implementation and execution of risk-related guidelines:

- Strategic Risk Management
- Market & Liquidity Risk Controlling
- Commercial Risk Management
- Retail Risk Management
- Non-Financial Risk Management & Regulatory Compliance

The risk self-assessment (RSA), which is conducted on an annual basis, provides an overview of BAWAG 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 BAWAG Group as well as their coverage through existing risk management procedures. The quantification of these risks is considered in the risk-bearing capacity.

The following risks including their respective sub-risks are considered as material for BAWAG Group:

- Credit risk
- Market risk
- Liquidity risk
- Non-financial risk
- Other risks

The material risks of BAWAG Group are described on the following pages.

53 | Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing

BAWAG 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 the Portfolio Steering Committee (PSC) 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 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 and quantified:

- 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. Simplified quantifications are used for other market risk types like foreign currency risk, risk of alternative investments (funds/hedge funds) and market risk in the trading book.

- 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. Simplified quantifications are used for market liquidity risk in the banking book and basis spread risk. All types of liquidity risks are quantified in Market & Liquidity Risk Controlling and are managed operationally in Treasury & Markets.
- Non-financial risk: This risk category includes operational risk (including compliance risk), quantified using a value-at-risk model, as well as reputation risk, which is assessed using a simplified valuation model.
- Other risks: This risk category includes participation risk, macroeconomic risk, strategic 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 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 methodology and results of internal and/or external stress tests are discussed and presented in the regular Stress Testing Committee (STC). 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.

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 monthly 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.

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 divisions are specifically set up to ensure functional risk management expertise for commercial and institutional (Commercial Risk Management) as well as the retail and small business (Retail Risk Management) customers. The Credit Approval Committee (CAC), a specific committee at the Managing Board level, is responsible for approval of loan applications within the authorities defined in the Competence and Power Regulation. The division Strategic 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. Based on this information, the individual customer credit ratings are updated monthly.

In addition to the credit rating, the loss given default (LGD) and the expected utilization of the off-balance-sheet exposure value at the time of default (credit conversion factor, CCF) are also estimated for retail and small business customers. The estimate, which is based on data from the observed customer behavior, is calculated using various statistical methods and models.

For each commercial loan application, the borrower's credit rating is assessed using an internal rating method specific to each business segment. The rating methods are based on a broad spectrum of quantitative and qualitative factors. Specific rating grades, which represent an individually estimated probability of default, are assigned to each customer using a uniform master scale.

To manage overall concentration risk at the client and group of affiliated customers level, exposure limits are defined, monitored and reported 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 BAWAG 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.

Lending and securities portfolio by business segment

31.12.2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total portfolio
Lending portfolio	9,455	5,622	6,115	5,435	3,727	3,854	904	35,112
Securities	–	4	139	112	49	6,335	5	6,644
Off-balance business	976	3,080	1,190	381	837	469	654	7,589
Total	**10,431**	**8,706**	**7,444**	**5,928**	**4,613**	**10,658**	**1,563**	**49,345**
thereof collateralized[1)]	6,372	5,063	2,860	645	2,947	47	321	18,255
thereof NPL (gross view)[2)]	202	169	38	64	107	–	255	835

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 31.12.2018 without IFRS 3 effect for Südwestbank would have been as follows: € 147 million and Total € 875 million.

31.12.2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total portfolio
Lending portfolio	9,370	5,884	4,831	6,536	4,124	3,456	381	34,581
Securities	–	3	323	162	59	7,641	3	8,191
Off-balance business	1,097	3,121	205	463	1,381	255	1,107	7,628
Total	**10,467**	**9,008**	**5,359**	**7,159**	**5,564**	**11,352**	**1,491**	**50,400**
thereof collateralized[1)]	6,380	5,188	2,390	1,009	3,722	57	404	19,150
thereof NPL (gross view)[2)]	251	172	50	97	91	–	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: € 187 million and Total € 1,013 million.

The table below provides a reconciliation between book values of loans and receivables, the risk report and the segment report.

31.12.2018 in € million	Note 15	Notes 12, 13	Risk view		Segment Report
	At amortized cost	Loans & Bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	9,327	128	9,455	92	9,547
easygroup	5,623	4	5,626	55	5,682
International Business	6,213	41	6,254	29	6,284
DACH Corporates & Public Sector	5,373	174	5,547	34	5,581
Südwestbank	3,720	56	3,776	45	3,821
Treasury Services & Markets	7,175	3,014	10,189	2	10,192
Corporate Center	903	6	909	2,683	3,591
Total	**38,334**	**3,423**	**41,756**	**2,940**	**44,698**

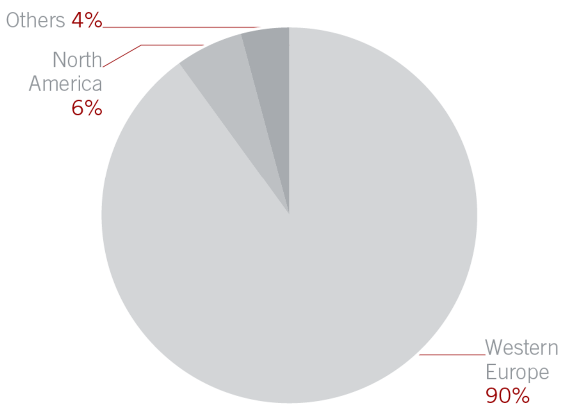
31.12.2017 in € million	Note 15	Notes 12, 13	Risk view		Segment Report
	Loans and receivables (L&R)	Loans, bonds, investment funds (not part of L&R)	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	9,370	0	9,370	132	9,502
easygroup	5,885	3	5,887	50	5,938
International Business	4,963	190	5,154	21	5,174
DACH Corporates & Public Sector	6,536	162	6,698	27	6,725
Südwestbank	4,124	59	4,183	0	4,183
Treasury Services & Markets	4,488	6,608	11,096	41	11,137
Corporate Center	376	7	384	3,017	3,397
Total	**35,742**	**7,030**	**42,772**	**3,289**	**46,056**

Geographical distribution of the lending and securities portfolio

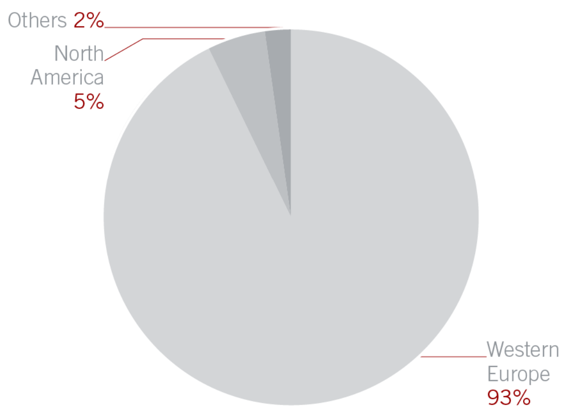
The geographic distribution of the lending portfolio is in line with BAWAG Group's strategy to focus on stable geographies and currencies. A total of 96% (2017: 98%) of the lending portfolio[1)] and 86% (2017: 86%) of the securities portfolio[2)] is located in Western Europe and North America.

Geographical distribution of loans

31.12.2018

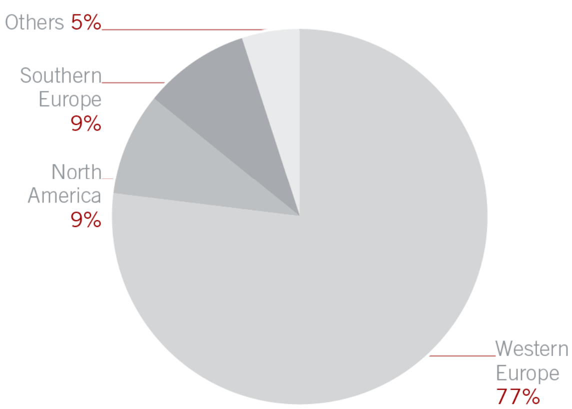


31.12.2017

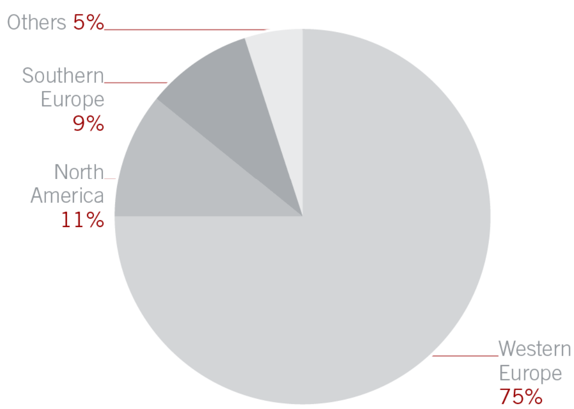


Geographical distribution of securities

31.12.2018



31.12.2017



1) This includes Austria with 58% (Dec 2017: 58%), Germany with 16% (Dec 2017: 19%), Great Britain with 7% (Dec 2017: 8%), the United States with 5% (Dec 2017: 5%) and France with 3% (Dec 2017: 4%).
2) This includes Austria with 11% (Dec 2017: 9%), Great Britain with 10% (Dec 2017: 13%), France with 10% (Dec 2017: 7%), the United States with 7% (Dec 2017: 10%), and Germany with 6% (Dec 2017: 10%).

Lending and securities portfolio by currencies

Consistent with BAWAG Group's overall positioning, the major share of financing is denominated in EUR, and this share increased further in 2018. The following table depicts the currency distribution of the lending and securities portfolio.

