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

# 2018

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# LIST OF ABBREVIATIONS

| | |
|---|---|
| AFS | Available for Sale |
| ALM | Asset Liability Management |
| AML | Anti Money Laundering |
| AS | Application Scoring |
| BP | Basis Point |
| BPV | Basis Point Value |
| BS | Behavioral Scoring |
| BWG | Bankwesengesetz (Austrian Banking Act) |
| CAC | Credit Approval Committee |
| CCF | Credit Conversion Factor |
| CDX | Credit Default Swap Index |
| CEBS | Committee of European Banking Supervisors |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CHAID | Chi-square Automatic Interaction Detectors |
| CHF | Swiss Franc |
| CLO | Collateralized Loan Obligation |
| CMM | Capital Management Meeting |
| CRD | Capital Requirements Directive |
| CRO | Chief Risk Officer |
| CRR | Capital Requirement Regulation |
| CRS | Credit Currency Swap |
| CSA | Credit Support Annex |
| CVA | Credit Value Adjustment |
| DH | Division Head |
| EAD | Exposure at Default |
| EBA | European Banking Authority |
| EEA | European Economic Area |
| EL | Expected Loss |
| EONIA | Euro Over Night Index Average |
| ERM | Enterprise Risk Meeting |
| FACE | Free Available Cash Equivalent |
| FMA | Financial Market Authority |
| FO | Front Office |
| FRA | Forward Rate Agreement |
| FTP | Funds Transfer Pricing |
| FX | Foreign Exchange |
| GBP | British Pound |
| GDP | Gross Domestic Product |
| HQLA | High-Quality Liquid Assets |
| IAS | International Accounting Standards |
| IBNR | Incurred but Not Reported |
| ICS | Internal Control System |
| ICT | Information and Communications Technology |
| ICAAP | Internal Capital Adequacy Assessment Process |
| ID | Identity Document |
| IFRS | International Financial Reporting Standards |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| IRB | Internal Ratings Based Approach |
| IRS | Interest Rate Swap |

| | |
|---|---|
| ISDA | International Swap and Derivatives Association |
| JPY | Japanese Yen |
| KRI | Key Risk Indicator |
| KSHK | Kreditsicherheitenkatalog (Credit Collateral Catalogue) |
| KSV | Kreditschutzverband |
| LAS | Liquidity Adequacy Statement |
| LCR | Liquidity Coverage Requirement |
| LGD | Loss Given Default |
| LTIP | Long Term Incentive Program |
| NFRC | Non-Financial Risk Committee |
| NII | Net Interest Income |
| OTC | Over the Counter |
| PD | Probability of Default |
| PIP | Product Implementation Process |
| P&L | Profit and Loss |
| POS | Point of Sale |
| PSC | Portfolio Steering Committee |
| RAP | Risk Adjusted Pricing |
| RCC | Risk and Credit Committee |
| RCSA | Risk Control Self-Assessment |
| RMBS | Residential Mortgage Backed Securities |
| ROC | Receiver Operating Characteristic |
| RWA | Risk Weighted Assets |
| SALCO | Strategic Asset and Liability Committee |
| SEQ | Sicherheitenerlösquotient (Collateral Return Rate) |
| S&P | Standard & Poor’s |
| TM | Treasury & Markets |
| TMA | Asset Liability Management |
| TPU | Temporary Partial Use |
| UGB | Unternehmensgesetzbuch (Austrian Commercial Code) |
| UL | Unexpected Loss |
| USD | US-Dollar |
| VaR | Value-at-Risk |
| WAL | Weighted Average Life |
| WAM | Weighted Average Maturity |
| WEO | World Economic Outlook |
| WGG | Austrian Non-profit Housing Act |

# DISCLOSURE INDEX

| | |
|---|---|
| Review of risk management systems according to Article 435 (1) point (e) CRR | Corporate Governance Report 2018 |
| Figures and information according to Article 435 (1) point (f) CRR | Consolidated Annual Report IFRS 2018 |
| Information according to Article 41 FMA circular letter on accounting issues in connection with derivatives for controlling interest rates | BAWAG P.S.K. Annual Financial Report according to Section 124 Stock Exchange Act 2018 |
| Details on accounting and valuation methods according to Article 447 point (a) CRR | Consolidated Annual Report IFRS 2018 |

# GENERAL PRINCIPLES

According to Article 13 of Regulation (EU) No 575/2013 (hereinafter abbreviated to “CRR”), this Disclosure Report is published on BAWAG Group AG level. BAWAG Group AG is a financial holding company in form of a corporation. Its main business purpose is the management of the company´s assets (BAWAG P.S.K. with its subsidiaries). From a risk perspective, the main bank-wide steering processes are performed by its subsidiary, BAWAG P.S.K. AG. These processes are disclosed in this report.

## SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

**Article 436 points (a), (b) (i-iv) CRR**

Owing to diverging regulations in the International Financial Reporting Standards (“IFRS”) and the CRR, there are two different sets of consolidation guidelines, one for accounting and one for regulatory purposes which also lead to two different scopes of consolidation. The following paragraphs present the scopes of consolidation and explain changes that occurred in 2018.

### Consolidation for accounting purposes

In accordance with IFRS 10, the scope of consolidation includes BAWAG Group AG and all material subsidiaries owned directly and indirectly.

The group´s share in total assets and profit or loss of the subsidiary are the criteria for materiality.

The consolidated financial statements as of 31 December 2018 contained 47 fully consolidated companies and two companies that are accounted for using the equity method. The book value of associated equity interests including banks not consolidated at equity amounted to € 16 million as of 31 December 2018. Controlled companies with a book value of € 18 million were not consolidated because of their negligible effect on the assets, financial and earnings position of the group. Proportionate total assets (higher than € 30 million) and profit or loss (higher than € 3 million) of the subsidiary are the criteria for inclusion. Subsidiaries with a negligible effect on the assets, financial and earnings position of the group are not included in the consolidation.

In February 2018, Realplan Beta Liegenschaftsverwaltung Gesellschaft m.b.H. and Eurogiro A/S, were sold.

In March 2018, BAWAG P.S.K. Datendienst GmbH was included in the scope of consolidation due to materiality.

RF 17 BAWAG Immobilienleasing GmbH was sold in May 2018.

Tresides Asset Management GmbH was sold in June 2018.

In July 2018, N & M Immobilienentwicklungs GmbH was acquired.

ARZ-Volksbanken Holding was sold in August 2018.

DEUTSCHER RING Bausparkasse AG and Meritize Financial Inc. were acquired in September 2018.

Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH and HSH Nordbank AG were acquired in November 2018. Also AUSTWEST ANSTALT GmbH and MF BAWAG Blocker LLC were included in the scope of consolidation due to materiality.

BAWAG Education Trust Corp. was established in December 2018.

### Consolidation for regulatory purposes

The scope of consolidation in accordance with the CRR includes BAWAG Group AG as the highest financial holding company, and all material subsidiaries owned directly and indirectly.

Consolidation for regulatory purposes is carried out in accordance with Article 18 and 19 CRR, with the financial statements of the individual companies and the consolidated financial statements being prepared in accordance with the principles of the IFRS (International Financial Reporting Standards).

The criteria used to determine the scope of consolidation are total assets and off-balance sheet items. The scope of consolidation for regulatory purposes is different to the scope of consolidation for accounting purposes.

As of 31 December 2018 the scope of consolidation for regulatory purposes included 42 fully consolidated companies, 3 companies were proportionally consolidated and one company that was accounted for using the equity method.

The following table shows an overview of the companies, which are treated differently in the scope of consolidation for accounting and for regulatory purposes:

**Table 1: Divergent consolidation basis**

| | IFRS | CRR |
|---|---|---|
| BAWAG Leasing & fleet s.r.o. Prague | FVPL | F |
| BAWAG Leasing s.r.o. Bratislava | FVPL | F |
| BAWAG P.S.K. Versicherung AG | E | FVOCI |
| Fides Leasing GmbH | FVOCI | P |
| Gara RPK Grundstücksverwaltungsgesellschaft m.b.H. | FVPL | F |
| HFE alpha Handels-GmbH | FVOCI | P |
| Kommunalleasing GmbH | FVOCI | P |
| PT Immobilienleasing GmbH | FVOCI | F |
| SWBI Darmstadt 1 GmbH | F | FVOCI |
| SWBI Mainz 1 GmbH | F | FVOCI |
| SWBI München 1 GmbH | F | FVOCI |
| SWBI Stuttgart 1 GmbH | F | FVOCI |
| SWBI Stuttgart 2 GmbH | F | FVOCI |
| SWBI Stuttgart 3 GmbH | F | FVOCI |

F …….. Fully Consolidated
P ….…. Proportionally Consolidated
E ….…. Equity Consolidated
FVOCI .. Equity Instruments At Fair Value Through Other Comprehensive Income
FVPL .... Equity Instruments At Fair Value Through Profit or Loss

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

As all subsidiaries subject to banking regulation laws are included in the scope of consolidation or all relevant book values are deducted from own funds in case the threshold is exceeded, there is no shortfall in own funds in terms of CRR, Part 8, Title II, Article 436 point (d).

## IMPEDIMENTS TO THE TRANSFER OF OWN FUNDS

**Article 436 point (c) CRR**

There are currently no restrictions or other significant impediments to the transfer of own funds or regulatory equity within BAWAG Group.

## TOTAL SHORTFALL IN OWN FUNDS OF ALL SUBSIDIARIES NOT INCLUDED IN THE SCOPE OF CONSOLIDATION

**Article 436 point (d) CRR**

No shortfalls in own funds are known of among subsidiaries that are not consolidated but deducted from own funds.

## USAGE OF ARTICLES 7 AND 9 CRR

**Article 436 point (e) CRR**

There are no issues for the usage of Article 7 and 9 CRR in BAWAG Group.

# RISK MANAGEMENT

## INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

**Article 438 point (a) CRR**
**Article 439 point (a) CRR**

The Internal Capital Adequacy Assessment Process (ICAAP) is part of the regulations known as Pillar II. The ICAAP-related processes and methods established at BAWAG Group ensure that the existing risk coverage capacity in terms of capital is adequate to cover the relevant risks that may arise.

The risk bearing capacity is calculated on a monthly basis. The calculation and its components are discussed and reported monthly to the entire Management Board in the Enterprise Risk Meeting (ERM).

The following risk categories represent the relevant risk type within BAWG Group that are quantified and compared with the available risk bearing capacity:

- **Credit risks**: Credit risk is subdivided into the following types of risks:
  - Default risk: designates the risk of a complete or partial loss of exposures because of a counterparty's inability or unwillingness to pay. This category includes the default risk from credit transactions with customers of all segments as well as the issuer risk from investment in securities. The default risk also contains single name concentration risk and risk from foreign currency lending.
  - Participation risk pertains to the risk of possible losses from the injection of own capital to investment companies (consolidated participations).
  - Creditworthiness/migration risk or spread risk designates the risk of a loss in the value of exposures because the debtor's rating worsens without an event of default having occurred. The creditworthiness risk is attributable to the deterioration in credit quality or the debtor's rating. Basically, spread risks exist even without deterioration in credit quality if there is an increase in the yield premium for bonds with the same currency and term (e.g. due to a different risk appetite in the market or emerging liquidity effects). In terms of accounting, these risks affect the debt instruments of the company's own stock if market value losses lead to a valuation change with an effect in profit or loss or capital.
  - Counterparty risk occurs in transactions with a settlement date in the future which were entered into with a fixed price agreement and for which market-related value changes may occur within the term of fulfillment. All conditional and unconditional future contracts and credit derivatives fall under this category. If the counterparty defaults on a transaction of this kind prior to rendering full performance, BAWAG Group might under certain circumstances have to cover the position in the market with a new counterparty at the conditions valid at the time. If the market value has changed unfavorably compared to the original transaction, BAWAG Group incurs replacement losses equal to the difference between the originally agreed and the current market value.
  - Settlement risk: settlement and delivery risk is composed of the pre-settlement/fulfilment risk and the replacement risk. Pre-settlement/fulfilment risk results from the unilateral provision of an input by BAWAG Group under a mutual transaction. It exists until the complete fulfilment of the counter-performance. Replacement risk occurs if the full settlement of a transaction is not carried out immediately on its conclusion. If the counterparty defaults prior to full performance, the group has to find a replacement in the market based on the conditions prevalent at that time. Due to changes in market value in the meantime, BAWAG Group may incur losses from the necessary replacement. From an economic point of view, replacement risk is identical to the counterparty risk. In contrast to counterparty risk, however, it does not occur for forward transactions, for which a future settlement was explicitly agreed. It exists in the framework of step-by-step transactions where, due to standard market practices, a period of several days may separate conclusion of the contract and settlement.
  - Country risk: country risk exists in connection with credit extended to foreign borrowers or with the acquisition of bonds from foreign issuers or other assets having an origin outside Austria. It contains transfer risk, the risk that agreed capital payments (payment of interest and/or repayment of principal) are rendered either not at all or only incompletely or late due to international payment restrictions or due to illiquidity or refusal to pay by a governmental debtor or guarantor.
  - Credit risk also includes securitization risk and the risk from the use of techniques for credit risk mitigation.

Credit risk is quantified by using the IRB approach. Additional capital surcharges are applied for credit risk concentrations in connection with loans to major customers/to groups of affiliated customers and for the risk arising from credit lines[1)] not subject to capital requirements under legal regulations. Furthermore, additional capital is held for the CVA risk which is part of the credit risk.

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

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

- **Non-financial risk:** This category covers operational risk (including compliance risk) quantified using a value-at-risk model as well as reputational risk which is quantified with a simplified valuation model.

- **Other risks**: tcategory includes:
  - Participation risk, which is quantified using the PD/LGD approach for all participations held directly or indirectly and which are not within the scope of consolidation. The calculation is based on IFRS book values. If, in exceptional cases, no current internal rating was available, the risk is quantified by assigning the worst non-default risk class “7”. Consolidated participations are examined in a look-through approach by considering the individual transactions of these companies in the corresponding risk category, namely credit and market risk.
  - Macroeconomic risk: capital estimation is based on expert assessment, taking into account current global developments relevant for BAWAG Group’s core markets.
  - Capital to cover strategic risk and capital risk is quantified by using simplified valuation models.

The individual relevant risk types are subsequently aggregated to form the total risk of the group, without considering correlation effects, and are set into relation with the risk bearing capacity. The aim of BAWAG Group´s ICAAP steering is to ensure an adequate coverage of all risks at any time. This aim is supported via a specifically allocated capital buffer for non-identified risks as well as an additional buffer subject to flexible allocation at Management Board discretion.

The economic risk bearing capacity is composed of the following components:

- Tangible IFRS equity (scope of consolidation is CRR)
- Subordinate capital
- Regulatory IRB shortfall (Comparison of loan loss provisions, ECL and expected losses)
- Provisions for redemption carrier loans

A confidence level of 99.9 per cent is applied for the calculations (based on the defined target rating of A. The confidence level indicates the probability that potential losses are not exceeding the quantified risk.

Limits are determined for all limit categories (and steering portfolios) as part of the Risk Strategy. The compliance of the limits is monitored in accordance with the defined monitoring processes on a monthly basis. In addition, escalation processes have been implemented which are initiated in case of reaching defined “warning levels” or exceeding the ICAAP limits. The division Strategic Risk Management is responsible for these processes which are defined in a specific handbook. This handbook is approved by the ERM on an annual basis. The process regarding the exceedance of the defined warning levels or limits comprises the immediate information of the responsible market and risk manager. In the course of this, the market side is asked to report within a defined time period whether the limit can be kept until the end of the year. If the defined limit cannot be kept, the market manager is asked to initiate immediately risk mitigation measures – the division Strategic Risk Management has to be informed. If a reduction of the risk position is not possible, the responsible market unit in coordination with the risk manager has to submit a Management Board application for increasing the limit.

**Portfolio Steering Framework**

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

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

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

The following four levels of capital allocation are considered:

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

**Portfolio Steering Committee**

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

In particular the duties of the PSC are as follows:

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

# CAPITAL ALLOCATION AND LIMITATION AT TOTAL BANK LEVEL

**Article 438 point (a) CRR**
**Article 439 point (a) CRR**

The process for limitation and capital allocation runs parallel to planning and budgeting at least once a year, and if required, more often. Within the defined process, the established premises such as confidence level and capital buffer (risk appetite) are reviewed and updated. Steering portfolios are defined for credit risk and are geared to the customer segments or organizational responsibilities as well as countries and industries. The bank subsidiaries are included in the control portfolios. For market and liquidity risks, sub-limits are defined.

The capital allocation/limitation according to Article 39a of the Austrian Banking Act is defined under the following premises and information:

- The Management Board sets forth the strategy for the next five years in the annual medium-term plan
- Confidence level, holding period, capital buffer, steering units
- Planning and budgeting process and any changes in risk value/balance sheet items under consideration of an adequate liquidity position
- Existing limit setting systems (e.g. in connection with market risks)
- Limitation for the steering units according to the quantification methods defined for the individual risk categories

The capital allocation, as a major component of group-wide risk management and limitation of the risk categories, is approved by the entire Management Board, presented to the Risk and Credit Committee of the Supervisory Board and in a final step, approved by the Supervisory Board.

# GROUP-WIDE STRESSTESTS

**Article 435 (1) point (a) CRR**

**Stress Test Framework**

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

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

**Stress Test program**

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

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

**ICAAP Stress Test**

The ICAAP stress test is a macroeconomic stress test with general assumptions of a static balance sheet and without possible mitigation measures during the projection period.

BAWAG Group stress test exercise is based on three macroeconomic scenarios (baseline, adverse and idiosyncratic) covering a three-year horizon starting from the reference date of the stress test exercise.

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

**Reverse Stress Test**

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

**Stress Test Committee**

The Stress Test Committee (STC) provides the central coordination of the stress testing processes at Group level. The main objective is to ensure effective oversight and control over the operative proceedings of all stress test analyses and to inform strategic decisions.

The scope of activity includes all cross-divisional stress test or similar economic analyses and all such analyses requiring Management Board approval. For the analyses in scope, the STC is in charge of the following items:

- Approval of the process guidelines for each stress test or economic analysis
- Prioritisation and assessment of the enhancements to be sought over time
- Approval of the baseline and related assumptions for each stress test exercise (where required)
- Top-down definition of the scenario(s) or approval of the scenario(s) defined in a bottom-up approach
- Approval of the stress test specifications
- Definition of the timeline for stress test exercises
- Discussion and approval of the results of stress test exercises
- Definition of the recommended action / mitigation plan for ERM approval based on the stress test results.

# GROUP-WIDE RISK MANAGEMENT

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

Risk management decisions are taken at various places within BAWAG Group on daily basis. The systematic orientation of risk decisions at the company's targets requires the development of a common fundamental understanding concerning the risk-related issues, the specification of strategic and operational objectives in the individual business units as well as a comprehensive process of continuous risk management covering all risk areas. The guidelines regarding the risk management are laid down in several documents. The Risk Governance contains the basic position in terms of risk policy, a classification of risk types as well as the organization of the risk management. The Risk Strategy (derived from the specifications defined in the business strategy) considers the capital allocation/limitation for every risk category which has been classified as material and the structure limits to manage concentration risk. The management of the individual risk types is part of specific risk manuals.

The Management Board determines the business strategy for the Group and the individual business segments as part of its risk management responsibilities and defines target values for the key risk ratios. The Management Board then derives from this business strategy the Risk Strategy and sets the risk tolerance for the current planning period. Finally, the Management Board takes fundamental decisions with respect to the processes to be applied to identify, measure, control and monitor risks.

The Chief Risk Officer (CRO) is a member of the Management Board and assumes responsibility as the risk manager for the entire Group. All risk management divisions report to the CRO. He regularly informs the Management Board about the risk situation. As required by the supervisory authority, this organizational structure separates the front-office and back-office units, particularly risk management, at all levels of BAWAG Group including the Management Board level.

In addition, the Management Board is informed within the ERM about all risks within the Group on a monthly basis. With regard to the Enterprise Risk Meeting the provided Group Risk Report builds the information basis in which various key risk indicators are reported, analyzed and commented as part of a pre-period comparison. Furthermore, any significant change in the risk situation has to be immediately reported to the entire Management Board. The external stakeholders are annually (in form of the annual report) as well as quarterly (in form of interim reports) informed about the risk situation. The reports are published on BAWAG Group's website.

The Risk Strategy is one the key component of the strategic planning of the bank and is contributing together with the Finance Strategy and the Business


Strategy to the achievement of the bank's targets. From risk side, the planning process is initiated with the Risk Planning Guidelines outline the focus and outlook on core segments, markets and industries. Those guidelines are a core input for group-wide business planning and are reflected in the risk strategy after alignment with the capital and business strategy. In addition to the risk planning guidelines, stress test results are taken into consideration for the definition of the Risk Appetite, limit setting and the capital allocation for the year.

The Risk Strategy is defined by the risk management division and is stating the Risk Appetite and defining the Target Risk Profile based on the results of the Risk Self-Assessment and Risk Planning Guidelines; in particular for Credit Risk the volume by segment defined in the budget are taken in consideration with the year-end credit risk capital density and are used for estimating the credit risk figures and the limits for the year as well as the allocation within the business segments; for the country and industry limit allocation is reviewed more on case by case by expert judgement, following the indication of the Risk Planning Guidelines as well as the capital density of the specific country and industry, the macroeconomic country development and the industry risk perception; all the components of the Risk Bearing Capacity are forecasted for the year, based on the capital planning; moreover all the limits indications provided in the Risk Self-assessment are already assessed in order to be consistent with the respective Risk Appetite targets and limits and are considered for the capital allocation.

The Risk Appetite Statement provides a compact overview about the targets and limits set in term of Capital, Liquidity and Portfolio Quality metrics for the year 2018.

| | YE 2018 | Target | Limit |
|---|---|---|---|
| CET1 ratio | 13.95% | ≥ 12% | > 9.625%[1)3)] |
| Tier 1 ratio | 15.42% | n.d. | > 11.125%[1)] |
| Total Capital ratio | 15.72% | n.d. | > 13.125%[1)] |
| ICAAP limits utilization | 58.8% | < 95% | 100% |
| LCR | 179% | > 120% | > 105% |
| FACE | € 3.7b | n.d. | > € 1.5bn |
| Leverage ratio | 7.15% | n.d. | > 3% |
| NPL ratio[2)] | 1.7% | < 2.5% | < 3.5% |

1) already considering the maximum between BRRD limit and SREP requirements
2) according to the regulatory definition
3) excluding Pillar 2 Guidance buffer of 1% according to SREP 2017

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

The Risk Strategy and the Risk Governance are updated on an annual basis, approved by the Management Board, submitted to the Risk and Credit Committee of the Supervisory Board for discussion and, in a final step, approved by the Supervisory Board. The Group Risk Report is represented to and discussed within the Risk and Credit Committee on a quarterly basis.

Pro-active risk management is a major goal of BAWAG Group and is among the core tasks of the risk organization. Efforts must be made to ensure that BAWAG Group takes on risks that are not excessively high (but rather reasonable and measurable). Yet the business model must also definitely be supported along with the planned business growth defined in it. Basically, BAWAG Group follows a low risk strategy, which means that risks are managed conservatively.

Moreover, all rating and scoring systems are subject to an annual validation process in which the adequacy and the performance of the systems is monitored. If further measures are required, appropriate analyses will be initiated and, if necessary, adjustments will be implemented and communicated to the Management Board.

Due to the variety of monitoring processes, ongoing reporting activities and the immediate introduction of countermeasures in the case of significant deviations from the target risk profile defined in the Risk Strategy, it is ensured that the risk management processes and systems are appropriate.

**Organizational changes in risk management**
In 2018 the transfer of the Retail Risk department from Credit Risk Management division to European Retail Risk Management division became effective, with the refocusing of the two divisions to Commercial Risk Management and Retail Risk Management respectively.

Hence, to perform its tasks, the risk management organization comprises the following independent units (main level or divisions) as of 31 December 2018:

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


The above risk management divisions are directly subordinated to the Chief Risk Officer (CRO) and periodically referred to the following committees at Management Board level:

The **Enterprise Risk Meeting (ERM)** is a monthly risk meeting of all members of the Management Board and is chaired by the CEO. It takes fundamental risk decisions, such as:

- approves the Risk Strategy and determines the risk appetite, and, if needed, gives recommendations to the Supervisory Board on changes and modifications
- approves the capital allocation in the framework of the ICAAP
- delegates competence for credit risk limit setting to the Portfolio Steering Committee (PSC) at profit sub-segment level (level 3) and for specific countries and industries within each sub-segment (level4)
- approves capital re-allocation in level 3 and level 4 above € 40 mn upon explicit recommendation by the PSC
- delegates competence for market risk limits for the Group to the S-ALCO
- reviews and approves underwriting guidelines for all business units
- reviews significant findings resulting from regulatory examination and initiates action for remedy
- discusses the monthly Group Risk Report
- discusses the monthly Capital Report
- reviews and approves use of rating models, scorecards, cutoffs as well as development or changes of risk parameters
- reviews and approves results or rating- and scoringmodels validation and the resulting actions
- reviews and approves or recommends (according to regulatory requirements) credit policies
- approves the results and potential countermeasures of the stress test exercises, as recommended by the Stress Test Committee.

**Credit Approval Committee (CAC):** Approves loan applications within the power defined in the Competence and Power Regulation of the CAC.

**Strategic Asset and Liability Management Committee (SALCO):** The main tasks of that committee are the decision-making on the investment of equity and other non-interest bearing assets and the allocation of foreign exchange risk limits to the banking book as well as their regular monitoring. Furthermore, all relevant Market- and Liquidity Risk reports as well as ALM and Treasury reports are presented to the board via this committee. In addition, the committee serves as escalation body for exceeding individual limits or regulatory requirements.

**Non-Financial Risk Committee (NFRC):** The committee is established for discussion and approval of bank-wide NFR Risk Assessment (as part of Group Risk strategy) for topics such as AML, Fraud, Data Protection, ICT Risks, Conduct, Outsourcing and changes in regulatory requirements.

On level of Supervisory Board various committees are established. The most essential one from a risk perspective is the **Risk and Credit Committee (RCC)**, which also deals with the Group Risk Report. Four meetings were held in 2018.

Under the current valid version of the Rules of Procedure of the Supervisory Board dated 13 December 2017, the RCC has the following responsibilities:

- approves the granting of loans and credit (as well as other forms of financing) to individual borrowers or groups of associated customers within the meaning of Article 392 CRR (exposures that equal 10% or more of the Bank's eligible own funds)
- reports annually to the Supervisory Board on large exposures approved by the Risk and Credit Committee
- approves the granting of loans and credit to corporates above € 250 million
- decides on transactions with the Bank's affiliated parties within the meaning of Article 28 BWG
- approves material credit policies and advises the Management Board regarding fundamental issues of credit and risk policy
- advises the Supervisory Board on the current and future risk appetite and Risk Strategy and monitors the implementation
- regularly monitors the effectiveness and efficiency of the risk management system and compliance with legal and regulatory provisions

BAWAG Group applies a Group-wide Fit and Proper Policy. It sets forth the procedure for selecting members of the management body and for reviewing actual knowledge, skills and experience. In addition, aspects of personal reliability, internationality and age structure of the members are to be taken into account..

In December 2013, the Nomination Committee has defined a target quota for the underrepresented gender among the Supervisory Board and on the Management Board (30% until 2020).

The strategy for reaching this goal was further developed and defined together with BAWAG P.S.K. Women's Initiative and Human Resources. The focus is on promoting female employees within the Women's Promotion Program, internal and external mentoring programs for female leaders and experts, gender-specific workshops for all female employees and appointing females as Supervisory Board members of subsidiaries. With the Women's Promotion Program introduced in 2012 and signing of the UN Global Compact Women's Empowerment Principles BAWAG Group set important steps towards equality between women and men.

