BAWAG Group

CONSOLIDATED INTERIM REPORT

Q3 2018

KEY FIGURES

Profit or loss statement (in € million)	Q3 2018	Q3 2017	Change (%)	Jan–Sep 2018	Jan–Sep 2017	Change (%)
Net interest income	212.7	195.5	8.8	623.4	588.6	5.9
Net fee and commission income	66.6	44.8	48.7	212.6	150.9	40.9
Core revenues	**279.3**	**240.3**	**16.2**	**836.0**	**739.5**	**13.0**
Other income[1]	18.9	9.3	>100	44.0	29.0	51.7
Operating income	**298.3**	**249.6**	**19.5**	**880.0**	**768.5**	**14.5**
Operating expenses	**(126.5)**	**(103.1)**	**22.7**	**(381.4)**	**(321.1)**	**18.8**
Regulatory charges	(2.2)	(1.7)	29.4	(41.6)	(29.8)	39.6
Total risk costs	(11.2)	(17.0)	(34.1)	(31.9)	(43.7)	(27.0)
Profit before tax	**160.1**	**129.0**	**24.1**	**429.0**	**376.9**	**13.8**
Income taxes	(35.4)	(30.6)	15.7	(101.6)	(77.0)	31.9
Net profit	**124.6**	**98.3**	**26.8**	**327.3**	**299.8**	**9.2**

Share data	Q3 2018	Q3 2017	Change (%)	Jan–Sep 2018	Jan–Sep 2017	Change (%)
Pre-tax earnings per share (in €)	1.57	1.29	21.4	4.23	3.77	12.3
After-tax earnings per share (in €)	1.22	0.98	24.1	3.23	3.00	7.8
Book value per share (in €)	37.10	33.83	9.7	37.10	33.83	9.7
Tangible book value per share (in €)	31.91	29.87	6.8	31.91	29.87	6.8
Shares outstanding[2]	99,183,487	100,000,000	(0.8)	99,183,487	100,000,000	(0.8)

Performance ratios (figures annualized)	Q3 2018	Q3 2017	Change (pts)	Jan–Sep 2018	Jan–Sep 2017	Change (pts)
Return on equity[3]	13.7%	11.7%	2.0	12.2%	12.3%	(0.1)
Return on equity (@12% CET1)	**16.7%**	**14.7%**	**2.0**	**14.0%**	**14.7%**	**(0.7)**
Return on tangible equity[3]	15.9%	13.2%	2.7	14.2%	13.9%	0.3
Return on tangible equity (@12% CET1)	**20.2%**	**17.2%**	**3.0**	**16.8%**	**17.1%**	**(0.3)**
Net interest margin	2.28%	2.26%	0.02	2.19%	2.23%	(0.04)
Cost-income ratio	42.4%	41.3%	1.1	43.3%	41.8%	1.5
Risk costs / interest-bearing assets	0.12%	0.20%	(0.08)	0.11%	0.17%	(0.06)

Statement of financial position (in € million)	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
Total assets	44,879	46,071	(2.6)	38,368	17.0
Customer loans	30,315	30,804	(1.6)	27,525	10.1
Customer deposits and own issues	35,397	36,611	(3.3)	30,399	16.4
IFRS equity (excl. AT1 capital)	3,680	3,609	2.0	3,383	8.8
IFRS tangible equity (excl. AT1 capital)	3,165	3,102	2.0	2,987	5.9
Risk-weighted assets	20,301	21,491	(5.5)	17,812	14.0

Balance sheet ratios	Sep 2018	Dec 2017	Change (pts)	Sep 2017	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**15.3%**	**13.5%**	**1.8**	**16.2%**	**(0.9)**
Total capital ratio (fully loaded)	17.2%	15.2%	2.0	19.0%	(1.8)
Leverage ratio (fully loaded)	7.4%	6.2%	1.2	7.5%	(0.1)
Liquidity coverage ratio (LCR)	156%	150%	6	127%	29
NPL ratio	1.7%	1.8%	(0.1)	2.0%	(0.3)

1) The term "Other Income" includes gains and losses on financial instruments and other operating income and expenses; 2) At the end of the period; 3) Excl. AT1 capital

Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on page 83. Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016.

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Certain statements contained in this report may be statements of future expectations and other forward-looking statements that are based on management's current view and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

BAWAG Group's interim results are typically not indicative of expected full-year results. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance.

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The tables in this report may contain rounding differences.

LETTER FROM THE CEO

Dear Shareholders,

BAWAG Group delivered strong results with profit before tax of € 429 million (+14%) compared to the first three quarters 2017. With a return on tangible equity of 16.8% (@12% CET1) and a cost-income ratio of 43.3%, BAWAG Group ranks among the most profitable and efficient banks across Europe. We continue to maintain a conservative risk profile, which is best reflected in a risk cost ratio of 11 basis points and an NPL ratio of 1.7%. We believe this is a reflection of our business primarily focused on the DACH region and developed markets applying a low-risk, simple and efficient operating model. The recent stress test results are a reflection of the developed markets we operate in and the resilience of our business model. Under the adverse scenario, the 3-year cumulative CET1 impact would have been negative 240bps, versus the EBA average of negative 395bps. Given our year-end 2017 CET1 starting point of 13.4%, our CET1 under the adverse scenario would have landed at 11.0% versus the EBA average of 10.1%.

The **BAWAG P.S.K. Retail** segment continued to deliver strong results with a profit before tax of € 177 million, up 17% versus prior year. We have made very good progress in accelerating *Concept 21*, our preferred stand-alone strategy. We've initiated a targeted shift of customers to our future network, built an active pipeline for new branches and are prudently adding financial advisors. Furthermore, we made progress on our retail partnerships, partnering with Metro Cash & Carry Austria, another new retail partnership following the signing of MediaMarktSaturn during the second quarter. Both partnerships will be fully operational in 2019 and represent new customer acquisition channels complementing our omni-channel strategy aimed at strengthening our presence in the consumer lending space and leveraging our full offering of banking products.

Our **easygroup** segment continued to deliver strong results as well with profit before tax of € 106 million, up 1% versus prior year as the organic growth of *easybank*, *easyleasing* and PayLife offset the run-off of international mortgage assets. The business continues to execute on several strategic initiatives focused on process optimization and digital capabilities. As an example, *easybank* recently launched the one-click loan, providing a frictionless customer experience. PayLife reached a significant milestone, achieving net credit card growth (the first since 2013) and successfully launched its credit card issuing business in Germany. We are also on track for the launch of *Qlick* (our digital German brand) during the fourth quarter and being fully operational in 2019.

The **International Business** lending also delivered strong results with profit before tax of € 88 million, up 45% versus prior year, due to year-to-date net asset growth of 9% and the release of prior year provisions. The asset quality of the business is best reflected in an NPL ratio of 20bps. Our new business origination is based on disciplined underwriting and risk-adjusted returns, focused on pricing and credit quality over volume and increased risk. We continue to see a good pipeline for the fourth quarter, with diversified opportunities generated from our real estate portfolio lending business.

The focus of the **DACH Corporates & Public Sector** business continues to be on maintaining and acquiring sustainable customer relationships in a very competitive and challenging environment. We believe the risk-adjusted returns are currently out of balance, which is currently impacting the business. However, we remain patient for a more normalized pricing environment that provides appropriate risk-adjusted returns.

The strong integration momentum at **Südwestbank** continues. Our transformation plan is being executed to improve operating performance across all products and channels with a focus on profitability, capital, operational efficiency and risk management with a goal to deliver results in line with the overall BAWAG Group targets.

In terms of **M&A**, we announced the successful closing of the Deutscher Ring Bausparkasse acquisition in September 2018. The bank complements BAWAG Group's business model while providing a bolt-on opportunity for retail growth in Germany. We continue to maintain a robust M&A pipeline of opportunities, but will remain disciplined in following our underwriting guidelines on both strategic fit and value.

We will continue to maintain our low-risk strategy focused on the DACH region, while providing our customers with simple, transparent and best-in-class products and services. We also place a clear focus on technology, as this will be one of the key differentiators across the banking landscape given the pace of technological disruption.

All of our team members across BAWAG Group are focused on continuing to deliver value to our customers and shareholders. We will continue to execute on a number of operational and strategic initiatives during the remainder of 2018. Our focus remains on driving operational excellence and profitable growth, and we are confident in exceeding all of our 2018 targets.

Anas Abuzaakouk, CEO of BAWAG Group AG

Interim Group Management Report

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKET

Equity markets in Europe and the US were influenced by a sound economic environment, strong corporate earnings and favorable monetary conditions on the one hand and elevated political risks on the other hand. After rather stable share price developments in 2017, the first three quarters 2018 were characterized by an increase in price volatility. During the first three quarters 2018, the Euro Stoxx Banks, a sub-index of Euro Stoxx 600 and the benchmark index for banks operating in the Euro area, decreased by 18%.

High economic growth rates translated into a solid financial performance by the corporate sector. Earnings per share of the ATX, of the Euro Stoxx 600, of the Euro Stoxx Banks and of the S&P 500 increased during the first three quarters 2018. With increasing earnings and decreasing prices, valuation metrics decreased in Europe and in the US during the first three quarters 2018. While the price-to-earnings ratio of the ATX, the Euro Stoxx 600 and the Euro Stoxx Banks decreased to 11.6, to 15.0 and to 10.0, respectively, the price-to-earnings ratio of the S&P 500 still remained at a more elevated level of 21.0.

Despite three interest rate hikes by the US Federal Reserve in March, June and September 2018 and despite tapering of asset purchases by the European Central Bank, global liquidity conditions remained ample in historic comparison.

Higher price volatility was caused by increased political risks in connection with monetary policy in Turkey and Argentina, as well as uncertainty regarding government finances in Italy. Mutual protectionist trade policy of various countries including the US, China and the EU represent a risk to global trade.

SHARE PERFORMANCE

BAWAG Group AG's shares closed the first three quarters 2018 at a share price of € 40.00 compared to € 44.46 as of year-end 2017, representing a decrease of 10%. During the same period, the share price high was at € 48.20 and the low at € 37.76.

The Euro Stoxx Banks decreased by 18% during the first three quarters 2018. Thus, BAWAG Group AG's shares outperformed the benchmark index for banks in the Euro area.

FUNDING AND INVESTOR RELATIONS

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

On 28 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 (XS0987169637). Investor take-up was very strong with a total principal amount of € 268 million tendered (approximately 90% take-up). The settlement was executed on 10 July 2018. The capital impact of these transactions is fully reflected in the capital ratios as of 30 September 2018.

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

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	Q3 2018	Q3 2017	Change (%)	Jan–Sep 2018	Jan–Sep 2017	Change (%)
Interest income	286.1	268.3	6.6	862.5	813.1	6.1
Interest expense	(75.7)	(72.8)	4.0	(247.4)	(231.3)	7.0
Dividend income	2.3	0.0	>100	8.3	6.8	22.1
Net interest income	**212.7**	**195.5**	**8.8**	**623.4**	**588.6**	**5.9**
Fee and commission income	90.5	67.4	34.3	279.5	210.2	33.0
Fee and commission expenses	(23.9)	(22.6)	5.8	(66.9)	(59.3)	12.8
Net fee and commission income	**66.6**	**44.8**	**48.7**	**212.6**	**150.9**	**40.9**
Core revenues	**279.3**	**240.3**	**16.2**	**836.0**	**739.5**	**13.0**
Gains and losses on financial instruments and other operating income and expenses[1)]	18.9	9.3	>100	44.0	29.0	51.7
Operating income	**298.3**	**249.6**	**19.5**	**880.0**	**768.5**	**14.5**
Operating expenses[1)]	**(126.5)**	**(103.1)**	**22.7**	**(381.4)**	**(321.1)**	**18.8**
Regulatory charges	(2.2)	(1.7)	29.4	(41.6)	(29.8)	39.6
Operating profit	**169.6**	**144.8**	**17.1**	**457.0**	**417.6**	**9.4**
Total risk costs	(11.2)	(17.0)	(34.1)	(31.9)	(43.7)	(27.0)
Share of the profit or loss of associates accounted for using the equity method	1.8	1.2	50.0	3.9	3.0	30.0
Profit before tax	**160.1**	**129.0**	**24.1**	**429.0**	**376.9**	**13.8**
Income taxes	(35.4)	(30.6)	15.7	(101.6)	(77.0)	31.9
Profit after tax	**124.7**	**98.4**	**26.7**	**327.4**	**299.9**	**9.2**
Non-controlling interests	(0.1)	(0.1)	–	(0.1)	(0.1)	–
Net profit	**124.6**	**98.3**	**26.8**	**327.3**	**299.8**	**9.2**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 39.1 million for the first three quarters 2018. The item Operating expenses includes regulatory charges in the amount of € 2.5 million for the first three quarters 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 Interim Group Management Report.

Profit before tax increased by € 52.1 million, or 13.8%, to € 429.0 million in the first three quarters 2018, mainly due to higher net fee and commission income.

Net interest income increased by € 34.8 million, or 5.9%, to € 623.4 million in the first three quarters 2018.

Net fee and commission income increased by € 61.7 million, or 40.9%, compared to the first three quarters 2017, mainly due to the acquisitions of PayLife and Südwestbank, which were closed in the fourth quarter 2017, and lower commission expenses paid to the Austrian Post.

Gains and losses on financial instruments and other operating income and expenses increased by € 15.0 million to € 44.0 million in the first three quarters 2018.