	Book value		in %	
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2017
EUR	35,747	36,295	85.6%	84.9%
USD	2,238	2,215	5.4%	5.2%
CHF	2,120	1,525	5.1%	3.6%
GBP	1,407	2,545	3.4%	5.9%
Others	244	192	0.6%	0.4%
Total	**41,756**	**42,772**	**100.0%**	**100.0%**

Credit quality overview: Lending, provisions, delinquencies and collateral

The following table shows the days past due, NPL ratio and provisioning of the lending portfolio. The low risk profile is reflected by the low NPL ratio, low delinquency of loan volumes and good provision and collateral coverage across the portfolios. More than 81% (2017: 81%) of the total portfolio can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

	Book value1)		in %	
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Loans and receivables (gross)	**38,601**	**36,018**	**100.0%**	**100.0%**
Provisions	267	276	0.7%	0.8%
thereof ECL/IBNR	72	45	0.2%	0.1%
Loans and receivables (net)	38,334	35,742	99.3%	99.2%
NPL ratio2)4)	**–**	**–**	**1.7%**	**1.8%**
NPL LLP coverage ratio3)4)	–	–	31.8%	33.9%
NPL coverage ratio (collateral + LLP)3)4)	–	–	79.2%	77.7%
Additional information:				
Total unprovisioned outstandings past due5)	**317**	**229**	**0.8%**	**0.6%**
1–30 days	198	86	0.5%	0.2%
31–60 days	23	23	0.1%	0.1%
61–90 days	15	17	0.0%	0.0%
91–180 days	11	8	0.0%	0.0%
More than 180 days	70	95	0.2%	0.3%

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.
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 31.12.2018 would be: NPL ratio 1.8% (2017: 2.0%), NPL LLP coverage ratio 36.3% (2017: 42.4%), NPL coverage ratio (collateral + LLP) 80.6% (2017: 84.1%).
5) Südwestbank not included in 2017 figures 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, International Business, DACH Corporates & Public Sector and Südwestbank.

31.12.2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank
Total	**9,455**	**5,626**	**6,254**	**5,547**	**3,776**
1–30 days	0.5%	0.2%	–	0.0%	3.3%
31–60 days	0.1%	0.2%	–	–	0.0%
61–90 days	0.1%	0.1%	–	–	0.0%
NPL ratio[1)]	1.9%	1.9%	0.5%	1.1%	2.3%
NPL LLP coverage ratio[1)]	41.1%	22.9%	42.0%	31.9%	24.7%
NPL coverage ratio (collateral + LLP)[1)]	75.3%	92.8%	56.6%	75.6%	75.3%

1) Taking into consideration the fair value at initial recognition according to IFRS 3.
The NPL and coverage ratios of Südwestbank as of 31.12.2018 without IFRS 3 effect would have been as follows: NPL ratio 3.2%, NPL LLP coverage ratio 45.5%, NPL coverage ratio (collateral + LLP) 82.1%.

31.12.2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank
Total	**9,370**	**5,887**	**5,154**	**6,698**	**4,183**
1–30 days	0.5%	0.2%	1.0%	0.3%	0.5%
31–60 days	0.2%	0.1%	–	–	0.1%
61–90 days	0.1%	0.1%	–	–	0.1%
NPL ratio[1)]	2.4%	1.9%	0.9%	1.4%	1.6%
NPL LLP coverage ratio[1)]	52.2%	18.9%	34.1%	38.6%	–
NPL coverage ratio (collateral + LLP)[1)]	78.7%	92.3%	44.7%	78.6%	58.1%

1) 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%.

The following table shows the distribution by ratings for the portfolio which is neither overdue nor impaired.

The low risk profile is stable.

31.12.2018 in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank
Rating class 1	19.9%	0.0%	1.3%	–	35.2%	–
Rating class 2	7.4%	5.9%	1.6%	0.0%	22.8%	0.3%
Rating class 3	13.2%	21.1%	15.4%	3.8%	13.7%	12.3%
Rating class 4	32.2%	35.2%	45.3%	62.1%	18.0%	47.2%
Rating class 5	20.1%	30.5%	26.8%	30.8%	8.2%	35.5%
Rating class 6	2.7%	5.7%	3.9%	2.6%	1.8%	2.9%
Rating class 7	4.4%	1.7%	5.8%	0.8%	0.4%	1.8%

31.12.2017 in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank
Rating class 1	14.4%	0.0%	1.1%	–	35.7%	–
Rating class 2	4.5%	1.6%	1.4%	–	19.4%	0.1%
Rating class 3	13.4%	24.8%	12.2%	1.8%	13.0%	10.6%
Rating class 4	32.5%	29.9%	27.7%	66.3%	16.5%	49.4%
Rating class 5	28.7%	32.7%	50.8%	29.9%	11.2%	36.0%
Rating class 6	4.3%	8.7%	4.0%	1.3%	3.7%	3.4%
Rating class 7	2.2%	2.3%	2.9%	0.7%	0.5%	0.5%

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

BAWAG Group's strategy is to hold collateral and other credit enhancements against credit exposures, wherever possible. Collateral serves as essential support for the lending business and loss-reducing in the event of default of the debtor. However, the focus during the decision-making process is on the affordability of the borrower.

All acceptable collateral types are recorded in the Group Collateral Catalogue, where the principles for the valuation and revaluation of collateral are also defined. The catalogue defines which combinations of goods (characteristics of the economic good/asset) and collateral (to which BAWAG Group has title) are deemed acceptable and which value (market value, nominal value, etc.) has to be applied. The Enterprise Risk Management Committee decides if a type of collateral is accepted for credit risk mitigation taking the corresponding haircuts into consideration.

The following types of collateral are accepted:

- Real estate properties: residential real estate and commercial real estate
- Other collateral: vehicles and other physical collateral, pledging or assignment of life insurance policies
- Financial guarantees: financial collateral, securities, cash deposits at own bank
- Credit enhancements: guarantees and co-obligations

In order to be used as a credit risk mitigation technique, collateral must meet the general legal and regulatory requirements and internal requirements defined in Group-wide internal policies. These policies are revised at least once a year. Any exceptions from internal rules must be well-founded, separately requested and explicitly approved.

Real estate valuation is centralized as far as possible to ensure a standard valuation approach. Only appraisers who are not involved in the credit decision process are permitted to conduct real estate valuations. IT-supported automated valuation for residential real estate is confirmed by independent internal appraisers. Commercial real estate is assessed by independent experts.

The basis for the collateral table is the market value of all collateral available, reduced by internal haircuts. Furthermore, real estate properties are reduced by senior liens and the value is capped by the mortgage value.

The following table contains the split of collateral by categories. It shows a strong focus on real estate.

31.12.2018 in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank
Real estate	78.7%	92.4%	63.2%	99.8%	33.7%	87.0%
thereof residential	71.8%	97.3%	95.3%	10.4%	42.3%	52.6%
thereof commercial	28.2%	2.7%	4.7%	89.6%	57.7%	47.4%
Guarantees	11.7%	1.7%	17.2%	–	64.8%	0.8%
Other collateral	6.5%	0.1%	17.4%	0.2%	0.3%	9.7%
Financial collateral	3.1%	5.9%	2.2%	–	1.2%	2.5%

31.12.2017 in %	Total portfolio	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank
Real estate	77.5%	93.0%	65.8%	99.8%	39.9%	83.2%
thereof residential	73.8%	97.1%	99.7%	–	43.2%	56.0%
thereof commercial	26.2%	2.9%	0.3%	100.0%	56.8%	44.0%
Guarantees	10.4%	0.4%	9.5%	–	58.3%	1.6%
Other collateral	9.1%	0.2%	23.0%	0.2%	0.5%	12.6%
Financial collateral	3.0%	6.4%	1.7%	–	1.3%	2.6%

Received collateral for the NPL portfolio

31.12.2018 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Credit Enhancements
Lending portfolio	814	339	85	10	104
Securities	–	–	1	2	3
Off-balance business	21	10	22	0	9
Total	**835**	**349**	**109**	**13**	**116**

31.12.2017 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Credit Enhancements
Lending portfolio	810	312	33	5	57
Securities	–	–	1	2	3
Off-balance business	107	79	78	3	66
Total	**917**	**391**	**112**	**10**	**126**

Expected credit loss

As of 1 January 2018, BAWAG Group calculates allowances for non-impaired loans according to IFRS 9. The expected economic credit loss (ECL) over the next 12 months or over the remaining life of the facility in the case of a significant credit deterioration determines the allowance of each non-impaired facility. IRB models form the basis of the IFRS 9 estimates, and the conservativism was removed where necessary and the models were adjusted to produce point-in-time (PiT) estimates.

BAWAG Group is using through-the-cycle (TTC) and point-in-time models in determining the IFRS 9 parameters. Monthly forecasted macro variables (forward-looking information) are incorporated into the calculation of the PiT component of the parameter models.

Within BAWAG Group, 15.1% of the total exposure has no ECLs due to full collateralization. Of these, 14.9% are lending and 0.2% are off-balance.