The Women´s Promotion Program is based on four principles and concrete measures:

- Awareness raising
- Same career opportunities
- Financial equality
- Promoting a better balance between career and family for women and men, especially the provision of targeted information for employees before, during and after parental leave

The BAWAG Group Women Mentoring Program focuses on female employees, experts and leaders interested in advancing their professional development through a mentoring relationship. BAWAG Group received the certificate as a family-friendly company in 2013 as the group committed under a framework of a structured audit process to facilitate the balance of family and career through corresponding measures. Supported by these internal measures a general framework and an environment should be created for more women to take on leadership positions.

Disclosure of the number of management and supervisory functions held by BAWAG P.S.K. Management and Supervisory Board members pursuant to EBA/GL/2016/11 and Article 435 (2a) CRR as of 31 December 2018:

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

| Name | Function in BAWAG P.S.K. | Number of Management Board functions | Number of Supervisory Board functions |
|---|---|---|---|
| Pieter Korteweg | Chairperson Supervisory Board | 1 | 4 |
| Frederick Haddad | Member Supervisory Board | 9 | 2 |
| Egbert Fleischer | Member Supervisory Board | 0 | 5 |
| Kim Fennebresque | Member Supervisory Board | 0 | 6 |
| Adam Rosmarin | Member Supervisory Board | 1 | 2 |
| Christopher Brody | Member Supervisory Board | 1 | 4 |
| Anas Abuzaakouk | Management Board, CEO | 2 | 1 |
| David O´Leary | Member Management Board | 2 | 3 |
| Andrew Wise | Member Management Board | 2 | 1 |
| Stefan Barth | Member Management Board | 2 | 2 |
| Enver Sirucic | Member Management Board | 3 | 2 |
| Sat Shah | Member Management Board | 3 | 1 |

# CREDIT RISK

## OBJECTIVES AND PRINCIPLES OF CREDIT RISK MANAGEMENT

**Article 435 (1) points (a) – (e) CRR**
**Article 439 point (a) CRR**

### Strategies and processes

#### Corporate Customers

Strategies and processes presented in this section on corporate customers are also largely applied to sovereigns, the financing of government authorities, and institutions. Loans are processed and decided upon according to extensive work instructions. The decision-making powers are set forth in competency order.

Credit is granted on the basis of the following considerations:

- All individual customers and customers in a customer group or a corporate group are rated at least annually.
- The analysis of creditworthiness is based on current business documents (the national accounts for sovereigns) including planning calculations of the company and other information to ensure a meaningful analysis for the rating and the decision.
- The assessment of a customer's creditworthiness and credit bearing capacity is based on ratings that must systematically cover all information made available from the relationship manager. The final rating confirmation is handled by the responsible organizational risk division. The loan decision is taken solely according to the Competence and Power Regulation.
- BAWAG Group strives to collect suitable collaterals to minimize the credit risk which are assessed by using a standardized valuation based on the Group collateral catalogue. In the event of any net exposure, correspondingly higher collateral must be provided if the rating shows any signs of worsening.
- Finance for complex business models (e.g. leveraged finance) or in new countries or regions is based on a thorough analysis and description of the associated (credit) risks.
- The (credit) risk units must be involved with appropriate expert opinions, as set forth in the product implementation process. New business segments must also be compatible with the general treatment of credit risk in terms of classification and basic rules in order to ensure consistency.
- Any decision that could change the risk position in a customer relationship requires approval from the competent authorized person. Each application requires a positive front-office recommendation (from the customer advisor) before being submitted to the risk-unit.
- If key ratios are defined in a credit relationship as auxiliary conditions (known as covenants), they must be stated in the credit application and approved. Compliance with the key ratios at the contractually fixed dates must be checked by the responsible risk unit.
- The exposure per customer or group of affiliated customers is not allowed to exceed certain magnitudes (0.4% of the capital allocated to commercial credit risk) as determined by the specifications in the Risk Strategy.

#### Retail and Small Business Customers

Risk from new business is managed by using clear and strict underwriting guidelines. Decisions at the point of sale are mostly made on the basis of automated scoring systems that issue recommendations, or the decision is made downstream in the risk division. Special attention is paid in this portfolio on processing compliance and assuring data quality. A central monitoring process ensures on-going quality assurance.

Credit risk in retail business is measured monthly focusing on the following elements:

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

The findings of the analysis are reported periodically to the ERM.

Independently of this process, risk-relevant data from standardized assessments between business managers and risk management are discussed and documented in monthly committee meetings.

This process ensures a regular and standard flow of information whilst also enabling to respond directly to changes in risk parameters and market conditions.

In the collection process additional measures support the dunning process to be more efficient on working with overdrafts and loans in delay.

## Structure and organization of relevant risk management functions

Credit risk is an integral part of many business activities. Operational credit risk is controlled in the Commercial Risk Management and Retail Risk Management devisions. In daily business, credit risk is controlled by each business area in coordination with the specific credit risk devision based on the powers granted and applying the four-eye principle. The rules regarding the powers granted can be found in the Competence and Power Regulation. Every employee is aware of the rules laid out in this document.

## Risk measurement systems (approved approaches)

**Article 452 point (a) CRR**

With the decision of the FMA of 23 April 2013, BAWAG Group received approval in accordance with part 3 titel II chapter 3 section 1 CRR to calculate the basis of assessment for credit risk as per Article 107 (1) CRR applying the internal ratings based (IRB) approach pursuant to part 3 titel II chapter 3 CRR starting on 1 April 2013. The approval extends to the institutions of the Bank Group described below and the indicated exposure classes. For individual exposure classes, credit institutions and business units indicated below, the basis of assessment for credit risk will be determined using the Standardized Approach to credit risk pursuant to Article 148 and Article 150 CRR (permanent or temporary partial use) with approval from the ECB as per part 3 titel II chapter 2 CRR. BAWAG Group uniformly applies the IRB approach in the Bank Group and jointly satisfies Article 144 and Article 145 CRR for the institutions in the Bank Group.

**Portfolios in the IRB approach**

Approval to use the IRB approach applies to the following credit institutions in the Bank Group:

- BAWAG P.S.K. AG
- easybank AG

For the exposure class ‘exposures to corporates’ (Article 147 (2) point c CRR), the approaches specified by the supervisory authority are used in the scope of the IRB Approach for the risk parameter LGD and conversion factors. The risk weights pursuant to Article 147 (2) point c CRR apply for exposures from Specialized Lending.

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

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

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

**Portfolios in the temporary standardized approach**

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

Additionally the following main portfolios are in the standardized approach:

- In Südwestbank AG the IRB approach should be implemented for all exposures which are subject to IRB in BAWAG P.S.K. AG.
- In the credit institution start:bausparkasse AG the IRB approach should be implemented for the exposure category ‘retail exposures’.
- Furthermore the Paylife portfolio ‘qualifying revolving retail exposures’ of easybank AG and the portfolio elements transferred to BAWAG P.S.K. AG due to the demerger of IMMOBank AG are subject to temporary standardized approach

**Portfolios in the standardized approach**

Permission was/will be obtained from the FMA/ECB pursuant to Article 150 CRR to apply permanently the standardized approach to credit risk to calculate the basis of assessment for credit risk for the following exposure categories and immaterial lines of business:

- exposures to central governments and central group's pursuant to Article 150 (1) point a CRR
- exposures belonging to the classes of exposures to the Austrian federal government, provincial governments and public-sector entities pursuant to Article 150 (1) point d. CRR
- guarantees and counter-guarantees of central governments pursuant to Article 150 (1) point j CRR
- exposures to local and regional governments and public-sector entities as well as legally recognized churches and religious communities falling into the exposure class 'Institutions' pursuant to Article 150 (1) point a CRR
- exposures within the Bank Group pursuant to Article 150 (1) point e CRR
- within the exposures to corporates, the immaterial business units insurance companies, political parties, leasing companies and other financial companies pursuant to Article 150 (1) point c CRR
- participations whose credit obligations qualify for 0% risk weight under the Standardized Approach to Risk Weight in application of the provisions of Article 150 (1) point g CRR
- in accordance with Article 150 (1) point c CRR, for the exposures of the following subordinate institutions pursuant to Article 30 (1) BWG:
  - BAWAG P.S.K. Wohnbaubank AG
  - easyleasing GmbH and BAWAG Leasing Holding GmbH and its leasing subsidiaries
  - IMMO-BANK AG
  - start:bausparkasse AG, if not provided for in the temporary standardized approach
  - real estate companies of BAWAG Group if they provide ancillary services as subordinate institutions of the Bank Group
  - other smaller financial institutions and providers of ancillary services

Furthermore, the regulatory capital requirements for an International Retail Mortgage Portfolio which has been purchased during the year 2015 are calculated by using the standardized approach.

## Reporting systems

The entire Management Board is informed monthly about all risks in the ERM based on the comprehensive, monthly Group Risk Report. In addition, the entire Management Board is informed immediately in case of any material change in the risk situation.

## Risk hedging and mitigation[1)]

**Article 435 (1) point (d) CRR**

Collateral is recognized and assessed in accordance with the Credit Collateral Catalogue (KSHK) which reflects the principles of the CRR, of the other relevant legal regulations and internal procedural rules. The KSHK together with the collateral checklist serves as the basis for cataloguing collateral according to internal risk criteria. The KSHK also determines the amount to be set for the market value and lending value (internal value) and whether the collateral may or may not be applied to reduce risk under the current regulatory requirements. If new collateral not yet defined in the Credit Collateral Catalogue (KSHK) is taken in, the organizational unit Strategic Risk must check whether this new collateral is eligible for recognition and select the method for the valuation of the market value and the limits for the lending value in coordination with the affected areas and submit these items to the ERM for approval.

Monitoring is conducted regularly and the currently valid lending value estimates are reconciled with the historical realization proceeds and checked.

The lending value is the value at which the collateral is internally estimated in terms of reducing exposure. The lending value incorporates values empirically obtained from salability, duration of realization or discounts based on risks specific to the rating or country. In the case of real estate with prior liens, these liens are also considered in figuring the lending value. The lending value is set for daily credit business and is generally far below the current market value. The lending values in general and the discount rates per risk category in particular are subject to periodic review.

The market value is the value of the collateral usually attainable from selling the asset in a fair business transaction. The market value is determined using a valuation process that takes into account future marketability and is geared to standardized valuation processes (e.g. for real estate: income approach, cost approach, sales comparison approach, etc.). Speculative aspects are not considered in the calculation of the market value.

1) Refer also to 'credit risk mitigation techniques in the internal ratings based approach'.

# COUNTERPARTY DEFAULT RISK ARISING FROM DERIVATIVES, REPURCHASE TRANSACTIONS, SECURITIES AND COMMODITIES LENDING TRANSACTIONS, MARGIN LENDING TRANSACTIONS AND LONG SETTLEMENT TRANSACTIONS

## Strategies, processes and management

**Article 435 (1) point (a) CRR**

The counterparty default risk is treated as part of the credit risk. Details on strategies and procedures of the management of credit risks are presented in section 'Objectives and principles of credit risk management'.

## Structure and organization of relevant risk management functions and risk reporting systems

**Article 435 (1) point (c) CRR**

Counterparty default risk is a version of credit risk designating the potential risk of default in treasury transactions, especially derivative transactions. It quantifies the risk of loss that would materialize if the credit rating of a counterparty of BAWAG Group worsened during the term of a transaction – all the way to the worst case scenario of a default.

The credit risk divisions assess actual counterparties based on front-office requests. A limit system is employed to monitor this risk category and sets separate limits for the three asset classes' derivatives, money market and securities (product limit system). Market & Liquidity Risk Controlling (MR) is responsible for monitoring compliance with the set limits. The extent to which the limit is being used is calculated methodically following the regulatory approach 'Positive market value plus add-on' as defined in in Article 274 CRR utilizing credit risk mitigation techniques (refer to section 'credit risk mitigation').

This monitoring of limit use is done in real time and in the form of daily reports. The division Market & Liquidity Risk Controlling reports daily to the front office and the back office on any instances of limits being exceeded. The front office and back office then order countermeasures to be taken subject to an escalation process coordinated by Market & Liquidity Risk Controlling.

All relevant provisions for counterparty risk and the associated processes are described in detail in the risk management manual for Treasury Markets, which is annually updated and approved by the entire Management Board. The rules are supplemented by various process instructions for Treasury & Markets and credit risk manuals for the credit segments.

## Risk hedging and mitigation

**Article 435 (1) point (d) CRR**
**Article 439 point (b) CRR**

BAWAG Group can demand the furnishing of collateral or take other steps to mitigate risk based on bilateral agreements (repurchase agreements, lending transactions, ISDA netting agreements, credit support annexes, etc.). From the standpoint of BAWAG Group, credit risk only exists in cases in which the net market value is positive (replacement risk). As this risk depends largely on fluctuations in market risk parameters (exchange rates, interest rate movements, stock prices, etc.), regular recalculation of this risk is indispensable as is an appropriate adjustment in the collateral.

The types of collateral generally allowed include cash in several (major) currencies found in a set list (usually EUR, USD, GBP, CHF) and securities from issuers with very good ratings (government bonds of select European countries and the United States).

If securities are provided as collateral, a haircut based on the remaining term is additionally applied. The collateral amounts are adjusted to the current risk situation (market valuation of the counterparty's transactions), or the intrinsic value of the collateral is checked at contractually agreed times (exchange rate fluctuations are taken into account for collateral denominated in foreign currencies and the market value of securities). The customary intervals for valuation in the market are daily, weekly or monthly. For the majority of contracts, a daily valuation is provided.

The possibility of realizing the deposited collateral in the event of the partner's bankruptcy and its further use (e.g. re-hypothecation or passing along of the collateral as security for another contracting party) is ensured by the legal opinions drawn up on behalf of ISDA for the given jurisdiction of the individual contracting parties.

For derivative business, currently only cash collateral denominated in € and USD, in case of a Clearer additionally in CHF and GBP, is allowed. This type of security therefore does not result in any reserves being formed nor is hedging required for the financial collateral taken in, as (with exception of USD, CHF, GBP) its value does not change due to price changes.

## Correlation risks

**Article 439 point (c) CRR**

According to the Basel Committee, there are two types of correlation risk, general and specific. A general correlation risk exists if there is a high correlation between the counterparty's probability of default and risk factors in the general market risk. A specific correlation risk exists if there is a high correlation between the counterparty's probability of default and the replacement value of current transactions being conducted with that counterparty due to the nature of these transactions.

Possible correlation risk is taken into account in connection with deliberations on the collateral portfolio. Any specific correlation risk is countered by combining the granting of limits to a counterparty or obligor group of counterparties and the setting of internal limits (exposure determination). For derivative business, only financial collateral in the form of cash deposits is generally allowed. This practice is also intended to help avoid specific correlation risks. In determining the limit and limit structure during the rating check, BAWAG Group considers the counterparty's rating and a possible worsening of this rating. These factors are not part of the determination of exposure.

In the case of counterparties with whom a comparatively large volume of derivative business is conducted, collateral agreements are also signed. They stipulate that positive market values are regularly compensated solely in the form of cash deposits.

With respect to repos and securities finance, additional risks are largely eliminated in the corresponding agreements (repo annex, tri-party agreement) by setting restrictive criteria on acceptable types of securities, issuers, rating classes and haircuts. In repos trade, margin calls are periodically executed to compensate for the market value.

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

## Rating downgrade and its impact on collateral

**Article 439 point (d) CRR**

Contractual clauses on dependencies between the collateral provided and the rating assigned exist only in a few isolated cases in connection with risk mitigation agreements from derivative transactions. In some of these agreements, this provision affects what are known as the 'independent amount", the 'threshold amount" and the 'minimum transfer amount".

Based on existing agreements and as matters stand today, a rating downgrade of the Bank would not have any material effect on the additional amount to be provided.

## Measures for exposure value

**Article 439 point (f) CRR**

Treasury business is focused on asset and liability management. Derivative financial transactions are conducted in the form of interest rate and currency swaps, forward exchange dealing, interest rate and foreign exchange options. BAWAG Group was engaged in securities lending but was neither engaged in commodity lending nor in any margin lending transactions or long settlement transactions as of 30 June 2018.

The fair value is applied in the valuation of derivatives and repos. It is determined from publicly quoted prices. If there is no quoted price available, the fair value is determined using accepted valuation methods. The fair value represents the potential replacement cost.

BAWAG Group has opted to use the market valuation method as defined in supervisory law. The counterparty risk thus consists of the potential replacement cost (positive market value) plus the add-on as a risk surcharge. This approach takes account of the possibility that the market value of an instrument can change from the start of a transaction due to market price fluctuations over time. A positive market value from the standpoint of BAWAG Group is an economic exposure in relation to the counterparty, which would be lost in part or altogether in the event of default. The market value thus also represents the additional cost that would be necessary to place a comparable transaction in the market at the time of default, which is why it is referred to as the replacement value. To take account of potential future market price fluctuations as well, an add-on is also determined. Its amount varies depending on the instrument and the remaining term involved and is calculated from a fixed percentage factor added to the nominal value of the transaction. In calculating the internal exposure (limit add-on), BAWAG Group is guided by the procedure stipulated for determining capital adequacy.

## Estimation of the scaling factor

**Article 439 point (i) CRR**

Own estimates for determining the scaling factor are not in use.

# CREDIT RISK MITIGATION

## Policies and processes for netting

**Article 453 point (a) CRR**

BAWAG Group has made use of off-balance-sheet netting since 31 December 2008. Netting pertains exclusively to derivative instruments with counterparties for whom corresponding netting agreements exist. Derivative agreements are entered into only with counterparties that have also signed a corresponding master agreement entitling BAWAG Group to undertake netting. In the case of additional agreements covering open receivables by collateral (Credit Support Annex) BAWAG Group intends to include as much derivatives as possible by the CSA-Agreement. Furthermore, attention is paid to the low correlation between the probabilities of default of the debtor and the security.

Netting is applied to the entire derivative business. The pertinent netting agreements are legally valid and legally enforceable in all relevant jurisdictions in the event that the counterparty becomes insolvent or goes bankrupt. All netting cases are regulated by an adequate standardized process. Data are maintained and calculated via an EDP-supported system.

## Credit risk mitigation techniques in the internal ratings based approach

**Article 452 point (b) (iii) CRR**

The Credit Collateral Catalogue is the main tool in determining the eligibility of collateral for recognition. The list shows the possible combinations of types of collateral and types of goods. A determination is made for each of these combinations as to which collateral type should be assigned to it. The principles underlying the credit risk mitigation techniques are presented from the perspective of internal risk management. The list also records for each available combination whether it is eligible for recognition in the calculation of required capital and, if so, under what approach. In addition, the Credit Collateral Catalogue describes the material minimum regulatory requirements for each type of collateral. Compliance with the quality requirements is checked when the collateral is entered and, if required, by selecting the collateral key for it.

During the calculation of risk-weighted assets, the reliability of delivered collateral is checked and, where there is leeway to act, it is assigned to the individual exposure items after taking into account the stipulated discounts.

## Types of collateral and collateral valuation and management

**Article 453 points (b) – (c) CRR**

The following guidelines must be followed for collateral valuation and management:

- BAWAG Group has the right to accept or reject collateral or to assign to collateral the value deemed necessary and reasonable in order to protect the group´s interests.
- The Credit Collateral Catalogue defines what combinations of goods (characteristics of the economic good/asset) and collateral (to which BAWAG Group has title) are deemed basically acceptable and what value (market value, nominal value, etc.) to apply. It also indicates what discounts from the calculated value apply and under what circumstances this collateral can be applied to reduce capital requirements. This document is revised if necessary but at least once a year.
- The accompanying documents stipulate the process steps required to evaluate, take in and put into effect the collateral and to manage and realize it. Transaction-related exceptions to discounts set down in the Credit Collateral Catalogue must be approved by the organizational division Strategic Risk.
- All collateral must have a market value that is easy to determine or an internally calculated value, and BAWAG Group must be in a position to represent its interests in the collateral.
- Collateral must meet the general legal requirements, in particular the minimum recognition requirements and the policies defined by the ERM.

The compliance of the collateral with the legal criteria and the policies is determined during the credit application process in the front office and reviewed by the risk departments.

Generally, the value of collateral is checked during annual prolongation or the annual risk check or as warranted (e.g., increase, default).

The table below provides a summary of the key types of collateral, their estimated values, and the frequency of valuation:

**Table 3: Types of collateral and collateral valuation and management**

| Type of collateral | Estimated values | Frequency of valuation |
|---|---|---|
| **Financial collateral** | Market value according to current GEOS price data (with volatility adjustments taken into account) | Automatic daily valuation except for deposits at other banks |
| **Residential real estate** | Market value | One-year interval for new valuation;<br>For condominiums, single-family houses and building plots, market values are updated in an automated procedure based on annually published reference values from the Austrian Economic Chamber (level of real estate prices);<br>For rental apartment houses, revaluation is done at least every 3 years;<br>Once a year, the risk units additionally check whether any material changes have occurred. A new valuation is ordered where warranted. |
| **Commercial real estate** | Market value | A new valuation is conducted by the Appraisal Real Estate Department at least every three years for loans > € 3 million and at least every five years for loans < € 3 million.<br>Once a year, the risk units additionally check whether any material changes have occurred. A new valuation is ordered where warranted. |
| **Other physical collateral** | Market value<br>(2017 no use for regulatory purposes) | At least once a year |
| **Pledging or assignment of life insurance policies** | Repurchase value<br>(only classical and funds-oriented life insurances where the surrender value cannot be reduced are used for regulatory purposes) | Automatic updating of repurchase value (through the insurance platform). For all other insurance companies when data is not transmitted via the platform: The customer must be obligated to submit the insurance confirmation annually. |
| **Guarantees** | Guaranteed amount (nominal value) less possible currency risks (volatility adjustment) | Monthly reconciliation of liability amount with the balance – depending on scope of liability |
| **Co-obligations** | Outstanding balance unless a restriction applies (no estimate for regulatory purposes) | On-going |

Real estate valuation is centralized to ensure a standard valuation approach throughout the Group. A special emphasis lies on real estate collateral. Residential real estate properties are assessed with support of a valuation tool. The result of the valuation is checked and verified by an internal independent valuer. The value of commercial real estate is assessed by an independent expert at the current market value, at the maximum.

### Guarantors/counterparties for credit derivatives

**Article 453 point (d) CRR**

The main types of guarantor eligible for regulatory credit risk mitigation are domestic and foreign banks, the federal government, state governments, local governments and sovereigns. With respect to the eligibility of the guarantees, there are internal minimum requirements defined in the Underwriting Guidelines Commercial. These guidelines explain under which conditions the customers are allowed to get limits granted for derivative transactions and guarantees. For instance, the rules say that derivative limits may only be granted to banks with a very good credit rating (the equivalent of a minimum rating of A-[1)]). Any exceptions must be well-founded, separately requested and explicitly approved.

The small volume of hedging transactions that existed on the reporting date in the form of credit derivatives was concluded exclusively with major international banks rated AA or A.

### Collateral risk concentrations

**Article 453 point (e) CRR**

A concentration risk exists if a significant percentage of collateral items Group-wide (at portfolio level) are concentrated in a small number of collateral categories, instruments, sectors or special protection providers (e.g. collateral providers). Certain reporting and monitoring activities are conducted at consolidated level for all types of physical collateral and guarantees for credit risk as well as market risk.

In order to cope with the potential concentration of the Credit Risk Mitigation techniques, large collateral providers list is provided within the Portfolio Steering Framework report on monthly basis. List is containing guarantors with collateral market value over € 50m and shows internal rating, net exposure towards BAWAG Group and comments specific for each guarantor explaining the usage of the guarantee. List is presented on monthly basis to the Portfolio Steering Committee and during the quarterly meeting is discussed in term of guarantee effectiveness and potential countermeasures.

## VALUE ADJUSTMENTS AND RESERVES

### Definition of 'past due', 'forborne loans and forbearance measures', 'impaired', 'general credit risk adjustments' and 'specific credit risk adjustments'

**Article 442 point (a) and (b) CRR**
**Article 442 point (i) (i) CRR**

**Definition of 'past due'**

According to the CRR, days past due begin once an obligor has breached an advised limit, has been advised a limit smaller than current outstandings, or has drawn credit without authorization and the underlying amount is material. Days past due for credit cards commence on the earliest maturity date. Also, a receivable is deemed past due if the counterparty failed to make their contractually agreed.

**Definition of 'Forborne loans and forbearance measures'**

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

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

1) Rating given by the rating agency Standard & Poor's.

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

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

**Definition of ‘impaired’**

Impaired positions are all on-balance sheet exposures in the default risk class ‘8’ when it is considered that it will probably not be possible to recover all the amounts due according to the contractual terms, or equivalent value.

In case of a substantial delay of 90 days, a provisioning or other customer related default criteria occurring, the customer with all his products is declared as defaulted, assigned to risk class ‘8’ and the unsecured portion is provisioned. This provisioning reflects the impairment.

**Definition of ‘general credit risk adjustments’**

According to regulatory requirements, general credit risk adjustments include provisions which are at any time fully available to cover credit risk losses not occurred yet. Furthermore, they are used to cover credit risk-related losses in a group of risk positions for which the credit institution has no indication that a loss event has occurred. No general credit risk adjustments in terms of the regulatory definition have been built as of 31 December 2018.

**Definition of ‘specific credit risk adjustments’**

All other credit risk adjustments that do not meet the conditions of general credit risk adjustments are specific credit risk adjustments. Specific credit risk adjustments are defined as provisions for those receivables where a reduction in value has been identified. They are based on the estimates of the credit risk division on the expected repayments and proceeds of the collateral as well as subsequently built manually by the credit risk division. Furthermore, specific credit risk adjustments are provisions which are built automatically in the case of unpaid instalments or current account overdrafts over 90 days.

As of 1 January 2018, BAWAG Group calculates allowances for non-impaired loans according to IFRS 9. The expected economic credit loss (ECL) over the next 12 months or over the remaining life of the facility in the case of a significant credit deterioration determines the allowance of each non-impaired facility. IRB models form the basis of the IFRS 9 estimates, and the conservativism was removed where necessary and the models were adjusted to produce point-in-time (PiT) estimates. BAWAG Group is using through-the-cycle (TTC) and point-in-time models in determining the IFRS 9 parameters. Monthly forecasted macro variables (forward-looking information) are incorporated into the calculation of the PiT component of the parameter models.

In principle, credit risk is addressed by building credit risk provisions. They consist of provisions for credit transactions on the balance sheet and reserves for credit transactions off the balance sheet. The main components are specific provisions and the reserves for the potential coverage gap for loans with repayment vehicles.

Information regarding the level of provisions and the respective changes can be found in the quantitative section of the Disclosure Report and in the annual report.

# RATING SYSTEMS AND RATING PROCESSES

## External ratings systems

**Article 444 points (a) – (d) CRR**

The weighted exposure amounts are calculated for regulatory purposes for a part of the loan portfolio (banks, sovereigns, subsidiaries except *easybank* in TPU) using the standardized credit risk approach according to Part 3 Title II Chapter 2 of the CRR. It is generally geared solely to ratings from Moody's.

The distinction between issuer rating and issue rating as described in Article 139 CRR is taken into account when external ratings are used. Issuer ratings are used in particular only if no issue rating is available and the conditions in Article 139 CRR are satisfied.

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

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

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

The assignment of Ratings to positions not included in the trading book is based on a daily data feed of the ECAI Moody's which is processed in the IT systems of the bank. This data is joined with the client or, respectively, security master data automatically in order to safeguard an up-to-date and – in terms of the calculation of own funds requirements – complete set of input data.

## Internal rating systems

**Article 452 point (b) (i) CRR**

**Customer segmentation and overview of the internal rating systems**

BAWAG Group employs internal rating and scoring systems for its own risk management. Customers are assigned to an exposure category and the stipulated rating procedure based on a process called segmentation. The first step in segmentation occurs automatically in advance of actual calculations based on the defined parameters.

The relevant rating and scoring process is determined based on these criteria and, in retail business, also on the selected product. Individual regulations of the CRR are taken into account when required capital is calculated in the risk engine, at which time the exposure class or its subcategory is finally set.