Operating expenses increased by 18.8% to € 381.4 million in the first three quarters 2018, mainly due to the acquisitions of PayLife and Südwestbank. Operating expenses in the third quarter 2018 slightly increased compared to the second quarter 2018, due to the closing of the acquisition of Deutscher Ring Bausparkasse.

Total risk costs decreased by € 11.8 million to € 31.9 million in the first three quarters 2018.

Income taxes amounted to € 101.6 million in the first three quarters 2018.

Total assets

in € million	**Sep 2018**	Dec 2017	Change (%)	Sep 2017	Change (%)
Cash reserves	751	1,180	(36.4)	717	4.7
Financial assets					
Held for trading	360	458	(21.4)	434	(17.1)
Fair value through profit or loss	508	448	13.4	183	>100
Fair value through OCI	3,137	4,408	(28.8)	2,751	14.0
At amortized cost	38,777	38,027	2.0	33,015	17.5
Customers	30,315	30,804	(1.6)	27,525	10.1
Debt instruments	3,542	3,563	(0.6)	3,573	(0.9)
Credit institutions	4,920	3,660	34.4	1,917	>100
Hedging derivatives	379	517	(26.7)	543	(30.2)
Tangible non-current assets	228	223	2.2	52	>100
Intangible non-current assets	515	506	1.8	395	30.4
Tax assets for current taxes	14	12	16.7	5	>100
Tax assets for deferred taxes	76	102	(25.5)	96	(20.8)
Other assets	134	190	(29.5)	177	(24.3)
Total assets	**44,879**	**46,071**	**(2.6)**	**38,368**	**17.0**

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 the third quarter 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.

The position **at amortized cost** increased by € 750 million, or 2.0%, and stood at € 38,777 million as of 30 September 2018.

Tax assets for deferred taxes decreased by € 26 million, or 25.5%, to € 76 million as of 30 September 2018.

Total liabilities and equity

in € million	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
Total liabilities	**40,900**	**42,461**	**(3.7)**	**34,984**	**16.9**
Financial liabilities					
Fair value through profit or loss	588	726	(19.0)	756	(22.2)
Held for trading	282	345	(18.3)	338	(16.6)
At amortized cost	38,796	39,894	(2.8)	32,700	18.6
Customers	30,853	30,947	(0.3)	24,701	24.9
Issued securities	3,956	4,938	(19.9)	4,942	(20.0)
Credit institutions	3,987	4,009	(0.5)	3,057	30.4
Valuation adjustment on interest rate risk hedged portfolios	75	116	(35.3)	135	(44.4)
Hedging derivatives	103	94	9.6	124	(16.9)
Provisions	480	450	6.7	373	28.7
Tax liabilities for current taxes	3	17	(82.4)	3	–
Tax liabilities for deferred taxes	12	5	>100	6	100
Other obligations	561	814	(31.1)	549	2.2
Total equity	**3,979**	**3,610**	**10.2**	**3,384**	**17.6**
Shareholders' equity	3,680	3,609	2.0	3,383	8.8
AT1 capital	298	–	–	–	–
Non-controlling interests	1	1	0.0	1	0.0
Total liabilities and equity	**44,879**	**46,071**	**(2.6)**	**38,368**	**17.0**

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 the third quarter 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.

Financial liabilities at amortized cost decreased by € 1,098 million, or 2.8%, to € 38,796 million as of 30 September 2018 compared to 31 December 2017, but showed an increase of € 6,096 million, or 18.6%, compared to 30 September 2017, primarily driven by the first-time consolidation of Südwestbank.

Total equity including Additional Tier 1 capital stood at € 3,979 million as of 30 September 2018.

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BUSINESS SEGMENTS

BAWAG P.S.K. RETAIL

First Three Quarters 2018 Business Review

In the first three quarters 2018, we made further progress on *Concept 21*, our retail transformation roadmap, with a stand-alone strategy focused on an optimized cost base and enhanced service model. To date, we have reshaped our network by successfully consolidating 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 received positive feedback from our customers and continue 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. We initiated a targeted shift of customers to our future network and built an active pipeline of real estate for new branches, with over 50% of our newly planned branches already signed. We continue to work on establishing more than 20 new branches in our modernized network (*Concept 21*), with the first newly designed branch having been opened in October 2018.

We continue to employ a data-driven and customer-focused approach to network transformation and consolidation. We are enhancing our strengths as a high-touch advisory-focused network, complemented with customized and digital processes and platforms. Our reshaped branch network 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!".

In the first three quarters 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 to the first three quarters 2017, over-the-counter transactions represented only approx. 10% of total transactions, down 20% from the first three quarters 2017. We are working to optimize our online banking user experience on an ongoing basis in order to continue the shift to digital. As an example, interactive and easy-to-understand tutorials have been added to the online banking to maximize accessibility for all our customers.

We continued to recognize additional opportunities to streamline operational processes, reduce costs and enhance the customer experience. We are delivering technological developments to our branch network, including investments made to digitize applications and operational documentation (paperless branch) and drive further automation and security in cash management.

In the first three quarters 2018, we continued to grow our consumer loan volume with new business of € 0.4 billion. These results were delivered while maintaining our disciplined underwriting standards. Our agreement to provide point-of-sale financing to MediaMarktSaturn customers from 2019 onwards also positions us at the forefront of the consumer finance market, with our technology and footprint at the critical points of the customer journey.

Additionally, in October we announced a partnership 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.

Outlook

In the fourth quarter, 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 whenever appropriate. As we are focused on providing a superior experience through all channels, we are progressing towards a consolidated, digitally integrated platform as well as expanding our cooperation with retail partners and Fintechs. We expect continued focus on our customer experience and management as we progress on this important transformation, ultimately driving a better customer journey and enhanced productivity throughout the organization. Additionally, our retailer partnership strategy, initiated through the MediaMarktSaturn cooperation as well as the partnership with Metro Cash & Carry Austria, will complement our omni-channel strategy aimed at strengthening our presence in the consumer lending space and leveraging our full offering of banking products.

Financial Results

Income metrics (in € million)	Q3 2018	Q3 2017	Change (%)	Jan–Sep 2018	Jan–Sep 2017	Change (%)
Net interest income	97.0	95.6	1.5	289.3	283.0	2.2
Net fee and commission income	36.3	33.4	8.7	119.2	111.9	6.5
Core revenues	**133.3**	**129.0**	**3.3**	**408.5**	**394.8**	**3.5**
Gains and losses on financial instruments	0.0	2.3	–	8.5	3.0	>100
Other operating income and expenses	0.4	0.6	(33.3)	1.4	1.4	0.0
Operating income	**133.7**	**131.8**	**1.4**	**418.4**	**399.4**	**4.8**
Operating expenses	**(61.4)**	**(69.0)**	**(11.0)**	**(186.0)**	**(201.7)**	**(7.8)**
Regulatory charges	0.0	0.0	0.0	(15.0)	(12.7)	18.1
Total risk costs	(12.8)	(14.9)	(14.1)	(40.4)	(33.4)	21.0
Profit before tax	**59.5**	**47.8**	**24.5**	**177.0**	**151.6**	**16.8**

Key ratios	Q3 2018	Q3 2017	Change (pts)	Jan–Sep 2018	Jan–Sep 2017	Change (pts)
Pre-tax return on tangible equity	31.2%	24.0%	7.2	32.3%	26.4%	5.9
Pre-tax return on tangible equity (@12% CET1)	39.4%	31.1%	8.3	38.3%	32.3%	6.0
Net interest margin	4.04%	3.98%	0.06	4.04%	3.90%	0.14
Cost-income ratio	45.9%	52.4%	(6.5)	44.5%	50.5%	(6.0)
Risk costs / interest-bearing assets	0.53%	0.62%	(0.09)	0.56%	0.46%	0.10
NPL ratio	2.4%	2.3%	0.1	2.4%	2.3%	0.1

Business volumes (in € million)	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
Assets	9,621	9,502	1.3	9,589	0.3
Risk-weighted assets	3,806	3,679	3.5	3,602	5.7
Customer deposits	15,750	16,092	(2.1)	15,950	(1.3)
Own issues	2,640	2,862	(7.8)	2,864	(7.8)

Operating income increased by 4.8% to € 418.4 million compared to the first three quarters 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.

Operating expenses decreased by 7.8% to € 186.0 million.

The increase in **regulatory charges** stems from the contributions to the deposit guarantee scheme.

Risk costs amounted to € 40.4 million, translating into a risk cost ratio of 56 basis points with a stable NPL ratio of 2.4%.

The segment delivered **profit before tax** of € 177.0 million and a pre-tax return on tangible equity (@12% CET1) of 38.3%.

Assets increased by 1.3% compared to year-end 2017, mostly coming from consumer lending and housing loans.

Customer deposits decreased by 2.1% compared to year-end 2017, due to reduced volumes from our fixed savings products.

EASYGROUP

First Three Quarters 2018 Business Review

easygroup consists of all our non-branch related origination channels, which includes *easybank*, *easyleasing*, PayLife, start:bausparkasse and Deutscher Ring Bausparkasse, with a customer base of 1.4 million. In September 2018, we closed on the acquisition of Deutscher Ring Bausparkasse. All brands originate business through a mix of direct digital channels, auto dealers, brokers and retail/banking partner relationships.

The easygroup segment ended the first three quarters 2018 with total segment assets of € 5.9 billion and customer deposits of € 6.0 billion.

In *easybank*, online consumer loan origination increased by 24% in the first three quarters 2018 compared to the same period last year, with new customer loans up over 100%. Additionally, we saw a positive trend in our online current accounts, with net growth in our “easy konto” fee-bearing account of over 9% during the first three quarters compared to year-end 2017. In September 2018, we launched our one-click loan, which increased sales by more than 20%. The one-click solution offers *easybank* customers an easy, simple and transparent loan with one click. We continue to work on additional innovative investments that will continue this positive trend.

Within *easyleasing*, the focus remains on growing our asset base. Customer leasing origination was up 8% versus the same period last year, resulting in 4% net asset growth compared to September 2017, and up 1% versus the prior quarter. We continue to evaluate different organic and inorganic options when it comes to pursuing further growth in this segment. We successfully acquired a number of new dealers and brokers in *easyleasing* and continue to evaluate different organic and inorganic options to grow the business.

During the third quarter of 2018, PayLife reached a significant milestone. Following the successful and expedited integration of PayLife, for the first time since 2013 and less than one year after the acquisition, the credit card portfolio had positive net growth. Until we acquired PayLife, the card portfolio was experiencing an annual decrease of approximately 6% per year. This turnaround was achieved by locking in distribution partnerships and focusing on turning growth back on. In addition, PayLife launched its credit card issuing business in Germany with its first banking partner Südwestbank, issuing approximately 2,800 new credit cards in September alone.

start:bausparkasse, our building society and housing product origination channel, ended the first three quarters 2018 with new volume originations of € 118 million.

The acquisition of Deutscher Ring Bausparkasse provides a bolt-on opportunity for retail growth in Germany.

Outlook

The core areas of easygroup continue their strong performance, with a focus on consumer lending, current accounts, credit cards, leasing and housing products. With PayLife integrated into the Bank, we will continue to focus on growth opportunities. We have reached a significant inflection point within the PayLife portfolio and expect this trend to continue.

Within *easybank*, investments in innovative digital solutions, focused on providing our customers with easier and frictionless access to financial products, will continue to drive results. We expect to see continued strong double-digit organic growth for the remainder of the year and in 2019. Our German expansion strategy is progressing well and we are expecting to launch *Qlick*, our digital German brand, in the German market at the end of 2018.

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)	Q3 2018	Q3 2017	Change (%)	Jan–Sep 2018	Jan–Sep 2017	Change (%)
Net interest income	40.3	42.5	(5.2)	121.2	130.9	(7.4)
Net fee and commission income	14.4	4.4	>100	42.6	13.6	>100
Core revenues	**54.7**	**46.8**	**16.9**	**163.8**	**144.5**	**13.4**
Gains and losses on financial instruments	0.0	(2.3)	–	0.0	(2.2)	–
Other operating income and expenses	0.0	(0.5)	–	0.0	(0.8)	–
Operating income	**54.7**	**44.1**	**24.0**	**163.8**	**141.4**	**15.8**
Operating expenses	**(17.8)**	**(11.9)**	**49.6**	**(51.6)**	**(37.1)**	**39.1**
Regulatory charges	0.0	0.0	0.0	(4.2)	(4.1)	2.4
Total risk costs	(2.1)	(3.1)	(32.3)	(2.2)	4.5	–
Profit before tax	**34.8**	**29.1**	**19.6**	**105.8**	**104.8**	**1.0**

Key ratios	Q3 2018	Q3 2017	Change (pts)	Jan–Sep 2018	Jan–Sep 2017	Change (pts)
Pre-tax return on tangible equity	29.6%	19.3%	10.3	29.0%	22.9%	6.1
Pre-tax return on tangible equity (@12% CET1)	37.4%	24.9%	12.5	34.2%	27.9%	6.3
Net interest margin	2.85%	2.88%	(0.03)	2.84%	2.85%	(0.01)
Cost-income ratio	32.5%	27.0%	5.5	31.5%	26.2%	5.3
Risk costs / interest-bearing assets	0.15%	0.21%	(0.06)	0.05%	(0.10)%	0.15
NPL ratio	2.0%	2.6%	(0.6)	2.0%	2.6%	(0.6)

Business volumes (in € million)	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
Assets	5,883	5,938	(0.9)	5,769	2.0
Risk-weighted assets	3,332	4,193	(20.5)	4,107	(18.9)
Customer deposits	6,031	5,550	8.7	5,422	11.2
Own issues	351	431	(18.6)	465	(24.5)

Operating income increased by 15.8% to € 163.8 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 39.1% to € 51.6 million compared to the first three quarters of the previous year due to the acquisitions of PayLife in October 2017 and Deutscher Ring Bausparkasse in September 2018.