Reconciliation of book values by stage

31.12.2018 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Closing balance
Book values for assets without increase in credit risk since initial recognition (Stage 1 without POCI)	**40,245**	**13,679**	**(14,530)**	**(150)**	**39,244**
Lending portfolio	32,223	11,414	(10,642)	(110)	32,885
Securities	8,022	2,265	(3,888)	(40)	6,359
Book values with increase in risk since initial recognition but not credit-impaired (Stage 2 without POCI)	**1,836**	**568**	**(591)**	**71**	**1,884**
Lending portfolio	1,682	477	(591)	31	1,599
Securities	154	91	–	40	285
Book values for credit-impaired debt instruments (Stage 3 without POCI)	**600**	**21**	**(97)**	**90**	**614**
Lending portfolio	586	21	(83)	90	614
Securities	14	–	(14)	–	–
Total POCI	**91**	**–**	**(77)**	**–**	**14**
Lending portfolio	91	–	(77)	–	14
Securities	–	–	–	–	–

Reconciliation of ECL per stage

The reduction in the ECL over the year 2018 is reasoned in a continuous enhancement of the underlying risk models as well as an improvement of the quality of the credit exposures.

31.12.2018 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes on existing assets	Closing balance
Allowances for assets without increase in credit risk since initial recognition (Stage 1 without POCI)	**68**	**25**	**(10)**	**(33)**	**50**
Lending portfolio	54	20	(10)	(26)	38
Securities	8	0	(0)	(3)	5
Off-balance business	6	5	(0)	(4)	7
Allowances with increase in risk since initial recognition but not credit-impaired (Stage 2 without POCI)	**51**	**10**	**(8)**	**(19)**	**34**
Lending portfolio	50	10	(8)	(20)	32
Securities	0	0	–	1	2
Off-balance business	1	0	(0)	(0)	0
Allowances for credit-impaired debt instruments (Stage 3 without POCI)	**241**	**18**	**(90)**	**44**	**213**
Lending portfolio	230	18	(97)	41	192
Securities	–	–	–	–	–
Off-balance business	11	–	7	3	21
Total POCI	**11**	**–**	**(11)**	**4**	**4**
Lending portfolio	11	–	(11)	4	4
Securities	–	–	–	–	–
Off-balance business	–	–	–	–	–

Changes in loan loss provisions (IAS 39)

in € million	Individual and collective loan loss provisions		Loan loss provisions for incurred but not reported losses		Total
	Receivables from credit institutions	Receivables from customers	Receivables from credit institutions	Receivables from customers	
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**

Transition of ECLs by financial instruments

31.12.2018 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	13	45	0	24	0	0
Securities	2	0	0	0	0	0
Off-balance business	0	–	0	–	0	0
Total	**15**	**45**	**0**	**24**	**0**	**0**

Distribution of book values by ECL stage and rating

31.12.2018 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for assets without increase in credit risk since initial recognition (Stage 1 without POCI)	**8,573**	**3,067**	**5,435**	**12,779**	**7,473**	**857**	**1,060**	**–**	**39,244**
Lending portfolio	5,818	1,881	4,461	12,192	7,368	857	305	–	32,885
Securities	2,755	1,186	974	587	105	0	755	–	6,359
Book values with increase in risk since initial recognition but not credit-impaired (Stage 2 without POCI)	**13**	**8**	**13**	**319**	**755**	**275**	**501**	**–**	**1,884**
Lending portfolio	13	8	13	319	755	275	216	–	1,599
Securities	–	–	–	–	–	–	285	–	285
Book values for credit-impaired debt instruments (Stage 3 without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**614**	**614**
Lending portfolio	–	–	–	–	–	–	–	614	614
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14**	**14**
Lending portfolio	–	–	–	–	–	–	–	14	14
Securities	–	–	–	–	–	–	–	–	–
Total	**8,585**	**3,075**	**5,448**	**13,098**	**8,228**	**1,133**	**1,561**	**628**	**41,756**

Impaired loans

As of 1 January 2018, BAWAG Group calculates provisions according to IFRS 9 that 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.

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 that 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.

Non-performing loans (NPLs)

Non-performing loans (NPLs) are defined as all customer credit risk exposures in default in accordance with Article 178 CRR (internal risk class 8).

Forborne loans and forbearance measures

Measures of forbearance can be extended if borrowers face financial difficulties and are considered to be unable to meet contractual obligations. BAWAG Group has sound and transparent processes in place to define the conditions under which concessions, in the form of the modification of terms and conditions, may be granted. Depending on the customer segment, possible measures include the temporary postponement or reduction of interest or principal payments, the restructuring of credit facilities or other forbearance measures. In exceptional cases, a 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, BAWAG Group supports clients in maintaining financial stability. If the supporting measures are not successful, exposures will be recognized as non-performing and impaired according to regulatory and accounting standards. For clients or a group of clients where a default is identified, a provision is booked in accordance with internal guidelines.

For reporting as well as internal risk management purposes, BAWAG Group implemented processes and methods according to regulatory standards[1)] in order to identify exposures for which forbearance measures have been extended. These are classified as forborne.

Collateral and valuation of residential and commercial real estate

All types of acceptable collateral are listed in the BAWAG Group Collateral Catalogue. Adequate haircuts are defined for each type of collateral.

The centralized Residential Real Estate Appraisal team determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich)* for Austrian residential properties, on the Halifax House Price Index for residential properties in Great Britain and by MAC (MeilleursAgents.com) for French residential properties.

The values of commercial properties are appraised individually by experts in the centralized Commercial Real Estate Appraisal team, by selected external appraisers commissioned by BAWAG Group or by a syndicate partner after an inspection of the property and completion of a full appraisal report.

Workout departments

The workout and collection departments (retail/non-retail) are responsible for the processing, administration and restructuring or collection of troubled and defaulted loan commitments. The primary objective is to minimize losses and to maximize recoveries.

Early recognition of troubled assets

Customers that trigger defined early warning signals for various reasons (e.g. general deterioration of creditworthiness, significant decline in the stock price, rise in CDS spreads, negative press reports/ad-hoc publicity, unusual risk concentrations, etc.) are placed on the Watch List and discussed in the Watch Loan Committee, which is made up of members of the relevant business and risk units. This committee develops and elaborates on risk mitigation actions for single exposures and oversees consistent monitoring of all cases with an elevated probability of default.

1) Commission Implementing Regulation (EU) 2015/227, Annex V. Art. 145–183.

BAWAG P.S.K. Retail and easygroup

The BAWAG P.S.K. Retail portfolio is comprised of 69% mortgages (2017: 68%), 26% consumer lending (2017: 26%) and 5% small business lending (2017: 6%). The portfolio is characterized by strong collateral coverage in the secured products: 59% LTV across the mortgage portfolio (2017: 57%) and 49% in private and small business lending (2017: 37%). As specified in the retail strategy, new business volumes were originated primarily from consumer lending and mortgages.

The easygroup portfolio is comprised of 64% mortgages (2017: 64%), 20% consumer lending (2017: 22%), 15% car leasing (2017: 14%) and 1% small business lending (2017: 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 that ensure the high quality of the portfolio. 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 according to the Bank's stated risk appetite using clear 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. To this end, 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 recovery and lending policy adjustments) is key to proactively managing the risks of BAWAG 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:

- Scorecard performance: Approval rate and manual decisions
- Portfolio trends in terms of credit affordability and collateralization
- Performance monitoring of fraud detection
- Portfolio trends in terms of risk class distribution and risk concentrations
- Portfolio trends in terms of overdue/late payments (e.g. vintage and flow rate analyses)
- Portfolio trends with regard to defaulted loan facilities
- Portfolio trends in terms of incurred risk costs and losses

The results of the analysis are presented to the Managing Board and the relevant decision makers as part of the established operating process. This process ensures a regular and standardized flow of information and enables BAWAG Group to respond directly to changes in risk indicators and market conditions.

Lending portfolio and securities by products

BAWAG P.S.K. Retail in € million	Book value 31.12.2018	Book value 31.12.2017	NPL ratio 31.12.2018	NPL coverage ratio 31.12.2018	LTV 31.12.2018
Mortgage loans	6,508	6,343	1.1%	90.5%	59.0%
Consumer lending	2,447	2,432	2.9%	57.1%	n/a
Small business loans	500	595	4.9%	87.8%	48.5%
Total	**9,455**	**9,370**	**1.9%**	**75.3%**	**57.3%**

easygroup in € million	Book value 31.12.2018	Book value 31.12.2017	NPL ratio 31.12.2018	NPL coverage ratio 31.12.2018	LTV 31.12.2018
Mortgage loans	3,601	3,768	2.8%	93.9%	41.6%
Consumer lending	1,146	1,285	1.3%	93.0%	n/a
Car leasing	837	796	0.9%	88.9%	n/a
Small business loans	42	38	1.5%	87.4%	n/a
Total	**5,626**	**5,887**	**1.9%**	**92.8%**	**41.6%**

The NPL ratio of the BAWAG P.S.K. Retail portfolio changed from 2.4% to 1.9% compared to the previous year. The NPL coverage ratio of 75.3% (2017: 78.7%) and the LTV of 57.3% (2017: 53.8%) 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 23 years (2017: 22 years). Mortgages comprise both EUR- and CHF-denominated mortgages. The CHF-denominated mortgage portfolio stood at € 1.1 billion at year-end 2018 (2017: € 1.2 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 business units to convert customers to EUR-denominated loans. The LTV of the CHF portfolio was 70% as of year-end 2018 (2017: 69%).

The consumer lending portfolio is comprised of unsecured “KreditBox Schnell” loans and online loans, overdrafts and a mix of leasing assets (car leasing, 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 seven years.

Small business lending is 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% (2017: 1.9%). The NPL coverage ratio amounts to 92.8% (2017: 92.3%) and an LTV of 41.6% (2017: 37.7%).