The following table summarizes the significant rating and scoring models for the customer segments Banks as well as Commercial and Retail Customers. Beyond that, rating systems applied in accordance with the standardized approach are used for customer groups.

**Table 5: Overview of rating and scoring systems**

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

1) Other institutions.
2) AS stands for application scoring.
3) BS stands for behavioral scoring.

The rating and scoring systems are subject to annual validation processes. If major deviations exist, subsequent analyses are initiated during the year and may result in corresponding adjustments.

**Relationship between internal and external ratings**

Ratings from Moody's are employed to calculate the minimum capital requirements for regulatory purposes which are applied in accordance with permanent or temporary partial use. For securitizations, the ratings from Moody's, Standard & Poor's and Fitch are incorporated in the calculation of risk-weighted exposures.

The results of the internal rating procedures are depicted using a master scale. The following table shows the relationship between the internal rating notches and the external ratings.

**Table 6: Rating notches and classes for all segments**

| | External rating agencies | | |
|---|---|---|---|
| Rating notch | Moody's | S&P | Fitch |
| 1,1 | Aaa[1)] | AAA[1)] | AAA[1)] |
| 1,2 | Aaa[1)] , Aa1 | AAA[1)] , AA+ | AAA[1)] , AA+ |
| 1,3 | Aa2 | AA | AA |
| 2,1 | Aa3 | AA- | AA- |
| 2,2 | A1 | A+ | A+ |
| 2,3 | | | |
| 3,1 | A2 | A | A |
| 3,2 | | | |
| 3,3 | A3 | A- | A- |
| 4,1 | Baa1 | BBB+ | BBB+ |
| 4,2 | Baa2 | BBB | BBB |
| 4,3 | Baa3 | BBB- | BBB- |
| 5,1 | Ba1 | BB+ | BB+ |
| 5,2 | Ba2 | BB | BB |
| 5,3 | Ba3 | BB- | BB- |
| 5,4 | B1 | B+ | B+ |
| 6,1 | B2 | B | B |
| 6,2 | B3 | | |
| 6,3 | Caa1 | B- | B- |
| 6,4 | Caa2 | | |
| 7 | Caa3 | CCC+, CCC, CCC-, CC, C | CCC,CC,C |
| 8,1 – 8,8 | Ca, C | R, SD, D | RD, D |

1) Aaa and AAA correspond to Class 1,1 for sovereigns and to Class 1,2 for all other segments.

The internal rating processes for the exposure classes also take into account external ratings under certain conditions (e.g. information that is more current or more comprehensive).

## Rating systems and processes in the retail segment

**Article 452 point (b) (i) CRR**
**Article 452 point (c) (iv) CRR**

**Retail customers**

Retail customers are defined as natural persons whose income does not derive primarily from self-employment. The main exposure categories in the retail customer segment are private loans, overdrafts on salary accounts and credit card products.

Whenever a new product which can be recorded as a debit is opened or the customer or product information change, retail customers are subject to an application scoring for determining their rating. After a product relationship lasts six months (at the earliest), they are subject to an automatic monthly behavioral scoring.

*Application scoring*
Application scoring is based on the product and on the different scorecards for the product categories:

- loans for which real estate was provided as collateral
- current accounts
- non-collateralized standard loan facilities
- qualified revolving retail exposures (credit cards)

The scorecards take into account customer characteristics (e.g. age, occupation), application and product characteristics (e.g. amount of credit extended) and external data on any incidences of payment problems.

Loans can be approved only for customers in risk classes up to 6,2. Beyond the determination of risk class, scoring gives a recommendation on what decision to make (accept/green; reject for now/yellow; reject/red) based on the regulations specifying the essential criteria in the credit extension guidelines (total credit exposure, affordability, security, etc.).

These recommendations are binding for the authorized employees in sales. Only authorized staff in the risk centers is allowed to overrule the categories ‘reject for now’ and ‘reject’.

Another application scoring procedure can be carried out during the term of any product where warranted, particularly if essential new information has come up that indicates a (positive or negative) change in the customer’s current risk class.

*Application scoring for mortgage loans*
The automatic rating procedure incorporates no collateral characteristics beyond the customer’s personal data (e.g. economic environment, employment status, and household account) and credit application information (e.g. loan amount). These characteristics are checked for compliance with credit extension guidelines in keeping with the rules for decision making.

*Application scoring for credit cards*
For credit cards for current account holders, a rating check which consists of the personal data of the customer and the product data is necessary. An appropriate risk class is assigned to the customer on this basis.

Co-branded credit cards are credit cards that are issued jointly with organizations or companies outside the financial sector and that are managed within BAWAG Group. These co-branded credit cards are assigned to a product-based risk class and to a ‘decision recommendation’.

*Application scoring for consumer loans*
For standard loans, BAWAG Group determines a risk class based on the customer’s personal data (e.g. economic environment, employment status) and the credit application data (e.g. amount, term, purpose). Decision-making rules are used to check the specifications in the credit extension guidelines as regards total exposure and affordability taking into account security reserves, etc.

*Application scoring for current accounts*
For current accounts, the customer’s personal data (e.g. age, education and external information) are used to form a risk class.

*Behavioral scoring*
A distinction by product group is made in behavioral scoring. Payment accounts (e.g. salary accounts) are divided into three different scorecards. Credit products as well as credit cards are in each case grouped in a single scorecard. Payment behavior and product specifics are incorporated in all scorecards to calculate a behavioral scoring risk class.

After six months, each product with a potential debit balance is checked at the end of the month and a behavioral score is determined. This score is based mostly on internal account movements: e.g. account behavior (accounts and loans/overdrafts), duration of the customer relationship, payment behavior, number of loans taken out, but also external information such as entries in warning lists.

*Forming the customer risk class*
Every month, BAWAG Group conducts an aggregation to create a customer risk class from the different procedures for application scoring and behavioral scoring for the individual products. This is done at least once at the end of the month – if behavioral scoring is taken into account – or is calculated when a transaction is first commenced. The aggregation to the customer risk class is based on an internal weighting of the risk classes for the customer's products.

**Small and medium-sized enterprises**

The Retail category takes in all enterprises with operating revenues of less than € 50 million and an exposure (for the entire customer group) of less than € 1 million in BAWAG Group If these enterprises cannot be assigned to a special rating based on business purposes (see Rating systems and processes at companies and institutions), the scoring procedure for small and medium-sized enterprises is applied.

In the Retail/Small Business segment, further sub-segments geared to the type of accounting (cash-based, lump-sum and accrual accounting) and the operating revenues are formed to take into account the different information bases and the procedural requirements. The exposures consist mainly of overdrafts in payment accounts as well as operating loans and medium- and longer-term investment loans.

As with retail customers, both application and behavioral scoring processes are used here.

*Application scoring*
An application scoring risk class is determined based on quantitative information (customer's financial data) and qualitative characteristics (soft facts, account behavior) as well as additional items of external and internal information (e.g. warning list, credit bureau [Kreditschutzverband von 1870 (KSV)]).

BAWAG Group has internally developed models based on key figures for enterprises with cash-based accounting, lump-sum accounting and small companies using accrual accounting. The statistically validated RiskCalc AustriaTM model from Moody's KMV is used for the financial rating for businesses that use accrual accounting and that have more than € 0.5 million in operating revenue. Information from the commercial customer portfolio was instrumental in the development of that model.

Like the other rating models, this system is also subject to a validation process on an annual basis and ongoing enhancements.

Application scoring must be done for each new application, in connection with the annual prolongation process or as warranted (when a change occurs in essential information relevant to the rating) and regularly repeated in connection with accounting, operating revenues, exposure and the behavioral score of the customer. The application scoring results in a customer rating based on risk class and descriptive reasons associated with that risk class.

In addition, a recommendation is given on what decision to make (accept/green; reject for now/yellow; reject/red) for special customer groups to enable differentiated treatment of the customers.

*Behavioral scoring*
Behavioral scoring essentially involves an evaluation of the customer's account behavior. Other variables such as the duration of the customer relationship and external information are also considered in the score.

Behavioral scoring is independent of the retail segment Private or Small Business. It is geared to product behavior.

*Forming the customer risk class*
Every month, BAWAG Group conducts an aggregation to create a customer risk class from application scoring and behavioral scoring for the individual products. The aggregation to the customer risk class is based on an internal weighting of the risk classes for the customer's products.

## Rating systems and processes at companies and institutions as well as participation positions and sovereigns

**Article 452 point (c) (i – iii and v) CRR**
**Article 452 CRR**

The rating systems must be applied to corporates and institutions that avail themselves of an exposure at BAWAG Group. This exposure is mainly attributable to overdrafts on payment accounts, operating facilities and medium- and longer-term investment loans or to corporate securities in BAWAG Group's own portfolio and Treasury products.

The rating process for corporates basically calls for the customer advisor to solicit information relevant to the rating and conduct a qualitative assessment of the customer (rating based on soft facts) in the central corporate data system. The customers' financial data is also centrally recorded and assessed (hard-fact rating) in this database (separated from the lending process). Based on these qualitative and quantitative input factors, a risk class is calculated automatically for the customer and checked by risk analysts (back office; four-eye principle). It is altered if needed and confirmed in the system. The risk class must likewise be approved by the employee authorized for it. The customer's rating must be updated at least once a year or as needed (new application, deterioration of creditworthiness, etc.), also during the year. This rating is subsequently used for calculating the regulatory minimum capital requirements, for reporting, for setting terms and conditions, and for controlling risks.

**Corporate Standard Austria**

This area of application pertains to companies with their registered office in Austria which use accrual accounting and which cannot be assigned a special rating procedure because of their business purpose (e.g. holding companies, real estate companies, etc.). These companies must also have a group exposure under Basel II equal to or greater than € 1 million or consolidated operating revenue equal to or greater than € 50 million.

The customer's risk class is calculated from a combination of a financial rating from a statistically based balance sheet rating and an assessment of qualitative characteristics (e.g. management, organization, market/sector, general factors, and account management). The risk analyst can overrule[1)] or override[2)] a confirmed customer rating if needed. The major reasons for this step are downgrades based on an outdated balance sheet, or warning signals (e.g. outstanding taxes, warning list entries) and consideration of a group influence, ratings of a rating sponsor (e.g. support from dominant shareholders, personal partner with unlimited liability) or, under certain restricting circumstances, consideration of external ratings.

The system is subject of a yearly validation and ongoing enhancements, analogous to all rating systems. In 2017, the Modell was, together with the model Corporate Standard Non-Austria, completely new developed. The regulatory approval is expected to be received in H1 2019.

**Corporate Standard Non-Austria**

Foreign commercial customers, i.e. non-Austrian companies, were removed as a sub-segment from the process for Corporate Standard Austria customers in February 2011. Since February 2011, BAWAG Group has been assessing these customers using a separate method developed in house. For this purpose an own statistics-based hard-fact rating model has been developed. In combination with softfacts the rating of the customer is derived. The process structure corresponds to the process for Corporate Standard Austria.

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

**Holdings**

This area of application extends to companies that hold permanent stakes in legally autonomous companies. It was expanded in the summer of 2011 with the addition of group financial vehicle belonging to the group holding risk-relevant Group-related assets.

The rating system for holding companies combines a hard-fact rating and a soft-fact rating as well as a segment-specific 'rating in the group'. Risk analysts can alter the calculated rating with an overruling or override.

The process was revised and implemented in the summer of 2011. The revision includes an adaptation of the statistical rating component, namely the hard-fact rating for the holding company (key ratios and weights), and a change in the soft-fact rating based on an expert system. In addition, the 'rating in the group' has gained substantial significance in the process structure as a third component.



1) Overruling refers to a deviation of the confirmed rating from the automatically calculated rating in predefined cases with defined effects, i.e. according to defined rules (e.g. outdated annual financial statements of the customer, various warning signals, and group influence).
2) An override refers to a variable deviation from the automatic rating outcome based on a subjective assessment with a review made by a risk analyst and with a corresponding decision by an authorized employee.

This results from a confirmed rating assessment of the group or of associated companies relevant to the holding company (rating process in accordance with the group's segmentation). It is the most heavily weighted component in the rating algorithm and also serves as a rating ceiling. Conceptually, the basic underlying idea is that the holding company cannot have a better rating than the group that generates the income.

For exposures to holding companies, the basis of assessment for credit risk is calculated using the Standardized Approach to credit risk (TPU).

Holdings having control over their subsidiaries will be rated with the new rating Corporate Standard as soon as the approval from ECB will be received.

**Corporate Real Estate**

This area of application covers companies with accrual accounting that can be designated as real estate agents/investors based on their business activities.

The rating system is generally structured like the Corporate Standard Austria process. It combines hard-fact and soft-fact ratings which can be altered by overruling/override. The model was re-developed and reviewed by regulator in 2017. An approval from ECB was received in 2018.

**Social Housing**

This area of application extends to non-profit building associations as defined in Article 1 Austrian Non-profit Housing Act (WGG).

The risk class for this customer segment is based on a financial rating with key ratios developed specifically by experts. The rating can be adjusted using upgrades and downgrades (defined qualitative parameters such as vacancies, property condition, owners, account management, etc.) which can be altered by overruling/override.

**Specialized Lending**

According to the CRR, Specialized Lending refers to exposures created in relation to companies specially set up to finance or operate real properties that comply with the criteria set down in Article 147 (8) point (a) to (c). For Specialized Lending BAWAG Group applies the regulatory Slotting Approach. The first model, which used qualitative criteria to assign a slot, was replaced by a cash flow tool in 2017. Based on cash flow predictions for the whole maturity a probability of default is calculated for different risk drivers (e.g. interest rate risk, rental risk, sales risk). Additionally, the expected loss rate is determined for the project. The expected Loss is calculated based on Probability of Default and Loss Rate, which is mapped to a slot according to Article 158 (6) CRR.

**Banks (institutions)**

This area of application applies to banks (except special lending institutions) in the portfolio of BAWAG Group. Exposure to banks arises mainly from payment transactions and other handling transactions, from money market liquidity placements, from the appropriation of securities and in Treasury business.

A bank has to be assigned to a risk class before accounts can be opened and limits granted.

The financial rating is based on key figures derived from the balance sheet and the profit and loss account. Before the final rating can be recorded, the analyst still has the option of upgrading or downgrading the rating based on qualitative factors (e.g. risk management, competitiveness) and support factors (e.g. support from the parent company). The rating calculated in this way has an upward ceiling in that it may be no better than the rating of the country in which the bank has its registered office. Finally, the confirmed rating is assigned to a certain probability of default based on the master scale. The rating model was refined in 2018 and is currently being audited by the ECB.

**Participations**

For participations, the same rating procedures are used as for external borrowers, namely the processes for corporates and banks. Capital requirements are determined by the simple risk weight method in accordance with Article 155 CRR.

**Central governments and central banks**

The standardized approach is employed for central governments and central banks with no geographic assessment, i.e. the procedure is geared to the existence or non-existence of an external rating for the given government. If a rating is available from Moody's[1)], the risk weight is assigned to the six rating notches as follows:

**Table 7: Description of ratings**

| Rating notch | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to BB- | B+ to B- | Under B- |
| Risk weight | 0% | 20% | 50% | 100% | 100% | 150% |

If no external rating is available, exposures to central governments and central banks are assigned to a risk weight of 100%.

A risk weight of 0% is assigned to risk positions to central governments and central banks of EEA member states denominated in the national currency of this central government and this central bank and refinanced in this currency.

## Use of internal estimates

**Article 452 point (b) (ii) CRR**

The risk parameters in the rating systems are integral parts of the control system within the scope of credit portfolio modelling and of price calculation that adequately captures risk (with standard risk costs taken into account during pre-calculation in the RAP tool).

## Control mechanism for rating systems

**Article 452 point (b) (iv) CRR**

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

1) Only ratings from Moody's are allowed.

**Table 8: Description of the validation methods**

| Validation method | Description |
|---|---|
| Method 1 | Verification of the documentation for the rating and scoring systems |
| Method 2 | Verification of the quality of the database being used for validation |
| Method 3 | Verification of the correct use of the rating and scoring systems as part of a use test |
| Method 4.1 | Distribution analysis to identify clusters of customers in individual risk classes |
| Method 4.2 | Comparison of internal ratings with external ratings (benchmarking) |
| Method 4.3 | Identification of clustering of high exposures in individual risk classes |
| Method 4.4 | Verification by the risk manager of the frequency of overrulings / overrides in the automatically generated rating classes |
| Method 4.5 | Verification of clusters of defaults in individual rating or scoring systems |
| Method 5.1 | Testing of rating and scoring systems as regards calibration by comparing the mean forecast PD and the mean observed default rate |
| Method 5.2 | Testing of individual risk classes to determine correlation between the forecast PD and the observed default rate using binomial distribution tests; |
| Method 6 | Testing of the discriminatory power of the rating and scoring systems using ROC and Gini coefficient |
| Method 7.1 | Stability analyses of discriminatory power over time |
| Method 7.2 | Migration matrices for the observation of changes in the risk structure |

The results achieved using the described methods are presented in a traffic signal system. If results of statistical significance and major deviations from established values exist, subsequent analyses are initiated during the year and may result in corresponding adjustments.

Strategic Risk is the organizational unit responsible for validating the rating systems used in BAWAG Group. It reports directly to the CRO.

Above and beyond that, the following categories are prepared regularly as part of standardized monitoring reports:

- distribution of the customers and exposures across the Basel segments according to CRR, an internal subdivision of the exposure classes
- distribution of the risk classes across the Basel segments according to CRR and their degree of up-datedness
- risk classes based on overruling
- distribution of the risk classes and the individual risk factors per rating and scoring system

If defined limits are exceeded or fallen short of, the causes are analyzed in depth and counter-measures are initiated as needed.

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

## Estimation and validation of the risk parameters

**Article 452 point (c) and (h) CRR**
**Article 452 CRR**

**Probability of default**
The probability of default (PD) is the estimated probability that a borrower will default within the next twelve months. The occurrence of one of the events listed below is deemed as a default event throughout the Group. The definition of default corresponds to the regulatory reference definition ('90 days past due' and 'imminent default of payment') as set forth in Article 178 CRR[1].

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

**Table 9: Description of the reference definitions for default**

| Reference definition for default | Description |
|---|---|
| 90 days past due | A material liability of the borrower is more than 90 days past due. |
| Imminent default of payment | In response to the rating, the parties agreed to a reorganization interest rate / exemption from interest, restructuring of the obligation (e.g. change in term, change in schedule for repayment of principal) or the like. |
| | In response to the rating, the Bank removed claims against the borrower from the Bank balance sheet. |
| | Legal case without allocation of a specific provision (e.g. due to full collateralization). |
| | The borrower filed a bankruptcy petition. |
| | A specific provision is formed due to the rating (automatically or manually) and the building of impairments. |
| | A liability of the borrower is sold at a significant loss due to rating. |

At present, BAWAG Group mainly uses statistical PD estimation models. The models are calibrated based on long-term average rates of default, going back till 2008, and a sufficiently conservative surcharge. The calibration is based on a statistical model.

The PD estimation is validated annually using qualitative and quantitative methods. The qualitative methods focus on data quality, utilization and on the quality of the documentation for the estimation process. Discriminatory power is measured in the quantitative area. Furthermore, a binomial test is used for calibration and to check the discrepancy between the forecast PD and the rate of default actually observed. The stability of the estimation models is also observed over extended periods of time.

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

**Loss given default**

Loss given default (LGD) is defined as economic loss as a percentage of the outstanding exposure at default (EAD). The economic loss comprises the outstanding EAD less recoveries from the realization of collateral and other non-collateral proceeds.

Internal Bank estimates are only carried out for the retail portfolio (Private and Small Business). The LGD estimate is based on a two-step process. First, the collateral return rate (SEQ) is determined per collateral pool. Then the outstanding exposure less collateral return (EAD*) is determined. For the non-collateralized portion of the exposure, a non-collateralized LGD is estimated using a CHAID-class decision-tree process applying criteria with a high degree of discriminatory power. In a final step, the two components SEQ and non-collateralized LGD are then merged to arrive at the final estimated LGD. The generated values of the individual pools are calibrated at a conservative level using an upward surcharge based on the standard deviation and the number of data sets and taking into account any downturn effects that may be observed. All data available since 2008 were used for model development as long as the data were of sufficient quality and were sufficiently representative.

The annual validation of the estimated LGD comprises analyses of the deviation between observed values and estimated values, plausibility checks, as well as descriptive statistics and tests for the individual LGD pools.

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

**Credit conversion factor**

The credit conversion factor (CCF) is the expected utilization in per cent of a line of credit existing but not yet drawn at the time of estimation until such time as a default event occurs. In other words, the CCF is used for estimating exposure at default (EAD).

Internal Bank estimates are only carried out for the retail portfolio (Private and Small Business). The CCF estimate is based on a CHAID-class decision-tree process using criteria with a high degree of discriminatory power. The generated values of the individual pools are calibrated at a conservative level using an upward surcharge based on the standard deviation and the number of data sets and taking into account any downturn effects that may be observed. All data available since 2008 were used for model development as long as the data were of sufficient quality and were sufficiently representative.

The annual validation of the estimated CCF comprises analyses of the deviation between observed values and estimated values, plausibility checks, as well as descriptive statistics and tests for the individual CCF pools.

# MARKET RISK

## OBJECTIVES AND PRINCIPLES OF THE MANAGEMENT OF MARKET RISK

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

### Structure and organization of relevant risk management functions

The division Market & Liquidity Risk Controlling (MR) reports directly to the CRO. The division head is by virtue of his position a member in various bank management committees. The most important committee with regard to market risk is the SALCO. The most important responsibilities concern the monitoring of market risk, in particular foreign currency exchange risk, interest rate risk, stock price risk, volatility risk and credit spread risk. This is achieved through the limitation of the individual types of risk, whereby in this regard it is MR's responsibility to set such limits as approved by the Management Board within the ICAAP. Furthermore, the measurement and monitoring of risk positions as well as the analysis of the associated loss potential occurs during periodic stress tests. A central aspect of these tests is the reporting of results to the relevant decision-makers.

Additionally, MR is responsible for the counterparty credit risk monitoring of treasury positions. The decentral organized Operational Risk is estimated at least annually at the departmental level through the Risk-Self-Assessment process and reported to the responsible department.

### Strategies and processes

Until autumn 2012, activities in the trading book focused primarily on own trading, i.e. buying and selling in defined markets and in defined product classes. The objective was mainly to carry out proprietary trading activities in highly liquid monetary and capital market instruments in the money market, fixed income and FX segment. All spot products and associated derivatives were traded within their risk class (interest rate, FX). In the autumn of 2012, BAWAG Group decided to extensively reduce active proprietary trading and reduced trading book limits significantly.

Basically, all transactions for which an active market exists and a market price is available are valued at the market price.

The risks are monitored using a limit system. MR measures application of market risk limits and also orders counter-measures if the market risk limit is exceeded (VaR, vega, gamma, worst case, BPV, volume limits).

The objectives of the limit system were defined as follows:

- To create a risk-oriented limit system that consistently and methodically covers all positions in the trading and banking book that are sensitive to market risk and all risk factors using standard risk ratios
- To ensure the controllability of market risk using clear-cut, non-ambiguous risk ratios and to set limits for these ratios in a proactive limit system
- To integrate risk measurement, limit setting and the monitoring of limit utilization systematically for all positions in the trading and banking book sensitive to market risk at individual and aggregate level in order to improve the basis for making decisions on risk policy and risk diversification
- To integrate the market risk limits into budget planning and to take account of calculated risk bearing capacity and, thereafter, of risk appetite in the scope of the overall ICAAP framework

Additional risk restrictions can be put in place for a period ranging from temporary to indefinite in response to the market situation for the actual controlling of risks in current business in the trading and banking books.

### Trading book limits[1)]

Following Trading book limits apply:

- Sensitivity and volume ratios
- Worst case limit (maximum loss with executed crisis tests)
- VaR limits (limit check in relation to Management Board overnight)
- Gamma limit (for options in the interest rate segment and FX)
- Vega limit (for options in the FX segment)
- Annual loss limit (dynamic limit)

1) After the substantial reduction in active trading book activities, there are naturally still certain positions remaining, which will be reduced successively. In addition, customer orders and, to a small extent, flows of the total Bank continue to be handled within the trading book. For this purpose, limits and processes are needed and are put in place accordingly.

## Total Bank limits

There are basis-point value limits at enterprise level in the interest rate segment that are divided by time band and in total. There is a limit for each of the time bands 0–1Y, 1–2Y, 2–3Y, 3–4Y, 4–5Y, 5–6Y, 6–7Y, 7–8Y, 8–9Y, 9–10Y and >10Y. The total of all basis-point values is also limited for the individual maturity ranges. Additional limits are also set within the described maturity ranges and overall for the sub-portfolios calculated at fair value. There is a limit for securities relevant for the AFS portfolio as well.

## Reporting systems

**Trading book reports**

The VaR, its limit utilization, the basis-point values and gamma in the interest range are reported daily to the Management Board and the competent trading units, as are the sensitivities of delta, gamma and vega and the open currency position in the foreign exchange unit.

Moreover, monthly shifts (interest rate, FX, volatility) are performed for the respective asset classes.

Furthermore, all material trading book key figures are reported monthly to SALCO in the Market Risk Report.

**Banking book reports**

Limit compliance is checked daily in Treasury & Markets for FX risk and Interest Rate Risk-BPV and reported to the Management Board. Compliance with the basis-point value limits (enterprise and maturity range limits as well as limit relevant to AFS and P&L for interest rate risk and also credit spread risk) is monitored monthly at institution and Group level. Furthermore, stress tests and scenario analyses are also conducted. Intended future actions are included in all reports as needed. A net-interest-income simulation (NII simulation) with associated stress tests is also performed quarterly.

All relevant key figures along with the stress tests are reported to the SALCO or as part of the Group Risk Report to the ERM. A VaR is calculated monthly at the Group level.

Equity exposure (which is entirely in BAWAG Group and immaterial) is calculated quarterly and reported to the Austrian National Bank. Furthermore, the Interest Rate Risk Statistics at both individual institution and the Group level are reported to the Austrian National Bank each quarter.

**Exceedance of the limit in the trading book**

If the VaR limits defined in the Risk Management Manual are exceeded, MR will inform division management and the person responsible for the portfolio in writing. In the event of escalation, the notice is sent to the Management Board members responsible for trading and risk. In collaboration with division management, the corresponding risk position is closed immediately. If no Management Board member is present, Market Risk is authorized to have division management close out the position that caused the limit to be exceeded.

In the event of exceedance of any other market risk limit (delta/gamma/vega/volume/intraday/worst-case limit), division management and the competent group head must be informed by MR immediately in writing (by e-mail) and appropriate counter-measures taken by the affected group and monitored by MR.

If the worst-case limit is exceeded, a risk-mitigating limit order must also be placed in the market in order to reduce the potential loss and the risk position in the event the worst case actually materializes.

If the loss sustained by the trading book exceeds 30% of the defined annual loss limit (= warning level), a written message is immediately sent to the Management Board members responsible for market risk and for the trading book.

The VaR limit is then duly adjusted at the end of the month. If the annual loss limit is exceeded by 60% or 90% within one month, MR immediately adjusts the VaR limit. If the annual loss limit for the entire trading book exceeds 95%, the limit is adjusted daily.

**Exceedance of the limit for the total bank/banking book**

If the market risk limit set by the SALCO or the entire Management Board is exceeded, MR sends a written message immediately to the Management Board members responsible for the given division and to the Management Board member responsible for market risk as well as to the division management and the competent group heads. Counter-measures are initiated.

If the market risk limit is exceeded by more than 25%, MR must also notify the CEO in writing about this.

### Risk hedging and mitigation

If a market risk limit is exceeded, the position causing this must be closed immediately. Alternatively, adequate counter-position providing risk mitigation can be entered into under certain circumstances (hedge).