The slight increase in **regulatory charges** stems from the contributions to the deposit guarantee scheme.

Risk costs amounted to € 2.2 million, translating into a risk cost ratio of only 5 basis points.

The segment contributed **profit before tax** of € 105.8 million with a pre-tax return on tangible equity (@12% CET1) of 34.2%.

Assets remained largely stable compared to year-end 2017. The run-off of the international mortgage portfolio was largely compensated by the consolidation of Deutscher Ring Bausparkasse.

Customer deposits increased by € 0.4 billion to € 6.0 billion due to the acquisition of Deutscher Ring Bausparkasse.

INTERNATIONAL BUSINESS

First Three Quarters 2018 Business Review

The segment generated new business of € 2.7 billion in the first three quarters of 2018, more than offsetting redemptions and translating into net asset growth of approx. 9% compared to year-end 2017. As of September 2018, our corporate lending business grew 6% to € 2.5 billion and our real estate lending business grew 11% to € 3.1 billion compared to year-end 2017. Asset quality remains high with an NPL ratio of 20 basis points and the business benefiting from release of provisions from prior years.

Outlook

We see a solid pipeline with diversified opportunities for the remainder of the year, 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)	Q3 2018	Q3 2017	Change (%)	Jan–Sep 2018	Jan–Sep 2017	Change (%)
Net interest income	34.6	33.6	3.0	96.2	98.9	(2.7)
Net fee and commission income	0.2	0.2	0.0	0.3	0.2	50.0
Core revenues	**34.8**	**33.8**	**3.0**	**96.5**	**99.1**	**(2.6)**
Gains and losses on financial instruments	0.0	0.0	0.0	2.7	(0.5)	–
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**34.8**	**33.8**	**3.0**	**99.2**	**98.6**	**0.6**
Operating expenses	**(6.8)**	**(6.4)**	**6.3**	**(20.3)**	**(21.8)**	**(6.9)**
Total risk costs	2.2	(0.3)	–	9.4	(15.8)	–
Profit before tax	**30.2**	**27.1**	**11.4**	**88.3**	**61.0**	**44.8**

Key ratios	Q3 2018	Q3 2017	Change (pts)	Jan–Sep 2018	Jan–Sep 2017	Change (pts)
Pre-tax return on tangible equity	25.3%	21.8%	3.5	26.1%	17.2%	8.9
Pre-tax return on tangible equity (@12% CET1)	32.0%	28.2%	3.8	31.1%	21.2%	9.9
Net interest margin	2.57%	2.66%	(0.09)	2.43%	2.52%	(0.09)
Cost-income ratio	19.5%	18.9%	0.6	20.5%	22.1%	(1.6)
Risk costs / interest-bearing assets	(0.16)%	0.02%	(0.18)	(0.24)%	0.40%	(0.64)
NPL ratio	0.2%	1.0%	(0.8)	0.2%	1.0%	(0.8)

Business volumes (in € million)	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
Assets	5,636	5,174	8.9	5,139	9.7
Risk-weighted assets	4,672	4,318	8.2	4,152	12.5

Operating income increased to € 99.2 million compared to the first three quarters 2017.

Operating expenses decreased by 6.9% to € 20.3 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 € 88.3 million with a pre-tax return on tangible equity (@12% CET1) of 31.1%.

Assets increased by 8.9% to € 5.6 billion compared to year-end 2017.

DACH CORPORATES & PUBLIC SECTOR

First Three Quarters 2018 Business Review

The segment's assets stood at € 6.0 billion at the end of September 2018, down 10% 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 have required us to pull back from a number of corporate lending transactions that do not offer the right price or credit terms.

Outlook

We expect the market to remain very competitive with ongoing margin compression. We have the flexibility and speed necessary for strategic transactions requiring complete debt solutions for clients. We believe the 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)	**Q3 2018**	Q3 2017	Change (%)	**Jan–Sep 2018**	Jan–Sep 2017	Change (%)
Net interest income	13.9	20.8	(33.2)	45.2	52.7	(14.2)
Net fee and commission income	8.5	9.2	(7.6)	27.7	29.0	(4.5)
Core revenues	**22.4**	**30.0**	**(25.3)**	**72.9**	**81.7**	**(10.8)**
Gains and losses on financial instruments	0.6	(1.1)	–	0.8	0.6	33.3
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**23.0**	**28.9**	**(20.4)**	**73.7**	**82.3**	**(10.4)**
Operating expenses	**(12.1)**	**(11.6)**	**4.3**	**(38.1)**	**(35.5)**	**7.3**
Total risk costs	(0.4)	1.5	–	(2.5)	7.0	–
Profit before tax	**10.5**	**18.8**	**(44.1)**	**33.1**	**53.8**	**(38.5)**

Key ratios	**Q3 2018**	Q3 2017	Change (pts)	**Jan–Sep 2018**	Jan–Sep 2017	Change (pts)
Pre-tax return on tangible equity	11.1%	15.1%	(4.0)	11.6%	15.0%	(3.4)
Pre-tax return on tangible equity (@12% CET1)	14.0%	19.5%	(5.5)	13.7%	18.4%	(4.7)
Net interest margin	0.91%	1.09%	(0.18)	0.92%	0.90%	0.02
Cost-income ratio	52.6%	40.1%	12.5	51.7%	43.1%	8.6
Risk costs / interest-bearing assets	0.03%	(0.08)%	0.11	0.05%	(0.12)%	0.17
NPL ratio	1.1%	1.0%	0.1	1.1%	1.0%	0.1

Business volumes (in € million)	**Sep 2018**	Dec 2017	Change (%)	Sep 2017	Change (%)
Assets	6,039	6,725	(10.2)	7,624	(20.8)
Risk-weighted assets	1,970	2,410	(18.3)	2,917	(32.5)
Customer deposits (incl. other refinancing) and own issues	7,396	6,762	9.4	6,283	17.7

Operating income decreased by 10.4% to € 73.7 million compared to the first three quarters 2017, which is a result of a mix of lower asset volumes and margins.

Operating expenses increased by 7.3% to € 38.1 million, primarily resulting from higher allocated overhead costs.

Risk costs amounted to € 2.5 million with a risk cost ratio of 5 basis points, reflecting the low risk profile of our asset portfolio.

The segment contributed **profit before tax** of € 33.1 million with a pre-tax return on tangible equity (@12% CET1) of 13.7%.

Assets decreased by 10.2% compared to year-end 2017, due to the reduction of short-term lending to municipalities and social insurance companies.

Liabilities stood at € 7.4 billion due to an increase of volumes in short-term deposits.

SÜDWESTBANK

First Three Quarters 2018 Business Review

Südwestbank has been part of BAWAG Group since December 2017. Integration is progressing ahead of plan, with a number of initiatives ranging from capital efficiency to operational restructuring and transformation yielding operational results and financial benefits. In the third quarter, a number of digitization initiatives were launched to improve and simplify core processes.

Operational transformation: The integration and transformation process was fully launched, culminating in reaching an agreement with the workers' council on a comprehensive social plan in April resulting in Südwestbank rightsizing the branch footprint and adjusting overall staffing levels. In addition, Südwestbank was fully integrated in all processes leveraging tools and standards of BAWAG Group.

Product mix optimization: Initiatives have been launched to optimize Südwestbank's product offer and penetrate our core products across Germany versus enhancing on 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
- The acquisition of Deutscher Ring Bausparkasse, which was closed in September 2018, provides a bolt-on opportunity for retail growth in Germany

Outlook

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

Operational efficiency: 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.

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: Develop new customer acquisition strategies to reposition Südwestbank into a broader retail franchise with a more comprehensive set of retail products distributed through multiple channels. 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, ensuring full integration into BAWAG Group's risk appetite and underwriting standards, driving provisioning adequacy and the transition from a standardized to an IRB risk management approach.

Financial Results

Income metrics (in € million)	Q3 2018	Q3 2017	Change (%)	Jan–Sep 2018	Jan–Sep 2017	Change (%)
Net interest income	20.1	–	–	63.6	–	–
Net fee and commission income	7.6	–	–	24.3	–	–
Core revenues	**27.7**	**–**	**–**	**87.9**	**–**	**–**
Gains and losses on financial instruments	0.0	–	–	0.0	–	–
Other operating income and expenses	0.0	–	–	0.0	–	–
Operating income	**27.7**	**–**	**–**	**87.9**	**–**	**–**
Operating expenses	**(17.4)**	**–**	**–**	**(55.0)**	**–**	**–**
Regulatory charges	0.0	–	–	(2.8)	–	–
Total risk costs	2.3	–	–	3.1	–	–
Profit before tax	**12.6**	**–**	**–**	**33.2**	**–**	**–**

Key ratios	Q3 2018	Q3 2017	Change (pts)	Jan–Sep 2018	Jan–Sep 2017	Change (pts)
Pre-tax return on tangible equity	11.6%	–	–	10.8%	–	–
Pre-tax return on tangible equity (@12% CET1)	14.6%	–	–	12.7%	–	–
Net interest margin	2.06%	–	–	2.03%	–	–
Cost-income ratio	62.8%	–	–	62.6%	–	–
Risk costs / interest-bearing assets	(0.24)%	–	–	0.10%	–	–
NPL ratio	1.8%	–	–	1.8%	–	–

Business volumes (in € million)	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
Assets	3,858	4,183	(7.8)	–	–
Risk-weighted assets	3,170	3,349	(5.3)	–	–
Customer deposits and own issues	5,146	6,146	(16.3)	–	–

Operating income amounted to € 87.9 million. Customer loans are the main contributor to net interest income. Net commission income stems mainly from securities, loans and payment services.

Operating expenses amounted to € 55.0 million, while **risk costs** recorded a net release of € 3.1 million.

The segment contributed **profit before tax** of € 33.2 million with a pre-tax return on tangible equity (@12% CET1) of 12.7%.

Assets amounted to € 3.9 billion, which is a decrease of 7.8% compared to year-end 2017, following the capital efficiency review as part of the business transformation.

Liabilities decreased by € 1.0 billion compared to year-end 2017 to € 5.1 billion.

Note: Südwestbank was acquired in the fourth quarter 2017, therefore prior periods are not available.

CORPORATE CENTER AND TREASURY SERVICES & MARKETS

First Three Quarters 2018 Developments

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 incremental net interest income while also minimizing fair value volatility.

Financial Results

Income metrics (in € million)	Q3 2018	Q3 2017	Change (%)	Jan–Sep 2018	Jan–Sep 2017	Change (%)
Net interest income	6.7	2.9	>100	7.9	23.1	(65.8)
Net fee and commission income	(0.4)	(2.4)	83.3	(1.5)	(3.8)	60.5
Core revenues	**6.3**	**0.6**	**>100**	**6.4**	**19.4**	**(67.0)**
Gains and losses on financial instruments	(2.5)	27.3	–	7.2	42.6	(83.1)
Other operating income and expenses	20.3	(16.9)	–	23.4	(15.1)	–
Operating income	**24.2**	**11.0**	**>100**	**37.0**	**46.8**	**(20.9)**
Operating expenses	**(11.1)**	**(4.0)**	**>100**	**(30.4)**	**(25.0)**	**21.6**
Regulatory charges	(2.1)	(1.7)	23.5	(19.6)	(13.0)	50.8
Total risk costs	(0.5)	(0.2)	>100	0.7	(6.0)	–
Share of the profit or loss of associates accounted for using the equity method	1.7	1.2	41.7	3.9	3.0	30.0
Profit before tax	**12.2**	**6.1**	**100**	**(8.4)**	**5.7**	**–**
Income taxes	(35.4)	(30.5)	16.1	(101.6)	(77.0)	31.9
Net profit	**(23.2)**	**(24.5)**	**5.3**	**(110.0)**	**(71.3)**	**(54.3)**

Volumes (in € million)	Sep 2018	Dec 2017	Change (%)	Sep 2017	Change (%)
Assets and liquidity reserve	13,842	14,549	(4.9)	10,247	35.1
Risk-weighted assets	3,351	3,541	(5.4)	3,034	10.4
Equity	3,978	3,610	10.2	3,384	17.6
Own issues and other liabilities	3,581	4,619	(22.5)	3,995	(10.4)

Operating income decreased to € 37.0 million driven by lower reinvestment yields in the investment book and higher excess liquidity.

Operating expenses amounted to € 30.4 million, already covering the costs for the integrated treasury activities of Südwestbank.

Regulatory charges amounted to € 19.6 million and included the full-year impact of charges to the resolution fund and pro-rata charges of the bank levy and supervisory charges. The increase stems from the acquisitions.

Assets (including the liquidity reserve) decreased by 4.9% 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 read the information in the Notes section.

OUTLOOK & TARGETS

BAWAG Group delivered strong results in the first three quarters 2018 and anticipates that this performance will continue throughout the remainder of the year.

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

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

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

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

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 (above 12% CET1) through 2020 to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our RoTE group targets. To the extent excess capital is not deployed via such organic growth and M&A, we are committed to distributing excess capital to shareholders, based on a yearly assessment, in the form of stock buybacks.