The acquired UK mortgage portfolio has an exposure-weighted remaining tenor of 13 years with an LTV of 46% (2017: 49%). The French mortgage portfolio acquired in 2016 has an exposure-weighted remaining tenor of ten years with an LTV of 25% (2017: 24%).

For both segments, the overall NPL and coverage ratios reflect a stable and low-risk portfolio. BAWAG Group has continued to apply the strategy of rigorous management of non-performing loans in order to achieve low NPL volumes and to concentrate on the main business focus. In addition, the early detection, collection and recovery processes were further improved with a view to successfully repaying loans from a technical and risk perspective.

Forbearance by products

	Consumer lending		Mortgage loans		Small business loans		Total	
BAWAG P.S.K. Retail in € million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Forborne assets	83	123	63	65	10	15	156	203
thereof non-performing	16	35	10	10	2	4	28	49
Impairments	7	24	2	3	2	1	10	28
Collateral	2	4	55	56	9	11	66	71

	Consumer lending		Mortgage loans		Car leasing		Small business loans		Total	
easygroup in € million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Forborne assets	17	12	116	133	0	0	1	1	134	146
thereof non-performing	4	4	27	38	0	0	1	–	32	42
Impairments	2	1	2	2	–	–	0	–	4	3
Collateral	7	6	107	123	0	0	1	1	115	130

Days past due

The product portfolio is monitored by days past due (i.e. delinquency buckets) on an ongoing basis. The aim is to ensure early identification of negative credit developments within the portfolio and to work with customers on a proactive basis to ensure full repayment of loans.

The BAWAG P.S.K. Retail portfolio is 98.6% (2017: 98.2%) current (i.e. no days past due). The easygroup portfolio is 98.2% (2017: 96.2%) 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.

	Mortgage loans		Consumer lending		Small business loans	
BAWAG P.S.K. Retail in € million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Total	**6,508**	**6,343**	**2,447**	**2,432**	**500**	**595**
1–30 days	0.1%	0.1%	1.5%	1.5%	0.4%	0.7%
31–60 days	0.0%	0.0%	0.3%	0.5%	0.1%	0.5%
61–90 days	0.0%	0.0%	0.2%	0.4%	0.0%	0.1%

	Mortgage loans		Consumer lending		Car leasing		Small business loans	
easygroup in € million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Total	**3,601**	**3,768**	**1,146**	**1,285**	**837**	**796**	**42**	**38**
1–30 days	0.2%	0.3%	0.2%	0.3%	0.3%	0.5%	0.7%	3.6%
31–60 days	0.1%	0.1%	0.1%	0.1%	0.3%	0.2%	1.8%	0.7%
61–90 days	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	1.0%	–

Retail assets – Regional distribution

BAWAG P.S.K. Retail in € million	Book value 31.12.2018	Book value 31.12.2017	in % 31.12.2018	in % 31.12.2017	NPL ratio 31.12.2018	NPL coverage ratio 31.12.2018
Vienna	2,620	2,652	27.7%	28.3%	2.3%	67.4%
Lower Austria	2,143	2,103	22.7%	22.4%	1.7%	80.3%
Styria	1,796	1,781	19.0%	19.0%	1.2%	79.7%
Upper Austria	821	735	8.7%	7.8%	1.9%	78.8%
Carinthia	613	624	6.5%	6.7%	1.9%	79.3%
Tyrol/Vorarlberg	587	615	6.2%	6.6%	3.3%	79.0%
Salzburg	473	460	5.0%	4.9%	1.5%	72.5%
Burgenland	402	400	4.3%	4.3%	1.5%	79.8%
Total portfolio	**9,455**	**9,370**	**100.0%**	**100.0%**	**1.9%**	**75.3%**

easygroup in € million	Book value 31.12.2018	Book value 31.12.2017	in % 31.12.2018	in % 31.12.2017	NPL ratio 31.12.2018	NPL coverage ratio 31.12.2018
Vienna	936	703	16.6%	11.9%	1.0%	87.1%
Lower Austria	840	855	14.9%	7.8%	0.9%	89.3%
Styria	470	327	8.4%	5.6%	0.6%	85.0%
Upper Austria	438	458	7.8%	14.5%	0.5%	85.3%
Tyrol/Vorarlberg	356	477	6.3%	8.1%	0.8%	87.1%
Carinthia	278	257	4.9%	4.5%	0.9%	87.6%
Salzburg	198	184	3.5%	3.1%	0.6%	87.6%
Burgenland	71	72	1.3%	1.2%	0.9%	83.8%
Portfolio Austria	**3,587**	**3,333**	**63.8%**	**56.7%**	**0.8%**	**87.1%**
United Kingdom	1,167	1,427	20.8%	24.2%	4.1%	90.8%
France	872	1,127	15.5%	19.1%	5.9%	97.5%
Total portfolio	**5,626**	**5,887**	**100.0%**	**100.0%**	**1.9%**	**92.8%**

The BAWAG P.S.K. Retail portfolio is regionally diverse across Austria, with more than two-thirds of the exposure distributed across the stronger economic regions of Vienna, Lower Austria and Styria. For the easygroup portfolio, the most significant regions in Austria are Vienna, Lower Austria and Styria, while the international mortgage portfolio comprises portfolios in the UK and France.

International Business and DACH Corporates & Public Sector

	Book value		NPL ratio	NPL coverage ratio	Investment grade
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2018	31.12.2018
DACH Corporates & Public Sector	5,547	6,698	1.1%	71.2%	86.6%
International Business	6,254	5,154	0.5%	56.6%	63.7%
IB Corporates	2,568	2,371	0.5%	96.6%	57.6%
IB Real Estate	3,686	2,783	0.5%	36.1%	66.8%
Total	**11,801**	**11,852**	**0.8%**	**65.8%**	**73.8%**

The segments International Business and DACH Corporates & Public Sector are split between the International Business assets and DACH Corporates & Public Sector 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 73.8% investment grade between both DACH Corporates & Public Sector and International Business assets (2017: 76.4%). The total NPL ratio improved from 1.2% to 0.8%. Among the NPL volume, 65.8% are secured by collateral and provisions (2017: 65.6%).

Material credit decisions are made by the Credit Approval Committee (CAC), a special body at the Managing Board level. Every credit decision is strictly reviewed, discussed and coordinated in accordance with BAWAG Group's guidelines. BAWAG Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international business. For loan applications below a certain threshold, risk managers are granted authority to approve credit applications.

Corporate exposure in the international business is characterized predominantly by a moderate (net) debt/EBITDA ratio of <4.0x and a very good risk/return profile. The international real estate finance portfolio has an average LTV of below 55% (2017: 60%) and is very well diversified in terms of regions and asset classes.

Forbearance

	DACH Corporates & Public Sector		International Business		Total	
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Forborne assets	50	64	55	93	105	157
thereof non-performing	40	34	13	52	53	86
Impairments	10	7	7	19	17	26
Collateral	25	39	6	5	31	45

Particular risk concentrations in the lending portfolio

A major focus of risk management in the International Business and DACH Corporates & Public Sector 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.

Currency distribution of the loan and securities portfolio

DACH Corporates & Public Sector in € million	Book value		in %	
	31.12.2018	31.12.2017	**31.12.2018**	31.12.2017
EUR	5,241	6,339	94.5%	94.6%
CHF	188	220	3.4%	3.3%
USD	70	99	1.3%	1.5%
GBP	33	18	0.6%	0.3%
Others	15	22	0.3%	0.3%
Total	**5,547**	**6,698**	**100.0%**	**100.0%**

International Business in € million	Book value		in %	
	31.12.2018	31.12.2017	**31.12.2018**	31.12.2017
EUR	3,230	2,133	51.6%	41.4%
USD	1,957	1,853	31.3%	36.0%
GBP	877	1,038	14.0%	20.1%
Others	190	130	3.1%	2.5%
Total	**6,254**	**5,154**	**100.0%**	**100.0%**

Risk concentrations by industry segmentation

DACH Corporates & Public Sector in € million	Book value		in %	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Government	1,914	2,267	34.5%	33.8%
Public Sector	1,179	1,347	21.3%	20.1%
Real Estate	640	945	11.5%	14.1%
Retail - Food	345	366	6.2%	5.5%
Telecommunication	218	205	3.9%	3.1%
Automotive	169	190	3.0%	2.8%
B–2–C Products	151	172	2.7%	2.6%
Engineering & B–2–B	130	118	2.3%	1.8%
Gaming & Leisure	96	110	1.7%	1.6%
Banks	95	137	1.7%	2.1%
Wood & Paper	80	93	1.4%	1.4%
Commodity	62	71	1.1%	1.1%
Services	61	82	1.1%	1.2%
Social Housing	60	143	1.1%	2.1%
Construction & Building Materials	54	49	1.0%	0.7%
Leasing	52	62	0.9%	0.9%
Media	46	80	0.8%	1.2%
Pharmaceuticals & Health Care	45	64	0.8%	1.0%
Beverages, Food & Tobacco	40	46	0.7%	0.7%
Hotels	37	42	0.7%	0.6%
NGO	34	41	0.6%	0.6%
Utilities	22	30	0.4%	0.4%
Transport	12	10	0.2%	0.2%
Investment Funds	3	2	0.1%	0.0%
Chemicals	2	6	0.0%	0.1%
Portfolio	0	20	0.0%	0.3%
Total	**5,547**	**6,698**	**100.0%**	**100.0%**