## INTERNAL MODELS FOR LIMITATION OF MARKET RISK

**Article 455 point (a) (i - iv) CRR**

### Characteristics and mode of operation

From 1998 until 31 August 2015, BAWAG Group employed an internal model in market risk for calculating its minimum capital requirements in the trading book. On 7 March 2015, BAWAG Group applied for elimination of the internal model and its replacement with the standard approach beginning on 30 September 2015. This application was approved by the ECB effective 1 September 2015.

The VaR Model continues to be applied for the internal limit monitoring of the trading book. A variance-covariance approach is applied for making daily forecasts of the maximum expected loss for the next day (value-at-risk) for all interest rate and FX positions in the trading book within the defined confidence level. The following parameters are applicable:

- Variance-covariance approach
- Historical time series of 250 days, equally weighted
- 99% confidence level
- Holding period of one day for internal risk control
- Use of correlations within and between the risk categories (equities, interest rate, FX)

Non-linear market risk was evaluated in two steps. Gamma risk was incorporated in the VaR calculation as a Taylor series (derivation of the market risk factors incorporated to the second order). Vega risk was calculated using an analytical approach in the internal vega model (99% confidence level, one-day or ten-day holding period).

Daily back-testing is carried out to measure the validity of the forecast loss figures (VaR).

### Scope of application of the models used

**Article 455 point (b) CRR**

By virtue of the decision made by the Austrian Ministry of Finance on 27 December 1999, BAWAG Group received the permission to use a model in accordance with Chapter 5 CRR for the calculation of the minimum capital requirements for

- the general position risk in debt instruments
- the general position risk in equity instruments
- foreign exchange positions in the trading book

The internal model was eliminated per the decision of the ECB per 1 September 2015 (see above). Therefore the specifications to Article 455 CRR are not applicable by the quantitative part of the Disclosure Report.

The value-at-risk approach is still employed for daily internal limit monitoring as well as for monthly Pillar II calculation of the risk bearing capacity.

**Article 455 point (c) CRR**

**Marking to market**

The positions in the trading book are marked to market based on market prices provided by Reuters. For instruments with an official close-out price, this price is used; otherwise, the arithmetic mean is calculated from the ask price and bid price.

Trading book positions undergo valuation as part of the calculation of daily results by the trading groups using the front-end systems within Financial Markets. These results are adjusted for consistency in a reconciliation procedure using the valuation and position data in PMS. The trading results reported by the front office are reconciled with the back-office figures at least monthly.

**Marking to model**

Positions in the trading book for which no market prices are listed, undergo mark-to-model valuation. Only recognized models customary in the banking industry are used. No self-developed models are applied. The market parameters utilized for valuation are provided by Reuters.

For linear derivatives such as IRS, CRS, FX forwards and FRA, the present value is determined by discounting the replicating cash flows. Plain vanilla OTC options in the trading book undergo valuation using recognized option price models (Black-Scholes method or Garman-Kohlhagen). Interest rate derivatives that are more complex are calculated using Hull-White models. During 2016 the Bachelier Model has been implemented for valuation of interest rate options (caps, floors, swaptions) in currencies with negative interest rates. A key prerequisite for mark-to-model valuation is to ensure a fluid and automated feed of market parameters by a recognized data provider subject to constant monitoring by Strategic Risk.

**Independent price verification**

Prices are independently verified using a four-eye principle (front office and back office), independent setting of risk parameters for the trading systems by the risk unit and subsequent reconciliation of valuation with accounting. Every year, this area is audited by internal and external auditor.

All trading book positions also undergo valuation daily by a system (PMS) independent of the front office with a separate market data feed as part of the daily VaR calculation. The results (market values and sensitivities) are compared with those from the front-office systems. This constitutes independent price verification.

**Taking valuation adjustments into account**

In the trading book only trades in liquid positions, which qualify for marking-to-market valuation, are conducted.

In addition, OTC positions undergo valuation with models customary in the market, whereby model risks for models developed in house are avoided and prices in line with the market are applied in the valuation. In addition, BAWAG Group does not have a market maker function with its total trading book position.

The valuation adjustments for the trading book are calculated monthly. They take account of the closing costs for the open position (bid/ask spreads). The volatility smile is taken into account automatically in FO and risk systems and its valuation is therefore no longer manually adjusted (a volatility smile signifies the dependence of the volatility of option transactions on their strike price).

Creditworthiness risks are taken into account for OTC derivatives when calculating valuation adjustments. Creditworthiness risks are seen as immaterial for business partners with whom a collateral agreement has been made (cash collateral). The net derivative exposure per counterparty is calculated for all business partners that have no collateral agreement if a netting agreement has been entered into with them. For all material net exposures from derivative transactions, a valuation adjustment is calculated for the credit risk taking into account the customer’s rating and available credit spreads.

In 2014 the valuation method for all OTC derivatives with a credit support annex (CSA) was changed from Euribor discounting to ONIA/OIS discounting. This change on the valuation of the derivatives portfolio had an immaterial effect.

The structure of trading book positions is evaluated on an on-going basis to determine whether existing valuation processes and methods are suitable for correctly presenting the trading book in the internal model.

For all material net exposures from OTC derivative transactions, valuation adjustments are calculated for the credit risk of BAWAG Group.

# INTEREST RATE RISK FROM POSITIONS NOT HELD IN THE TRADING BOOK

**Article 435 (1) point (a -d) CRR**
**Article 448 point (a), (b) CRR**

## Measurement of interest rate risk

The method currently used for the banking book controls all interest-bearing instruments through sensitivity analysis using the basis-point value and value-at-risk and all currency instruments using volume limits for open positions.

To limit the interest rate risk, a maximum available basis point value (BPV) is defined for individual credit institutions which are relevant to the interest rate risk and in the scope of consolidation in accordance with IFRS. The basis point value is also sub-divided into maturity ranges and limited once again at this level. Positions affecting the profit and loss account and equity are also subjected to separate limits. Volume limits per currency are applied to reduce the foreign currency risk of the customer bank; the foreign currency risk in the Treasury banking book is limited by a low overall limit. In general, BAWAG Group follows the strategy of minimizing or avoiding foreign currency risk in the banking book.

The interest rate risk in the banking book is measured at least monthly. A static analysis of interest rate risk is currently conducted for subsidiary banks and other financial institutions relevant to interest rate risk.

Types of interest rate risk examined:

- Present value perspective: Account is taken of risks resulting from changes in the market value of transactions accompanied by a parallel shift in interest rate curves (currencies: EUR, USD, JPY, CHF and GBP). Changed interest rate curves are also simulated for the main currencies in the monthly stress tests.
- Income perspective: Risks that may cause an unexpected decline in the interest margin (interest margin risk, impact of possible interest rate scenarios).

In addition to and as part of the ICAAP, the VaR is also reported for the economic and P&L steering circle.

## Interest risk reporting systems

Extensive market risk reports are submitted monthly as part of the SALCO and the ERM (Group Risk Report).

## Assumptions regarding fixed interest rates

For positions without a defined fixed interest rate, BAWAG Group makes replication assumptions based on mathematical models. These models, in turn, are based on a holistic view of interest rate and liquidity risk and consist of the following four components:

- Future-oriented interest rate scenarios derived from an interest rate model
- Forecasts of customer conditions as a function of market data
- Volume scenarios based on analyses of historical customer behaviour
- Quadratic optimization model for ideal roll-over investments

Back-testing and the adjustment of replication assumptions are carried out at least annually prior to the planning process.

## Assessment of call rights and prepayment behavior

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

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

## Steering of interest rate risk

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

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

To achieve its defined management goals in the income statement, BAWAG Group uses hedge accounting pursuant to IAS 39. The following hedge accounting methods are currently used to value interest rate risk hedges of the balance sheet:

- Micro fair value hedge: hedging against the risk of interest rate changes for fixed-interest instruments held as assets and liabilities
- Portfolio fair value hedge (‘EU carve-out’): application to sub portfolios of sight deposits that are available for the long term after derivation of a bottom layer
- Cash flow hedge accounting: hedging of FX risks of future spread in-come and cross currency basis risks

Interest rate derivatives that are not assigned to a hedge accounting relationship are recognized at their fair values. Information regarding Article 41 of the above FMA circular letter can be found in the BAWAG P.S.K. Annual Financial Report according to section 124 Stock Exchange Act 2018 (German only) on page 293 (in the section ‘Information on Financial Derivatives and Hedging Transactions’).

## Scenario analysis

A static and a dynamic analysis is currently being carried out for BAWAG Group (internal risk report).

Interest rate gaps, key rate durations, average interest rates and changes in market values for various scenarios are calculated for each defined portfolio as part of the static analysis. The various scenarios and risk parameters below are analyzed to determine their impact on the economic value of the position:

- Parallel shifts in the interest rate curves (+/-25 bp, +/-50 bp, +/-110 bp, +/-145 bp, +/-200 bp, +/-300 bp) as well as non-parallel shifts
- Worst case scenario (derived from historical time series)
- Other scenarios as required

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

# NON-FINANCIAL RISK

The definition of operational risk refers to 'the risk of losses due to inadequate or failed internal processes, people and systems or due to external events'. This definition includes legal risks. Operational Risk with all its subtypes (e.g. compliance risk, outsourcing risk, conduct risk, ICT risk) and reputation risk are included in non-financial risk.

## STRATEGIES, PROCESSES AND MANAGEMENT

**Article 435 (1) point (a) CRR**

The strategic policies regarding the management of operational risks seek to minimize these risks by taking suitable action. This action includes:

- determining comprehensive principles by which BAWAG Group can control its operational risks
- assigning responsibility and authority for the development of standards and processes to identify, assess, measure, monitor, check and to produce reports on operational risk
- focus on a strategic orientation that complies with regulatory requirements and measures the hazards from operational risk
- support from management in efficiently controlling the operational risk and promoting a corporate culture that encourages understanding and recognition of operational risk and that gives priority to risk management
- periodically determining material operational risks and initiating process improvements, as well as reporting within the non-financial risk committee
- minimizing losses from operational risk

## STRUCTURE AND ORGANIZATION OF OPERATIONAL RISK MANAGEMENT

**Article 435 (1) point (b) CRR**

The rules for dealing with operational risks are set down in the 'OpRisk Management Policy', the 'IKS Policy' and in the pertinent handbooks and technical documentations. Within the 'OpRisk Management Policy', the Management Board determines principles for the management of operational risks that are valid throughout the Group. These activities are coordinated by the central unit Operational Risk & IKS in order to ensure a common approach. The management of operational risks is handled locally in the individual business segments in the respective Group units by the division heads or managing directors and their operational risk agents. All employees are responsible to identify operational risks and to proceed according to the appropriate regulation.

# RISK MEASUREMENT SYSTEMS

**Article 435 (1) point (c) CRR**

The following risk measurement systems are in use:

## Loss data collection

Events, losses, profits, payments and near-losses resulting from operational risks in the business segments and areas are collected continuously as part of an institutionalized loss reporting system to provide a database for the management of operational risks (decentralized capturing in an intranet application).

Subsequent central analysis allows concentrations of losses to be identified at an early stage in order to avoid further losses.

**Definitions:**

- Operational risk events are incidents occurring during a business process that affects other than expected owing to inadequacy and failure of internal processes, people, systems or owing to external events or circumstances. An operational risk event can, but does not have to, lead to an economic or financial effect.
- Losses from operational risks result from operational risk events with a negative financial impact. The analysis of these losses provides important evidence that can be used to identify the operational risks and to take steps to avoid future losses. Depending on the nature and timing of the events, they might reflect the existing or historical environment of the checks.
- Profit from operational risks has a positive financial impact. Even if profit results from an operational risk event, the event itself is an indication of a process weakness that could result in a loss the next time it occurs. Therefore, these events provide valuable clues to risk management.
- Recoveries refer to the reduction of a loss (e.g. by means of insurance). Operational risk recoveries are divided into insurance recoveries and other recoveries.

*Insurance*
Insurance policies are an important way of reducing loss. Even if the act of taking out an insurance policy cannot prevent a possible operational risk event, it can at least reduce the financial effect caused by this event.

*Other recoveries*
Other recoveries are payments by third parties that reduce the loss for the company. Examples are damage claim payments, penalty payments, recourse payments and refunds.

- Losses, which had a high probability (‘near-losses’) are risk events that ultimately did not result in a financial impact. Near losses refer to mistakes, system failures or process accidents that could have a negative financial effect but have no impact thanks to favourable circumstances. The identification of near losses can open up possibilities for improving system structures and processes and reducing the extent of loss that occurs. A near loss is an event signaling that a system or process weakness can result in losses if not remedied.

## Risk Control Self Assessment (RCSA)

**Annual RCSA per business unit (division/subsidiary)**

Additional information is collected through RCSAs. Within a standard framework, all business divisions and relevant subsidiaries identify and assess their processes and material operational risks annually (possible frequency and effect). Further, they evaluate the effectiveness of existing control activities and, if needed, also define necessary control activities or measures. A link to the Business Continuity Plan is also established during the RCSA. In addition, the responsible divisions and subsidiaries define worst-case estimations.

Each year individual key topics are examined and assessed based on internal and external necessity.

Actions are agreed for material operational risks which were detected in the RCSA. Their implementation is subject to continuous subsequent monitoring. An intranet application enables all divisions to make decentralized enquiries about the agreed actions and to process and report the completion of these actions in a decentralized way.Ad-hoc RCSA

If processes change or other pertinent events occur, the responsible unit will convene an ad hoc working group comprising risk specialists and experts in the field to determine possible risk potential. This step is particularly important in cases involving inter-divisional operational risks extending beyond the RCSA process.

**Outsourcing RCSA**

An Outsourcing RCSA must be conducted mandatorily for significant outsourcing -projects. The object of this RCSA is to identify and assess any operational risks associated with outsourcing  projects and must be performed before an agreement is drawn up/signed and approved so the risk assessment findings can be incorporated.

Outsourcing specifications are defined in the outsourcing policy. Along with operational risk, the policy covers the assessment of other risks such as strategic risks, regulatory risks and risks from collaborating with business partners.

**Key Risk Indicators**

Key Risk Indicators (KRIs) show risks in the banking processes and indicate signal change in the risk profile in a timely manner in order to avoid potential damage.

Based on the results from the annual RCSAs, the main operational risks are identified and used as the basis for the elaboration or annual review of the definition and threshold values of the KRIs. Each KRI is valued using a traffic light system (red / yellow / green) and reported monthly to the divisions and subsidiaries. If the thresholds are exceeded, an intensified observation (yellow) or a mandatory measure for risk reduction (red) must be specified. The measures and their implementation are constantly monitored and reported periodically.

## Operational Risk assessment of new business segments or products

New business segments or products have to be introduced by using a product implementation process in which all defined divisions submit their vote and any possible conditions in an end-to-end analysis of the process. The responsible department conducts the ICS.

## Latitude of Judgment and Uncertainty of Estimates – City of Linz

Uncertainties in estimations also apply to the claim of BAWAG Group against the City of Linz. On 12 February 2007, the City of Linz and BAWAG Group concluded a forward financial transaction. This transaction was intended by the City of Linz to optimize a CHF loan (please note that party to the transaction and consequently the law suit is BAWAG P.S.K. a subsidiary of BAWAG Group).

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

The City of Linz filed a lawsuit against BAWAG Group at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling € 24.2 million at the exchange rate at that time). BAWAG Group filed a (counter) suit against the City of Linz for the fulfillment of its contractual entitlements from the same transaction in the amount of € 417.7 million. The court combined the two suits. The first hearings were held in the spring of 2013 and a court commissioned expert opinion as well as a supplement opinion thereto were submitted in August 2016 and December 2017. The lawsuit continues to be pending at the court of first instance. In the year 2018 no court hearings took place. BAWAG Group's strong legal position remains unchanged and the Bank is well prepared for the forthcoming court hearings. It is difficult to assess how much longer the lawsuit is going to continue. However, based on experience it is assumed that the further legal proceedings until a final judgement is enforceable will take several years.

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

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

### Stress tests

Operational Risk is part of stress testing activities. For the semi-annual stress test the operational risk stress-parameter are defined as expert estimation based on macroeconomic stress-scenarios. The impacts are calculated on the basis of the historical loss data. An operational stress test scenario was developed for the reverse stress test activities but has a very limited probability of occurrence.

### Risk reporting systems

Reports are produced periodically on material operational risks and on the actions needed to prevent similar future risks. These documents enable the Management Board and the DH to manage operational risks and minimize possible losses arising from those risks.

- The ERM receives a summary of losses, the P&L impact, the KRIs and the results of the RCSA as part of the Group Risk Report.
- The CEO and CRO receive a detailed OpRisk Report on a monthly basis. This report includes the regulatory own funds requirements, the ICAAP limit including the utilization, the OpVaR, the P&L impact, the losses, the events and the KRIs.
- The divisions and the subsidiaries receive periodic summaries of the losses, RCSA-results, KRIs and the open measures.
- The results from the annual and ad hoc RCSAs are conveyed in separate RCSA reports to the pertinent DH, to the responsible board member, the CRO, and Internal Audit.
- The results from the Outsourcing RCSAs are reported to the CEO, CRO and responsible board member, to the pertinent DH, and to the heads of Legal and Internal Audit.
- Relevant PIPs are reported periodically in the NFRC.
- An overview of all pending measures for reducing operational risk (as set forth in the RCSA and the PIP) is reported to the responsible board member quarterly.

# RISK HEDGING AND MITIGATION

**Article 435 (1) point (d) CRR**

BAWAG Group has laid the basis for operational risk mitigation with its segmented organizational structure, clear rules on competencies and responsibilities and work instructions. In addition, consistent guidelines on corporate authorization levels help to achieve the goal of a controlled risk situation, as well as the implemented ICS, which (adequately) captures the risk. The ICS does so, for example, by means of the four-eye principle, separation of functions, access checks, limited authorizations, computer-assisted plausibility checks and system tests. Also a central regulated insurance management helps to hedge the risks.

# OWN FUND REQUIREMENTS

**Article 446 CRR**

The regulatory own fund requirements for operational risks are calculated by using the standardized approach pursuant to the Article 317 CRR. The advanced measurement approach pursuant to the Article 321 CRR is currently not applied. Therefore it is not subject to disclosure obligations in accordance with the Article 454 CRR.

# LIQUIDITY RISK

**Article 435 (1) points (a) – (d) CRR**

## STRATEGIES, PROCESSES AND MANAGEMENT

The ALM team in division Treasury & Markets (TM) and the SALCO (Strategic Asset Liability Committee) handle liquidity management throughout the Group. Market & Liquidity Risk Controlling (MR) independently measures and monitors liquidity risks. The principles and goals below serve as the point of departure for liquidity management:

### Principles of liquidity control

- Liquidity management is a central core competence.
- Liquidity is a material resource and must therefore be controlled.
- Liquidity has a price that fluctuates with supply and demand.
- ALM, a team that reports to the CFO, bears the main responsibility for liquidity management.
- ALM does not pursue its own profitability goals in the process.
- Liquidity is basically subject to central control. It is compulsory (except if it is determined differently by the liquidity management of BAWAG Group in individual cases) that the subsidiaries obtain financing from or deposit any excess liquidity with BAWAG Group in the scope of their governance.
- Market & Liquidity Risk Controlling monitors liquidity risk.
- Control activities are geared primarily to liquidity cover, secondly to liquidity structure and thirdly to liquidity costs.
- Organizationally, ALM manages liquidity independently of the business areas, but the effects of liquidity actions are analyzed and taken into account at the level of the business areas.
- Income, accounting and RWA effects are considered in the process, as are the ramifications for collateral, regulatory key ratios, maturity structure and the franchise value.
- Liquidity control is done indirectly with internal clearing prices for customer business and indirectly with needs-based transaction pricing for large-volume wholesale funding.
- The price of liquidity is determined centrally using defined methods. ALM serves as counterparty for all business areas with respect to obtaining and extending liquidity.
- Liquidity control takes account of possible negative effects from risks to BAWAG Group's reputation.

### Goals

The central goals of liquidity control are as follows:

- Ensure sufficient liquidity even in a stress case
- Meet short- and medium-term liquidity needs and ensure long-term funding based on planning and forecast calculations for each currency
- Develop and maintain the strategic refinancing structure
- Maintain sources of financing on the capital market and in customer business even in periods with a minimal need for obtaining refunding
- Reduce the concentration risk as regards the maturities profile and through diversification of funding sources and counterparties
- Optimize the maturity structure and funding costs
- Maintain a sufficiently large liquidity buffer at the lowest possible costs
- Comply with all internal and external key ratios and regulatory limits for liquidity
- Invest excess liquidity based on planning and forecast calculations
- Adjust liquidity prices in the short term to optimally control liquidity
- Take into account strategic elements for the procurement of funds such as the franchise value for customer deposits and customer relationships

### Liquidity Risk Statement

BAWAG Group has established a group-wide Internal Liquidity Adequacy Assessment Process (ILAAP) framework which defines the group's liquidity risk management processes, steering mechanisms, funding strategies and liquidity risk limits to adhere the overall risk appetite. The overall risk appetite defined by the Management Board serves as the boundary condition for the risk strategy. The limits set for liquidity risk within the

ILAAP are strategic specifications for steering and limitation of the group ´s overall risk position and express the group's risk appetite. Compliance with these limits ensures an adequate liquidity position.

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

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

The stable deposit base is supplemented with a diversified strategy of wholesale funding. The funding instruments comprise of both unsecured bonds as well as bonds secured by mortgages (covered bonds & RMBS) and public sector collateral.

During 2018 BAWAG Group issued Additional Tier 1 Notes with a € 300 million principal amount. Furthermore, in July 2018 a cash tender offer for € 300 million Subordinated Tier 2 Bullet Notes was successfully taken-up by approx. 90% of holders. The long-term goal is to maintain strong deposit funding and a diversified wholesale funding profile.

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

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

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

On the basis of its ILAAP the group conducts an ongoing self-assessment of its liquidity risk profile, risk measurement and management framework and its liquidity adequacy. The outcome of this process is documented annually in the Group's Liquidity Adequacy Statement (LAS) signed by the Management Board of BAWAG Group. On the basis of the ILAAP, the Management Board is convinced that the current risk management framework allows a comprehensive identification, quantification, measurement and steering of all relevant liquidity risks and considers the liquidity and funding position of BAWAG Group as solid and fully adequate as of 31 December 2018.

# STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

## Organizational structure

The entire Management Board determines the business strategy of the Group and the individual business areas and defines target values for the central key ratios. The board is therefore responsible for the liquidity strategy and defines the level of risk tolerance for the planning period.

The CFO, as a member of the Management Board, performs the function of liquidity manager for the Group as a whole. The Treasury & Markets division (TM) reports to the CFO and incorporates the liquidity management. The CFO monitors the activity of the organizational units and regularly informs the entire Management Board about the liquidity situation. TM bears the central specialized responsibilities for liquidity management. A central Collateral Management for BAWAG Group is integrated in Asset Liability Management (ALM).

Controlling is responsible for operational accounting of the liquidity costs and premiums in the profit center calculations and for the methods used in the FTP system. The liquidity cost system derives prices from current market rates. The fine tuning is done by the ALM to balance short-term gaps.

Market & Liquidity Risk Controlling (MR), a division reporting to the CRO, measures the current liquidity risk, prepares limit proposals for the S-ALCO and monitors compliance with the defined limits and liquidity buffers.

Treasury & Markets (TM) is responsible for the operational execution of money market and capital market transactions.

Liquidity management is subdivided into four task areas: operational, tactical and strategic liquidity management and liquidity buffer management. As regards liquidity risk categories, a distinction is made between dispositive, structural and market liquidity risks.

The reporting of the current and projected liquidity position as well as the funding potential is performed by the Treasury & Markets division. One of the most important key ratios is FACE (free available cash equivalent), which is internally defined at BAWAG Group The liquidity buffer is divided into a short-term and medium-term portion that can be liquidated. The reporting of the liquidity risk is done by MR.

# RISK MEASUREMENT SYSTEMS

The liquidity risk is calculated by rolling out the cash flows from existing transactions. These cash flows are calculated from business data drawn from the central data warehouse. Based on the transaction data for customer business (loans, deposits, securities, etc.), the cash flows from repayment of principal are rolled out at individual transaction level within the market risk management system OneSumX and are reported in aggregated form according to defined criteria (e.g. product type, customer category, and behavior with respect to the repayment of principal). Positions with undefined maturities (current accounts and customer deposits) are assigned to the time bands based on the modelled liquidity replication assumptions reflecting the historical retention period and volume fluctuations.

The total of asset and liability cash flows determines the gap in the static balance of cash flows, i.e. new business is not assumed. The stressed funding cost resulting from closing the funding gaps is quantified as well. Special attention is payed to the structural risk in FX funding, which is articulated in FX basis spread risk. To measure this risk a concept of PVBP (similar to the interest rate risk) has been implemented. Furthermore stress tests are then conducted in BAWAG Group´s balance sheet by making certain assumptions regarding volume changes in certain stress situations. These stress tests are based on the existing balance sheet structure and assume that transactions drawing to an end will be replaced under the same conditions (terms, volumes but with different circumstances). With this constant balance sheet, the volume assumptions for individual products are then weighted with the relevant stress factors (outflow assumptions).

The stress scenarios are distinguished as follows:

- Idiosyncratic stress
- Systemic stress
- Mixed stress scenario
- Reverse stress test

The stress tests also take account of the liquidity buffer and the counterbalancing capacity, i.e. unencumbered liquidity reserve. It is assumed that these buffers can be converted into genuine liquidity in a short time either in a sale, in repurchase agreements or through refinancing from the central bank.

The time-to-wall is measured in these stress tests. The stipulated risk limits must be adhered to in the stress tests with account taken of the liquidity buffer and the counterbalancing capacity; otherwise, TM must suggest or initiate countermeasures. The stress test results determine the size of the liquidity buffer and the counterbalancing capacity.

## RISK REPORTING SYSTEMS

The liquidity status is presented and reported in standardized, regular reports. These reports are divided into the following categories:

- Operational liquidity status
- Tactical liquidity status
- Structural liquidity status

The reports on the operational liquidity status basically provide a concrete forecast of liquidity for the next several days so that the operational liquidity management can immediately indicate a need for liquidity or a surplus of liquidity. This status is then adjusted by conducting short-term interbank transactions or by compensating account balances.

The reports on the tactical liquidity status are used to estimate business developments on the assets or liabilities side of the balance sheet and to present them to the SALCO on a monthly base. These reports depict developments in economic and regulatory liquidity statically and dynamically, pointing out potential gaps. The corresponding limits and compliance with them are measured in these reports for economic and regulatory liquidity. TM is responsible for closing unplanned tactical gaps (in a time horizon of 15 months) by taking preemptive actions.

On the one hand the reports on the structural liquidity status are produced under a dynamic perspective as part of total Bank planning. In the process, TM coordinates the planning of overall funding, which comprises theoretical scenarios, business shifts and planned assumptions for new business. The funding plan has a time horizon of three years. On the other hand, the structural liquidity risk is also measured monthly under a static perspective (in total and in separate currencies) and quantified with stress assumptions.

## RISK HEDGING AND MITIGATION

Risks are hedged and mitigated by means of on-going checks of the current and forecast liquidity status from an economic, regulatory and also strictly cash standpoint. Plans are constantly adjusted based on current developments in the business areas and the market and on a re-evaluation of the liquidity buffer and the counterbalancing capacity.

A liquidity emergency plan for the actual stress case was drawn up and is periodically updated.

The purpose of the liquidity risk strategy is not only to hedge and mitigate risks. It is also used for rendering risks measurable, for raising awareness of risks and for actively controlling risks (in terms of a conscious decision to take a liquidity risk). In this same context, BAWAG Group continuously tests market liquidity for individual balance sheet items and constantly sustains the ability of the market to absorb products on the liability side (and the potential refinancing costs associated with them). It also prepares forecasts of the volume of collateral material for securitized refinancing (and reconciles it with the business plan).