Consolidated Interim Financial Statements

CONSOLIDATED ACCOUNTS

CONDENSED PROFIT OR LOSS STATEMENT

in € million	[Notes]	**Jan–Sep 2018**	Jan–Sep 2017	**Q3 2018**	Q3 2017
Interest income		862.5	813.1	286.1	268.3
Interest expense		(247.4)	(231.3)	(75.7)	(72.8)
Dividend income		8.3	6.8	2.3	0.0
Net interest income	**[1]**	**623.4**	**588.6**	**212.7**	**195.5**
Fee and commission income		279.5	210.2	90.5	67.4
Fee and commission expenses		(66.9)	(59.3)	(23.9)	(22.6)
Net fee and commission income	**[2]**	**212.6**	**150.9**	**66.6**	**44.8**
Gains and losses on financial assets and liabilities	[3]	19.2	43.5	(1.9)	26.2
Other operating income and expenses		(14.3)	(42.6)	19.4	(18.0)
Operating expenses	[4]	(383.9)	(322.8)	(127.3)	(103.7)
Provisions and impairment losses	[5]	(31.9)	(43.7)	(11.2)	(17.0)
Share of the profit or loss of associates accounted for using the equity method		3.9	3.0	1.8	1.2
Profit before tax		**429.0**	**376.9**	**160.1**	**129.0**
Income taxes		(101.6)	(77.0)	(35.4)	(30.6)
Profit after tax		**327.4**	**299.9**	**124.7**	**98.4**
Thereof attributable to non-controlling interests		0.1	0.1	0.1	0.1
Thereof attributable to owners of the parent		**327.3**	**299.8**	**124.6**	**98.3**

In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges (bank levy, contributions to the deposit guarantee scheme and to the single resolution fund) in the amount of € 39.1 million (Jan–Sep 2017: € 28.1 million). Expenses for the deposit guarantee scheme and for the single resolution fund comprise the total expected charges for 2018. The bank levy included in this item amounts to € 3.8 million for the first three quarters 2018, compared to € 3.5 million for the first three quarters 2017.

The item Operating expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of € 2.5 million (Jan–Sep 2017: € 1.7 million) as well. However, the Bank's management sees regulatory charges as a non-operating expense. Accordingly, they are shown in a separate expense line in the Interim Group Management Report.

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

Earnings per share

	Jan–Sep 2018	Jan–Sep 2017
Net result attributable to owners of the parent (in € million)	327.3	299.8
Pro rata AT1 coupon (in € million)	(4.7)	–
Net result attributable to owners of the parent after deduction of pro rata AT1 coupon (in € million)	**322.6**	**299.8**
Weighted average number of outstanding shares	99,846,372	100,000,000
Basic earnings per share (in €)	**3.2**	**3.0**
Weighted average diluted number of outstanding shares	99,871,174	100,000,000
Diluted earnings per share (in €)	**3.2**	**3.0**

Changes in number of outstanding shares

	Jan–Sep 2018	Jan–Sep 2017
Shares outstanding at the beginning of the period	100,000,000	100,000,000
Shares outstanding at the end of the period	99,183,487	100,000,000
Weighted average number of outstanding shares	99,846,372	100,000,000
Weighted average diluted number of outstanding shares	99,871,174	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. A part of these shares bought back is used for a part of our long term incentive programme 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. 1,243,664 shares were bought back up until the finalization of the Consolidated Interim Report on 2 November 2018.

STATEMENT OF COMPREHENSIVE INCOME

in € million	[Notes]	Jan–Sep 2018	Jan–Sep 2017	Q3 2018	Q3 2017
Profit after tax		327.4	299.9	124.7	98.4
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/loss on defined benefit plans		(2.1)	3.9	(0.1)	0.0
Shares and other equity investments at fair value through other comprehensive income		(7.5)		(1.6)	
Change in credit spread of financial liabilities		4.3		(15.7)	
Income tax on items that will not be reclassified		1.0	(1.0)	4.4	0.0
Total items that will not be reclassified to profit or loss		**(4.3)**	**2.9**	**(13.0)**	**0.0**
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge reserve		(14.6)	(2.8)	0.7	3.2
thereof transferred to profit (-) or loss (+)		(4.6)	(5.0)	(1.4)	(2.4)
Debt securities at fair value through other comprehensive income		(41.1)		0.1	
thereof transferred to profit (-) or loss (+)		(20.7)		0.0	
Available-for-sale reserve			10.4		(5.9)
thereof transferred to profit (-) or loss (+)			(27.5)		(15.9)
Share of other comprehensive income of associates accounted for using the equity method		–	–	–	–
Income tax relating to items that may be reclassified		14.1	(1.9)	(0.3)	0.7
Total items that may be reclassified subsequently to profit or loss		**(41.6)**	**5.7**	**0.5**	**(2.0)**
Other comprehensive income		**(45.9)**	**8.6**	**(12.5)**	**(2.0)**
Total comprehensive income, net of tax		**281.5**	**308.5**	**112.2**	**96.4**
Thereof attributable to non-controlling interests		0.0	0.1	0.0	0.1
Thereof attributable to owners of the parent		**281.5**	**308.4**	**112.2**	**96.3**

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

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	Sep 2018	Dec 2017[1)]
Cash reserves		751	1,180
Financial assets at fair value through profit or loss	[7]	508	448
Financial assets at fair value through other comprehensive income	[6]	3,137	
Available-for-sale financial assets	[6]		4,408
Held-to-maturity investments			2,274
Financial assets held for trading	[8]	360	458
At amortized cost	[9]	38,777	
Customers		30,315	
Credit institutions		4,920	
Securities		3,542	
Loans and receivables	[9]		35,753
Customers			30,804
Credit institutions			3,660
Securities			1,289
Hedging derivatives		379	517
Property, plant and equipment		110	103
Investment properties		118	120
Goodwill		58	58
Brand name and customer relationships		285	291
Software and other intangible assets		172	157
Tax assets for current taxes		14	12
Tax assets for deferred taxes		76	102
Associates recognized at equity		44	44
Other assets		90	146
Total assets		**44,879**	**46,071**

1) Prior year numbers are classified and measured according to the requirements of IAS 39. For IFRS 9 figures as of 1 January 2018, please refer to the Note "IFRS 9 Financial Instruments".

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 17 of this Consolidated Interim Report.

Total liabilities and equity

in € million	[Notes]	Sep 2018	Dec 2017[1)]
Total liabilities		**40,900**	**42,461**
Financial liabilities designated at fair value through profit or loss	[10]	588	726
Financial liabilities held for trading	[11]	282	345
Financial liabilities at amortized cost	[12]	38,796	39,894
Customers		30,853	30,947
Issued bonds, subordinated and supplementary capital		3,956	4,938
Credit institutions		3,987	4,009
Valuation adjustment on interest rate risk hedged portfolios		75	116
Hedging derivatives		103	94
Provisions	[13]	480	450
Tax liabilities for current taxes		3	17
Tax liabilities for deferred taxes		12	5
Other obligations		561	814
Total equity		**3,979**	**3,610**
Equity attributable to the owners of the parent (ex AT1 capital)		3,680	3,609
AT1 capital		298	0
Non-controlling interests		1	1
Total liabilities and equity		**44,879**	**46,071**

1) Prior-year numbers are classified and measured according to the requirements of IAS 39. For IFRS 9 figures as of 1 January 2018, please refer to the Note "IFRS 9 Financial Instruments".

STATEMENTS OF CHANGES IN EQUITY

in € million	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt 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, investment funds 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	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2017	**100**	**1,094**	**–**	**1,957**	**6**	**(73)**	**–**	**–**	**–**	**–**	**37**	**2**	**3,123**	**2**	**3,125**
Transactions with owners	–	–	–	(52)	–	–	–	–	–	–	–	–	(52)	0	(52)
Dividends	–	–	–	(52)	–	–	–	–	–	–	–	–	(52)	0	(52)
Total comprehensive income	–	–	–	300	(2)	3	–	–	–	–	8	–	309	0	309
Balance as of 30.09.2017	**100**	**1,094**	**–**	**2,205**	**4**	**(70)**	**–**	**–**	**–**	**–**	**45**	**2**	**3,380**	**2**	**3,382**
Balance as of 31.12.2017	**100**	**1,146**	**–**	**2,372**	**3**	**(77)**	**–**	**–**	**–**	**–**	**62**	**2**	**3,609**	**1**	**3,610**
Effect of the initial application of IFRS 9	–	–	–	(61)	–	–	48	2	13	(59)	(62)	(2)	(122)	0	(122)
Balance as of 01.01.2018	**100**	**1,146**	**–**	**2,311**	**3**	**(77)**	**48**	**2**	**13**	**(59)**	**–**	**–**	**3,487**	**1**	**3,488**
Changes in treasury shares	**–**	**–**	**–**	**(33)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(33)**	**–**	**(33)**
Transactions with owners	–	–	–	(58)	–	–	–	–	–	–	–	–	(58)	0	(58)
Dividends	–	–	–	(58)	–	–	–	–	–	–	–	–	(58)	0	(58)
Share-based payments	–	3	–	–	–	–	–	–	–	–	–	–	3	–	3
AT1 capital	–	–	298	–	–	–	–	–	–	–	–	–	298	–	298
Total comprehensive income	–	–	–	327	(11)	(1)	(31)	–	(6)	3	–	–	281	0	281
Balance as of 30.09.2018	**100**	**1,149**	**298**	**2,547**	**(8)**	**(78)**	**17**	**2**	**7**	**(56)**	**–**	**–**	**3,978**	**1**	**3,979**

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

CONDENSED CASH FLOW STATEMENT

in € million	Jan–Sep 2018	Jan–Sep 2017
Cash and cash equivalents at end of previous period	**1,180**	**1,020**
Profit (after tax, before non-controlling interests)	327	300
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(411)	(608)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(1,861)	(982)
Interest receipts	835	839
Interest paid	(244)	(187)
Dividend receipts	9	7
Taxes paid	(7)	–
Net cash from operating activities	**(1,352)**	**(631)**
Cash receipts from sales of associates	2	–
Cash receipts from sales of		
Financial investments	2,763	1,481
Tangible and intangible non-current assets	3	–
Cash paid for		
Financial investments	(1,607)	(1,045)
Tangible and intangible non-current assets	(50)	(42)
Net cash used in investing activities	**1,111**	**394**
Dividends paid	(58)	(52)
Cash receipts from the issuance of AT1 capital	298	–
Changes in treasury shares	(33)	0
Cash paid for the buyback of T2 own issues	(395)	(14)
Net cash from financing activities	**(188)**	**(66)**
Cash and cash equivalents at end of period	**751**	**717**

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

NOTES

The condensed Consolidated Interim Financial Statements of BAWAG Group as of 30 September 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) released by the International Accounting Standards Board (IASB) and in accordance with their interpretation by the IFRS Interpretations Committee (IFRIC/SIC) to the extent adopted by the EU.

These Consolidated Interim Financial Statements for the first three quarters 2018 were prepared in accordance with IAS 34 (Interim Financial Reporting).

The accounting principles used in preparing these Consolidated Interim Financial Statements are, with the exception of the requirements pursuant to IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, the same as those used for the preparation of the consolidated financial statements as of 31 December 2017.

The Consolidated Interim 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 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)

As of 30 September 2018, the following new standards are mandatory for periods beginning on 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

Beyond that, no interpretations or amendments to existing standards are mandatory for periods beginning on 1 January 2018.

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 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.

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 according to IFRS 9 as well as the tables required by IFRS 7.

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

Total assets pursuant to IFRS 9

in € million	Sep 2018	01.01.2018
Cash reserves	751	1,180
Financial assets at fair value through profit or loss	508	795
Financial assets at fair value through other comprehensive income	3,137	4,133
Financial assets held for trading	360	439
At amortized cost	38,777	37,891
Customers	30,315	30,557
Credit institutions	4,920	3,660
Securities	3,542	3,674
Hedging derivatives	379	517
Property, plant and equipment	110	103
Investment properties	118	120
Goodwill	58	58
Brand name and customer relationships	285	291
Software and other intangible assets	172	157
Tax assets for current taxes	14	12
Tax assets for deferred taxes	76	144
Associates recognized at equity	44	44
Other assets	90	146
Total assets	**44,879**	**46,030**

Total liabilities and equity pursuant to IFRS 9

in € million	Sep 2018	01.01.2018
Total liabilities	**40,900**	**42,542**
Financial liabilities designated at fair value through profit or loss	588	1,140
Financial liabilities held for trading	282	345
Financial liabilities at amortized cost	38,796	39,563
Customers	30,853	30,947
Issued bonds, subordinated and supplementary capital	3,956	4,607
Credit institutions	3,987	4,009
Valuation adjustment on interest rate risk hedged portfolios	75	116
Hedging derivatives	103	94
Provisions	480	448
Tax liabilities for current taxes	3	17
Tax liabilities for deferred taxes	12	5
Other obligations	561	814
Total equity	**3,979**	**3,488**
Equity attributable to the owners of the parent (ex AT1 capital)	3,680	3,487
AT1 capital	298	–
Non-controlling interests	1	1
Total liabilities and equity	**44,879**	**46,030**

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

Classification of Financial Assets and Financial Liabilities

Financial Assets

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

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

A financial asset is measured at amortized cost only if the object of the entity's business model is to hold the financial asset and the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature). A financial asset is measured at fair value through other comprehensive income if the asset is held in a business model in which assets are managed both in order to collect contractual cash flows and are held for a future sale and if the contractual cash flows are solely payments of principal and interest on the principal outstanding (simple loan feature). Financial assets that do not meet these criteria are measured at fair value through profit or loss. Furthermore, embedded derivatives will no longer be separated from the financial host asset. If the structured financial asset does not fulfill the SPPI criteria, the financial instrument is assessed in its entirety and measured at fair value through profit or loss.