International Business in € million	Book value 31.12.2018	Book value 31.12.2017	in % 31.12.2018	in % 31.12.2017
Real estate financing	**3,686**	**2,783**		
Corporate lending	**2,568**	**2,371**		
Services	751	730	29.2%	30.8%
Pharmaceuticals & Health Care	542	381	21.1%	16.1%
Investment Funds	363	373	14.1%	15.7%
Hotel, Gaming & Leisure	211	58	8.2%	2.5%
Telecommunication & Electronics	181	17	7.0%	0.7%
B–2–C Products	149	225	5.8%	9.5%
Engineering & B–2–B	131	69	5.1%	2.9%
Beverages, Food & Tobacco	74	110	2.9%	4.7%
Commodity	51	78	2.0%	3.3%
Transport	39	58	1.5%	2.4%
Portfolio	33	0	1.3%	0.0%
Automotive	28	53	1.1%	2.2%
Wood & Paper	15	30	0.6%	1.3%
Chemicals	0	84	0.0%	3.6%
Retail - Food	0	60	0.0%	2.5%
Real Estate	0	45	0.0%	1.9%
Total	**6,254**	**5,154**	**100.0%**	**100.0%**

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 € million	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Lending portfolio	1,617	1,625	2,110	2,499	3,727	4,124
Securities[1)]	–	–	49	59	49	59
Off-balance business	244	377	593	1,004	836	1,381
Total	**1,861**	**2,002**	**2,752**	**3,562**	**4,613**	**5,564**
thereof collateralized[2)]	1,509	1,630	1,438	2,090	2,947	3,720
thereof NPL (gross view)[3)]	23	15	84	76	107	91

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 as of 31.12.2018 without IFRS 3 effect would have been as follows: Retail & SME € 32 million (2017: € 26 million), Corporates & Institutional Clients € 115 million (€ 161 million), Total € 147 million (€ 187 million).

Credit quality overview

	Book value[1)]		in %	
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Loans and receivables (gross)	3,772	4,124	100.0%	100.0%
Provisions	45	–	–	–
thereof ECL	20	–	–	–
Loans and receivables (net)	3,727	4,124	98.8%	100.0%
NPL ratio[2)]	–	–	2.3%	1.6%
NPL LLP coverage ratio[2)]	–	–	24.7%	–
NPL coverage ratio (collateral + LLP)[2)]	–	–	75.3%	58.1%

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 31.12.2018 without IFRS 3 effect would have been as follows: NPL ratio 3.2% (2017: 3.3%), NPL LLP coverage ratio 45.5% (2017: 51.2%), NPL coverage ratio (collateral + LLP) 82.1% (2017: 93.6%).

	Book value[1)]		NPL ratio[1)2)]	NPL coverage ratio[2)]	LTV
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2018	31.12.2018
Retail & SME	1,617	1,625	1.2%	83.1%	51.6%
Corporates & Institutional Clients	2,110	2,499	3.0%	73.2%	71.7%
Total	**3,727**	**4,124**	**2.3%**	**75.3%**	**59.9%**

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 31.12.2018 without IFRS 3 effect would have been as follows:
Retail & SME: NPL ratio 1.7% (2017: 1.3%), NPL coverage ratio 88.1% (2017: 89.6%),
Corporates & Institutional Clients: NPL ratio 4.1% (2017: 4.4%), NPL coverage ratio 80.4% (2017: 94.3%),
Total: NPL ratio 3.2% (3.3%), NPL coverage ratio 82.1% (93.6%).

Forbearance

in € million	Retail & SME		Corporates & Institutional Clients		Total	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Forborne	6	9	30	51	36	60
thereof non-performing	1	2	3	23	4	25
Impairments	0	–	3	–	3	–
Collateral	5	9	24	39	29	48

Risk concentrations in the lending and securities portfolio

The framework for the management of concentration risk is based on the requirements imposed by the senior management of BAWAG 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. The limits for country, industry, currency and groups of connected customers that are defined represent an integral part of the internal Group-wide risk management.

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 at BAWAG Group. The methodological basis is formed by adapted risk-weighted assets in accordance with IRB. All limits are monitored on an ongoing basis and in accordance with the estimated risk potential.

Geographical distribution of the lending and securities portfolio

in € million	Book value		in %	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Germany	3,476	4,010	92.1%	95.9%
Luxembourg	231	0	6.1%	–
Switzerland	28	36	0.7%	0.9%
Turkey	14	7	0.4%	0.2%
France	1	51	0.0%	1.2%
Others	26	79	0.7%	1.9%
Total	**3,776**	**4,183**	**100.0%**	**100.0%**

Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2017
EUR	3,774	4,164	99.9%	99.5%
USD	1	2	–	–
CHF	1	17	0.1%	0.5%
Others	–	–	–	–
Total	**3,776**	**4,183**	**100.0%**	**100.0%**

Risk concentrations by industry segmentation

	Book value		in %	
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Real Estate	751	751	34.8%	29.4%
Construction & Building Materials	359	360	16.6%	14.1%
Beverages, Food & Tobacco	302	363	14.0%	14.2%
Banks	230	287	10.7%	11.2%
Commodity	191	211	8.8%	8.3%
B–2–C Products	97	164	4.5%	6.4%
Services	80	151	3.7%	5.9%
Insurance	43	59	2.0%	2.3%
Hotels	24	26	1.1%	1.0%
Transport	18	19	0.8%	0.7%
Pharmaceuticals & Health Care	17	28	0.8%	1.1%
Wood & Paper	15	21	0.7%	0.8%
Media	15	91	0.7%	3.6%
Gaming & Leisure	9	12	0.4%	0.5%
Leasing	6	9	0.3%	0.4%
Public Sector	2	5	0.1%	0.2%
Mining & Metals	0	1	0.0%	0.0%
Total	**2,159**	**2,558**	**100.0%**	**100.0%**

Treasury Services & Markets

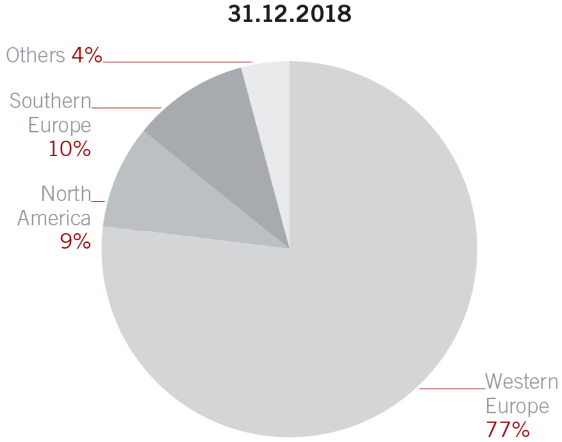
	Book value[1]		Investment grade	
in € million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Banks	4,115	5,154	95.3%	98.5%
Sovereigns	778	992	100.0%	97.7%
CLOs	957	714	100.0%	100.0%
Others	485	781	82.4%	86.6%
Total	**6,335**	**7,641**	**95.6%**	**97.4%**

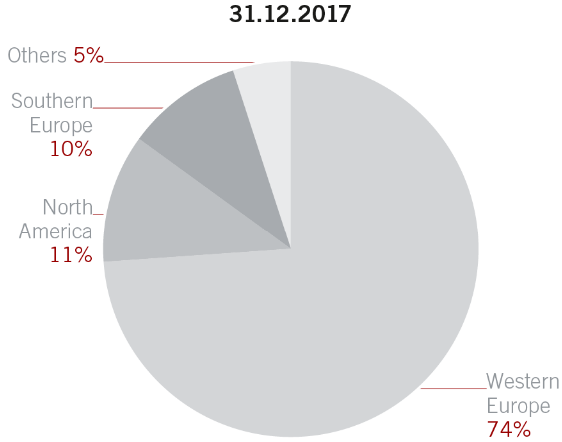
1) Investment book only.

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 95.6% of investment grade rated securities (2017: 97.4%), of which 87% were rated in the single A category or higher (2017: 87%). As of 31 December 2018, 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. The overall composition of the investment portfolio reflects our strategy of maintaining high credit quality, short duration and strong liquidity in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Geographical distribution of the securities portfolio[2]





2) Investment book only. These regions include France with 10% (2017: 8%), Great Britain with 10% (2017: 12%), Austria with 8% (2017: n/a), the United States with 7% (2017: 9%) and Germany with 6% (2017: 10%).

Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	31.12.2018	31.12.2017	31.12.2018	31.12.2017
EUR	9,960	10,812	97.7%	97.4%
USD	201	242	2.0%	2.2%
Others	28	42	0.3%	0.4%
Total	**10,189**	**11,096**	**100.0%**	**100.0%**

Corporate Center

The Corporate Center includes unallocated items related to support functions for the entire Group, accounting positions (e.g. market values of derivatives) and select results related to subsidiary and participation holdings. Regulatory charges (except for deposit guarantee scheme contributions) and corporate taxes are assigned to the Corporate Center as well. The focus of Corporate Center is set on non-business related positions.

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential write-offs on the carrying amount of investments and low profitability of non-consolidated equity investments. Participation risk does not include consolidated operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such. In December 2018, the economic capital for participation risk amounted to € 26 million (Dec. 2017: € 26 million).

Impairment tests are conducted every year to validate the values of the equity investments in BAWAG Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. P&L, balance sheet and cash flow) prepared for future periods by the management of each entity. The results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the entity based on BAWAG Group's shareholding is then compared with the carrying amount of the investment.

Contrary to the procedure described above, there are simplified procedures for very small investments or if the book value is covered by the proportionate equity or other value indicators, such as the substance value in the case of real estate companies. The overall results of the impairment tests are reviewed and confirmed by the Credit Risk Management team.