## LIQUIDITY COVERAGE RATIO

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

### Hiqh Quality Liquid Assets (HQLA)

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

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

### Net Cash Outflows

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

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

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

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

For the last quarter of 2018, the average LCR value for the last 12 months is 172% with a HQLA portfolio of € 6.736 million and € 3.928 € net outflows.

# CONCENTRATION RISK

**Article 435 (1) points (a) – (d) CRR**

## STRATEGIES, PROCESSES AND MANAGEMENT

The general framework for the management of concentration risk is based on estimates made by senior management coupled with specifications and recommendations made by national and international institutions engaged in bank regulation.

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

Credit risks are treated as a material risk category in connection with risk concentrations. Risk concentrations arise from large exposures in individual customer segments or from large total exposures in certain industries, countries or foreign currencies whose loss potential could endanger BAWAG Group's core business or has an impact on the risk profile.

A separate policy covers the principles and methodical framework of measuring and monitoring the credit risk concentrations. Concentration risk at the level of individual transactions or products is dealt within a special sub-risk strategy. The management of country and industry limits is carried out as a standard process in accordance with binding internal guidelines.

## STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

The main body is the monthly ERM, in which all Management Board members participate and where the CEO chairs. The CRO bears responsibility for the management of concentration risks in the Management Board. The ERM is set up as a committee at Management Board level and is responsible inter alia for approving the methods and the processes employed for measuring concentration risks. The ERM delegates to the PSC the steering and monitoring of the concentration risks. As mentioned above the entire Risk Management Organization bears responsibility for concentration risk management in coordination with the divisions Commercial Risk Management and Retail Risk Management.

## RISK MEASURING SYSTEMS AND LIMITATION

Allocated economic capital is the basis for quantifying the concentration risk at the level of individual borrowers and groups of affiliated customers as well as with concentrations in industries, countries and currencies. The quantification is part of the Portfolio Steering Framework (in place since 2015). The methodological basis is constituted on the risk-weighted assets according to the IRB approach.

Appropriate limits and warning thresholds are determined for countries, industries, currencies and customer groups and constitute an integral part of efforts to control total bank risk.

As far as risk concentration on product level is concerned, special attention is paid on maturing foreign currency loans that have been extended to customers. Risk-adequate provisions and a capital buffer are maintained for the risk profile created using a scenario-based model.

All limits are monitored on an on-going basis and in accordance with the estimated risk potential.

If limits are exceeded or warning thresholds are reached, the risk management units and the Management Board agree on suitable actions to limit or reduce the risk.

To prevent losses in connection with collateral concentrations that could put the financial stability at risk or result in a material change in BAWAG Group's risk profile, appropriate warning thresholds are defined and subjected to periodic monitoring and appropriate reporting processes.

All material risk factors are depicted in scenario analyses and stress tests using VaR models in order to analyze and monitor market concentration risks. For reasons of a prudent view, conservative assumptions regarding correlations between risk factors are made. Special attention is paid in this process of potential liquidity risk resulting from financial instruments with incongruous maturities.

Regarding concentrations of operational risks, the focus lies on the one hand on activities with a long business history, on the other hand special attention is laid on adequate assessments of new lines of business.

Active monitoring of funding requirements and broad diversification of funding sources are precautions against potential liquidity problems from risk concentrations in the investment and funding structure.

## REPORTING SYSTEMS

The actual limit utilization and the qualified risk estimate are reported to the ERM on a regular basis. The communication medium in this context is the monthly Group Risk Report.

The discussion of the Portfolio Steering Framework report (that has separate sections focusing on concentration risks in the segments of countries, industries, currencies and customer groups) is performed in the PSC. This committee is delegated by ERM to monitor and manage the economic capital allocated on the bottom levels of Portfolio Steering Framework (level 3 business sub-segments and level 4 countries and industries, up to € 40 millions).

After the competent risk committees take notice of and approve the concentration risk reports, the reports are communicated to the relevant front-office units.

# RISK OF MONEY LAUNDERING AND TERRORISM FINANCING

**Article 435 (1) points (a) – (d) CRR**

## STRATEGIES, PROCESSES AND MANAGEMENT

Due to the background of the business model of BAWAG Group (focus on retail and small business customers in Austria, via acquisitions in Germany and international credit business on western markets) the risk to be abused for terrorism financing and money laundering is low. The strategy and procedures for prevention of money laundering and terrorism financing (summarized as AML in the following paragraphs) have been approved by the Management Board. As required by law, a comprehensive risk analysis of specific money laundering risks is regularly conducted and updated. Customer relationships and domestic and foreign transactions are monitored with specific screening and transaction software in accordance with this risk analysis (where customers are divided according to specific risk factors like product, seat/residence, branch, nationality etc. into risk categories). Further, specific customer, transaction and country screenings (Smaragd, and sITS) are used to take into account the High Risk Country Regulation issued by delegated Regulation of the European Commission and the relevant sanction guidelines. Employees receive training (self-study programs and classroom training) to sensitize them to specific constellations suspected of involving money laundering or terrorism financing. Pertinent directives (summarized in a separate manual) and mandatory technical ITfields ensure compliance with all relevant regulations to prevent money laundering and terrorism financing under the Financial Market Money Laundering Act and under Money Transfer Regulation EC 5932/2015.

## STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

The mandatory AML-Officer is supported by a department leader and specialized staff. In his function as AML-Officer, the head of the division Non-Financial Risk & Regulatory Compliance is directly reporting to the whole Management Board. The Organizational Manual outlines the duties and responsibilities of the division Non-Financial Risk & Regulatory Compliance.

The competence of the AML-Officer is:

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

## RISK MEASUREMENT SYSTEMS

Besides the yearly updated risk analysis AML-suspicious cases are permanently analyzed whenever new patterns of behavior require an update of the situation. The exchange of money laundering suspicious cases has been conducted since 2017 group wide.

BAWAG Group operates a software system that classifies all customer relationships into four AML-risk classes. Upon applying for a product, the customer is classified and respective measures are taken according to the respective risk class (e.g. intensified monitoring for higher risk classes). The software differentiates four categories: low, medium, high and very high (like for example politically exposed persons). The implemented scenario manager can be calibrated by the AML Officer and his team. In case of new patterns of behavior, an adaptation of the software or other measures can therefore be carried out.

## RISK REPORTING SYSTEMS

The division leaders of Non Financial Risk & Regulatory Compliance report to the entire Management Board and the Audit and Compliance Committee on a quarterly basis. Furthermore, the annual report has to be acknowledged by the Supervisory Board. Since 2017 an own Non-Financial Risk Committee on management board level has been established, which meets on a regular base. The goal is, among other targets, to decide upon necessary measures in the prevention of money laundering together with the management.

## RISK HEDGING AND MITIGATION

Comprehensive guidelines are summarized in the Money Laundering and Sanctions Manual, and a control system is in place for the opening and monitoring of accounts and all one-time transactions where mandatory identification apply. Further, additional mandatory IT fields have been created to ensure that the required data is obtained and recorded in the system for account setup and for specific transactions (e.g. verification of origin for transactions, transactions requiring an ID to be shown). Additionally, the AML-Officer has established a monthly internal control system, which requires sample checks of the compliance with the internal account opening and transaction policies. Any errors are redirected for correction, for re-training or to take other effective measures to the person in charge. In addition to the comprehensive bank risk analysis that undergoes an evaluation once a year, BAWAG Group also conducts constant analysis to evaluate reported cases suspected of involving money laundering and to determine whether new behavior patterns require a software update or other actions to be taken. Furthermore, the strategy paper is subject to at least an annual review and re-approval of the Management Board.

# RESIDUAL RISK FROM TECHNIQUES OF CREDIT RISK MITIGATION

**Article 435 (1) points (a) – (d) CRR**

## STRATEGIES, PROCESSES AND MANAGEMENT

All risks which are not already covered in other risk sections are referred to as residual risks from techniques of credit risk mitigation:

- Concentration risks for collateral
- Legal risk of realization (change in the legal situation, etc.)
- Other risks – changes affecting security and exceeding usual fluctuations and changes

Transparent risk assessment for concentrations of collateral is ensured by means of appropriately defined processes and continuous monitoring of collateral at portfolio level and guarantor level. These activities give the management a sufficient basis of information in order to control collateral concentration risks adequately.

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

In addition, potential credit losses due to collateral deterioration are simulated within Stress Testing and possible effects on the risk bearing capacity of BAWAG Group are considered.

## STRUCTURE AND ORGANIZATION OF THE RELEVANT RISK MANAGEMENT FUNCTIONS

These risks are constantly monitored within the risk organization and regularly reported to the Portfolio Steering Committee. The concept of monitoring concentration risks regulates the possible actions and the powers with regard to imposition, execution and monitoring of concentration risks arising from collateral.

## RISK HEDGING, -MITIGATION AND RISK MEASUREMENT SYSTEMS

Various steps are taken to address and ensure compliance with the requirements pertaining to residual risk from credit risk mitigation.

- The market value and lending value are assessed and estimated in the course of collateral valuation. Details on the valuation procedure are given in the Credit Collateral Catalogue.
- Stress tests are conducted to analyze the fluctuations in collateral market values and lending values and their ramifications for the risk bearing capacity. Details about these stress tests can be found in the stress test.
- The residual security concentration risk is covered in the monitoring plan entitled ‘Concentrations of Collateral’.

# MACROECONOMIC RISKS

**Article 435 (1) points (a) – (d) CRR**

## STRATEGIES, PROCESSES AND MANAGEMENT

Macroeconomic risks designate potential losses that may arise by variations to macroeconomic risk factors, such as the GDP trend, the unemployment rate, the oil price, but also for political reasons, like Brexit.

Macroeconomic risks have myriad possible consequences. Unfavorable overall economic developments could result in negative repercussions for BAWAG Group such as a negative change in market prices, increased default rates, less demand for products, negative trends in the value of participations, falling savings rates (tight liquidity), etc. Risk is identified during stress testing conducted to determine the type and scope of the required stress tests and to define the macroeconomic scenarios and the associated risk parameters. Stress tests are conducted periodically and are in the responsibility of the individual specialized units of the risk organization.

## STRUCTURE AND ORGANIZATION OF RELEVANT RISK MANAGEMENT FUNCTIONS

The items are addressed here in an interdepartmental manner due to the interdisciplinary topics associated with macroeconomic risks.

## RISK MEASUREMENT, RISK REPORTING SYSTEM AND RISK HEDGING OR MITIGATION

Preliminary control of macroeconomic risks is done during total bank risk control and planning activities. Planning is completed with a defined economic environment indicated.

Subsequent risk control is represented by the assessment and quantification of macroeconomic risk within the annual Risk Self-assessment process, accounting for the losses expected in an adverse stress test scenario and defining a constant buffer for the risk within the ICAAP framework.

The total risk control is completed in connection with total bank risk control and the reporting of stress test findings as well as during the determination of any necessary actions.

Possible actions for subsequent control range from diversification and the reduction of risk positions to an increase in risk coverage capacity. Actions can also be of an organizational nature, for instance an in-depth analysis of risk drivers or also the inclusion of additional aspects in the stress tests. The actions are approved by the decision-makers and carried out by the responsible organizational units.

Stress test results and in case actions needed are discussed in the dedicated Stress Test Committee and then presented for approval to Enterprise Risk Meeting / Management Board.

# PARTICIPATIONS NOT HELD IN THE TRADING BOOK

## OBJECTIVES AND PRINCIPLES FOR THE MANAGEMENT OF PARTICIPATIONS

**Article 435 (1) point (a) – (d) CRR**

### Strategies and processes

Participation risk includes potential losses from own equity provided, from risks caused by the assumption of liability (e.g. comfort letters) or from profit and loss transfer agreements (assumption of losses).

Under the participation strategy approved by the Management Board, participations are divided into the following categories:

- Majority participations in the financial services sector that are considered part of the core business and that therefore address additional groups of customers or enlarge the product range and that must satisfy minimum return requirements at least in the medium term. These minimum return requirements can be met by contributions to the Bank's commission result from dividends or service contributions.
- Minority participations in the financial services sector of strategic significance for enlarging the product range within the financial services sector. These equity exposures are measured based on direct return.
- Auxiliary undertakings that perform services for BAWAG Group in outsourced legal entities. Auxiliary undertakings are generally active in the IT sector or in payments. The participation portfolio carries auxiliary undertakings both as majority participations and as minority participations (usually collaborations with other credit institutions).
- Other participation items

BAWAG Group generally pursues the goal of achieving appropriate and lasting profitability, taking any risk mitigation into account. Any major change in the participation portfolio therefore requires the approval of the Management Board following a request from the department Accounting (SOLO) (a unit in Accounting/Participations) and a risk assessment from the responsible risk unit.

### Structure and organization of relevant risk management functions

The risk management function for participations is integrated in the unit Real Estate & Institutional Clients within the division Commercial Risk Management. This unit reports to the Chief Risk Officer (CRO). Monthly reports on participation risk (as a part of the Group Risk Report), the participation risk strategy (as a part of Risk Strategy), risk assessments on risk associated with equity capital actions and value determinations during impairment tests are submitted to the respective decision making authority.

### Risk measurement systems

Proposals from the department Accounting (SOLO) regarding a change in participations are forwarded to the respective decision making authority after a separate risk assessment on the associated risk is drawn up by Credit Risk Management.

For material operational participations, Controlling conducts a standardized analysis of target versus actual company figures during the year, with monthly reports to the relevant stakeholders.

All participations are rated at least once a year. The confirmed rating is issued by Credit Risk Management.

An impairment test for participations must be carried out annually and reviewed by Credit Risk Management. The purpose of the impairment test is to determine the recoverability of the participations and to identify hidden reserves in the participation portfolio. Impairments are taken into account immediately in accounting after being approved by the full Management Board.

Subsequent risk control is represented by the assessment and quantification of participation risk (IFRS not-consolidated participations according to) within the annual Risk Self-assessment process, using a simplified PD/LGD model and defining a constant buffer for the risk within the ICAAP framework.

### Risk reporting systems

Participation risks are reported in the context of risk controlling on a monthly basis to the Management Board. This report is part of the Group Risk Report and contains material changes within the participation portfolio most notably with regard to acquisitions, disposals, ratings and book values.

### Risk hedging and mitigation

The treatment of risks arising from participations is governed in the Participation Risk Strategy (as a part of Risk Strategy) and other related documents.

In addition the department Reporting & Planning monitors the financial results of all material operational participations on an on-going basis and monitors the performance of all other participations in the overall portfolio annually.

## ACCOUNTING AND VALUATION METHODS

**Article 447 point (a) CRR**

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

**IFRS**
The valuation of non-consolidated participations is based on the fair value. Depending on the individual classification, changes in fair value are recognized in OCI or PnL.

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

# SECURITIZATIONS

## SECURITIZATION ACTIVITIES AND FUNCTIONS IN THE SECURITIZATION PROCESS

**Article 449 points (a), (d), (e), (g), (i), (m), (n) (vi), and (r) CRR**

In November 2016 BAWAG Group securitized a portion of its UK residential mortgage portfolio. The RMBS transaction Feldspar 2016-1 was the first RMBS issuance for BAWAG Group. The Feldspar 2016-1 transaction represents a pure funding transaction to which the regime of Part Three, Title II, Chapter 5 CRR is not applicable. Therefore this transaction is considered outside the scope of Article 449 CRR.

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

## RISKS FROM SECURITIZATIONS AND RESECURITIZATIONS

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

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

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

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

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

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

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

## APPROACHES TO THE CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS

**Article 449 point (h) CRR**

Risk-weighted exposure amounts for securitization and re-securitization positions were calculated according to the IRB as per Article 261 and Article 449, points (b), (c) and (f) CRR.

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

## ACCOUNTING POLICIES FOR SECURITIZATIONS

**Article 449 point (j), (i), (ii) and (iv) - (vi) CRR**

This requirement only concerns originators of securitizations and is thus irrelevant for BAWAG Group

**Article 449 point (j) (iii) CRR**

The valuation models (refer also to section 'Risks from securitizations and resecuritizations') were calibrated at the market prices of comparable transactions (liquid indices such as ABX, iTraxx, CDX, CLO trading runs).

## ELIGIBLE EXTERNAL RATING AGENCIES USED FOR SECURITIZATIONS

**Article 449 point (k) CRR**

Basically, for investment deliberations the estimated ratings of Moody's, Standard & Poor's and Fitch regardless of the category of securitized exposure are utilized. If several ratings are available, the relevant risk weight for the capital requirements is determined as indicated in Article 138 CRR.

## INTERNAL ASSESSMENT APPROACH

**Article 449 point (l) CRR**

BAWAG Group has no disclosure obligations in accordance with Article 449 point (l) CRR, because it does not apply the internal assessment approach.

# LEVERAGE RATIO

**Article 451 CRR**

The Leverage Ratio according to Article 429 CRR is being calculated according to Article 499 Abs. 1 lit. a CRR (in consideration of transitional regulations of Tier 1 capital) and according to Article 499 Abs. 1 lit. b CRR (fully fledged definition of Tier 1 capital) for regulatory purposes and reported quarterly to the regulators. Since the new requirements of Delegated Regulation (EU) 2015/62 have been implemented in the regulatory reporting (30.9.2016) the figure is calculated on the basis of end-of-quarter-data.

Internally the Leverage Ratio is calculated and reported monthly in the Capital Management Meeting (CMM) and Enterprise Risk Meeting (ERM), where the management board is represented. This reporting also includes the comparison of the current indicator value with the defined alert and recovery threshold levels. In order to manage the risk of excessive leverage, the recovery plan defines procedures and processes for reacting to leverage ratio changes which can be implemented if necessary.

Due to business model and capital structure the share of encumbered assets measured by balance sheet volume is rather low. Therefore asset encumbrance is not taken into account in managing the risk of excessive leverage.

In consideration of transitional regulations of Tier 1 capital the Leverage Ratio was at 7.15% at the end of 2018. The figure increased by 93 bp compared with previous year end calculation due to AT1-issuance in April 2018 and inclusion of year-end profit.

# REMUNERATION POLICY DISCLOSURE

**Article 450 (1) points (a) – (f) CRR**

BAWAG Group AG and BAWAG P.S.K. AG have a Nomination and Remuneration Committee, which is set up as a Supervisory Board committee. A Committee for Management Board matters is in place to deal with individual matters of remuneration for Management Board members taking into account the framework conditions of the Labor Constitution Act. The Nomination and Remuneration Committee approves the remuneration policy, reviews the applied remuneration practices as well as the remuneration related incentive structure and submits regular reports on its activities to the full Supervisory Board. The committee consists of the chairman of the Supervisory Board, who also chairs the Committee, and five further Supervisory Board members including two members of the works council. One member is an expert on remuneration and one is also member of the Risk and Credit Committee. In the year 2018 there have been two meetings of the Nomination and Remuneration Committee and three meetings of the Committee for Management Board matters.

The Nomination and Remuneration Committee passed a remuneration guideline that applies to the Members of the Managing Board and the employees of the Group and that takes into account the principles of the EU's CRD III Directive, the CEBS guideline and the act amending the Austrian Banking Act in this regard. Deloitte and Wolf Theiss Rechtsanwälte were involved as external consultants in determining the remuneration guideline initially. The remuneration guideline was revised successively based on the circular letter issued by the FMA in December 2012 resp. January 2018 on the principles of remuneration policy and practices, the EU's CRD IV Directive and the EBA guidelines on sound remuneration policies.

Regarding the structure of remuneration all remuneration and other benefits granted by BAWAG Group are qualified as either fixed or variable remuneration as defined by the Regulatory Framework. Criteria for fixed and variable remuneration are clear, objective, predetermined and transparent.

For employees whose activities have a material influence on the risk profile (identified staff), the remuneration guideline stipulates a remuneration policy compatible with effective risk management. It is designed to align the personal objectives of the employees with the long-term interests of BAWAG Group and to ensure an appropriate balance between fixed and variable remuneration components. It also takes into account the legal regulations stipulating that the policy must be applied to the management and to risk purchasers, to employees with controlling duties, as well as to employees who are in the same wage category as the management and the risk purchasers and whose activities have a material influence on the risk profile. For this assessment the qualitative and quantitative criteria of the Commission Delegated Regulation (EU) No 604/2014 was used.

In accordance with the above-mentioned legal framework identified staff receive the bonus distributed over a period of 5 years and at least 50% in phantom shares (based on shares of BAWAG Group AG) provided a certain amount of the variable remuneration is reached. Last year for selected persons out of the group of identified staff a Long Term Incentive Program (LTIP) was implemented under consideration of the regulatory principles, which is awarded 50% in shares in shares of BAWAG Group AG and 50% in phantom shares or optional to 100% in sharesunder the precondition of a long-term corporate success measured by Earnings per Share. For the year 2018 no additional LTIP was granted. The high proportion of shares and phantom shares of the variable compensation for identified staff leads to a high level of alignment between the interests of the management and the shareholders focused on a growth of the corporate value as externally communicated to the shareholders.

Non-identified staff receive a deferred bonus award provided a certain amount of the variable remuneration is reached.

Malus and clawback provisions are in place. To the extent the malus and clawback applies, shares or phantom shares of the award of the employee may be reduced or shares transferred to the trustee may be reclaimed or other measures may be applied to reasonably reimburse BAWAG Group AG or any subsidiary.

In reviewing and deciding on any awards of a variable compensation (bonus or LTIP) to Members of the Management Board and employees, the Nomination and Remuneration Committee resp. the Committee for Management Board matters takes into account the market situation and market trends, the appropriateness of bonus payments, the risk trends and the strengthening of the equity base.

The bonus pool shall, absent of extraordinary circumstances, not exceed 10% of the consolidated IFRS-profit before tax (PBT) of BAWAG Group AG. In case of extraordinary circumstances (including, but not limited to, out performance of targets) such self-imposed limit may be exceeded. When determining the size of the bonus pool the following factors are being considered:

- Bonus payments are appropriate and disciplined considering BAWAG Group's earnings situation
- A correlation to the development of BAWAG Group's risk bearing ability
- Risk and compliance functions provide effective input in accordance with their roles into the setting of the bonus pool where those functions have concerns regarding the impact of employees' behaviour and the riskiness of the business undertaken

The following process shall apply for the determination of the size of the bonus pool in any year:

- Proposal of management board prior approval by the Committee for Management Board matters which confirms that the proposed total bonus pool is in line with the midterm capital targets set by the management board
- Approval by the Committee for Management Board matters
- Review by the Nomination and Remuneration Committee

The allocation of the bonus pool to the divisions is based on divisional results/contribution to bank results including an adjustment for all types of current and future risk.

The remuneration guideline took the mandatory basic conditions into account as follows:

- To ensure risk adequacy, the variable remuneration must not provide an incentive to enter into inappropriate risks
- To ensure sustainability, success is determined based on a longer-term assessment. For this reason, at least 40% of the bonus are distributed over a period of five years. A maximum of 60% of the total bonus is paid in the first year. The payment of retained portions of the bonus in the following years is subject to the profitability of BAWAG P.S.K.
- The appropriateness and market adequacy of remuneration are ensured, whereby a balanced relationship between fixed and variable components is achieved. Variable components are limited to 100% of fixed components. The granting of a variable component above this number (up to max. 200%) is possible in case there has been a significant out performance above the stated goals. The process according to the Austrian Banking Act has to be observed and the approval by the shareholders is absolutely necessary. BAWAG P.S.K.'s general meeting dated 15th September 2017 resolved an increase of the bonus cap to 200% of the fixed compensation
- The variable remuneration is determined on the basis of the individual's success as well as on the success of the respective organizational unit and BAWAG P.S.K.. The individually quantitative and qualitative targets are to be agreed between the employee and the relevant manager. All targets are documented and the traceability of achievement and non-achievement of targets is ensured in a computer application

A clear structure in target setting is key for ensuring transparent target assessment. Therefore, the targets shall be specifically tailored for each individual function and set out with regard of the function holder's capacity and capability. Regardless of specific contents and areas of responsibility each target comprises of:

- a clear and transparent description of its content
- target quantitative and qualitative measurement criteria
- a reasonable timeline within Management by Objective cycle

At the end of the Management by Objective cycle targets are assessed in a structured multi-stage procedure:

- Evaluation (by employee and manager) of target achievement along agreed measurement criteria
- Assessment of the targets by employee and manager
- Documentation of the assessment and derivable consequences

For risk and control function holders the process of target setting and target assessment differs from that of other employees as KPIs or performance targets for the Group shall not be used. The targets have to be derived from the risk strategy and governance of BAWAG Group and business unit, defined by the Chief Risk Officer together with responsible division heads. The Management by Objectives process (line manager determines targets with employee personally) serves as quality check of the content of the targets. However, upon the compensation of staff in risk and control functions is decided regardless of the success of the business units they control.

# Quantitative disclosure

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# SCOPE OF CONSOLIDATION AND ACCOUNTING STANDARDS

The section "Scope of consolidation and consolidation methods" of the quantitative part of the disclosure report describes the respective accounting standards and the scope of consolidation which the annual financial statements of BAWAG Group AG as the highest financial holding company are based on. Further, the regulatory standards are in accordance with Regulation (EU) No 575/2013 ("CRR").

The scope of consolidation for regulatory purposes differs from the scope of consolidation for accounting purposes. These divergences arise from the distinct objectives of the regulations purpose and lead to different values for some items.

The following quantitative part of this disclosure report is in accordance with Article 431 to 455 CRR.