Business Model Assessment for Financial Assets

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

- Hold to Collect
  Financial assets held in this business model are in general designated to be held until maturity and managed to realize cash flows by collecting principal and interest over the lifetime of the instruments. Not all of the financial assets need to be held until maturity. Under certain circumstances, sales are consistent with this business model, independent of their volume and frequency, for example if the asset is sold close to the maturity of the financial asset and the proceeds approximate the collection of the remaining contractual cash flows or the asset is sold due to an increase in the assets' credit risk,

due to changes in tax or regulatory laws, within business combinations or reorganizations or in stress case scenarios. In addition, sales are considered as insignificant independent of their reason when sales volumes and earnings do not exceed 5% of the average book value of the respective portfolio in a year.

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

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

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

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

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

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

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

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

Financial Liabilities

The classification and measurement requirements for financial liabilities have only been changed slightly compared to IAS 39. However, under IFRS 9 fair value changes of financial liabilities in the fair value option are generally presented as follows:

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

Reclassifications

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

Equity Instruments

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

The majority of the Group’s equity investments are intended to be long-term investments and BAWAG Group is not focused on realizing short-term sales profits from these investments. Therefore, equity investments are generally classified as FVOCI as the Group regards this presentation as giving a clearer picture of the Group’s profitability. In case the Group plans to sell equity investments in the medium or near term, the use of the FVOCI option is decided on a case-by-case basis.

Hedge Accounting

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

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

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

Impairment

IFRS 9 requires a bank to determine the expected credit loss (ECL) based on a probability assessment of future cash flows and losses. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries).

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

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

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

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

BAWAG Group applies the default definition according to Article 178 of Regulation (EU) No 575/2013 (Capital Requirement Regulation – CRR), which refers to 90 days past due and to unlikeliness-to-pay criteria, consistent for all asset classes and risk models. As a result, all IFRS 9 parameters were estimated and calibrated using the default definition according to the CRR.

Staging Criteria and Significant Increase in Credit Risk as Part of Impairment

The ECL model in BAWAG Group applies to:

- 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.

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", only the cumulative changes in lifetime expected losses since initial recognition are recognized) and those which do not show a significant increase in credit risk since initial recognition.

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 (difference between reporting date and maturity date), and
- vintage of the financial instrument (difference between initial date and reporting date).

Qualitative staging criteria factors selected by BAWAG Group are:

- Entry in watch list (non-retail customers),
- Entry in warning list (retail customers), and
- Forbearance flag.

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

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

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.

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

Classification and Measurement

- **Business model:** The Group holds a small portfolio of loans to the public sector with a 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 have been 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 arises. With the new business model, these bonds are measured at amortized cost.

Accounting for all other bonds based on the business model remains unchanged, meaning that bonds that were classified as available for sale under IAS 39 are in the business model hold to collect and sell under IFRS 9, and bonds that were classified as held to maturity or as loans and receivables under IAS 39 are held within the business model hold to collect under IFRS 9. Thus, the total impact from changed classification and measurement rules on equity amounts to minus € 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 financial assets failing the SPPI test and reversing embedded floors amounts to minus € 8 million.

- **Changes in fair value option:** The fair value option is newly applied for an own issue (Tier II; XS0987169637) where an accounting mismatch exists with a nominal value of € 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 for accounting of classification and measurement under IFRS 9 thus leads to an impact of minus € 95 million (thereof € 82 million due to the new application of the fair value option for the Tier II own issue mentioned before) before taxes on equity when applying IFRS 9 for the first time as of 1 January 2018.

Impairment

The ECL as of 31 December 2017 for stage 1 and 2 amounts to minus € 118 million. Of this amount, € 6 million belong to financial instruments measured at Fair Value through OCI. Total impact on equity amounts to minus € 112 million. This impact is 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	**3,609**
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	**3,487**

The fully loaded CET1 ratio under IFRS 9 as of 1 January 2018 amounts to 13.4% compared to 13.5% under IAS 39. CET1 decreases only slightly as the impact from expected credit loss is counterbalanced by a smaller shortfall deducted from CET1. RWAs increase slightly, mainly due to higher DTAs.

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 CET1 ratio remains unchanged.

The correction of the parameters also affects ECL as of 31 March 2018. The impact on equity amounts to minus € 10 million, PnL in the first quarter is marginally impacted. CET1 ratio remains unchanged.

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.

IFRS 15 does not stipulate any material changes regarding the recognition of revenues from financial instruments, leasing contracts and banking services. Therefore, its initial application has no material impact on the consolidated financial statements of BAWAG Group.

BAWAG Group receives fee and commission income from various services provided to customers.

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

IFRS 16 Leases

IFRS 16 is effective from 1 January 2019, replaces the previous leases standard, IAS 17 Leases, and related interpretations and will be applicable to the consolidated financial statements of BAWAG Group. BAWAG Group is currently evaluating the effects of IFRS 16 on the consolidated financial statements. One major effect for BAWAG Group as a lessee in an operating lease contract will be the recognition of a “right-of-use” asset and the related lease liability at commencement of the lease. Furthermore, rental expenses, which so far have been recognized on a straight-line basis, will be replaced by interest expenses for the lease liability and depreciation of the “right-of-use” asset. Major impacts from the application of IFRS 16 are expected in connection with rented real estate – i.e. the Group’s premises and branches. BAWAG Group expects an increase of total assets of approximately € 300 million in connection with the initial application of IFRS 16. For 2019, BAWAG Group expects a negative impact of approximately € 2 million on profit before tax. This impact is subject to an ongoing validation. The application of possible simplifications and options within the transition provisions are currently being evaluated within the framework of the project. A final decision is yet to be made. The Bank currently does not expect major impacts in accounting for its lease business, where it acts as a lessor. BAWAG Group will apply IFRS 16 as of its effective date.

Miscellaneous

Accounting for the acquisitions of Südwestbank Aktiengesellschaft and SIX Payment Services GmbH according to IFRS 3 is still based on preliminary results. BAWAG Group expects finalization within the measurement period according to IFRS 3.45. Currently, the Group does not expect any major impacts on its equity.

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.

The valuation principles as of 31 December 2017 were applied again.

As of 30 September 2018, the Group consists of 45 (31 December 2017: 44) fully consolidated entities and 2 (31 December 2017: 2) entities 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.

The interim financial report for the first three quarters 2018 was not audited or reviewed by the external auditor.

The tables in this report may contain rounding differences.

CLAIM AGAINST THE CITY OF LINZ

As no material changes have occurred since year-end 2017, we refer to the Notes to the consolidated financial statements as of 31 December 2017.

MAJOR EVENTS AFTER THE REPORTING DATE

There were no major events after the reporting date.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 | Net interest income

in € million	**Jan–Sep 2018**	Jan–Sep 2017
Interest income	862.5	813.1
Interest expense	(247.4)	(231.3)
Dividend income	8.3	6.8
Net interest income	**623.4**	**588.6**

2 | Net fee and commission income

Jan–Sep 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	**154.4**	**67.0**	**0.3**	**28.4**	**29.1**	**0.3**	**–**	**279.5**
Payment transfers	99.7	56.5	–	22.5	5.7	–	–	**184.3**
Lending	16.1	3.3	0.3	3.4	2.0	–	–	**25.2**
Securities and custody business	23.5	1.4	–	2.4	16.8	0.3	–	**44.5**
Other	15.1	5.8	–	0.1	4.6	–	–	**25.5**
Fee and commission expenses	**(34.9)**	**(24.5)**	**0.0**	**(0.7)**	**(4.8)**	**–**	**(2.1)**	**(66.9)**
Payment transfers	(24.6)	(23.3)	–	(0.1)	(0.7)	–	–	**(48.6)**
Lending	0.0	(0.8)	–	(0.6)	(0.9)	–	–	**(2.3)**
Securities and custody business	0.0	(0.1)	–	–	(2.6)	–	(2.0)	**(4.7)**
Other	(10.3)	(0.3)	–	–	(0.6)	–	(0.1)	**(11.3)**
Net fee and commission income	**119.5**	**42.5**	**0.3**	**27.8**	**24.4**	**–**	**(2.1)**	**212.6**

Jan–Sep 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	**162.9**	**19.0**	**0.2**	**29.7**	**–**	**–**	**(1.6)**	**210.2**
Payment transfers	96.8	8.5	–	24.3	–	–	(0.3)	**129.3**
Lending	16.6	2.4	0.2	3.3	–	–	0.0	**22.5**
Securities and custody business	28.3	1.5	–	1.8	–	–	(1.6)	**30.0**
Other	21.2	6.6	–	0.3	0.0	0.0	0.3	**28.4**
Fee and commission expenses	**(50.7)**	**(5.5)**	**0.0**	**(0.7)**	**0.0**	**0.0**	(2.4)	**(59.3)**
Payment transfers	(23.7)	(5.0)	–	(0.1)	–	–	0.0	**(28.8)**
Lending	(0.6)	–	–	(0.6)	–	–	(0.1)	**(1.3)**
Securities and custody business	–	–	–	–	–	–	(2.0)	**(2.0)**
Other	(26.4)	(0.5)	–	–	–	–	(0.3)	**(27.2)**
Net fee and commission income	**112.2**	**13.5**	**0.2**	**29.0**	**0.0**	**0.0**	(4.0)	**150.9**

3 | Gains and losses on financial assets and liabilities

in € million	Jan–Sep 2018	Jan–Sep 2017
Realized gains on sales of subsidiaries and securities	32.6	57.7
Fair value gains/losses	(16.0)	(14.0)
Gains/losses from fair value hedge accounting	1.1	2.0
Others	1.5	(2.2)
Gains and losses on financial assets and liabilities	**19.2**	**43.5**

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 the first three quarters 2018, fair value losses in the amount of € 14.6 million (Q3 2017: losses in the amount of € 2.8 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.

4 | Operating expenses

in € million	**Jan–Sep 2018**	Jan–Sep 2017
Staff costs	(215.8)	(190.3)
thereof one-off income/expenses	(0.3)	(5.7)
Other administrative expenses	(134.8)	(103.4)
thereof one-off income/expenses	0.0	(1.1)
Depreciation and amortization on tangible and intangible assets	(33.4)	(29.1)
Operating expenses	**(383.9)**	**(322.8)**
Operating expenses excluding one-off income/expenses	(383.7)	(316.0)

The operating expenses for the month of September of Deutscher Ring Bausparkasse AG are included in the 2018 figures, as the closing took place in September 2018. Last year's acquisitions (Südwestbank Aktiengesellschaft and SIX Payment Services GmbH) are not included in prior-year comparables, as the closing did not take place until the fourth quarter 2017.

5 | Provisions and impairment losses

in € million	**Jan–Sep 2018**	Jan–Sep 2017
Loan-loss provisions and changes in provisions for off-balance credit risk	(30.8)	(38.1)
Provisions and expenses for operational risk	(1.1)	(5.3)
Impairment losses on non-financial assets	–	(0.3)
Provisions and impairment losses	**(31.9)**	**(43.7)**

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 | Financial assets at fair value through other comprehensive income

in € million	Sep 2018	Dec 2017
Debt instruments	**2,932**	
Bonds and other fixed income securities	2,932	
Bonds of other issuers	2,769	
Public sector debt instruments	163	
Subsidiaries and other equity investments	**205**	
Financial assets at fair value through other comprehensive income	**3,137**	
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**
Available-for-sale financial assets		**4,408**

7 | Financial assets at fair value through profit or loss

in € million	Sep 2018	Dec 2017
Financial assets designated at fair value through profit or loss	112	448
Financial assets mandatorily at fair value through profit or loss	396	
Financial assets at fair value through profit or loss	**508**	**448**

8 | Financial assets held for trading

in € million	Sep 2018	Dec 2017
Derivatives in trading book	121	143
Derivatives in banking book	239	315
Financial assets held for trading	**360**	**458**

9 | At amortized cost

The following breakdown depicts the composition of the item “At amortized cost” according to the Group’s segments. Prior-year values for the segments BAWAG P.S.K. Retail and easygroup were adapted. For details, please refer to Note 15.