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 and monitored via sensitivity, value-at-risk (VaR) and scenario-based approaches. In addition, the financial treatment of the positions is considered in the risk reporting.

The monitoring of the trading book 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 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 2018. In 2018, the average value-at-risk of the trading book was measured at minus € 0.44 million

(2017 average: minus € 0.45 million) and the value-at-risk as of 31 December 2018 was measured at minus € 0.39 million (31 December 2017: minus € 0.45 million) based on a confidence interval of 99% and a one-day holding period.

BAWAG 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 € thousand	**31.12.2018**	31.12.2017
Average VaR	(435)	(447)
Year-end VaR	(391)	(450)

Market risk in the banking book

The primary components of market risk for BAWAG Group are interest rate risk and credit spread risk.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (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 BAWAG 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 BAWAG Group level on limit utilization and the distribution of risk.

The target interest rate risk structure defined by the SALCO is implemented by the Treasury & Markets division. BAWAG Group uses interest rate derivatives:

- to implement the interest risk strategy within the requirements and limits defined by the SALCO
- to manage the sensitivity of the valuation result and the revaluation reserve
- to hedge the economic risk position, thereby taking the accounting treatment into consideration

BAWAG Group uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to 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 (0.01%). The following table depicts BAWAG Group’s interest rate risk sensitivities as of 31 December 2018 on the basis of the PVBP concept:

Interest rate sensitivity

31.12.2018 in € thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	(243)	(351)	(239)	(204)	(32)	(242)	(1,311)
USD	20	17	2	(16)	(5)	(1)	17
CHF	4	(8)	0	4	(5)	(9)	(15)
GBP	20	14	1	0	1	4	39
Other currencies	(1)	(5)	(14)	(1)	0	0	(21)
Total	**(200)**	**(332)**	**(251)**	**(217)**	**(42)**	**(250)**	**(1,291)**

31.12.2017 in € 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)**

The impact upon the Profit or Loss Statement and Other Comprehensive Income of fair value changes arising from interest rate changes is calculated and monitored separately. The sensitivity of financial assets designated at fair value through profit or loss amounted to plus € 242 thousand on 31 December 2018 (average 2018: plus € 75 thousand, 31 December 2017: minus € 156 thousand). For the available-for-sale financial assets, the sensitivity amounted to minus € 311 thousand (31 December 2017: minus € 359 thousand).

Furthermore, a value-at-risk calculation for BAWAG Group is conducted within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) on a monthly basis.

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by BAWAG Group to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The basis point value reflects the impact on net asset value resulting from an upward parallel shift of the credit spreads by one basis point (0.01%). The following table shows the total credit spread sensitivity of BAWAG Group along with the breakdown by accounting categories impacting the Profit or Loss Statement and Other Comprehensive Income:

Credit spread sensitivity

in € thousand	31.12.2018	31.12.2017
Total portfolio	(3,023)	(2,839)
Financial assets designated at fair value through profit or loss	(184)	73
Available-for-sale financial assets	(1,075)	(1,743)
Held-to-maturity assets & Loans and receivables	(1,764)	(1,070)

The risk indicators “value-at-risk” and “expected shortfall” are also calculated and scenario calculations are run, both on a monthly basis.

Credit spread risk is also taken into account and limited for BAWAG Group as a whole in the ICAAP and is part of the Bank-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and by backtesting.

FX risk in the banking book

The extent of open foreign exchange positions in BAWAG Group’s banking book is managed by conservative limits in order to ensure that only marginal FX risks are carried in the banking book. Compliance with these limits is observed on a daily basis. 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 € thousand	USD		GBP		CHF		Other FX	
FX change (in %)	(10)	10	(10)	10	(10)	10	(10)	10
Impact	(735)	735	307	(307)	(1,612)	1,612	477	(477)

Concentration risk

All essential risk factors are incorporated within VaR models/scenario analyses and stress test calculations, which are applied to all trading and bank book positions. Instabilities of correlations which could result in an overestimation of diversification are taken into consideration by the fact that only correlations within a specific risk factor (interest, FX, volatilities) and (after a comprehensive analysis of empirical coefficients) between interest rate risk in the banking book and credit spread risk are employed, whereas no diversification beyond these is assumed. Stress test results are also divided, calculated, reported and limited by risk factor category in order to identify any correlations within a single risk factor.

56 | Liquidity risk

Liquidity risk is the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk) or only being able to meet these obligations at higher refinancing costs (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold or that doing so is only achievable at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The objective of BAWAG Group’s liquidity risk management framework is to ensure that BAWAG Group can fulfill its obligations at all times and to manage liquidity risk within the risk appetite.

Liquidity risk management framework

In accordance with the ECB’s Supervisory Review and Evaluation Process (SREP), BAWAG Group has implemented an annual Internal Liquidity Adequacy Assessment Process (ILAAP), which forms the basis for the Group-wide assessment, management and monitoring of liquidity risks.

The Managing Board defines the liquidity and funding risk strategy as well as the overall liquidity risk appetite. At least annually the Managing Board reviews the ILAAP and approves the Group-wide limit framework and funding plans.

The main decision body regarding liquidity risk is the Strategic Asset Liability Committee (SALCO), in which all board members are represented. The SALCO is informed at least once a month about the performance compared to the risk metrics.

Treasury & Markets is mandated to manage the overall liquidity and funding position. Market & Liquidity Risk Controlling acts as an independent risk control function and is responsible for reviewing the ILAAP framework.

Liquidity strategy

BAWAG Group's overall strategy has an explicit commitment to a deposit-based funding strategy. Retail and corporate savings products have been the core part of the funding strategy over the years and will continue to be the dominant source of funding for the balance sheet. The deposit base is supplemented with a diversified strategy of wholesale funding. BAWAG Group has issued both unsecured bonds as well as bonds secured by mortgages (covered bonds & RMBS) and public sector loans.

Liquidity management

The liquidity management is performed on a Group-wide basis.

For managing the short-term liquidity, a 30-day liquidity forecast is prepared daily, which allows for the close tracking and management of the short-term liquidity position.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared and reported monthly to the SALCO. As part of the forecast process, which takes scenario analyses for planned measures and assumptions on customer behavior into account, the development of all major liquidity risk metrics is projected based on the underlying business plans to ensure compliance with the overall risk appetite.

Long-term liquidity management is conducted as part of the annual planning process for the coming five years. Strategic measures are also analyzed during the course of the year.

Liquidity stress testing

Liquidity stress testing and scenario analyses are applied to evaluate BAWAG Group's liquidity position, determine the limit framework and calibrate the liquidity buffers. They complement the operational liquidity management and the mid- to long-term liquidity strategy.

Stress testing is conducted on BAWAG Group level and the subsidiaries level and covers scenarios that differ in length and severity (systemic stress, idiosyncratic stress, combined stress). The results of the stress tests are reported to the SALCO monthly.

Liquidity buffer

BAWAG Group maintains a liquidity buffer to cover unexpected liquidity outflows in a stress scenario. The liquidity buffer is kept as a preventive measure against liquidity risk. The liquidity buffer consists of a portfolio of liquid assets which can be used to generate cash in a stress situation in order to prevent the illiquidity of the Bank. BAWAG Group's liquidity buffer only includes assets that can be liquidated with minimal execution risk within 30 days. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the liquidity buffer composition based on the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in € million	31.12.2018	31.12.2017
Balances at central banks	4,363	3,430
Securities eligible for Eurosystem operations	4,405	5,121
Other assets eligible for Eurosystem operations	209	702
Short-term liquidity buffer	**8,977**	**9,253**
Other marketable securities	1,307	1,487
Total	**10,284**	**10,741**

Maturity analysis of contractual undiscounted cash flows of financial assets and liabilities

31.12.2018 in € million	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(4,335)	(410)	(446)	(252)	(2,482)	(745)
Deposits from customers	(30,708)	(25,914)	(390)	(542)	(1,781)	(2,081)
Debt securities issued	(5,051)	(69)	(30)	(702)	(2,483)	(1,767)
Subtotal	**(40,094)**	**(26,393)**	**(867)**	**(1,496)**	**(6,746)**	**(4,592)**
Derivative liabilities	(540)	(8)	(35)	(112)	(307)	(79)
Other off-balance-sheet financial obligations	(2,178)	(2,178)	0	0	0	0
Total	**(42,812)**	**(28,579)**	**(901)**	**(1,608)**	**(7,053)**	**(4,670)**

31.12.2017 in € million	Gross nominal inflow/outflow	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(4,150)	(631)	(53)	(91)	(2,794)	(581)
Deposits from customers	(31,453)	(26,753)	(256)	(893)	(1,738)	(1,813)
Debt securities issued	(6,260)	(229)	(118)	(353)	(3,133)	(2,427)
Subtotal	**(41,863)**	**(27,613)**	**(427)**	**(1,337)**	**(7,665)**	**(4,821)**
Derivative liabilities	(461)	(2)	(11)	(74)	(225)	(152)
Other off-balance-sheet financial obligations	(1,514)	(1,514)	0	0	0	0
Total	**(43,838)**	**(29,130)**	**(439)**	**(1,410)**	**(7,889)**	**(4,973)**

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial liabilities. They are assigned to time buckets on the basis of their contractual maturities. Deposits with non-defined maturity profiles are presented in the shortest time bucket. In the case of call or put options, the end of the term equals the next day on which the option can be exercised.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in a strong liquidity coverage ratio (LCR) of 179% at the end of 2018. BAWAG Group thereby significantly exceeds the regulatory LCR requirement.