# STATEMENT OF FINANCIAL POSITION

**Table 1: Total assets**

| in € million | 2018 | 2017 |
|---|---|---|
| Cash reserves | 1,069 | 1,180 |
| Financial assets | | |
| Held for trading | 351 | 458 |
| Fair value through profit or loss | 504 | 448 |
| Fair value through OCI | 3,039 | 4,408 |
| At amortized cost | 38,334 | 38,016 |
| Customers | 30,482 | 30,793 |
| Debt instruments | 3,512 | 3,563 |
| Credit institutions | 4,340 | 3,660 |
| Valuation adjustment on interest rate risk hedged portfolios | 1 | 0 |
| Hedging derivatives | 401 | 517 |
| Tangible non-current assets | 234 | 223 |
| Intangible non-current assets | 505 | 488 |
| Tax assets for current taxes | 15 | 12 |
| Tax assets for deferred taxes | 75 | 116 |
| Other assets | 170 | 190 |
| **Total assets** | **44,698** | **46,056** |

**Table 2: Total liabilities and equity**

| in € million | 2018 | 2017 |
| --- | --- | --- |
| **Total liabilities** | **40,693** | **42,479** |
| Financial liabilities | | |
| Fair value through profit or loss | 576 | 726 |
| Held for trading | 301 | 345 |
| At amortized cost | 38,325 | 39,894 |
| Customers | 30,195 | 30,947 |
| Issued securities | 3,849 | 4,938 |
| Credit institutions | 4,281 | 4,009 |
| Financial liabilities associated with transferred assets | 150 | – |
| Valuation adjustment on interest rate risk hedged portfolios | 156 | 116 |
| Hedging derivatives | 104 | 94 |
| Provisions | 465 | 450 |
| Tax liabilities for current taxes | 8 | 14 |
| Tax liabilities for deferred taxes | 11 | 5 |
| Other obligations | 597 | 835 |
| **Total equity** | **4,005** | **3,577** |
| Common equity | 3,706 | 3,576 |
| AT1 capital | 298 | – |
| Non-controlling interests | 1 | 1 |
| **Total liabilities and equity** | **44,698** | **46,056** |

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

# APPLICATION OF THE REGULATORY FRAMEWORK

**EU LI1**

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

| 31.12.2018 in € million | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items | | | | Not subject to capital requirements or subject to deduction from capital |
|---|---|---|---|---|---|---|---|
| **Assets** | | | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitization framework | Subject to the market risk framework | |
| Cash reserves | 1,069 | 1,069 | 1,011 | – | – | – | – |
| Financial assets | | | | | | | |
| Held for trading | 351 | 348 | 183 | 494 | – | 56 | – |
| Fair value through profit or loss | 504 | 1,405 | 1,286 | – | – | – | – |
| Fair value through OCI | 3,039 | 3,091 | 2,990 | – | – | – | – |
| At amortized cost | 38,334 | 37,540 | 36,432 | – | 1,044 | – | – |
| Customers | 30,482 | 29,700 | 29,567 | – | 50 | – | – |
| Securities | 3,512 | 3,512 | 2,519 | – | 994 | – | – |
| Credit institutions | 4,340 | 4,329 | 4,346 | – | – | – | – |
| Valuation adjustment on interest rate risk hedged portfolios | 1 | 1 | – | – | – | – | – |
| Hedging derivatives | 401 | 401 | – | 479 | – | – | – |
| Tangible assets | 234 | 120 | 143 | – | – | – | – |
| Intangible assets | 505 | 505 | – | – | – | – | 466 |
| Tax assets for current taxes | 15 | 15 | 13 | – | – | – | – |
| Tax assets for deferred taxes | 75 | 66 | 99 | – | – | – | – |
| Other assets | 170 | 138 | 133 | – | – | – | – |
| **Total assets** | **44,698** | **44,698** | **42,753** | **973** | **1,044** | **56** | **466** |

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

| **31.12.2018** in € million | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items | | | | |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitization framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| Financial liabilities | | | | | | | |
| Fair value through profit or loss | 576 | 576 | – | – | – | – | – |
| Fair value through OCI | 301 | 301 | – | – | – | – | – |
| At amortized cost | 38,325 | 38,337 | – | – | – | – | – |
| Customers | 30,195 | 30,197 | – | – | – | – | – |
| Issued securities | 3,849 | 3,849 | – | – | – | – | – |
| Credit institutions | 4,281 | 4,292 | – | – | – | – | – |
| Financial liabilities associated with transferred assets | 150 | 150 | – | – | – | – | – |
| Valuation adjustment on interest rate risk hedged portfolios | 156 | 156 | – | – | – | – | – |
| Hedging derivatives | 104 | 104 | – | – | – | – | – |
| Provisions | 465 | 467 | – | – | – | – | – |
| Tax liabilities for current taxes | 8 | 8 | – | – | – | – | – |
| Tax liabilities for deferred taxes | 11 | 1 | – | – | – | – | – |
| Other obligations | 597 | 596 | – | – | – | – | – |
| Total equity | 4,005 | 4,002 | – | – | – | – | – |
| Common equity | 3,706 | 3,703 | – | – | – | – | – |
| AT1 capital | 298 | 298 | – | – | – | – | – |
| Non-controlling interests | 1 | 1 | – | – | – | – | – |
| **Total liabilities and equity** | **44,698** | **44,698** | | | | | |

As at the reporting date 31.12.2018, the scope of consolidation of BAWAG Group under IFRS comprises 49 subsidiaries, under CRR 46 subsidiaries, respectively. The IFRS scope of consolidation is based on the provisions of IFRS 10, which is based on the control of the investee. Control is generally given when an investor has power over the investee, is exposed to risk exposure from varying returns, and has the ability to influence the level of returns through its power.

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

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

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

**EU LI3**

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

| 31.12.2018 | | Method of regulatory consolidation | | | |
|---|---|---|---|---|---|
| Name of the entity | Method of accounting consolidation | Full consolidation | Proportional consolidation | Neither consolidated nor deducted | Description of the entity |
| BAWAG Leasing & fleet s.r.o., Prague | No consolidation | x | | | Leasing company |
| BAWAG Leasing & fleet s.r.o., Bratislava | No consolidation | x | | | Leasing company |
| BAWAG P.S.K. Versicherung Aktiengesellschaft | At–equity consolidation | | | x | Insurance entity |
| FCT Pearl | Full consolidation | | | x | Other financial entity |
| FELDSPAR 2016–1 PLC | Full consolidation | | | x | Other financial entity |
| FELDSPAR 2016–1 MORTGAGE HOLDING LIMITED | Full consolidation | | | x | Other financial entity |
| Fides Leasing GmbH | No consolidation | | x | | Leasing company |
| Gara RPK Grundstücksverwaltungsgesellschaft m.b.H. | No consolidation | x | | | Real Estate company |
| HFE alpha Handels GmbH | No consolidation | | x | | Other financial entity |
| Kommunalleasing GmbH | No consolidation | | x | | Leasing company |
| PT Immobilienleasing GmbH | No consolidation | x | | | Leasing company |
| SWBI Stuttgart 1 GmbH | Full consolidation | | | x | Real Estate company |
| SWBI Stuttgart 2 GmbH | Full consolidation | | | x | Real Estate company |
| SWBI Stuttgart 3 GmbH | Full consolidation | | | x | Real Estate company |
| SWBI München 1 GmbH | Full consolidation | | | x | Real Estate company |
| SWBI Mainz 1 GmbH | Full consolidation | | | x | Real Estate company |
| SWBI Darmstadt 1 GmbH | Full consolidation | | | x | Real Estate company |

# OWN FUNDS

## OWN FUNDS – SCOPE OF CONSOLIDATION

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

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

| **31.12.2018** in € million | IFRS consolidation scope BAWAG Group1) | CRR consolidation scope BAWAG Group2) | Own funds acc. to CRR including transitional rules |
|---|---|---|---|
| Common Equity Tier 1 capital: instruments and reserves | | | |
| Capital instruments and the related share premium accounts | 1,203 | 1,203 | 1,203 |
| Of which: subscribed capital | 100 | 100 | 100 |
| Of which: capital reserve | 1,103 | 1,103 | 1,103 |
| Retained earnings | 2,205 | 2,202 | 2,202 |
| Accumulated other comprehensive income | (153) | (153) | (153) |
| Funds for general banking risk | 9 | 9 | 9 |
| Independently reviewed year end profit net of any foreseeable charge or dividend | 221 | 222 | 222 |
| Common Equity Tier 1 (CET1) before regulatory adjustments | 3,485 | 3,483 | 3,483 |
| Common Equity Tier 1 capital: regulatory adjustments | | | |
| Additional value adjustments (negative amount) | (5) | (6) | (6) |
| Intangible assets (net of related tax liability) (negative amount) | (432) | (432) | (427) |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | (48) | (48) | (49) |
| Fair value reserves related to gains or losses on cash flow hedges | 8 | 8 | 8 |
| Negative amounts resulting from the calculation of expected loss amounts | (34) | (34) | (34) |
| Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | (1) | (1) | (1) |
| Total regulatory adjustments to Common Equity Tier 1 (CET1) | (513) | (514) | (510) |
| Common Equity Tier 1 (CET1) capital | 2,972 | 2,969 | 2,974 |
| **Additional Tier 1 (AT1) capital: instruments** | | | |
| Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties | 300 | 300 | 300 |
| Of which: instruments issued by subsidiaries subject to phase out | 300 | 300 | 300 |
| **Additional Tier 1 (AT1) capital before regulatory adjustments** | **300** | **300** | **300** |

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

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

| **31.12.2018** in € million | IFRS consolidation scope BAWAG Group[1)] | CRR consolidation scope BAWAG Group[2)] | Own funds acc. to CRR including transitional rules |
|---|---|---|---|
| Additional Tier 1 (AT1) capital: regulatory adjustments | | | |
| Total regulatory adjustments to Additional Tier 1 (AT1) capital | | | |
| Additional Tier 1 (AT1) capital | 300 | 300 | 300 |
| **Tier 1 capital (T1 = CET1 + AT1)** | **3,272** | **3,269** | **3,274** |
| Tier 2 (T2) capital: instruments and provisions | | | |
| Capital instruments and the related share premium accounts | 87 | 87 | 73 |
| Tier 2 capital issued by entities and hold by third parties | 15 | 15 | 24 |
| **Tier 2 (T2) capital before regulatory adjustments** | **103** | **103** | **103** |
| Tier 2 (T2) capital: regulatory adjustments | | | |
| Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | (33) | (33) | (33) |
| Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre-CRR | 4 | 4 | 4 |
| **Total regulatory adjustments to Tier 2 (T2) capital** | **(29)** | **(29)** | **(29)** |
| **Tier 2 (T2) capital** | **74** | **74** | **74** |
| **Total capital (TC = T1 + T2)** | **3,346** | **3,343** | **3,347** |
| **Total risk weighted assets** | **n.a.** | **20,465** | **20,473** |

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

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

| **31.12.2018** in € million | IFRS consolidation scope BAWAG Group[1)] | CRR consolidation scope BAWAG Group[2)] | Own funds acc. to CRR including transitional rules |
|---|---|---|---|
| Capital ratios | | | |
| Common Equity Tier 1 (as a percentage of risk exposure amount) | n/a | 14.5% | 14.5% |
| Tier 1 (as a percentage of risk exposure amount) | n/a | 16.0% | 16.0% |
| Total capital (as a percentage of risk exposure amount) | n/a | 16.3% | 16.3% |
| Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount) | n/a | 8,110% | 7,485% |
| of which: capital conservation buffer requirement | n/a | 2,500% | 1,875% |
| of which: countercyclical buffer requirement | n/a | 0,110% | 0,110% |
| of which: systemic risk buffer requirement | n/a | 1,000% | 1,000% |
| of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | n/a | 1,000% | 0,500% |
| Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | n/a | 10.0% | 10.0% |
| Amounts below the thresholds for deduction (before risk weighting) | | | |
| Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 279 | 279 | 279 |
| Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions) | 68 | 68 | 68 |
| Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount) | 93 | 93 | 96 |
| Applicable caps on the inclusion of provisions in Tier 2 | | | |
| Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | 4 | 4 | 4 |
| Cap for inclusion of credit risk adjustments in T2 under internal-ratings-based approach | 44 | 44 | 44 |

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

The following information applies to the column "Own funds acc. to CRR including transitional rules" of the above table.

Regulatory own funds consist of Tier 1 (T1) and Tier 2 (T2) capital. For the transitional period until the full application of the CRR–regulation, the guidelines of the FMA–Regulation No 425 (Austrian CRR Supplementary Regulation) have to be applied. Beside from the mentioned adjustments no further deductions were made. All regulatory adjustments are in accordance with the respective regulations in Articles 47, 48, 37, 56, 66 and 79 CRR.

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

The deductible item "intangible assets" consists of goodwills of fully and at–equity consolidated subsidiaries as well as customer relationships/brands and other intangible assets. Tax liabilities related to intangible assets are offset and reduce the deduction item. The simplified approach is applied for additional value adjustments (prudent valuation). The calculation of the deductible item "deferred tax assets" is done according to Article 38 (5) CRR. In accordance with the CRR Supplementary Regulation, negative amounts resulting from the calculation of expected losses have to be fully deducted from CET1 as the transitional provisions expired at the end of 2017.

Gains on liabilities valued at fair value resulting from changes on own credit standing have to be fully deducted from CET1 under full application of CRR and well as during the transitional period. Gains or losses resulting from cash flow hedges are also excluded from own funds in accordance with Article 33 (1) (a) CRR.

In April 2018, BAWAG Group issued a bond with a nominal amount of € 300 million, which meets the criteria for eligibility as AT1-capital. The cost of the issuance and the accrued coupon payment are deducted from CET1.

Tier 2 capital is calculated according to Article 62 et seq. of CRR under consideration of the minority–calculation (EBA Q&A from 3 November 2017). During the last five years of their residual term Tier 2 capital instruments are only partially eligible. Their eligibility is reduced in relation to their remaining term in days. For regulatory adjustments of Tier 2 capital Article 66 of CRR is applied. In the first half of 2018, BAWAG Group received the approval from ECB to repurchase an issue with a nominal amount of € 300 million, which was partially qualified as Tier 2-capital. For this reason the issue is no longer recognized in own funds.

In accordance with the existing dividend policy BAWAG Group has deducted a dividend in the amount of € 215.2 million from own funds.

## MAIN FEATURES, FULL TERMS AND CONDITIONS OF CAPITAL INSTRUMENTS

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

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

| **31.12.2018**<br>in € | CET1<br>1 | AT1<br>1 |
|---|---|---|
| 1 Issuer | BAWAG Group AG | BAWAG Group AG |
| 2 Unique identifier | AT0000BAWAG2 | XS1806328750 |
| 3 Governing law(s) of the instrument | Austrian law | Austrian law |
| 4 Transitional CRR rules | CET1 capital | Tier 1 (T1) capital |
| 5 Post-transitional CRR rules | CET1 capital | Tier 1 (T1) capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Stock | Stock |
| 8 Amount recognized in regulatory capital | 3,636,029,148.12 | 300,000,000 |
| 9 Nominal amount of instrument | 1.00 | 300,000,000 |
| 9a Issue price | 48 | 100 |
| 9b Redemption price | n/a | 100 |
| 10 Accounting classification | Equity | Equity |
| 11 Original date of issuance | 19.08.2017 | 25.04.2018 |
| 12 Perpetual or dated | No maturity | No maturity |
| 13 Original maturity date | n/a | n/a |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | No |
| 15 Optional call date, contingent call dates and redemption amount | n/a | 14.05.2025<br>at 100% |
| 16 Subsequent call dates, if applicable | n/a | after 14.05.2025<br>semi-annual<br>at 100% |
| 17 Fixed or floating dividend stopper | n/a | Fixed |
| 18 Coupon rate and any related index | n/a | 5,000% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Fully discretionary | Fully discretionary |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Fully discretionary | Fully discretionary |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | n/a | Yes |
| 31 If write-down, write-down trigger(s) | n/a | CET1 ratio < 5,125% |
| 32 If write-down, full or partial | n/a | partial |
| 33 If write-down, permanent or temporary | n/a | temporary |
| 34 If temporary write-down, description of write-up mechanism | n/a | discretionary |
| 35 Position in subordination hierarchy in liquidation | n/a | Tier 1 (T1) capital |
| 36 Non-compliant transitioned features | n/a | No |
| 37 If yes, specify non-compliant features | n/a | None |

| **31.12.2018**<br>in € | Tier 2<br>1 | Tier 2<br>2 |
|---|---|---|
| 1 Issuer | BAWAG P.S.K. AG | BAWAG P.S.K. AG |
| 2 Unique identifier | AT0000350665 | AT0000351119 |
| 3 Governing law(s) of the instrument | Austrian law | Austrian law |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 28,156,935 | 16,137,090 |
| 9 Nominal amount of instrument | 30,000,000.00 | 15,000,000.00 |
| 9a Issue price | 100 | 100 |
| 9b Redemption price | 100 | 100 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 12.02.2003 | 26.02.2004 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 13.02.2023 | 26.02.2024 |
| 14 Issuer call subject date, contingent call dates and redemption amount | Yes | Yes |
| 15 Optional call date, contingent call dates and redemption amount | 12.2.2013<br>at 100% | 26.02.2014<br>at 100% |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed |
| 18 Coupon rate and any related index | 5,310% | 5,430% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | n/a | n/a |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | None | None |

| **31.12.2018**<br>in € | Tier 2<br>3 | Tier 2<br>4 |
|---|---|---|
| 1 Issuer | BAWAG P.S.K. AG | BAWAG P.S.K. AG |
| 2 Unique identifier | AT0000A066X5 | AT0000A133Z8 |
| 3 Governing law(s) of the instrument | Austrian law | Austrian law |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 176,900 | 1,911,146 |
| 9 Nominal amount of instrument | 4,758,300.00 | 3,400,000.00 |
| 9a Issue price | 101.75 | 100 |
| 9b Redemption price | 100 | 100 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 30.08.2007 | 16.10.2013 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 10.03.2019 | 04.11.2021 |
| 14 Issuer call subject date, contingent call dates and redemption amount | Yes | No |
| 15 Optional call date, contingent call dates and redemption amount | 10.03.2016<br>at 100% | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed to floating |
| 18 Coupon rate and any related index | 5,750% | J1 - J4: 5.25% p.a.<br>J5 - J 8: 3 mE + 350 bp p.a. |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Cumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | n/a | n/a |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | None | None |

| **31.12.2018** in € | Tier 2<br>5 | Tier 2<br>6 |
|---|---|---|
| 1 Issuer | BAWAG P.S.K. AG | BAWAG P.S.K. AG |
| 2 Unique identifier | AT0000A13406 | QOXDB9965456 |
| 3 Governing law(s) of the instrument | Austrian law | German law |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 41,293,567 | 5,461,992 |
| 9 Nominal amount of instrument | 43,000,000.00 | 20,000,000.00 |
| 9a Issue price | 99.5 | 100 |
| 9b Redemption price | 100 | 100 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 16.10.2013 | 04.05.2000 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 04.11.2023 | 04.05.2020 |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | No |
| 15 Optional call date, contingent call dates and redemption amount | n/a | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Floating |
| 18 Coupon rate and any related index | 6,500% | 100% x Gilt Rendite |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | n/a | n/a |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | None | None |

| **31.12.2018** in € | Tier 2<br>7 | Tier 2<br>8 |
|---|---|---|
| 1 Issuer | P.S.K. | P.S.K. |
| 2 Unique identifier | XS0118010569 | XS0118369098 |
| 3 Governing law(s) of the instrument | UK law | UK law |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 16,436,118 | 8,789,704 |
| 9 Nominal amount of instrument | 12,046,000.00 | 25,000,000.00 |
| 9a Issue price | 98,864 | 100 |
| 9b Redemption price | 100 | 100 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 22.09.2000 | 03.10.2000 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 07.12.2028 | 03.10.2020 |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | No |
| 15 Optional call date, contingent call dates and redemption amount | n/a | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Floating |
| 18 Coupon rate and any related index | 6,125% | 3mE+20bp |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | n/a | n/a |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | None | None |

| **31.12.2018** in € | Tier 2<br>9 | Tier 2<br>10 |
|---|---|---|
| 1 Issuer | BAWAG P.S.K. AG | IMMO-BANK Aktiengesellschaft |
| 2 Unique identifier | XS0987169637 | AT000B086608 |
| 3 Governing law(s) of the instrument | German / Austrian law | Austrian law |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Convertible bond |
| 8 Amount recognized in regulatory capital | 0 | 1,939,004 |
| 9 Nominal amount of instrument | 320,000,000.00 | 10,000,000.00 |
| 9a Issue price | 99,171 | 100 |
| 9b Redemption price | 100 | 100 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 30.10.2013 | 20.11.2006 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 30.10.2023 | 20.12.2019 |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | Yes |
| 15 Optional call date, contingent call dates and redemption amount | n/a | 20.12.2016 at 100% |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed |
| 18 Coupon rate and any related index | 8,125% | 4,000% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Convertible |
| 24 If convertible, conversions trigger(s) | n/a | Owner |
| 25 If convertible, fully or partially | n/a | fully |
| 26 If convertible, conversion rate | n/a | 1:2 |
| 27 If convertible, mandatory or optional conversion | n/a | optional |
| 28 If convertible, specify instrument type convertible into | n/a | Participation certificate |
| 29 If convertible, specify issuer of instrument it converts into | n/a | IMMO-BANK Aktiengesellschaft |
| 30 Write-down features | n/a | n/a |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | None | None |

| **31.12.2018**<br>in € | Tier 2<br>11 | Tier 2<br>12 |
|---|---|---|
| 1 Issuer | Südwestbank AG | Südwestbank AG |
| 2 Unique identifier | Subordinated bond Nr. 572 | Subordinated bond Nr. 581 |
| 3 Governing law(s) of the instrument | German law | German law |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | No capital | Tier 2 (T2) capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 2,371,905 | 6,445,783 |
| 9 Nominal amount of instrument | 10,000,000.00 | 10,000,000.00 |
| 9a Issue price | 99.62 | 99,457 |
| 9b Redemption price | 10,000,000 | 10,000,000 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 10.03.2010 | 22.03.2012 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 10.03.2020 | 22.03.2022 |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | No |
| 15 Optional call date, contingent call dates and redemption amount | n/a | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed |
| 18 Coupon rate and any related index | 6,300% | 5,140% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | No | No |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | n/a | n/a |

| **31.12.2018** in € | Tier 2 13 | Tier 2 14 |
|---|---|---|
| 1 Issuer | Südwestbank AG | Südwestbank AG |
| 2 Unique identifier | Subordinated bond Nr. 573 | Subordinated bond Nr. 576 |
| 3 Governing law(s) of the instrument | German law | German law |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | No capital | No capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 1,276,752.87 | 4,665,197 |
| 9 Nominal amount of instrument | 5,000,000.00 | 10,000,000.00 |
| 9a Issue price | 99.05 | 99.75 |
| 9b Redemption price | 5,000,000 | 10,000,000 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 15.04.2010 | 03.05.2011 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 15.04.2020 | 03.05.2021 |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | No |
| 15 Optional call date, contingent call dates and redemption amount | n/a | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed |
| 18 Coupon rate and any related index | 6,000% | 6,600% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | No | No |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | n/a | n/a |

| **31.12.2018**<br>in € | Tier 2<br>15 | Tier 2<br>16 |
|---|---|---|
| 1 Issuer | Südwestbank AG | Südwestbank AG |
| 2 Unique identifier | Subordinated bond Nr. 577 | Subordinated bond Nr. 578 |
| 3 Governing law(s) of the instrument | German law | German law |
| Regulatory treatment | | |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | No capital | No capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 937,568 | 0 |
| 9 Nominal amount of instrument | 2,000,000.00 | 1,000,000.00 |
| 9a Issue price | 100 | 100 |
| 9b Redemption price | 2,000,000 | 1,000,000 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 05.05.2011 | 05.05.2011 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 05.05.2021 | 05.05.2021 |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | No |
| 15 Optional call date, contingent call dates and redemption amount | n/a | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed |
| 18 Coupon rate and any related index | 6,750% | 6,570% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | No | No |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | n/a | n/a |

| **31.12.2018**<br>in € | Tier 2<br>17 | Tier 2<br>18 |
|---|---|---|
| 1 Issuer | Südwestbank AG | Südwestbank AG |
| 2 Unique identifier | Subordinated bond Nr. 574 | Subordinated bond Nr. 575 |
| 3 Governing law(s) of the instrument | German law | German law |
| Regulatory treatment | | |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | No capital | No capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 1,412,289 | 1,444,089 |
| 9 Nominal amount of instrument | 5,000,000.00 | 5,000,000.00 |
| 9a Issue price | 99.05 | 99 |
| 9b Redemption price | 5,000,000 | 5,000,000 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 04.06.2010 | 16.06.2010 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 04.06.2020 | 16.06.2020 |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | No |
| 15 Optional call date, contingent call dates and redemption amount | n/a | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed |
| 18 Coupon rate and any related index | 5,600% | 5,600% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | No | No |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | n/a | n/a |

| **31.12.2018** in € | Tier 2 19 | Tier 2 20 |
|---|---|---|
| 1 Issuer | Südwestbank AG | Südwestbank AG |
| 2 Unique identifier | Subordinated bond Nr. 580 | Subordinated bond Nr. 579 |
| 3 Governing law(s) of the instrument | German law | German law |
| Regulatory treatment | | |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | No capital | No capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 1,687,878 | 1,125,252 |
| 9 Nominal amount of instrument | 3,000,000.00 | 2,000,000.00 |
| 9a Issue price | 98.5 | 98.5 |
| 9b Redemption price | 3,000,000 | 2,000,000 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 08.11.2011 | 08.11.2011 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 08.11.2021 | 08.11.2021 |
| 14 Issuer call subject date, contingent call dates and redemption amount | No | No |
| 15 Optional call date, contingent call dates and redemption amount | n/a | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed |
| 18 Coupon rate and any related index | 6,000% | 6,000% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | No | No |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | n/a | n/a |

| 31.12.2018<br>in € | Tier 2<br>21 | Tier 2<br>22 |
|---|---|---|
| 1 Issuer | Südwestbank AG | Südwestbank AG |
| 2 Unique identifier | A2BPFP | Subordinated promissory note |
| 3 Governing law(s) of the instrument | German law | German law |
| Regulatory treatment | | |
| 4 Transitional CRR rules | Tier 2 (T2) capital | Tier 2 (T2) capital |
| 5 Post-transitional CRR rules | No capital | No capital |
| 6 Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated | Solo and (sub-) consolidated | Solo and (sub-) consolidated |
| 7 Instrument type | Subordinated capital bonds | Subordinated capital bonds |
| 8 Amount recognized in regulatory capital | 11,702,000 | 11,735,681 |
| 9 Nominal amount of instrument | 15,000,000 | 11,735,681 |
| 9a Issue price | 1 | 1 |
| 9b Redemption price | 15,000,000 | 11,738,673 |
| 10 Accounting classification | Liability – amortized cost | Liability – amortized cost |
| 11 Original date of issuance | 24.10.2016 | 17.10.2016 |
| 12 Perpetual or dated | Maturity date | Maturity date |
| 13 Original maturity date | 24.10.2023 | 17.10.2023 |
| 14 Issuer call subject date, contingent call dates and redemption amount | Yes | Yes |
| 15 Optional call date, contingent call dates and redemption amount | n/a | n/a |
| 16 Subsequent call dates, if applicable | n/a | n/a |
| 17 Fixed or floating dividend stopper | Fixed | Fixed |
| 18 Coupon rate and any related index | 2,250% | 2,250% |
| 19 Existence of a dividend stopper | No | No |
| 20a Fully discretionary, partially discretionary or mandatory (timing) | Mandatory | Mandatory |
| 20b Fully discretionary, partially discretionary or mandatory (amount) | Mandatory | Mandatory |
| 21 Existence of step up or other incentive to redeem | No | No |
| 22 Noncumulative or cumulative | Noncumulative | Noncumulative |
| 23 Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 If convertible, conversions trigger(s) | n/a | n/a |
| 25 If convertible, fully or partially | n/a | n/a |
| 26 If convertible, conversion rate | n/a | n/a |
| 27 If convertible, mandatory or optional conversion | n/a | n/a |
| 28 If convertible, specify instrument type convertible into | n/a | n/a |
| 29 If convertible, specify issuer of instrument it converts into | n/a | n/a |
| 30 Write-down features | No | No |
| 31 If write-down, write-down trigger(s) | n/a | n/a |
| 32 If write-down, full or partial | n/a | n/a |
| 33 If write-down, permanent or temporary | n/a | n/a |
| 34 If temporary write-down, description of write-up mechanism | n/a | n/a |
| 35 Position in subordination hierarchy in liquidation | Senior | Senior |
| 36 Non-compliant transitioned features | No | No |
| 37 If yes, specify non-compliant features | n/a | n/a |

**Art. 437 (1) point (f) CRR**

There are no capital ratios disclosed calculated by using elements of own funds determined on a basis other than that laid down in the CRR.