Sep 2018 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
BAWAG P.S.K. Retail	9,485	(9)	(8)	(144)	9,324
easygroup	5,880	(4)	(5)	(55)	5,816
International Business	5,872	(3)	(16)	(20)	5,833
DACH Corporates & Public Sector	5,564	(9)	(7)	(7)	5,541
Südwestbank	8,108	(1)	0	0	8,107
Treasury Services & Markets	3,800	(14)	(5)	1	3,782
Corporate Center	374	0	0	0	374
Total	**39,083**	**(40)**	**(41)**	**(225)**	**38,777**

Dec 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)	5,884
International Business	4,934	50	(21)	–	4,964
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	116	317	0	(45)	387
Total	**35,314**	**715**	**(195)**	**(81)**	**35,753**

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

Receivables from customers – Breakdown by credit type

in € million	**Sep 2018**	Dec 2017
Loans	26,923	27,466
Current accounts	1,564	1,581
Finance leases	1,191	1,159
Cash advances	278	291
Money market	359	307
Receivables from customers	**30,315**	**30,804**

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

in € million	Sep 2018	Dec 2017
Issued debt securities and other securitized liabilities	445	606
Subordinated and supplementary capital	137	114
Deposits from customers	6	6
Financial liabilities designated at fair value through profit or loss	**588**	**726**

11 | Financial liabilities held for trading

in € million	Sep 2018	Dec 2017
Derivatives trading book	50	64
Derivatives banking book	232	281
Financial liabilities held for trading	**282**	**345**

12 | Financial liabilities measured at amortized cost

in € million	Sep 2018	Dec 2017
Deposits from banks	**3,987**	**4,009**
Deposits from customers	**30,853**	**30,947**
Savings deposits – fixed interest rates	1,003	968
Savings deposits – variable interest rates	7,020	6,945
Deposit accounts	5,657	5,649
Current accounts – Retail	8,796	9,909
Current accounts – Corporates	5,378	5,288
Other deposits[1)]	2,999	2,188
Issued bonds, subordinated and supplementary capital	**3,956**	**4,938**
Issued debt securities and other securitized liabilities	3,844	4,479
Subordinated and supplementary capital	112	459
Financial liabilities measured at amortized cost	**38,796**	**39,894**

1) Primarily term deposits.

13 | Provisions

in € million	Sep 2018	Dec 2017
Provisions for social capital	382	375
Anticipated losses from pending business	46	20
Other items including legal risks	52	55
Provisions	**480**	**450**

According to IAS 19, provisions for post-employment and termination benefits and for jubilee benefits are calculated using the projected unit credit method.

As of 30 September 2018 and 31 December 2017, the line item other items including legal risks includes provisions for expected refunds of negative interest due to supreme court rulings regarding negative interest reference rates in Austria in the amount of € 1 million.

14 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

Sep 2018 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables from customers	–	764	36	1	82	–
Unutilized credit lines	–	252	5	1	27	–
Securities	–	35	–	22	–	–
Other assets (incl. derivatives)	–	–	5	–	–	–
Financial liabilities – customers	–	0	8	92	0	0
Other liabilities (incl. derivatives)	–	–	–	1	–	–
Guarantees provided	–	–	0	–	1	–
Interest income	–	16.4	0.5	0.2	0.2	0.0
Interest expense	–	5.1	0.1	1.1	0.0	0.0
Net fee and commission income	–	–	0.0	7.9	0.1	0.0

Dec 2017 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables from 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	0	–	1	0
Interest income	–	23.3	0.9	2.4	0.3	0.0
Interest expense	0.0	9.0	0.1	2.1	0.0	0.0
Net fee and commission income	0.0	–	0.0	15.5	0.0	0.0

Sep 2017 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables from customers	138	510	47	1	89	–
Unutilized credit lines	–	–	34	1	25	–
Securities	–	92	–	21	–	–
Other assets (incl. derivatives)	10	0	5	–	–	–
Financial liabilities – customers	–	0	20	111	1	0
Other liabilities (incl. derivatives)	–	–	–	1	–	–
Guarantees provided	–	–	–	–	1	–
Interest income	1.6	20.4	0.7	1.6	0.2	0.0
Interest expense	–	6.8	0.0	1.2	0.0	0.0
Net fee and commission income	–	–	0.0	10.9	0.0	0.0

Information regarding natural persons

The following breakdown depicts 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.

	Key management of the entity	Other related parties	Key management of the entity	Other related parties
in € million	30.09.2018	30.09.2018	31.12.2017	31.12.2017
Current account deposits	4	3	2	2
Savings deposits	0	4	0	3
Loans	0	5	0	3
Building savings deposits	–	–	–	0
Leasing	–	0	–	0
Securities	0	0	0	0
Interest income	0.0	0.0	0.0	0.0
Interest expense	0.0	0.0	0.0	0.0

	Key management of the entity	Other related parties	Key management of the entity	Other related parties
Number of shares	30.09.2018	30.09.2018	31.12.2017	31.12.2017
Shares of BAWAG Group AG	46,923	1,284	24,173	147

15 | Major changes in the Group's holdings

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 saving 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	12
Result after restructuring expenses[1)]	25

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

16 | Segment reporting

This information is based on the Group structure as of 30 September 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 on the basis of the internal reports used by the Managing Board to assess the performance of the segments and to make decisions on allocating resources to the segments.

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

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

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

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 in order 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 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:

Jan–Sep 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	289.3	121.2	96.2	45.2	63.6	35.5	(27.6)	623.4
Net fee and commission income	119.2	42.6	0.3	27.7	24.3	0.4	(1.9)	212.6
Core revenues	**408.5**	**163.8**	**96.5**	**72.9**	**87.9**	**35.9**	**(29.5)**	**836.0**
Gains and losses on financial instruments	8.5	0.0	2.7	0.8	0.0	27.1	(19.9)	19.2
Other operating income and expenses	1.4	0.0	0.0	0.0	0.0	0.0	23.4	24.8
Operating income	**418.4**	**163.8**	**99.2**	**73.7**	**87.9**	**63.0**	**(26.0)**	**880.0**
Operating expenses	**(186.0)**	**(51.6)**	**(20.3)**	**(38.1)**	**(55.0)**	**(22.0)**	**(8.4)**	**(381.4)**
Regulatory charges	(15.0)	(4.2)	0.0	0.0	(2.8)	0.0	(19.6)	(41.6)
Total risk costs	(40.4)	(2.2)	9.4	(2.5)	3.1	0.3	0.4	(31.9)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	3.9	3.9
Profit before tax	**177.0**	**105.8**	**88.3**	**33.1**	**33.2**	**41.3**	**(49.7)**	**429.0**
Income taxes	–	–	–	–	–	–	(101.6)	(101.6)
Profit after tax	**177.0**	**105.8**	**88.3**	**33.1**	**33.2**	**41.3**	**(151.3)**	**327.4**
Non-controlling interests	–	–	–	–	–	–	(0.1)	(0.1)
Net profit	**177.0**	**105.8**	**88.3**	**33.1**	**33.2**	**41.3**	**(151.4)**	**327.3**
Business volumes								
Assets	9,621	5,883	5,636	6,039	3,858	11,217	2,625	44,879
Liabilities	18,389	6,382	6	7,396	5,146	2,231	5,329	44,879
Risk-weighted assets	3,806	3,332	4,672	1,970	3,170	1,825	1,526	20,301

Jan–Sep 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	283.0	130.9	98.9	52.7	–	37.3	(14.2)	588.6
Net fee and commission income	111.9	13.6	0.2	29.0	–	0.0	(3.8)	150.9
Core revenues	**394.8**	**144.5**	**99.1**	**81.7**	**–**	**37.3**	**(17.9)**	**739.5**
Gains and losses on financial instruments	3.0	(2.2)	(0.5)	0.6	–	23.8	18.8	43.5
Other operating income and expenses	1.4	(0.8)	0.0	0.0	–	0.0	(15.1)	(14.5)
Operating income	**399.4**	**141.4**	**98.6**	**82.3**	**–**	**61.1**	**(14.3)**	**768.5**
Operating expenses	**(201.7)**	**(37.1)**	**(21.8)**	**(35.5)**	**–**	**(14.9)**	**(10.1)**	**(321.1)**
Regulatory charges	(12.7)	(4.1)	0.0	0.0	–	0.0	(13.0)	(29.8)
Total risk costs	(33.4)	4.5	(15.8)	7.0	–	0.0	(6.0)	(43.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	3.0	3.0
Profit before tax	**151.6**	**104.8**	**61.0**	**53.8**	**–**	**46.2**	**(40.5)**	**376.9**
Income taxes	–	–	–	–	–	–	(77.0)	(77.0)
Profit after tax	**151.6**	**104.8**	**61.0**	**53.8**	**–**	**46.2**	**(117.5)**	**299.9**
Non-controlling interests	–	–	–	–	–	–	(0.1)	(0.1)
Net profit	**151.6**	**104.8**	**61.0**	**53.8**	**–**	**46.2**	**(117.6)**	**299.8**
Business volumes								
Assets	9,589	5,769	5,139	7,624	–	7,479	2,768	38,368
Liabilities	18,814	5,887	6	6,283	–	2,127	5,251	38,368
Risk-weighted assets	3,602	4,107	4,152	2,917	–	1,759	1,275	17,812

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

Other operating income and expenses and Operating expenses are reconciled with the consolidated profit or loss statement as follows:

in € million	Jan–Sep 2018	Jan–Sep 2017
Other operating income and expenses according to segment report	24.8	(14.5)
Regulatory charges	(39.1)	(28.1)
Other operating income and expenses according to consolidated profit or loss statement	**(14.3)**	**(42.6)**

in € million	Jan–Sep 2018	Jan–Sep 2017
Operating expenses according to segment report	(381.4)	(321.1)
Regulatory charges	(2.5)	(1.7)
Operating expenses according to consolidated profit or loss statement	**(383.9)**	**(322.8)**

17 | Capital management

Regulatory reporting is performed on the level of BAWAG Group. The following table shows the breakdown of own funds of BAWAG Group applying transitional rules and its own funds requirement as per 30 September 2018 and 31 December 2017 pursuant to CRR applying IFRS figures and the CRR scope of consolidation.

in € million	Sep 2018	Dec 2017
Share capital and reserves (including funds for general banking risk)	3,420	3,492
Deduction of intangible assets	(445)	(343)
Other comprehensive income	(91)	9
IRB risk provision shortfalls	(15)	(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	51	(33)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(56)	(91)
Excess of deduction from AT1 items over AT1 capital	–	(90)
Common Equity Tier I	**2,864**	**2,906**
Capital instruments eligible as additonal Tier 1 capital	300	–
IRB risk provision shortfalls	–	(5)
Deduction of intangible assets	–	(85)
Excess of deduction from AT1 items over AT1 capital	–	90
Additional Tier I	**300**	**–**
Tier I	**3,164**	**2,906**
Supplementary and subordinated debt capital	90	347
Tier II capital in grandfathering	9	15
Excess IRB risk provisions	12	35
Less significant investments, IRB risk provision shortfalls	(33)	(27)
Tier II	**77**	**370**
Own funds	**3,241**	**3,276**

Changes between year-end 2017 and 30 September 2018 result primarily from the change in accounting from IAS 39 to IFRS 9 and other transitional and phase-in rules according to CRR.

In April 2018, BAWAG Group issued a bond with a notional value of € 300 million, which fulfills the criteria for eligibility as AT1 capital (XS1806328750). The costs of the issuance and the accrued coupon payment are deducted from CET1. T2 capital was reduced compared to 2017 due to the buyback of a T2 capital issuance with a notional of € 300 million (XS0987169637), of which € 268 million have been bought back.

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

in € million	Sep 2018	Dec 2017
Credit risk	18,530	19,716
Market risk	51	52
Operational risk	1,726	1,705
Capital requirements (risk-weighted assets)	**20,307**	**21,473**

Supplemental information on a fully loaded basis (including interim profit)

	Sep 2018	Dec 2017
Common Equity Tier I capital ratio based on total risk	15.3%	13.5%
Total capital ratio based on total risk	17.2%	15.2%

Key figures according to CRR including its transitional rules

	Sep 2018	Dec 2017
Common Equity Tier I capital ratio based on total risk (excl. interim profit)	14.1%	n/a
Total capital ratio based on total risk (excl. interim profit)	16.0%	n/a
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	15.3%	13.5%
Total capital ratio based on total risk (incl. interim profit)	17.3%	15.3%

18 | Fair value

The following table depicts a comparison of the carrying amounts and fair values for selected items on the statement of financial position:

in € million	Carrying amount Sep 2018	Fair value Sep 2018	Carrying amount Dec 2017	Fair value Dec 2017
Assets				
Cash reserves	751	751	1,180	1,180
Financial assets designated at fair value through profit or loss	112	112	448	448
Financial assets mandatorily at fair value through profit or loss	396	396		
Financial assets at fair value through other comprehensive income	3,137	3,137		
Debt instruments	2,932	2,932		
Subsidiaries and other equity investments	205	205		
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	360	360	458	458
At amortized cost	38,777	38,983		
Customers	30,315	30,482		
Credit institutions	4,920	4,915		
Securities	3,542	3,586		
Loans and receivables			35,753	35,929
Customers			30,804	30,962
Credit institutions			3,660	3,657
Securities			1,289	1,310
Hedging derivatives	379	379	517	517
Property, plant and equipment	110	n/a	103	n/a
Investment properties	118	121	120	121
Intangible non-current assets	515	n/a	506	n/a
Other assets	224	n/a	304	n/a
Total assets	**44,879**		**46,071**	

in € million	Carrying amount Sep 2018	Fair value Sep 2018	Carrying amount Dec 2017	Fair value Dec 2017
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	588	588	726	726
Issued debt securities and other securitized liabilities	445	445	606	606
Subordinated and supplementary capital	137	137	114	114
Deposits from customers	6	6	6	6
Financial liabilities held for trading	282	282	345	345
Financial liabilities at amortized cost	38,796	38,785	39,894	40,044
Deposits from banks	3,987	3,998	4,009	4,026
Deposits from customers	30,853	30,812	30,947	30,959
Issued bonds, subordinated and supplementary capital	3,956	3,975	4,938	5,059
Valuation adjustment on interest rate risk hedged portfolios	75	75	116	116
Hedging derivatives	103	103	94	94
Provisions	480	n/a	450	n/a
Other obligations	576	n/a	836	n/a
Equity	3,978	n/a	3,609	n/a
Non-controlling interests	1	n/a	1	n/a
Total liabilities and equity	**44,879**		**46,071**	

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 financial instruments recognized at their fair values 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 were available, generally accepted, standard state-of-the-art methods of measurement were used. This applies to the category liabilities evidenced by paper (issued by BAWAG Group), and, in individual cases, other current financial assets in the Bank's trading portfolio where the valuation of plain vanilla securities was performed on the basis of the yield curve plus the current credit spread. The 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.