The year 2018 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.

In addition to the strong deposit base, in April 2018 BAWAG Group issued Additional Tier 1 Notes with a € 300 million principal amount. Furthermore, in July 2018 a cash tender offer for € 300 million in Subordinated Tier 2 Bullet Notes was successfully taken up by approximately 90% of holders. These measures represent important steps in BAWAG Group's total capital optimization measures.

57 | Non-financial risk

BAWAG 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 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 RCSAs are another tool for managing operational risk. All business units and subsidiaries identify and 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 mandatory.

The identification and assessment of potential risks and measures in the case of ad hoc issues is realized through clearly defined processes especially for outsourcings and the implementation of new products.

Additionally, the Non-Financial Risk Management & Regulatory Compliance division ensures the 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, reputation risk, compliance risk) in a timely manner 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 operational risk governance. Additionally, a consistent framework of guidelines and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are in place to manage BAWAG Group's operational risk/non-financial risk.

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

58 | Fiduciary assets

in € million	31.12.2018	31.12.2017
Fiduciary assets	**135**	**82**
Receivables from credit institutions	0	–
Receivables from customers	135	82
Fiduciary liabilities	**157**	**83**
Deposits from credit institutions	151	7
Deposits from customers	6	76

59 | 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 2018 (IFRS figures):

in € million	Not listed	Listed			BAWAG Group Total 2018
		Total	At amortized cost	Other measurements	
Bonds and other fixed income securities	1,436	5,046	2,590	2,456	6,482
Shares and other variable income securities	54	108	–	108	162
Shares in associates and other shares	103	–	–	–	103
Shares in non-consolidated subsidiaries	18	–	–	–	18
Total securities	**1,611**	**5,154**	**2,590**	**2,564**	**6,765**

The securities shown in the table are mainly non-current assets.

The difference between carrying amounts and lower repayment amounts for the purposes of section 56 paragraph 2 BWG amounted to € 27 million (2017: € 50 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG amounted to € 8 million (2017: € 9 million).

Own issues amounting to a repayment amount of € 792 million and bonds and other fixed income securities amounting to a repayment amount of € 506 million will come due under the corresponding contracts in 2019.

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 2018, the average weighted nominal interest rate on supplementary and subordinated capital bonds was 6.84% (2017: 6.76%), and the average remaining term to maturity was 4.6 years (2017: 5.6 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 € 398 million (2017: € 495 million) and paid consideration (collateral deals) in the amount of € 34 million (2017: € 59 million).

in € million	Collateralized on-balance-sheet claims	Collateralized off-balance-sheet claims	Total
Financial collateral			
Stocks	7	–	7
Cash deposits	181	543	724
Bonds	9	–	9
Real estate			
Commercial properties	803	5	808
Private properties	10,287	73	10,360
Personal collateral			
Guarantees	1,752	7	1,759
Other forms of collateral			
Assignation of claims	3	–	3
Life insurance policies	146	1	147
Collateral received	**13,188**	**629**	**13,817**

61 | Human resources

Headcount – salaried employees

	31.12.2018	31.12.2017
Number of employees on reporting date	4,141	4,079
Average number of employees	4,108	3,469

Full-time equivalents – salaried employees

	31.12.2018	31.12.2017
Number of employees on reporting date	3,474	3,437
Average number of employees	3,439	2,894
Active employees[1)]	2,999	2,959

1) Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme.

62 | Branches

in € million	31.12.2018	31.12.2017
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)]	59.3	34.8
Number of full-time employees	30	22
Profit/Loss before tax[1)]	29.7	15.7
Income tax accrued	5.8	3.0
Government aid received	0	0

1) BAWAG P.S.K. International: income is based on internal funds transfer pricing.

in € million	31.12.2018	31.12.2017
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	5
Profit/Loss before tax	(2.7)	(1.7)
Income tax accrued	0.0	0.0
Government aid received	0	0

The easybank branch in Germany closed its operations as of 31 December 2018.

63 | Trading book

BAWAG Group maintains a securities trading book, which breaks down by volume as follows:

in € million	31.12.2018	31.12.2017
Derivative financial instruments in the trading book (nominal value)	3,913	4,921
Trading book by volume	**3,913**	**4,921**

64 | Geographical regions

Gross income of BAWAG Group relates to the following geographical regions according to IFRS 8:

in € million	Domestic	Western Europe	Central and Eastern Europe	North America	Rest of the world	Total
Interest and similar income	593.9	405.6	7.4	98.5	36.0	**1,141.4**
Income from securities and equity interests	2.7	5.9	0.0	0.0	0.0	**8.6**
Fee and commission income	328.0	43.5	0.7	0.4	0.3	**372.9**
Gains and losses on financial instruments	17.3	2.2	0.0	0.0	0.0	**19.5**
Other operating income	62.4	1.7	0.0	0.0	0.0	**64.1**

65 | Other disclosures required by BWG and Austrian GAAP (UGB) including remuneration policy

The Statement of Financial Position entry for Land and buildings includes land with a carrying amount of € 174 million (2017: € 177 million).

Obligations arising from the use of tangible non-current assets not recognized on the Statement of Financial Position were expected to come to € 29 million for the period subsequent to 2018 (2017: € 26 million); the expected amount in the five years following the year under review was € 107 million (2017: € 98 million).

The Statement of Financial Position as of 31 December 2018 contains accrued interest on supplementary capital bonds in the amount of € 0 million (2017: € 0 million).

Expenses for subordinated liabilities amounted to € 32 million (2017: € 33 million).

Expenses for BAWAG Group's group auditor in the current financial year amount to € 2.4 million (2017: € 2.0 million) and comprise audit fees in the amount of € 2.2 million (2017: € 1.7 million), tax advisory fees of € 0.1 million (2017: € 0.0 million) as well as other advisory fees in the amount of € 0.1 million (2017: € 0.3 million).

As of 31 December 2018, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 0.98% (2017: 1.01%).

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 50% in shares of BAWAG Group AG provided a certain amount of the variable remuneration is reached. For selected persons from 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 2018 and 2017 according to CRR:

in € million	31.12.2018	31.12.2017
Share capital and reserves (including funds for general banking risk)	250	250
Reserves including profit for the fiscal year 2018	2,276	2,275
Deduction of intangible assets	(122)	(107)
IRB risk provision shortfalls	(30)	(38)
Common Equity Tier I	**2,374**	**2,380**
Additional Tier I	**300**	**0**
Supplementary and subordinated debt capital	111	448
Deduction participations	(22)	(22)
Excess IRB risk provisions	4	36
IRB risk provision shortfalls	0	(4)
Tier II	**93**	**458**
Own funds	**2,767**	**2,838**

67 | Date of release for publication

The Group financial statements were approved by the Managing Board for submission to the Supervisory Board on 11 March 2019. The Supervisory Board is responsible for reviewing and acknowledging the Group financial statements.

68 | Events after the reporting date

Closing of the purchase of Zahnärztekasse AG

On 1 March 2019, BAWAG P.S.K. announced the successful closing of the purchase of Zahnärztekasse AG, one of the long-established market leaders in the Swiss dental factoring market, located in Wädenswil, Switzerland.

Change of company name DEUTSCHER RING BAUSPARKASSE AG

With effect as of 4 January 2019, the company name of DEUTSCHER RING BAUSPARKASSE AG was changed to start:bausparkasse AG.

11 March 2019

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."

11 March 2019

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 2018

Anas ABUZAAKOUK
Chairman of the Managing Board of BAWAG Group AG from 19 August 2017

Stefan BARTH
Member of the Managing Board of BAWAG Group AG from 19 August 2017

David O'LEARY
Member of the Managing Board of BAWAG Group AG from 19 August 2017

Sat SHAH
Member of the Managing Board of BAWAG Group AG from 19 August 2017

Enver SIRUCIC
(Member of the Managing Board of BAWAG Group AG from 19 August 2017

Andrew WISE
Member of the Managing Board of BAWAG Group AG from 19 August 2017

SUPERVISORY BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2018

Chairman

Pieter KORTEWEG
(Chairman of the Supervisory Board of BAWAG Group AG from 15 September 2017,
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 2022)

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 2022)

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 2022)

Frederick HADDAD
(Member of the Supervisory Board of BAWAG Group AG from 19 August 2017 until revoked)

Adam ROSMARIN
(Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2022)

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 2018

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 2018, 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 2018, 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 ("AP Regulation") and 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 company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained 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 combination

Valuation of loans and advances to customers

Risk to the Consolidated Financial Statements

The receivables from customers amount to € 30.5 billion and are mainly comprised of the segments "BAWAG P.S.K. Retail", "DACH Corporates & Public Sector", "easygroup" and "International Business".

Management describes the approach to determine the risk provisions in Note 1 "Accounting policies" section "IFRS 9 Financial Instruments: Impairment", "Loan Loss Provisions (until 31 December 2017)" as well as the section "Latitude of Judgement and Uncertainty of Estimates". A breakdown of financial assets at amortized cost as well as impairments (Stage 1, Stage 2 and Stage 3) is provided in Note 15 "At amortized cost".

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 scenario-weighted 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 loan loss credit provision for expected credit losses ("ECL") is recognized. The basis for the loan loss credit provision is the 12-month-ECL (Stage 1). In Case of a significant increase in credit risk ("SICR"), the ECL is calculated on a lifetime basis (Stage 2).