# CAPITAL REQUIREMENTS

## CAPITAL REQUIREMENTS

**Art. 438 (c)–(f) CRR – EU OV1**

**Table 7: Overview of RWAs**

| | | | RWAs | | Minimum capital requirements |
|---|---|---|---|---|---|
| | | | 31.12.2018 | 30.06.2018 | 31.12.2018 |
| | **1** | **Credit risk (excluding CCR)** | **18,037** | **17,931** | **1,443** |
| Article 438 (c)(d) | 2 | Of which the standardized approach | 10,119 | 10,715 | 810 |
| Article 438 (c)(d) | 3 | Of which the foundation IRB (FIRB) approach | 5,617 | 4,634 | 449 |
| Article 438 (c)(d) | 4 | Of which the advanced IRB (AIRB) approach | 2,027 | 2,435 | 162 |
| Article 438 (d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | 274 | 147 | 22 |
| **Article 107 Article 438 (c)(d)** | **6** | **CCR** | **309** | **335** | **25** |
| Article 438 (c)(d) | 7 | Of which mark to market | 161 | 179 | 13 |
| Article 438 (c)(d) | 8 | Of which original exposure | – | – | – |
| | 9 | Of which the standardized approach | – | – | – |
| | 10 | Of which internal model method (IMM) | – | – | – |
| Article 438 (c)(d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | 10 | 9 | 1 |
| Article 438 (c)(d) | 12 | Of which CVA | 139 | 147 | 11 |
| Article 438 (e) | 13 | Settlement risk | – | – | – |
| **Article 438 (o)(i)** | **14** | **Securitization exposures in the banking book (after the cap)** | **85** | **67** | **7** |
| | 15 | Of which IRB approach | 81 | 64 | 7 |
| | 16 | Of which IRB supervisory formula approach (SFA) | 4 | 3 | – |
| | 17 | Of which internal assessment approach (IAA) | – | – | – |
| | 18 | Of which standardized approach | – | – | – |
| **Article 438 (e)** | **19** | **Market risk** | **51** | **52** | **4** |
| | 20 | Of which the standardized approach | 51 | 52 | 4 |
| | 21 | Of which IMA | – | – | – |
| Article 438 (e) | 22 | Large exposures | – | – | – |
| **Article 438 (f)** | **23** | **Operational risk** | **1,821** | **1,716** | **146** |
| | 24 | Of which basic indicator approach | – | – | – |
| | 25 | Of which standardized approach | 1,821 | 1,716 | 146 |
| | 26 | Of which advanced measurement approach | – | – | – |
| **Article 437(2) Article 48 Article 60** | **27** | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | **170** | **169** | **14** |
| **Article 500** | **28** | **Floor adjustment** | **–** | **–** | **–** |
| | **29** | **Total** | **20,473** | **20,270** | **1,638** |

## RWA UNDER IRB APPROACH

**Art. 438 (d) CRR – EU CR8**

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

| **31.12.2018** in € million | RWA amounts | Capital requirements |
|---|---|---|
| **1 RWAs as at the end of the previous reporting period** | **7,283** | **583** |
| 2 Asset size | 1,386 | 111 |
| 3 Asset quality | (434) | (35) |
| 4 Model updates | 22 | 2 |
| 5 Methodology and policy | (266) | (21) |
| 6 Acquisitions and disposals | – | – |
| 7 Foreign exchange movements | 10 | 1 |
| 8 Other | – | – |
| **9 RWAs as at the end of the reporting period** | **8,003** | **640** |

## IRB PORTFOLIO SPECIALIZED LENDING EXPOSURES AND EQUITY EXPOSURES

**Art. 438 last sentence CRR – EU CR10**

**Table 9: Specialized lending exposures**

| **31.12.2018** in € million **Regulatory categories** | Remaining maturity | On-balance-sheet amount | Off-balance-sheet amount | Risk weight | Exposure amount | RWAs | Expected losses |
|---|---|---|---|---|---|---|---|
| Category 1 | Less than 2.5 years | 241 | – | 50% | 241 | 120 | – |
| | Equal or more than 2.5 years | 2,814 | 399 | 70% | 2,926 | 2,048 | 12 |
| Category 2 | Less than 2.5 years | 254 | 3 | 70% | 256 | 179 | 1 |
| | Equal or more than 2.5 years | 557 | 602 | 90% | 778 | 700 | 6 |
| Category 3 | Less than 2.5 years | – | – | 115% | – | – | – |
| | Equal or more than 2.5 years | 167 | 77 | 115% | 188 | 216 | 5 |
| Category 4 | Less than 2.5 years | – | – | 250% | – | – | – |
| | Equal or more than 2.5 years | – | – | 250% | – | – | – |
| Category 5 | Less than 2.5 years | 40 | – | 0% | 40 | – | 20 |
| | Equal or more than 2.5 years | 7 | – | 0% | 7 | – | 4 |
| **Total** | **Less than 2.5 years** | **535** | **3** | **–** | **536** | **299** | **21** |
| | **Equal or more than 2.5 years** | **3,545** | **1,078** | **–** | **3,899** | **2,964** | **27** |

**Art. 438 last sentence CRR – EU CR10**

**Table 10: Equity exposures**

| 31.12.2018<br>in € million<br>Regulatory categories | On-balance-sheet amount | Off-balance-sheet amount | Risk weight | Exposure amount | RWAs | Expected losses |
|---|---|---|---|---|---|---|
| Private equity | – | – | 190% | – | – | – |
| Exchange traded | – | – | 290% | – | – | – |
| Other equity exposures | 74 | – | 370% | 74 | 274 | 2 |
| **Total** | **74** | **–** | **–** | **74** | **274** | **2** |

# COUNTERPARTY DEFAULT RISK

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

### Table 11: Analysis of CCR exposure by approach

| 31.12.2018<br>in € million | Replacement cost / current market value | Potential future credit exposure | EAD post CRM | RWAs |
|---|---|---|---|---|
| 1 Mark to market | 511 | 406 | 554 | 128 |
| 9 Financial collateral comprehensive method (for SFTs) | – | – | 142 | 33 |
| 11 Total | – | – | – | 161 |

**Art. 439 point (e), (f) CRR – EU CCR2**

### Table 12: CVA capital charge

| 31.12.2018<br>in € million | Exposure value | RWAs |
|---|---|---|
| 1 Total portfolios subject to the advanced method | – | – |
| 2 (i) VaR component (including the 3x multiplier) | – | – |
| 3 (ii) SVaR component (including the 3x multiplier) | – | – |
| 4 All portfolios subject to the standardized method | 346 | 139 |
| EU4 Based on the original exposure method | – | – |
| **5 Total subject to the CVA capital change** | **346** | **139** |

**Art. 439 (e) CRR – EU CCR5–A**

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

| 31.12.2018<br>in € million | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held | Net credit exposure |
|---|---|---|---|---|---|
| 1 Derivatives | 1,503 | 506 | 997 | 388 | 608 |
| 2 SFTs | 277 | – | 277 | 150 | 142 |
| **4 Total** | **1,780** | **506** | **1,274** | **538** | **750** |

**Art. 439 (e) CRR – EU CCR5–B**

**Table 14: Composition of collateral for exposures to CCR**

| 31.12.2018<br>in € million | Collateral used in derivative transactions | | | | Collateral used in SFTs | |
|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | Fair value of posted collateral |
| | Segregated | Unsegregated | Segregated | Unsegregated | | |
| Cash collateral | 26 | 365 | 9 | 25 | 150 | – |
| **Total** | **26** | **365** | **9** | **25** | **150** | **–** |

**Art. 439 (e), (f) CRR – EU CCR8**

**Table 15: Exposures to CCPs**

| 31.12.2018<br>in € million | EAD post CRM | RWAs |
|---|---|---|
| **1 Exposures to QCCPs (total)** | **–** | **28** |
| 2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 235 | 9 |
| 3 (i) OTC derivatives | 235 | 9 |
| 4 (ii) Exchange-traded derivatives | – | – |
| 5 (iii) SFT | – | – |
| 6 (iv) Netting sets where cross-product netting has been approved | – | – |
| 7 Segregated initial margin | 81 | – |
| 8 Non-segregated initial margin | – | – |
| 9 Prefunded default fund contributions | 1 | 10 |
| 10 Alternative calculation of own funds requirements for exposures | – | – |
| **11 Exposures to non-QCCPs (total)** | **–** | **–** |

**Art. 439 (g), (h) CRR – EU CCR6**

**Table 16: Credit derivatives exposures**

| **31.12.2018** in € million | Credit derivative hedges | | Other credit derivatives |
|---|---|---|---|
| | Protection bought | Protection sold | |
| Notionals | – | – | – |
| Other credit derivatives (CLN) | – | 31 | – |
| **Total notionals** | **–** | **31** | **–** |

CDS serve as hedges for part of the bank's securities, synthetic securities (CDS sell positions) and loan portfolio. As of 31 December 2018 the bank had no single CDS in the portfolio. The shown notional of 31 million € concern a credit linked note. The CLN is measured at full fair value as a security, hence there is no seperate fair value for the embedded cds sell.

# CAPITAL BUFFER

## COUNTERCYCLICAL CAPITAL BUFFER

**Art. 440 CRR**

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

**31.12.2018**
in € million

| | General credit exposures | | Own funds requirements | | Own funds requirements weights | Countercyclical capital buffer rate |
|---|---|---|---|---|---|---|
| | Exposure value for SA | Exposure value for IRB | of which: General credit exposures | Total | | |
| Austria | 4,365 | 11,287 | 440 | 440 | 33.11% | 0.00% |
| Germany | 4,827 | 629 | 322 | 322 | 24.23% | 0.00% |
| USA | 295 | 1,849 | 122 | 122 | 9.22% | 0.00% |
| United Kingdom | 1,997 | 693 | 120 | 120 | 9.01% | 1.00% |
| France | 1,045 | 291 | 81 | 81 | 6.09% | 0.00% |
| Spain | 151 | 973 | 66 | 66 | 4.94% | 0.00% |
| Ireland | 60 | 1,281 | 48 | 51 | 3.58% | 0.00% |
| Netherlands | 157 | 715 | 21 | 23 | 1.55% | 0.00% |
| Luxembourg | 254 | 68 | 19 | 19 | 1.41% | 0.00% |
| Greece | 0 | 181 | 17 | 17 | 1.25% | 0.00% |
| Finland | 78 | 223 | 14 | 14 | 1.06% | 0.00% |
| Italy | 176 | 137 | 12 | 12 | 0.92% | 0.00% |
| Canada | 83 | 151 | 11 | 11 | 0.83% | 0.00% |
| Sweden | 141 | 114 | 8 | 8 | 0.62% | 2.00% |
| Denmark | 65 | 68 | 5 | 5 | 0.38% | 0.00% |
| Switzerland | 61 | 27 | 4 | 4 | 0.28% | 0.00% |
| China | 1 | 48 | 3 | 3 | 0.24% | 0.00% |
| Slovakia | 20 | 20 | 3 | 3 | 0.24% | 1.25% |
| Norway | 230 | 18 | 3 | 3 | 0.21% | 2.00% |
| Hungary | 0 | 39 | 2 | 2 | 0.16% | 0.00% |
| Liechtenstein | 5 | 4 | 1 | 1 | 0.09% | 0.00% |
| Belgium | 104 | 0 | 1 | 1 | 0.09% | 0.00% |
| Czech Republic | 12 | 4 | 1 | 1 | 0.08% | 1.00% |
| Turkey | 14 | 2 | 1 | 1 | 0.08% | 0.00% |
| Slovenia | 0 | 26 | 1 | 1 | 0.07% | 0.00% |
| Australia | 68 | 0 | 1 | 1 | 0.06% | 0.00% |
| Argentina | 8 | 0 | 1 | 1 | 0.05% | 0.00% |
| Cayman Islands | 4 | 35 | 0 | 0 | 0.01% | 0.00% |
| Poland | 23 | 1 | 0 | 0 | 0.03% | 0.00% |
| Bermuda | 0 | 13 | 0 | 0 | 0.03% | 0.00% |
| United Arab Emirates | 4 | 0 | 0 | 0 | 0.01% | 0.00% |
| India | 2 | 0 | 0 | 0 | 0.01% | 0.00% |
| Indonesia | 2 | 0 | 0 | 0 | 0.01% | 0.00% |
| Mexico | 2 | 0 | 0 | 0 | 0.01% | 0.00% |
| Malta | 0 | 2 | 0 | 0 | 0.01% | 0.00% |
| South Africa | 2 | 0 | 0 | 0 | 0.01% | 0.00% |
| Croatia | 0 | 2 | 0 | 0 | 0.01% | 0.00% |
| Romania | 0 | 2 | 0 | 0 | 0.01% | 0.00% |
| Serbia | 0 | 2 | 0 | 0 | 0.01% | 0.00% |
| Bosnia and Herzegovina | 0 | 3 | 0 | 0 | 0.00% | 0.00% |
| Portugal | 4 | 0 | 0 | 0 | 0.00% | 0.00% |
| Ukraine | 0 | 1 | 0 | 0 | 0.00% | 0.00% |
| Bulgaria | 0 | 1 | 0 | 0 | 0.00% | 0.00% |
| Iceland | 0 | 0 | 0 | 0 | 0.00% | 1.25% |
| Lithuania | 0 | 0 | 0 | 0 | 0.00% | 0.50% |
| Hong Kong | 0 | 0 | 0 | 0 | 0.00% | 1.88% |
| **Total** | **14,262** | **17,870** | **1,328** | **1,335** | **100.00%** | **0,110%** |

**Table 18: Institution specific countercyclical capital buffer**

| in € million | 31.12.2018 |
|---|---|
| **Total risk weighted assets** | **20,473** |
| Institution specific countercyclical capital buffer rate | 0,110% |
| Institution specific countercyclical capital buffer requirement | 23 |

# CREDIT RISK AND DILUTION RISK

## TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

**Art. 442 point (c) CRR – EU CRB–B**

**Table 19: Exposure values by exposure class**

| **31.12.2018** in € million | Net value of exposures at the end of the period | Average net exposures over the period |
|---|---|---|
| 1 Central governments or central banks | – | – |
| 2 Institutions | – | – |
| 3 Corporates | 9,790 | 9,071 |
| 4 of which: Specialised lending | 5,130 | 4,160 |
| 5 of which: SMEs | 657 | 757 |
| 6 Retail | 11,484 | 11,304 |
| 7 Secured by real estate property | 5,368 | 5,286 |
| 8 SMEs | 300 | 320 |
| 9 Non-SMEs | 5,068 | 4,966 |
| 10 Qualifying revolving | 3,438 | 2,229 |
| 11 Other Retail | 2,679 | 3,803 |
| 12 SMEs | 239 | 281 |
| 13 Non-SMEs | 2,440 | 3,522 |
| 14 Equity | 74 | 87 |
| **15 Total IRB approach** | **21,348** | **20,462** |
| 16 Central governments or central banks | 5,682 | 5,226 |
| 17 Regional governments or local authorities | 2,079 | 2,432 |
| 18 Public sector entities | 1,754 | 1,828 |
| 19 Multilateral development banks | 16 | 24 |
| 20 International organisations | 67 | 71 |
| 21 Institutions | 2,571 | 3,024 |
| 22 Corporates | 4,426 | 4,085 |
| 23 of which: SMEs | 1,693 | 1,511 |
| 24 Retail | 4,500 | 4,116 |
| 25 of which: SMEs | 1,205 | 1,123 |
| 26 Secured by mortgages on immovable property | 5,399 | 4,889 |
| 27 of which: SMEs | 1,020 | 1,084 |
| 28 Exposures in default | 461 | 444 |
| 29 Items associated with particularly high risk | 11 | 18 |
| 30 Covered bonds | 1,780 | 1,772 |
| 31 Claims on institutions and corporates with a short-term credit assessment | – | – |
| 32 Collective investments undertakings | 888 | 1,133 |
| 33 Equity exposures | 321 | 267 |
| 34 Other exposures | 616 | 408 |
| **35 Total standardized approach** | **30,570** | **29,735** |
| **36 Total** | **51,918** | **50,198** |

# GEOGRAPHICAL BREAKDOWN OF EXPOSURES

**Art. 442 point (d) CRR – EU CRB–C**

**Table 20: Geographical breakdown of exposures**

| 31.12.2018 in € million | Net value | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | EU | of which: | | | | | Europe | North America | Asia | Others | Total |
| | | Austria | Germany | UK | France | Spain | | | | | |
| 1 Central governments or central banks | – | – | – | – | – | – | – | – | – | – | – |
| 2 Institutions | – | – | – | – | – | – | – | – | – | – | – |
| 3 Corporates | 7,663 | 2,597 | 583 | 945 | 291 | 1,214 | 42 | 2,038 | 47 | – | 9,790 |
| 4 Retail | 11,461 | 11,417 | 21 | 2 | 1 | | 18 | | 4 | 1 | 11,484 |
| 5 Equity | 74 | 40 | 33 | – | – | – | – | – | – | – | 74 |
| **6 Total IRB** | **19,197** | **14,054** | **636** | **947** | **292** | **1,214** | **60** | **2,038** | **51** | **1** | **21,348** |
| 7 Central governments or central banks | 5,663 | 4,762 | 421 | 31 | 50 | 143 | 2 | | 16 | 2 | 5,682 |
| 8 Regional governments or local authorities | 2,079 | 2,033 | 1 | – | – | – | – | – | – | – | 2,079 |
| 9 Public sector entities | 1,754 | 1,601 | 149 | – | – | – | – | – | – | – | 1,754 |
| 10 Multilateral development banks | 16 | – | – | – | – | – | – | – | – | – | 16 |
| 11 International organisations | 67 | – | – | – | – | – | – | – | – | – | 67 |
| 12 Institutions | 1,902 | 77 | 408 | 277 | 441 | 90 | 196 | 306 | 139 | 28 | 2,571 |
| 13 Corporates | 4,053 | 633 | 2,753 | 318 | 33 | 9 | 10 | 328 | 20 | 15 | 4,426 |
| 14 Retail | 4,475 | 3,432 | 991 | 38 | 1 | 1 | 12 | 2 | 8 | 3 | 4,500 |
| 15 Secured by mortgages on immovable property | 5,377 | 2,252 | 1,739 | 1,287 | 1 | | 17 | 2 | 1 | 3 | 5,399 |
| 16 Exposures in default | 461 | 317 | 81 | 45 | – | – | – | – | – | – | 461 |
| 17 Items associated with particularly high risk | 11 | – | – | – | – | – | – | – | – | – | 11 |
| 18 Covered bonds | 1,388 | 213 | 92 | 239 | 132 | 91 | 260 | 72 | – | 60 | 1,780 |
| 19 Claims on institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – | – | – | – | – |
| 20 Collective investments undertakings | 888 | 8 | – | – | 880 | – | – | – | – | – | 888 |
| 21 Equity exposures | 309 | 96 | 44 | 72 | – | 52 | – | 12 | – | – | 321 |
| 22 Other exposures | 616 | 378 | 238 | – | – | – | – | – | – | – | 616 |
| **23 Total standardized approach** | **29,058** | **15,800** | **6,917** | **2,306** | **1,538** | **385** | **497** | **722** | **183** | **109** | **30,570** |
| **24 Total** | **48,256** | **29,854** | **7,553** | **3,253** | **1,829** | **1,598** | **557** | **2,760** | **234** | **110** | **51,918** |

# BREAKDOWN OF EXPOSURES BY INDUSTRY

**Art. 442 point (e) CRR – EU CRB–D**

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

| **31.12.2018** in € million | Agriculture, forestry and fishing | Mining and quarrying | Manufacturing | Electricity, gas, steam and air conditioning supply | Water supply | Construction | Wholesale and retail trade |
|---|---|---|---|---|---|---|---|
| 1 Central governments or central banks | – | – | – | – | – | – | – |
| 2 Institutions | – | – | – | – | – | – | – |
| 3 Corporates | 43 | 48 | 511 | 80 | 23 | 62 | 543 |
| 4 Retail | 16 | 1 | 22 | 1 | – | 45 | 122 |
| 5 Equity | – | – | – | – | – | – | – |
| **6 Total IRB** | **59** | **49** | **533** | **81** | **23** | **107** | **665** |
| 7 Central governments or central banks | – | – | – | – | – | – | – |
| 8 Regional governments or local authorities | – | – | – | – | – | – | – |
| 9 Public sector entities | – | – | – | – | – | 7 | – |
| 10 Multilateral development banks | – | – | – | – | – | – | – |
| 11 International organisations | – | – | – | – | – | – | – |
| 12 Institutions | – | – | – | – | – | – | – |
| 13 Corporates | 188 | 5 | 836 | 251 | – | 252 | 280 |
| 14 Retail | 105 | 5 | 131 | 16 | – | 114 | 183 |
| 15 Secured by mortgages on immovable property | 35 | – | 103 | 7 | – | 141 | 42 |
| 16 Exposures in default | 8 | – | 20 | 7 | – | 7 | 3 |
| 17 Items associated with particularly high risk | – | – | – | – | – | – | – |
| 18 Covered bonds | – | – | – | – | – | – | – |
| 19 Claims on institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – |
| 20 Collective investments undertakings | – | – | – | – | – | – | – |
| 21 Equity exposures | – | – | – | – | – | – | – |
| 22 Other exposures | – | – | – | – | – | – | – |
| **23 Total standardized approach** | **337** | **10** | **1,091** | **281** | **–** | **520** | **508** |
| **24 Total** | **395** | **59** | **1,624** | **362** | **23** | **627** | **1,173** |

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

| 31.12.2018<br>in € million | Transport and storage | Accommodation and food service activities | Information and communication | Finance and insurance | Real estate activities | Professional, scientific and technical activities | Administrative and support service activities |
|---|---|---|---|---|---|---|---|
| 1 Central governments or central banks | – | – | – | – | – | – | – |
| 2 Institutions | – | – | – | – | – | – | – |
| 3 Corporates | 179 | 288 | 396 | 411 | 6,365 | 163 | 354 |
| 4 Retail | 15 | 45 | 24 | 19 | 53 | 64 | 34 |
| 5 Equity | – | – | – | 74 | – | – | – |
| **6 Total IRB** | **195** | **333** | **420** | **505** | **6,418** | **228** | **388** |
| 7 Central governments or central banks | – | – | – | 4,560 | – | – | – |
| 8 Regional governments or local authorities | – | – | – | – | 21 | – | – |
| 9 Public sector entities | – | – | – | – | – | – | 337 |
| 10 Multilateral development banks | – | – | – | 16 | – | – | – |
| 11 International organisations | – | – | – | – | – | – | – |
| 12 Institutions | – | – | – | 2,571 | – | – | – |
| 13 Corporates | 45 | 45 | 386 | 1,280 | 288 | 127 | 164 |
| 14 Retail | 82 | 42 | 36 | 21 | 13 | 81 | 80 |
| 15 Secured by mortgages on immovable property | 9 | 10 | 23 | 193 | 816 | 68 | 10 |
| 16 Exposures in default | 1 | 1 | 5 | 4 | 24 | 5 | 2 |
| 17 Items associated with particularly high risk | – | – | – | 11 | – | – | – |
| 18 Covered bonds | – | – | – | 1,780 | – | – | – |
| 19 Claims on institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – |
| 20 Collective investments undertakings | – | – | – | 8 | – | – | – |
| 21 Equity exposures | – | – | 1 | 309 | 3 | – | – |
| 22 Other exposures | – | – | – | 64 | 4 | – | – |
| **23 Total standardized approach** | **138** | **98** | **450** | **10,816** | **1,168** | **281** | **593** |
| **24 Total** | **332** | **431** | **870** | **11,321** | **7,587** | **509** | **981** |

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

| 31.12.2018<br>in € million | Public administration and defence, compulsory social security | Education | Human health services and social work activities | Arts, entertainment and recreation | Other services | Private households | Others | Total |
|---|---|---|---|---|---|---|---|---|
| 1 Central governments or central banks | – | – | – | – | – | – | – | – |
| 2 Institutions | – | – | – | – | – | – | – | – |
| 3 Corporates | 20 | 29 | 164 | 96 | 14 | 1 | – | 9,790 |
| 4 Retail | – | 3 | 33 | 9 | 31 | 10,946 | – | 11,484 |
| 5 Equity | – | – | – | – | – | – | – | 74 |
| **6 Total IRB** | **20** | **32** | **198** | **104** | **44** | **10,947** | **–** | **21,348** |
| 7 Central governments or central banks | 1,112 | – | – | – | 10 | – | – | 5,682 |
| 8 Regional governments or local authorities | 2,048 | – | – | – | 10 | – | – | 2,079 |
| 9 Public sector entities | 1,392 | – | – | – | 18 | – | – | 1,754 |
| 10 Multilateral development banks | – | – | – | – | – | – | – | *16* |
| 11 International organisations | – | – | – | – | – | – | 67 | 67 |
| 12 Institutions | – | – | – | – | – | – | – | 2,571 |
| 13 Corporates | 13 | 2 | 55 | 24 | 70 | 115 | – | 4,426 |
| 14 Retail | – | 7 | 19 | 8 | 258 | 3,295 | 4 | 4,500 |
| 15 Secured by mortgages on immovable property | – | 3 | 219 | 2 | 23 | 3,696 | – | 5,399 |
| 16 Exposures in default | 261 | – | 2 | – | 4 | 105 | – | 461 |
| 17 Items associated with particularly high risk | – | – | – | – | – | – | – | 11 |
| 18 Covered bonds | – | – | – | – | – | – | – | 1,780 |
| 19 Claims on institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – | – |
| 20 Collective investments undertakings | – | – | – | – | – | 880 | – | 888 |
| 21 Equity exposures | – | – | – | – | – | – | 8 | 321 |
| 22 Other exposures | – | – | – | – | – | 235 | 312 | 616 |
| **23 Total standardized approach** | **4,824** | **13** | **295** | **35** | **393** | **8,326** | **390** | **30,570** |
| **24 Total** | **4,844** | **45** | **493** | **139** | **437** | **19,274** | **390** | **51,918** |

# BREAKDOWN OF EXPOSURES ACCORDING TO RESIDUAL MATURITY AND EXPOSURE CLASSES

**Art. 442 point (f) CRR – EU CRB–E**

**Table 22: Maturity of exposures**

| **31.12.2018** in € million | Net value | | | | | |
|---|---|---|---|---|---|---|
| | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
| 1 Central governments or central banks | – | – | – | – | – | – |
| 2 Institutions | – | – | – | – | – | – |
| 3 Corporates | 430 | 6,773 | 745 | 1,842 | – | 9,790 |
| 4 Retail | 3,590 | 67 | 493 | 7,334 | – | 11,484 |
| 5 Equity | 1 | – | – | – | 73 | 74 |
| **6 Total IRB** | **4,022** | **6,839** | **1,237** | **9,177** | **73** | **21,348** |
| 7 Central governments or central banks | 1,481 | 3,687 | 253 | 262 | 1 | 5,682 |
| 8 Regional governments or local authorities | 56 | 24 | 228 | 1,772 | – | 2,079 |
| 9 Public sector entities | 594 | 20 | 141 | 998 | – | 1,754 |
| 10 Multilateral development banks | – | – | 16 | – | – | 16 |
| 11 International organisations | – | – | 27 | 40 | – | 67 |
| 12 Institutions | 277 | 399 | 1,322 | 573 | – | 2,571 |
| 13 Corporates | 941 | 1,433 | 1,037 | 1,014 | – | 4,426 |
| 14 Retail | 2,890 | 131 | 814 | 665 | – | 4,500 |
| 15 Secured by mortgages on immovable property | 101 | 505 | 585 | 4,208 | – | 5,399 |
| 16 Exposures in default | 323 | 11 | 17 | 110 | – | 461 |
| 17 Items associated with particularly high risk | 6 | – | – | 5 | – | 11 |
| 18 Covered bonds | – | 69 | 937 | 774 | – | 1,780 |
| 19 Claims on institutions and corporates with a short-term credit assessment | – | – | – | – | – | – |
| 20 Collective investments undertakings | 27 | 4 | 76 | 781 | – | 888 |
| 21 Equity exposures | 2 | 22 | 165 | 21 | 110 | 321 |
| 22 Other exposures | – | 1 | – | – | 615 | 616 |
| **23 Total standardized approach** | **6,696** | **6,305** | **5,618** | **11,224** | **725** | **30,570** |
| **24 Total** | **10,718** | **13,145** | **6,854** | **20,401** | **799** | **51,918** |