  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 division, which ensures the separation of front office functions from back office processing and control.

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

  Standard providers such as Reuters are used to evaluate the spreads of issued securities recognized at fair value through profit or loss; for this, a BAWAG P.S.K. senior unsecured spread curve is derived from a defined pool of bank bonds, additionally taking into account a liquidity and rating premium. For covered issues, the spread curve is derived from the quotations of BAWAG P.S.K. benchmark bonds. The securities prices for BAWAG P.S.K. issues are then calculated by discounting the swap curve adapted by the spread.

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

- **Level 3:** The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid structured securitization instruments whose value is determined by unobservable assumptions (the outcome of litigation, investor decisions, trigger events, etc.) as well as own issues of BAWAG P.S.K. Wohnbaubank and IMMO-BANK. Loans and receivables and financial liabilities measured at amortized cost are valued using the discounted cash flow method using a spread-adjusted swap curve.

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.

Sep 2018 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	112	–	112
Financial assets mandatorily at fair value through profit or loss	56	110	230	396
Financial assets at fair value through other comprehensive income	2,942	141	54	3,137
Debt instruments	2,790	141	1	2,932
Subsidiaries and other equity investments	152	–	53	205
Financial assets held for trading	0	360	–	360
Hedging derivatives	–	379	–	379
Total fair value assets	**2,998**	**1,102**	**284**	**4,384**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	326	262	588
Issued debt securities and other securitized liabilities	–	183	262	445
Subordinated and supplementary capital	–	137	–	137
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	282	–	282
Valuation adjustment on interest rate risk hedged portfolios	–	75	–	75
Hedging derivatives	–	103	–	103
Total fair value liabilities	**–**	**786**	**262**	**1,048**

Dec 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	0	0	100	100
Financial assets held for trading	–	458	–	458
Hedging derivatives	–	517	–	517
Total fair value assets	**8,421**	**1,575**	**243**	**10,239**
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
Valuation adjustment on interest rate risk hedged portfolios	–	116	–	116
Hedging derivatives	–	94	–	94
Total fair value liabilities	**–**	**918**	**363**	**1,281**

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 the first three quarters 2018, securities at fair value through other comprehensive income with a book value of € 83 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 € 5 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 through profit or loss 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	4	–	–	–	(7)
for assets no longer held at the end of the period	2	–	–	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	–	(3)	2
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	28	–	–	3	–
Redemptions	(62)	–	–	–	(96)
Sales	(38)	–	–	–	–
Foreign exchange differences	1	–	–	–	–
Change in scope of consolidation	–	–	–	(1)	–
Transfers into or out of other levels	–	–	–	–	–
Closing balance as of 30.09.2018	**230**	**–**	**1**	**53**	**262**

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.

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 € 284 million as of 30 September 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 30 September 2018 would have increased by € 0.9 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 30 September 2018 would have decreased by € 0.9 million (31 December 2017: € 1.3 million).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 30 September 2018 would have decreased by € 7.8 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 30 September 2018 would have increased by € 8.5 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 30 September 2018 would have decreased by € 2.4 million (31 December 2017: € 4.2 million). If the liquidity discount of Südwestbank funds is decreased by 10 percentage points, the valuation result as of 30 September 2018 would have increased by € 2.4 million (31 December 2017: € 4.2 million)

For the valuation of a significant 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 100bps, the fair value would increase by € 5.6 million; whereas if the discount rate increased by 100bps, the fair value would decrease by € 4.2 million. If changes in dividend income or earnings rose by 20%, the fair value of those assets would rise by € 1 million; if changes in dividend income or earnings declined by 20%, the fair value would decrease by € 0.9 million.

A smaller portion is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 3.2 million. If these indications were 10% higher, the fair value of this portion would increase by € 3.2 million.

The smallest portion is valued based on pro-rata equity. If the equity was 10% lower, this would result in a decrease of € 1.0 million, whereas if the equity was 10% higher, there would be an increase of € 1.0 million.

19 | Treatment of a 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 two loan portfolios, market interest rates on the transaction date were lower than when prices were negotiated. In both cases, the seller wanted to exit the respective business. Therefore, the transaction prices in 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	Jan–Sep 2018	Jan–Dec 2017
Balance at the beginning of the period	70	104
Amounts recognized in profit or loss during the period	(17)	(33)
FX effects	0	(1)
Balance at the end of the period	53	70

20 | 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 amortised 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 amortised 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	**39,207**	**–**	**–**	**39,207**	**–**
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 financial assets at amortized cost	**39,207**	**(72)**	**6**	**39,141**	**6**
Total financial asset balances, reclassifications and remeasurements at 1 January 2018	**45,038**	**–**	**(12)**	**45,026**	**(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 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	Measurement IFRS 9	Carrying amount IFRS 9
Loans and receivables	36,933	At amortized cost	39,135	6	39,141
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	**45,038**		**45,038**	**(12)**	**45,026**

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	30,804	(189)	10	30,626
	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			**45,038**	**–**	**(12)**	**45,026**

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 trading 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:

in € million	Fair value as of 30 September 2018	FV-loss if the financial assets had not been reclassified	
		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	60	–	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	345
Available for sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	–	–	6	6
Finance lease receivables	22	–	2	2
Loan loss provisions for financial assets	**276**	**–**	**77**	**353**
Provisions for credit promises and guarantees	20	–	(2)	18
Total	**296**	**–**	**75**	**371**

RISK REPORT

The operational and strategic risk management functions and the relevant committees of BAWAG Group are responsible for the identification, quantification, limitation, monitoring and steering of all risks the Group is exposed to. At all organizational levels, 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 as part of the Group's expansion strategy.

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

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

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

- Credit risk
- Market risk
- Liquidity risk
- Non-financial risk

Furthermore, a risk self-assessment (RSA), which is conducted on an annual basis, provides an overview of the Group's risk situation and the risk management of the individual risk types using quantitative and qualitative evaluation methods, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, their impact on the Group as well as their coverage through existing risk management procedures. The quantification of these risks is considered in the risk-bearing capacity.

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

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

The Group's economic risk-bearing capacity, which compares the quantified risks with the risk coverage capacity, is evaluated on a monthly basis. The risk quantification is based on a confidence level of 99.9%, which represents the probability of potential losses not exceeding the quantified risks. Limits are determined for all defined limit categories and steering portfolios as part of the risk strategy. Compliance with the limits is monitored in accordance with the established monitoring processes on a monthly basis. If the predefined warning levels are reached or the limits are exceeded, escalation processes are initiated.

In connection with the evaluation of the risk-bearing capacity, the individual and material risks are quantified, subsequently aggregated to the total risk and, in a further step, compared with BAWAG Group's risk coverage capacity. The following risk types are considered:

- Credit risk: The quantification of credit risk is based on the IRB approach for all portfolio segments. Additional capital surcharges are applied for concentration risk in connection with loans to major customers/to groups of affiliated customers, for the FX-induced credit risk as well as for the risk arising from credit lines not subject to capital requirements under legal regulations.

- Market risk: BAWAG Group has identified interest rate risk in the banking book and credit spread risk as the relevant market risks. Interest rate risk is measured using value-at-risk models, whereas a scenario-based approach is used for measuring credit spread risks. The interest rate risk in the banking book and the credit spread risk are aggregated taking conservative correlation assumptions into account.

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

- Non-financial risk: The risk type includes operational risk (including compliance risk), quantified using a value-at-risk model, as well as reputation risk, 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 valuation models.

The risk-bearing capacity is reported to the Managing Board via the Enterprise Risk Meeting (ERM) on a monthly basis.

The ICAAP stress test is fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

The link between the internal stress tests and capital management is formally defined within the internal risk and capital governance.

The capital ratios defined within the capital planning process and monitored by the Capital Management Meeting are used as a benchmark for stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the internal stress tests, senior management reviews whether the stressed capital ratios remain above the recovery levels. A breach of the recovery levels needs to be soundly justified, or measures need to be taken to improve the capital position sufficiently in order to keep the capital ratios above the recovery levels even under a stressed scenario.

Furthermore, results of the ICAAP stress test are reported directly to the ERM. The ERM is in charge of assessing the results of the exercise and defining any corrective action for the risk appetite or business strategy, where necessary.

22 | 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 (Credit Risk Management) as well as retail and small business (Retail Risk Management) customers. The division Enterprise Risk Management is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

In addition to clearly defined lending guidelines for retail and small business customers, the creditworthiness is assessed via automated scorecards. The scoring is based on statistical models that cover both application scoring as well as behavioral scoring based on the customer's account usage. In addition, external data (e.g. credit bureau information) is also factored into the customer scoring. The individual customer credit ratings are updated monthly.

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

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

To manage overall concentration risk, exposure limits are defined, monitored and reported to the Managing Board and Supervisory Board on a regular monthly basis.

Business segment development in the first three quarters 2018

BAWAG Group's risk and business strategies are aligned to focus on maintaining a low-risk balance sheet, focusing on developed economies, maintaining strong levels of capital, low levels of leverage and pursuing profitable/disciplined growth defined on a risk-adjusted return basis.

The BAWAG P.S.K. Retail segment focuses on the core products consumer, mortgage and small business lending. Significant efforts were undertaken to further develop overall underwriting standards and processes through automated and continuously enhanced underwriting models and processes.

The easygroup segment includes our direct banking subsidiary *easybank*, PayLife, start:bausparkasse, Deutscher Ring Bausparkasse, our auto and mobile leasing platforms as well as our performing residential mortgage portfolios in Western Europe. This portfolio consists of UK (outstanding balance as of 30 September 2018: GBP 1.1 billion; as of 31.12.2017: GBP 1.3 billion) and French (outstanding balance as of 30 September 2018: € 1.0 billion; as of 31.12.2017: € 1.1 billion) performing mortgage portfolios.

The risk policy of easygroup is defined in accordance with BAWAG Group's guidelines and is characterized by a conservative, low risk appetite with an emphasis on risk-adjusted returns. The risk policy of the leasing companies is closely aligned to the guidelines of BAWAG Group. The risk systems, which have been adapted to the special requirements of the leasing business, are part of the overall risk architecture of BAWAG Group.

The segments International Business as well as DACH Corporates & Public Sector were characterized by proactive risk management, disciplined lending in developed markets and maintaining a disciplined approach on risk-adjusted pricing. Consequently, exposures with unfavorable risk profiles (i.e. "watch loans") are actively managed and reduced within the Group's early warning process.

Südwestbank focuses on both retail and corporate customers mostly in the region of Baden-Württemberg. In the first three quarters 2018, the integration and transformation process was fully launched. With regard to loan processing, the focus this year will be on the full integration into the BAWAG Group risk steering framework. Additionally, there will be further alignment and harmonization of risk processes, models, reporting and policies.

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 strategy continues to focus on investment grade securities predominantly representing secured and unsecured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures. In addition, the Bank also selectively invests in structured credits (CLOs) with high credit quality (AAA and AA), which show a high degree of diversification with respect to countries and industries.

The Corporate Center is comprised primarily of positive market values from derivatives and non-core participations.

Lending and securities portfolio by business segment

Sep 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	9,459	5,816	5,446	5,887	3,791	4,751	374	35,524
Securities	0	4	165	113	50	6,465	18	6,815
Off-balance business	1,066	2,996	784	425	921	196	889	7,277
Total	**10,525**	**8,816**	**6,395**	**6,425**	**4,762**	**11,412**	**1,281**	**49,616**
thereof collateralized[1]	6,354	5,174	2,492	738	3,111	50	310	18,229
thereof NPLs (gross view)[2]	250	180	13	73	85	0	255	855

1) Collateral comprises residential and commercial real estate, guarantees, life insurance, etc.
2) Taking into consideration the fair value of Südwestbank at initial recognition according to IFRS 3.
The NPLs as of 30.09.2018 without IFRS 3 effect for Südwestbank would have been as follows: € 162 million and Total € 933 million.

Dec 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	388	34,588
Securities	0	3	323	162	59	7,641	7	8,195
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**	**1,502**	**50,411**
thereof collateralized[1]	6,380	5,188	2,390	1,009	3,722	57	404	19,150
thereof NPLs (gross view)[2]	251	172	50	97	91	0	255	917

1) Collateral comprises residential and commercial real estate, guarantees, life insurance, etc.
2) Taking into consideration the fair value of Südwestbank 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.