The calculation of ECLs is highly dependent on assumptions and estimates, which include rating based probabilities of default ("PD") and loss given default ("LGD") that are derived from current and forward-looking information.

The risk to the financial statements results from the fact that the staging transfer 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 whether there were any indicators of loan defaults on the basis of a sample of loans from different portfolios. The selection of the sample was performed risk-oriented and with special regard to ratings and industries with higher probability of default risk. For defaults – referred to outstanding Blankoobligi – of individually significant loans in samples we assessed the bank's assumptions with respect to conclusiveness, constituency and consistency.

We have agreed the bank's documentation and methodology of ECLs with the requirements of IFRS 9. Based on the bank's backtesting of validations of actual parameters, we have evaluated the adequacy of the models used to calculate ECLs. Additionally we have assessed the adequacy of PDs and LGDs based on the 12-month and lifetime models, in particular the suitability of the statistical models and parameters used as well as the mathematical functionality. Furthermore we have analyzed staging transfer and parameters including the selection and assessment regarding forward-looking estimates. We have involved our internal financial mathematicians and financial risk management specialists to re-calculate the loan loss credit provisions based on the basis of a sample. Lastly we have consulted our internal IT-specialists to assess the effectiveness of automated controls of the underlying IT-systems of the model.

Finally, we assessed whether the disclosures on the measurement of receivables from customers in the notes to the consolidated financial statements are appropriate.

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 30.6 million. BAWAG P.S.K. filed a (counter)suit against the City of Linz to enforce its contractual entitlements in the amount of € 417.7 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 2018. We have analyzed whether the amount of the claim is consistent with 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 4 September 2018 (date of acquisition) the bank acquired 100% of the shares of Deutscher Ring Bausparkasse AG, Deutschland, for a purchase price of € 1. The bank describes this transaction in Note 35 "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".

Acquired assets and assumed liabilities identified as part of the purchase price allocation are to be recognized at fair value at the time of acquisition. 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.

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 agreement and assessed whether the criteria for controlling acquired company Deutscher Ring Bausparkasse AG, Deutschland, were met and the definition of a business combination is fulfilled on the acquisition date.

We have assessed the assumptions, plans and valuation models used by the Bank to determine the fair values of the individual items with the involvement of our valuation specialists. We have analyzed whether the plan values and underlying assumptions are consistent and conclusive and whether the discount rates used are within a reasonable range of publicly available information and market data. In addition, we have reconstructed the mathematical mode of operation of the models and the accompanying random sampling of the arithmetical accuracy of 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.

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 AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material 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 Austrian company law, 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 Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (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 AP Regulation

At the Annual General Meeting dated 2 August 2017, we were elected as auditors. We were appointed by the supervisory board on the 2 October 2017. 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 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

Engagement Partner

The engagement partner is Mr. Bernhard Mechtler

Vienna, 11 March 2019

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
After-tax earnings per share	(Net profit – AT1 coupon net of tax) / weighted average number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon net of tax) per every individual share of the stock.
Average interest-bearing assets	Month-end interest-bearing assets / number of months	Average of month-end interest-bearing assets within the quarter or the year is used for calculating net interest margin and risk cost ratio (see KPIs below)
Book value per share	Common equity / number of shares outstanding	Book value per share represents the total amount of common equity divided by the number of shares outstanding at the end of the period.
Common equity	Equity attributable to the owners of the parent	Common equity as presented in the consolidated financial statements
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	CET1 capital is defined by the CRR and represents the highest quality of capital. It therefore only comprises capital instruments that are available to the bank for unrestricted and immediate use to cover risks or losses as soon as they occur. The higher the bank's CET1 capital, the higher its resilience against such risks or losses.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets	The CET1 ratio is one of the most important regulatory metrics and demonstrates the bank's financial strength by providing a measure for how well a bank can withstand financial stress. The ratio is consistently monitored 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 (CIR)	Operating expenses / operating income	The cost-income ratio shows the company's operating expenses in relation to its operating income. The ratio gives a clear view of operational efficiency. BAWAG Group uses the cost-income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions.
Customer loans	Customer loans measured at amortized cost	The book value of customer loans measured at amortized cost.
Interest-bearing assets	Financial assets + Assets at amortized cost – Assets at central banks	Interest-bearing assets comprise the line items Financial assets and Assets at amortized cost excluding Assets at central banks
Leverage ratio	Tier 1 capital / total exposure (calculation according to CRR)	The leverage ratio is a regulatory metric and expresses the relationship between the bank's Tier 1 capital and its total exposure, where total exposure includes on-balance and certain off-balance exposures but not on a risk-weighted basis. The ratio provides a metric to judge how leveraged a bank is. The higher the leverage ratio, the lower a bank is leveraged and the higher the likelihood of a bank withstanding negative shocks to its balance sheet.
Liquidity coverage ratio (LCR)	Liquid assets / net liquid outflows (calculation according to CRR)	The liquidity coverage ratio is a regulatory metric that ensures that banks maintain adequate levels of liquidity, i.e. sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, the bank shall sustain any possible imbalance between liquidity inflows and

		outflows under stressed conditions over a period of thirty days. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements and short-term liquidity needs.
Loan-to-Value (LTV)	Mortgage loans / appraised value (market value) of the property	The LTV ratio is a financial term to express the ratio of a mortgage loan in relation to the value in use or market value of the underlying property.
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	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	The NPL ratio is an economic ratio to demonstrate the proportion of credit risk exposure that has been classified as "non-performing" in relation to the entire credit risk exposure. The ratio reflects the quality of the portfolio and of the Group'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
Off-balance business	CCF weighted off-balance business	The off-balance business in the risk report is CCF weighted.
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 – AT1 coupon net of tax) / weighted average number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax (excluding AT1 coupon net of tax)per every individual share of the stock.
Price/book ratio	Market capitalization / common equity	Price/book ratio measures the market value of equity in relation to its common equity value based on accounting principles at the end of the period.
Price/tangible book ratio	Market capitalization / tangible common equity	Price/tangible book ratio measures the market value of equity in relation to its tangible common equity value at the end of the period.
Return on equity	Net profit / average common equity – average equity based on 1 January 2018 due to IFRS 9 implementation	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the income statement as a percentage of the respective underlying (either equity related or asset related).
Return on equity (@12%	Return on equity calculated at	

CET1)	a fully loaded CET1 ratio of 12% – average equity based on 1 January 2018 due to IFRS 9 implementation	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. The "Return on …" measures are useful for easily comparing the profitability of the bank with other financial institutions. Allocated equity to segments is based on an internal model taking into account risk weighted assets and balance sheet size of the respective segment
Return on tangible equity (RoTE)	Net profit / average tangible common equity – average equity based on 1 January 2018 due to IFRS 9 implementation	
RoTE (@12% CET1)	Return on tangible equity calculated at a fully loaded CET1 ratio of 12% – average equity based on 1 January 2018 due to IFRS 9 implementation	
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Group, fully loaded)	The calculation of risk-weighted assets is defined in the CRR. The figure describes the total amount of exposure at risk for a bank and includes both on-balance and off-balance positions. When calculating the amount, the bank can consider risk-mitigating elements (e.g. collateral) and has to derive regulatory risk weights for each position depending on the (external) credit rating of the counterparty or customer. Risk-weighted assets are used as the denominator for calculating the CET1 ratio (see above). "Fully loaded" refers to the full application of the CRR without any transitional rules.
Risk costs / interest-bearing assets; (risk cost ratio)	Provisions and loan loss provisions, impairment losses and operational risk (total risk costs) / average interest-bearing assets	This ratio is a measure for the quality of credit risk management and the loan portfolio itself. It provides a relative view of the risk costs for the period based on the average interest-bearing assets and allows benchmarking with other banks. Low risk costs may result from a high collateralization and/or a close monitoring of the credit rating of the customers. As a result, this implies that there are only few actual credit losses and little need for provisioning.
RWA density	Risk-weighted assets / total assets	The RWA density is a metric to obtain an "average risk weight" for a bank's balance sheet, i.e. the bank's total risk-weighted assets (see above) compared to the total assets. The ratio indicates the average risk weightings of the assets based on their regulatory assessment, which can be impacted by asset quality, the collateralization level or the applied models for assessing the risk weights.
Tangible book value per share	Tangible common equity / number of shares outstanding	Tangible book value per share represents the total amount of common equity less intangible assets divided by the number of shares outstanding at the end of the period.
Tangible common equity	Common equity reduced by the carrying amount of intangible assets	Tangible common equity is another viability indicator for banks and facilitates the comparison of equity figures excluding intangible assets. It is used as the denominator of the return on tangible equity calculation (see below).
Total capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	Total capital and total capital ratio are regulatory metrics and compare to CET1 capital and the CET1 ratio in a way that the eligible capital for this purpose is extended by other

Total capital ratio	Total capital / risk-weighted assets	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.
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.
Expected credit loss	IFRS 9 requires a bank to determine the expected credit loss (ECL) based on a probability assessment of future cash flows and losses. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries).
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
Fair value hedge	Assets or liabilities, generally with fixed interest rates, are protected against changes in their fair value using derivatives.
Futures	Standardized, exchange-traded forward agreements in which an asset must be delivered or purchased at a specific time and at a price that is agreed in advance.
Hedge accounting	An accounting technique that aims to minimize the effects that the opposing developments in the value of a hedge transaction and its underlying transaction have on the income statement.
Hedging	Protecting against the risk of disadvantageous interest rate and price changes
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.
Industry segmentation	Allocation to individual industries based on internal industry codes
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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