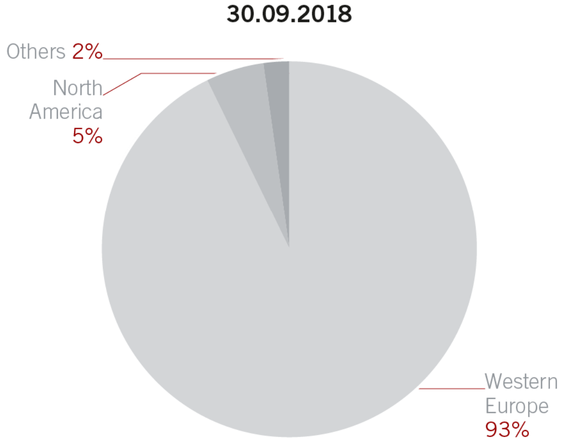
	Note 9		Risk view		Segment report
Sep 2018 in € million	At amortized cost	Loans & bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	9,324	135	9,459	162	9,621
easygroup	5,816	3	5,820	63	5,883
International Business	5,540	72	5,611	25	5,636
DACH Corporates & Public Sector	5,832	167	6,000	39	6,039
Südwestbank	3,783	57	3,841	17	3,858
Treasury Services & Markets	8,107	3,109	11,216	1	11,217
Corporate Center	374	18	392	2,233	2,625
Total	**38,777**	**3,562**	**42,339**	**2,540**	**44,879**

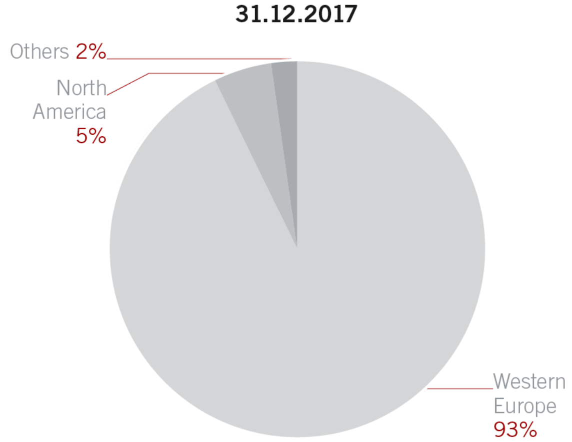
	Note 9		Risk view		Segment report
Dec 2017 in € million	Loans and receivables (L&R)	Loans, securities, investment funds (not part of L&R)	Total loans & securities	Other assets	Total assets
BAWAG P.S.K. Retail	9,370	0	9,370	132	9,502
easygroup	5,884	3	5,887	50	5,938
International Business	4,964	190	5,154	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	387	7	395	3,017	3,412
Total	**35,753**	**7,030**	**42,783**	**3,289**	**46,071**

Geographical distribution of the loan and securities portfolio

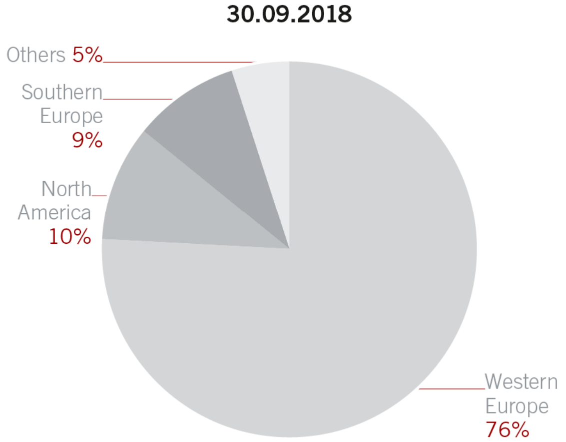
The geographical distribution of the loan portfolio is in line with the Group's strategy to focus on stable geographies and currencies. A total of 98% (as of 31.12.2017: 98%) of the loan portfolio[1] and 86% (as of 31.12.2017: 86%) of the securities portfolio[2] is located in Western Europe and North America.

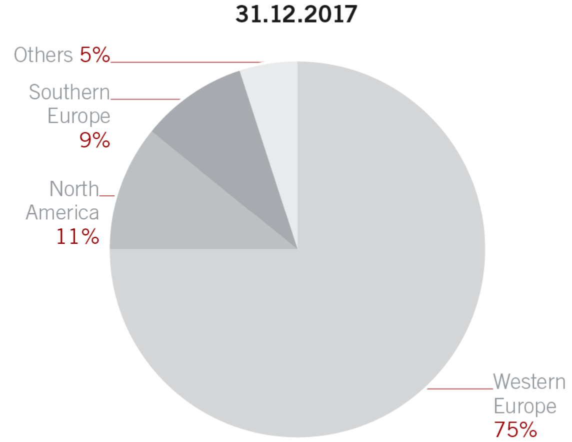
Geographical distribution of loans





Geographical distribution of securities





1) The major share of the loan portfolio is allocated to Austria with 59% (Dec 2017: 58%), Germany with 18% (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) The major share of the securities portfolio is allocated to Great Britain with 11% (Dec 2017: 13%), Austria with 10% (Dec 2017: 9%), France with 9% (Dec 2017: 7%), the United States with 8% (Dec 2017: 10%) and Germany with 6% (Dec 2017: 10%).

Loan and securities portfolio by currencies

	Book value		in %	
in € million	Sep 2018	Dec 2017	Sep 2018	Dec 2017
EUR	36,338	36,306	85.8%	84.9%
GBP	2,226	2,545	5.3%	5.9%
USD	1,983	2,215	4.7%	5.2%
CHF	1,454	1,525	3.4%	3.6%
Others	338	192	0.8%	0.4%
Total	**42,339**	**42,783**	**100.0%**	**100.0%**

Risk concentrations by industry segment (aggregates the segments International Business, DACH Corporates & Public Sector and Südwestbank Corporates & Institutional Clients)

	Book value		in %	
in € million	Sep 2018	Dec 2017	Sep 2018	Dec 2017
Real Estate	4,455	4,224	32.6%	29.3%
Government	2,131	2,182	15.6%	15.1%
Services	2,017	2,338	14.8%	16.2%
Public Sector	945	963	6.9%	6.7%
Engineering & B(2)-B	533	600	3.9%	4.2%
Pharmaceuticals & Health Care	432	309	3.2%	2.1%
Telecommunication	409	219	3.0%	1.5%
Beverages, Food & Tobacco	376	420	2.8%	2.9%
Gaming & Leisure	346	314	2.5%	2.2%
Utilities	306	332	2.2%	2.3%
Chemicals	214	305	1.6%	2.1%
Retail - Food	213	236	1.6%	1.6%
Automotive	192	240	1.4%	1.7%
Leasing	178	506	1.3%	3.5%
Banks	171	210	1.2%	1.5%
Social Housing	146	155	1.1%	1.1%
B(2)-C Products	141	149	1.0%	1.0%
Wood & Paper	81	116	0.6%	0.8%
Media	55	87	0.4%	0.6%
Transport	54	49	0.4%	0.3%
Commodity	50	78	0.4%	0.5%
Construction & Building Materials	50	53	0.4%	0.4%
Hotels	47	49	0.3%	0.3%
Insurance	43	62	0.3%	0.4%
Investment Funds	37	157	0.3%	1.1%
Mining & Metals	32	41	0.2%	0.3%
NGO	15	18	0.1%	0.1%
Total	**13,669**	**14,410**	**100.0%**	**100.0%**

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 over the next 12 months or over the remaining life of the facility in 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 conservativisim was removed where necessary and the models were adjusted to produce point-in-time estimates.

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 exposures in default in accordance with Article 178 CRR (internal risk class 8).

Forborne loans and forbearance measures

Measures of forbearance are extended if borrowers face financial difficulties and are considered to be unable to meet contractual obligations. The Group has sound and transparent processes in place to define the conditions under which concessions, in the form of modification of terms and conditions, may be granted. Depending on the customer segment, possible measures include the temporary postponement or reduction of interest or principal payments, the restructuring of credit facilities or other forbearance measures. In exceptional cases, a temporary or permanent reduction of interest rates may be granted.

Measures of forbearance or refinancing are instruments to ultimately reduce the existing risk and avoid default with respect to debt claims, if it is expected that a default can thereby be forestalled. However, forbearance measures are by no means used to avoid or postpone the recognition of an unavoidable impairment or disguise the level of credit risk resulting from forborne assets.

By implementing forbearance measures that are appropriate in terms of time and scope, the Group supports clients in maintaining financial stability. If the supporting measures are not successful, exposures will be recognized as non-performing and impaired according to regulatory and accounting standards. For clients or a group of clients where a default is identified, a provision is booked in accordance with internal guidelines.

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

23 | Market risk

Market risk is defined as the risk of losses caused by open risk positions in the market and the adverse development of market risk factors (interest rates, foreign exchange rates, equity prices, volatilities, credit spreads). Market risk can arise in conjunction with trading and non-trading activities. The primary market risk components for BAWAG Group are interest rate and credit spread risk.

Both risk categories are measured via sensitivity, value-at-risk (VaR) and scenario-based approaches, and are fully embedded in the Bank's ICAAP framework. The accounting treatment of the positions is considered in the risk reporting concepts.

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

In the trading book, risk mitigating measures are performed only if deemed necessary. The risk quantification, limitation and monitoring within the ICAAP framework is carried out using a parametric VaR model. In the first three quarters of 2018, the average value-at-risk of the trading book was measured at minus € 0.45 million (Jan–Sep 2017 average: minus € 0.49 million) and the value-at-risk as of 30 September 2018 was measured at minus € 0.37 million (31 December 2017: minus € 0.45 million) based on a confidence interval of 99% and a one-day holding period. The regulatory capital requirement is calculated using the Standardized Approach.

24 | Liquidity risk

In addition to the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk), liquidity risk also relates to the risk of increased refinancing costs, which can influence the Group's earnings situation (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold, or that they can only be closed or sold at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The risk measurement is performed by the Market & Liquidity Risk Controlling division.

Liquidity management, comprising of intraday and short-term operational liquidity management, liquidity planning and forecasting, structural liquidity management as well as liquidity buffer management, is performed by Liquidity & Funding Management, which is part of the Treasury & Markets division. The short-term operational liquidity management is based on a 30-day rolling forecast that is updated daily, allowing the close tracking and management of the short-term liquidity position. All measures are closely aligned with Market & Liquidity Risk Controlling. Liquidity & Funding Management is responsible for planning and managing the mid- and long-term funding position. Any important decision on liquidity risk is made within the Strategic Asset Liability Committee, in which all Managing Board members are represented.

Liquidity & Funding Management also ensures that the Bank holds a sufficiently diversified portfolio of high-quality liquid assets and that the liquidity buffer, which is derived from stress test results, is adequate for the Bank's anticipated needs as well as meeting all regulatory requirements. The central management of the mid- to long-term liquidity risk is performed using a 15-month rolling liquidity forecast and the Free-Available-Cash-Equivalent (FACE) ratio, which considers the regulatory liquidity requirements and limits.

The third quarter of 2018 was characterized by a solid liquidity position within stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. The liquidity risk metric LCR (Liquidity coverage ratio) has further improved to 156% at the end of September 2018 compared to 150% at year-end 2017, which is mainly a result of quality improvement on the deposit side.

25 | Non-financial risk

The Group continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements according to Regulation (EU) No 575/2013 Article 317 to assess operational risk. However, the realized OpRisk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The OpRisk RWAs are assigned to the segments based on 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 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, assignment to processes, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of appropriate measures is required.

The identification and assessment of potential risks and measures in case of ad hoc issues is realized through clearly defined processes especially for outsourcings and the implementation of new products.

Additionally, the division Non-Financial Risk Management & Regulatory Compliance ensures the comprehensive and integrated management of all non-financial risks. This setup helps to address and mitigate potentially upcoming or increased risk (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 guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are in place to manage the Group's operational risk/non-financial risk.

DEFINITIONS

After-tax earnings per share	(Net profit – pro-rata AT1 coupon net of tax) / weighted average number of shares outstanding
Average interest-bearing assets	Average of month-end interest-bearing assets within the quarter or the year
Book value per share	IFRS equity (excl. AT1 capital) / number of shares outstanding
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Group) including interim profit, excluding any transitional capital (fully loaded); no dividend accruals considered
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets
Core revenues	The total of net interest income and net fee and commission income
Cost-income ratio	Operating expenses / operating income
Customer loans	Customer loans measured at amortized cost
IFRS equity	Equity attributable to the owners of the parent; excluding minorities
IFRS tangible equity	IFRS equity reduced by the carrying amount of intangible assets
Interest-bearing assets	Financial assets + Assets at amortized cost – Assets at central banks
Leverage ratio	Common Equity Tier 1 (CET1) capital / total exposure (calculation according to CRR)
Liquidity coverage ratio (LCR)	Liquid assets / net liquidity outflows (calculation according to CRR)
Net interest margin	Net interest income / average interest-bearing assets
Net profit	Profit after tax attributable to owners of the parent
NPL ratio	Non-performing loans (NPLs) / exposure; as of June 2017, the ratio's denominator was changed from loans and receivables (incl. provisions) to exposure in line with regulatory requirements and applied retroactively
NPL coverage ratio	Loan loss provisions and collateral / NPL
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses
Operating profit	Operating income less operating expenses and regulatory charges
Pre-tax earnings per share	(Profit before tax – pro-rata AT1 coupon net of tax) / weighted average number of shares outstanding
Return on equity	Net profit / average IFRS equity excl. AT1 capital – average equity based on 1 January 2018 due to IFRS 9 implementation
Return on equity (@12% CET1)	Return on equity calculated at a fully loaded CET1 ratio of 12%– average equity based on 1 January 2018 due to IFRS 9 implementation
Return on tangible equity	Net profit / average IFRS tangible equity excl. AT1 capital – average equity based on 1 January 2018 due to IFRS 9 implementation
Return on tangible equity (@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)
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
RWA density	Risk-weighted assets / total assets
Tangible book value per share	IFRS tangible equity (excl. AT1 capital) / number of shares outstanding
Total capital	Based on IFRS CRR regulatory figures (BAWAG Group) including interim profit, excluding any transitional capital (fully loaded)
Total capital ratio	Total capital / risk-weighted assets

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