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

**Art. 442 point (g) CRR – EU CR1–A**

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

| **31.12.2018** in € million | Gross carrying value of Defaulted exposures | Gross carrying value of Non-defaulted exposures | Specific credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges | Net values (a+b-c-d-e) |
|---|---|---|---|---|---|---|
| 3 Corporates | 120 | 9,745 | 54 | 21 | 7 | 9,790 |
| 4 of which: Specialised lending | 47 | 5,114 | 31 | – | 7 | 5,130 |
| 5 of which: SMEs | 8 | 653 | 4 | – | – | 657 |
| 6 Retail | 297 | 11,391 | 102 | 102 | 28 | 11,484 |
| 7 Secured by real estate property | 71 | 5,315 | 19 | – | 3 | 5,368 |
| 8 SMEs | 16 | 286 | 2 | – | – | 300 |
| 9 Non-SMEs | 56 | 5,028 | 16 | – | 3 | 5,068 |
| 10 Qualifying revolving | 19 | 3,434 | 15 | – | – | 3,438 |
| 11 Other Retail | 207 | 2,642 | 68 | 102 | 24 | 2,679 |
| 12 SMEs | 23 | 235 | 14 | 5 | – | 239 |
| 13 Non-SMEs | 184 | 2,406 | 54 | 97 | 24 | 2,440 |
| 14 Equity | – | 74 | – | – | – | 74 |
| **15 Total IRB approach** | **417** | **21,209** | **156** | **123** | **35** | **21,348** |
| 16 Central governments or central banks | – | 5,682 | – | – | – | 5,682 |
| 17 Regional governments or local authorities | – | 2,079 | – | – | – | 2,079 |
| 18 Public sector entities | – | 1,754 | – | – | – | 1,754 |
| 19 Multilateral development banks | – | 16 | – | – | – | 16 |
| 20 International organisations | – | 67 | – | – | – | 67 |
| 21 Institutions | – | 2,571 | – | – | – | 2,571 |
| 22 Corporates | – | 4,450 | 24 | – | – | 4,426 |
| 23 of which: SMEs | – | 1,705 | 12 | – | – | 1,693 |
| 24 Retail | – | 4,510 | 10 | – | – | 4,500 |
| 25 of which: SMEs | – | 1,212 | 7 | – | – | 1,205 |
| 26 Secured by mortgages on immovable property | – | 5,406 | 7 | – | – | 5,399 |
| 27 of which: SMEs | – | 1,023 | 3 | – | – | 1,020 |
| 28 Exposures in default | 727 | – | 232 | – | 34 | 461 |
| 29 Items associated with particularly high risk | – | 11 | – | – | – | 11 |
| 30 Covered bonds | – | 1,780 | – | – | – | 1,780 |
| 32 Collective investments undertakings | – | 905 | 17 | – | – | 889 |
| 33 Equity exposures | – | 321 | – | – | – | 321 |
| 34 Other exposures | – | 616 | – | – | – | 616 |
| **35 Total standardized approach** | **727** | **30,167** | **290** | **34** | **–** | **30,570** |
| **36 Total** | **1,144** | **51,377** | **445** | **157** | **35** | **51,918** |
| 37 Of which: Loans | 1,115 | 36,254 | 440 | 157 | 35 | 36,771 |
| 38 Of which: Debt securities | – | 5,363 | 5 | – | – | 5,358 |
| 39 Of which: Off-balance-sheet exposures | 29 | 9,760 | – | – | – | 9,789 |

**Art. 442 point (g) CRR – EU CR1–B**

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

| 31.12.2018<br>in € million | Gross carrying value of | | Specific credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges | Net values (a+b-c-d-e) |
|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | | | |
| 1 Agriculture, forestry and fishing | 14 | 388 | 6 | 1 | – | 395 |
| 2 Mining and quarrying | 3 | 60 | 1 | 3 | – | 59 |
| 3 Manufacturing | 60 | 1,609 | 35 | 10 | – | 1,624 |
| 4 Electricity, gas, steam and air conditioning supply | 17 | 357 | 8 | 4 | – | 362 |
| 5 Water supply | – | 23 | – | – | – | 23 |
| 6 Construction | 48 | 596 | 14 | 3 | – | 627 |
| 7 Wholesale and retail trade | 54 | 1,166 | 23 | 23 | – | 1,173 |
| 8 Transport and storage | 8 | 330 | 5 | – | – | 332 |
| 9 Accommodation and food service activities | 8 | 429 | 6 | 1 | – | 431 |
| 10 Information and communication | 11 | 864 | 3 | 2 | – | 870 |
| 11 Finance and Insurance | 12 | 11,321 | 10 | 2 | – | 11,321 |
| 12 Real estate activities | 74 | 7,552 | 38 | 1 | 2 | 7,587 |
| 13 Professional, scientific and technical activities | 14 | 504 | 8 | 2 | – | 509 |
| 14 Administrative and support service activities | 24 | 974 | 15 | 2 | – | 981 |
| 15 Public administration and defence, compulsory social security | 387 | 4,590 | 130 | – | – | 4,844 |
| 16 Education | – | 45 | – | – | – | 45 |
| 17 Human health services and social work activities | 2 | 492 | 1 | – | – | 493 |
| 18 Arts, entertainment and recreation | 1 | 139 | 1 | – | – | 139 |
| 19 Other services | 11 | 435 | 7 | 1 | – | 437 |
| 20 Private Households | 394 | 19,114 | 135 | 101 | 33 | 19,274 |
| 21 Others | – | 390 | – | – | – | 390 |
| **22 Total** | **1,144** | **51,377** | **445** | **157** | **35** | **51,918** |

**Art. 442 point (h) CRR – EU CR1–C**

**Table 25: Credit quality of exposures by geography**

| 31.12.2018<br>in € million | Gross carrying value of | | Specific credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges | Net values (a+b-c-d-e) |
|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | | | |
| 1 EU | 1,129 | 47,715 | 431 | 157 | 35 | 48,256 |
| 2 of which: Austria | 812 | 29,428 | 283 | 102 | 27 | 29,854 |
| 3 of which: Germany | 216 | 7,486 | 102 | 47 | 4 | 7,553 |
| 4 of which: Great Britain | 79 | 3,200 | 19 | 6 | 4 | 3,253 |
| 5 of which: France | – | 1,847 | 18 | – | 2 | 1,829 |
| 6 of which: Spain | – | 1,599 | – | – | – | 1,599 |
| 7 Rest Europe | 2 | 557 | 1 | – | – | 558 |
| 8 North America | 13 | 2,761 | 13 | – | – | 2,761 |
| 9 Asia | – | 234 | – | – | – | 234 |
| 10 Others | – | 110 | – | – | – | 110 |
| **Total** | **1,144** | **51,377** | **445** | **157** | **35** | **51,918** |

# PAST–DUE, NON–PERFORMING AND FORBORNE EXPOSURES

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

**Table 26: Ageing of past due exposures**

| | Gross carrying amount | | | | | |
|---|---|---|---|---|---|---|
| **31.12.2018**<br>in € million | <=30 days | > 30 days<br><= 60 days | > 60 days<br><= 90 days | > 90 days<br><= 180 days | > 180 days<br><= 1 year | > 1 year |
| 1 Loans | 210 | 24 | 17 | 44 | 54 | 639 |
| **3 Total exposures** | **210** | **24** | **17** | **44** | **54** | **639** |

**Art. 442 (g), (i) CRR – EU CR1–E**

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

| | Gross carrying amount of performing and non-performing exposures | | | | | | |
|---|---|---|---|---|---|---|---|
| | Of which performing | | | Of which non-performing | | | |
| **31.12.2018**<br>in € million | | Of which performing but past due > 30 days and <= 90 days | Of which performing forborne | | Of which defaulted | Of which impaired | Of which forborne |
| 1 Debt securities | 5,363 | – | – | – | – | – | – |
| 2 Loans and advances | 36,254 | 40 | 250 | 1,115 | 1,115 | 987 | 464 |
| 3 Off-balance-sheet exposures | 9,760 | – | 8 | 29 | 29 | – | 10 |

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

| | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees received | |
|---|---|---|---|---|---|---|
| | On performing exposures | | On non-performing exposures | | | |
| **31.12.2018**<br>in € million | | Of which forborne | | Of which forborne | On non-performing exposures | Of which forborne exposures |
| 1 Debt securities | 4 | – | – | – | – | – |
| 2 Loans and advances | 68 | 3 | 364 | 45 | 230 | 89 |
| 3 Off-balance-sheet exposures | – | – | – | – | – | – |

**Art. 442 (i) CRR – EU CR2–B**

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

| **31.12.2018** in € million | Gross carrying value defaulted exposures |
|---|---|
| **1 Opening balance** | **1,091** |
| 2 Loans and debt securities that have defaulted or impaired since the last reporting period | 266 |
| 3 Return to non-defaulted status | (232) |
| 4 Amounts written off | (158) |
| 5 Other changes | 19 |
| **6 Closing balance** | **987** |

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

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

| **31.12.2018** in € million | Accumulated specific credit risk adjustment |
|---|---|
| **1 Opening balance** | **503** |
| 2 Increases due to amounts set aside for estimated loan losses during the period | 143 |
| 3 Decreases due to amounts reversed for estimated loan losses during the period | (175) |
| 4 Decreases due to amounts taken against accumulated credit risk adjustments | (101) |
| 5 Transfers between credit risk adjustments | – |
| 6 Impact of exchange rate differences | 1 |
| 7 Business combinations, including acquisitions and disposals of subsidiaries | 6 |
| 8 Other adjustments | 70 |
| **9 Closing balance** | **445** |
| 10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 9 |
| 11 Specific credit risk adjustments directly recorded to the statement of profit or loss | (55) |

# ASSET ENCUMBRANCE

**Art. 443 CRR**

**Table 30: Assets**

| 31.12.2018<br>in € million | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| **Assets of the reporting institution** | **8,879** | **–** | **36,040** | **–** |
| Of which: equity instruments | – | – | 169 | 1,005 |
| Of which: debt securities | 729 | 730 | 6,480 | 5,013 |
| Of which: other assets | – | – | 2,267 | – |

**Table 31: Collateral received**

| 31.12.2018<br>in € million | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| **Collateral received by the reporting institution** | **–** | **365** |
| Of which: equity instruments | – | – |
| Of which: debt securities | – | – |
| Of which: other collateral received | – | 346 |
| **Own debt securities issued other than own covered bonds or ABSs** | **–** | **74** |

**Table 32: Encumbered assets/collateral received and associated liabilities**

| 31.12.2018<br>in € million | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | **5,923** | **8,520** |

The funding strategy of BAWAG Group is focused on its stable unsecured customer deposit base, consisting primarily of retail deposits. Due to our business model and funding structure the percentage of asset encumbrance and matching secured liabilities as a proportion to total liabilities is relatively low.

Encumbered assets were mainly used to collateralize covered bond issuance as well as other forms of secured institutional funding (e.g. ECB TLTRO). Assets used for encumbrance consist mainly of customer loans as well as debt securities.

Asset encumbrance is managed by the group's ALM function and reported to the Strategic ALCO on a monthly basis. The Strategic ALCO is the relevant decision making body for significant secured funding transactions or other collateral management measures.

**Main sources and types of encumbrance:**

- Receivables and securities assigned to Oesterreichische Kontrollbank AG
- Collateral pledged to the European Investment Bank
- Cover pool for trust savings deposits
- Cover pool for covered bonds
- Collateral for tender facilities
- Cash collateral for derivatives
- Collateral for repurchase agreements
- Other collateral

**Evolution of encumbrance over time**

| | |
|---|---|
| 03/2018 | 8,602,410,500 € |
| 06/2018 | 9,451,310,697 € |
| 09/2018 | 9,154,719,941 € |
| 12/2018 | 8,310,616,478 € |

Structure of encumbrance between entities within a group

There is no material collateral usage between the entities of the group.

General description of terms and conditions of the collateralization agreements entered into for securing liabilities

The basis of the collateralization agreements is the quality of the collateral. The criteria for assessing the quality are maturity, fixed and floating rate, rating and type of collateral.

**Over–collateralization of covered bonds**

Covered bonds issued are secured by a cover pool according to the Austrian Law on Covered Bonds of Bank (Gesetz über fundierte Bankschuldverschreibungen "FBSchVG"). BAWAG Group has committed to ensure an over–collateralization of 2.5% for the public pool and 4.5% for the mortgage pool in order to meet the requirements for an "Aaa" rating by Moody's.

**Proportion of items in "other unencumbered assets" which are not available for encumbrance**

Approximately € 1.2 billion of the "other unencumbered assets" are not available for encumbrance. It consists mainly of intangible assets, derivative assets, property and deferred tax assets.

# STANDARDIZED APPROACH TO CREDIT RISK

**Art. 444 point (e) CRR – EU CR5**

**Table 33: Standardized approach (1/2)**

| 31.12.2018<br>in € million | Risk weight | | | | | | |
|---|---|---|---|---|---|---|---|
| **Exposure class** | 0% | 10% | 20% | 35% | 50% | 70% | 75% |
| 1 Central governments or central banks | 5,187 | – | 43 | – | 10 | – | – |
| 2 Regional governments or local authorities | 3,073 | – | 8 | – | – | – | – |
| 3 Public sector entities | 18 | – | 488 | – | – | – | – |
| 4 Multilateral development banks | 16 | – | – | – | – | – | – |
| 5 International organizations | 67 | – | – | – | – | – | – |
| 6 Institutions | 27 | – | 1,241 | – | 1,087 | – | – |
| 7 Corporates | 7 | – | 47 | – | 102 | – | – |
| 8 Retail | – | – | – | – | – | 1 | 1,891 |
| 9 Secured by mortgages on immovable property | – | – | – | 4,058 | 723 | 3 | 146 |
| 10 Exposures in default | – | – | – | – | – | – | – |
| 11 Higher-risk categories | – | – | – | – | – | – | – |
| 12 Covered bonds | – | 1,710 | 70 | – | – | – | – |
| 13 Institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – |
| 14 Collective investment undertakings | – | – | – | – | – | – | – |
| 15 Equity | – | – | – | – | – | – | – |
| 16 Other items | 438 | – | – | – | – | – | – |
| **17 Total** | **8,832** | **1,710** | **1,897** | **4,058** | **1,923** | **4** | **2,036** |

**Table 33: Standardized approach (2/2)**

| **31.12.2018**<br>in € million | Risk weight | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|
| **Exposure class** | 100% | 150% | 250% | Others | | |
| 1 Central governments or central banks | – | – | 94 | – | 5,334 | 5,261 |
| 2 Regional governments or local authorities | – | – | – | – | 3,081 | 1,093 |
| 3 Public sector entities | – | – | – | – | 506 | 501 |
| 4 Multilateral development banks | – | – | – | – | 16 | 16 |
| 5 International organizations | – | – | – | – | 67 | 67 |
| 6 Institutions | 53 | – | – | – | 2,407 | 545 |
| 7 Corporates | 3,505 | 31 | – | – | 3,692 | 3,326 |
| 8 Retail | – | – | – | – | 1,891 | 1,891 |
| 9 Secured by mortgages on immovable property | 269 | – | – | – | 5,200 | 5,200 |
| 10 Exposures in default | 376 | 65 | – | – | 441 | 441 |
| 11 Higher-risk categories | – | 11 | – | – | 11 | 11 |
| 12 Covered bonds | – | – | – | – | 1,780 | 256 |
| 13 Institutions and corporates with a short-term credit assessment | – | – | – | – | – | – |
| 14 Collective investment undertakings | – | – | – | 887 | 887 | 887 |
| 15 Equity | 253 | – | 68 | – | 321 | 321 |
| 16 Other items | 177 | – | – | – | 615 | 615 |
| **17 Total** | **4,633** | **107** | **162** | **887** | **26,249** | **20,431** |

**Art. 444 point (e) CRR – EU CCR3**

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

| 31.12.2018 in € million | Risk weight | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|
| **Exposure class** | 0% | 4% | 20% | 50% | 75% | 100% | | |
| 1 Central governments or central banks | – | – | – | – | – | – | – | – |
| 2 Regional governments or local authorities | 45 | – | – | – | – | – | 45 | – |
| 3 Public sector entities | – | – | 8 | – | – | – | 8 | 8 |
| 4 Multilateral development banks | – | – | – | – | – | – | – | – |
| 5 International organizations | – | – | – | – | – | – | – | – |
| 6 Institutions | – | 235 | 218 | 162 | – | – | 615 | 411 |
| 7 Corporates | – | – | – | – | – | 17 | 17 | 17 |
| 8 Retail | – | – | – | – | 2 | – | 2 | 2 |
| 9 Institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – | – |
| 17 Other items | – | – | – | – | – | – | – | – |
| **18 Total** | **45** | **235** | **226** | **162** | **2** | **17** | **687** | **438** |

# OWN FUNDS REQUIREMENTS FOR MARKET RISK UNDER THE STANDARDIZED APPROACH

**Art. 445 CRR**

**Table 35: Market risk under the standardized approach**

| 31.12.2018<br>in € million | RWAs | Capital requirements |
|---|---|---|
| **Outright products** | | |
| 1 Interest rate (general and specific) | 56 | 4 |
| 2 Equity risk (general and specific) | – | – |
| 3 Foreign exchange risk | – | – |
| 4 Commodity risk | – | – |
| **Options** | | |
| 5 Simplified approach | – | – |
| 6 Delta–plus method | – | – |
| 7 Scenario approach | – | – |
| 8 Securitization (specific risk) | – | – |
| **Total** | **56** | **4** |

# PARTICIPATIONS NOT HELD IN THE TRADING BOOK

## EXPOSURES IN EQUITIES NOT INCLUDED IN THE TRADING BOOK

**Art. 447 point (a), (b) and (c) CRR**

A differentiation is made according to the following criteria:

**Participations** belonging to the **core business** of BAWAG Group: These are majority and minority interests intended to be held over the long term within the financial services sector.

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

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

**Table 36: Equity exposures by objective**

| **31.12.2018**<br>in € million | Book value |
|---|---|
| Core business | 118 |
| Auxiliaries | 2 |
| Other participations | 66 |
| **Total of not fully consolidated companies** | **187** |

**Table 37: Shares in non–consolidated companies**

| **31.12.2018**<br>in € million | Market value |
|---|---|
| **Shares** | **171** |
| *Shares in credit institutions* | *52* |
| Subsidiaries | – |
| Associates | 0 |
| Other shares | 52 |
| *Shares in other companies* | *120* |
| Subsidiaries | 46 |
| Associates | 34 |
| Other shares | 40 |
| **Shares accounted for using the equity method** | **15** |
| Associates | 15 |
| **Total shares in not fully consolidated companies** | **187** |

**Table 38: Breakdown of securities**

| **31.12.2018** in € million | Not listed | Listed | | | Total |
|---|---|---|---|---|---|
| | | Total | Loans and receivables | Other valuation | |
| Bonds and other fixed-income securities | 1,436 | 5,046 | 2,590 | 2,456 | 6,482 |
| Shares and variable-income securities | 54 | 108 | – | 108 | 162 |
| Shares in associates and other shares | 141 | – | – | – | 141 |
| Shares in non-consolidated subsidiaries | 46 | – | – | – | 46 |
| **Total securities** | **1,677** | **5,154** | **2,590** | **2,564** | **6,831** |

## ACCUMULATED PROFIT AND LOSS FROM SALE OF EQUITY INTERESTS AND REVALUATION RESERVE

**Art. 447 point (d) CRR**

Accumulated profit or loss from the sale of participations in BAWAG Group amounts to € 0.1 million. (2017: € 4.5 million)

# INTEREST RATE RISK FROM NON TRADING BOOK POSITIONS

**Art. 448 point (b) CRR**

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

| 31.12.2018<br>in € thousand | <1Y | 1Y(3)Y | 3Y(5)Y | 5Y(7)Y | 7Y(10)Y | >10Y | Total |
|---|---|---|---|---|---|---|---|
| EUR | (243) | (351) | (239) | (204) | (32) | (242) | **(1,311)** |
| USD | 20 | 17 | 2 | (16) | (5) | (1) | **17** |
| CHF | 4 | (8) | – | 4 | (5) | (9) | **(15)** |
| GBP | 20 | 14 | 1 | – | 1 | 4 | **39** |
| Other currencies | (1) | (5) | (14) | (1) | – | – | **(21)** |
| **Total** | **(200)** | **(332)** | **(251)** | **(217)** | **(42)** | **(250)** | **(1,291)** |

BAWAG Group holds no trading book therefore the table above corresponds to the exposure to interest rate risk on positions not included in the trading book.

# SECURITIZATION

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

**Table 40: Exposures and capital requirements for securitization**

| 31.12.2018<br>in € million | Risk weight | Exposure value | Capital requirement |
|---|---|---|---|
| | 7% | 904 | 5 |
| Traditional securitization in IRB - rating based approach | 15% | 90 | 1 |
| **Total** | | **994** | **6** |
| Traditional securitization in IRB - Supervisory formula method | 7% | 50 | – |
| **Total** | | **50** | **–** |

# REMUNERATION POLICY AND PRACTICES

## REMUNERATION BROKEN DOWN BY BUSINESS AREA

**Art. 450 (1) point (g)**

The following summary of quantitative information regarding remuneration in financial year 2018 shows a breakdown by business segments and refers to employees whose activities have a material influence on the Bank's risk profile.

**Table 41: Remuneration by business area**

| 31.12.2018 | Supervisory Board | Management Board | Investment banking | Retail banking | Asset management | Corporate functions | Independent controlling functions | Others |
|---|---|---|---|---|---|---|---|---|
| Number of beneficiaries | 6 | 6 | | | | | | |
| Full–time equivalents (FTE) | | 6 | 73 | 1,651 | 11 | 458 | 293 | 513 |
| Number of identified full–time equivalents (FTE) | | | 4 | 18 | | 17 | 14 | 6 |
| Number of full–time equivalents in Senior Management Position | | | 1 | 14 | | 13 | 7 | 5 |
| Net profit for the financial year 2018 | | | | | 436.5 | | | |
| Total pay in the financial year 2018 (in EUR) | 1,655,000 | 29,594,138 | 1,525,358 | 8,751,095 | | 8,720,013 | 3,011,466 | 2,058,346 |
| Of which variable component in the financial year 2018 | | 6,600,000 | 535,000 | 2,082,782 | | 1,754,800 | 746,500 | 489,900 |

## REMUNERATION BROKEN DOWN BY SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE

**Art. 450 (1) point (h) (i–vi) CRR**

The following summary of quantitative information regarding remuneration in financial year 2018 shows a breakdown by top management and employees whose activities have a material influence on the Bank's risk profile.

**Table 42: Remuneration**

| 31.12.2018<br>in € | Fixed remuneration | Variable remuneration | Total | Number of beneficiaries |
|---|---|---|---|---|
| Higher level management | 15,583,142 | 4,754,899 | **20,338,041** | 40 |
| Employees whose activities have a material influence on the bank's risk profile | 2,874,154 | 854,083 | **3,728,237** | 20 |
| **Total** | **18,457,296** | **5,608,982** | **24,066,278** | **60** |

**Table 43: Variable remuneration**

| 31.12.2018<br>in € | Cash | Deferred cash[1)] | Deferred phantom shares | Total |
|---|---|---|---|---|
| Higher level management | 1,219,399 | 1,200,500 | 2,335,000 | 4,754,899 |
| Employees whose activities have a material influence on the bank's risk profile | 374,933 | 136,900 | 342,250 | 854,083 |
| **Total** | **1,594,332** | **1,337,400** | **2,677,250** | **5,608,982** |

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

**Table 44: Deferred remuneration**

| 31.12.2018<br>in € | Earned portions | Portions not yet earned including prior years |
|---|---|---|
| Higher level management | 1,675,911 | 10,525,862 |
| Employees whose activities have a material influence on the bank's risk profile | 87,760 | 1,096,060 |
| **Total** | **1,763,671** | **11,621,922** |

**Table 45: Deferred remuneration awarded during financial year 2018**

| 31.12.2018<br>in € | Granted | Paid out | Reduced due to performance adjustments |
|---|---|---|---|
| Higher level management | 3,535,500 | 1,787,511 | – |
| Employees whose activities have a material influence on the bank's risk profile | 479,150 | 103,200 | – |
| **Total** | **4,014,650** | **1,890,711** | **–** |

In financial year 2018 no payments were made for hiring bonuses and severance payments. For data privacy reasons and pursuant to Art. 241, (4) UGB, information is not being disclosed if fewer than three people are concerned.

# PAY BANDS

**Art. 450 (1) point (i)**

**Table 46: Pay bands**

| **31.12.2018** in € | Number of beneficiaries |
|---|---|
| 1,000,000 to 1,500,000 | 2 |
| 1,500,000 to 2,000,000 | 1 |
| 2,000,000 to 2,500,000 | 1 |
| 2,500,000 to 3,000,000 | – |
| 3,000,000 to 3,500,000 | 1 |
| 3,500,000 to 4,000,000 | – |
| 4,000,000 to 4,500,000 | – |
| 4,500,000 to 5,000,000 | 1 |
| 5,000,000 to 6,000,000 | 2 |
| 6,000,000 to 7,000,000 | 1 |
| 7,000,000 to 8,000,000 | – |
| 8,000,000 to 9,000,000 | – |
| 9,000,000 to 10,000,000 | – |

# REMUNERATION FOR MANAGING DIRECTORS

**Art. 450 (2) CRR**

**Table 47: Remuneration for managing directors**

| 31.12.2018<br>in € | Fixed remuneration | Variable remuneration | Total remuneration | Number of beneficiaries |
|---|---|---|---|---|
| Managing director | 24,649,138 | 6,600,000 | 31,249,138 | 12 |

**Table 47: Variable remuneration for managing directors**

| 31.12.2018<br>in € | Cash | Deferred cash[2)] | Deferred phantom shares[2)] | Total[3)] |
|---|---|---|---|---|
| Managing director | 2,640,000 | 1,980,000 | 1,980,000 | 6,600,000 |

2) Dependent on the Bank's profitability in the next 5 years
3) In total 60 % of variable remuneration is deferred

**Table 48: Deferred remuneration for managing directors**

| 31.12.2018<br>in € | Earned portions | Portions not yet earned including prior years |
|---|---|---|
| Managing director | 2,355,700 | 5,759,700 |

**Table 49: Deferred remuneration awarded during financial year 2018 for managing directors**

| 31.12.2018<br>in € | Granted | Paid out |
|---|---|---|
| Managing director | 3,960,000 | 2,214,060 |

In financial year 2018 no payments were made for hiring bonuses and severance payments. For data privacy reasons and pursuant to Article 241, (4) UGB, information is not being disclosed if fewer than three people are concerned.

# LEVERAGE RATIO

**Art. 451 (1)**

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

| **31.12.2018** in € million | Applicable Amounts incl. transitional rules acc. to CRR | Applicable Amounts Fully loaded acc. to CRR |
|---|---|---|
| Total assets as per published financial statements | 44,698 | 44,698 |
| Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 1 | 1 |
| Adjustments for derivative financial instruments | (166) | (166) |
| Adjustments for securities financing transactions | – | – |
| Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 1,511 | 1,511 |
| Other adjustments | (259) | (263) |
| **Leverage ratio exposure** | **45,785** | **45,781** |

**Table 52: Leverage ratio**

| **31.12.2018** in € million | Applicable Amounts incl. transitional rules acc. to CRR | Applicable Amounts Fully loaded acc. to CRR |
|---|---|---|
| On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 44,099 | 44,099 |
| Asset amounts deducted in determining Tier 1 capital | (510) | (514) |
| **Total on-balance sheet exposures (excluding derivatives and SFTs)** | **43,589** | **43,585** |
| Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 176 | 176 |
| Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 408 | 408 |
| Deductions of receivables assets for cash variation margin provided in derivatives transactions | (25) | (25) |
| **Total derivative exposures** | **559** | **559** |
| **Total securities financing transaction exposures** | **126** | **126** |
| Off-balance sheet exposures at gross notional amount | 9,759 | 9,759 |
| Adjustments for conversion to credit equivalent amounts | 8,248 | 8,248 |
| **Total off-balance sheet exposures** | **1,511** | **1,511** |
| **Tier 1 capital** | **3,274** | **3,269** |
| **Total leverage ratio exposures** | **45,785** | **45,781** |
| **Leverage Ratio** | **7.15%** | **7.14%** |

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

| **31.12.2018**<br>in € million | Applicable Amounts<br>incl. transitional rules acc. to CRR | <br>Fully loaded acc. to CRR |
|---|---|---|
| Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 44,099 | 44,099 |
| Trading book exposures | – | – |
| Banking book exposures, of which: | 44,099 | 44,099 |
| Covered bonds | 1,780 | 1,780 |
| Exposures treated as sovereigns | 7,217 | 7,217 |
| Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns | 1,131 | 1,131 |
| Institutions | 2,809 | 2,809 |
| Secured by mortgages of immovable properties | 11,573 | 11,573 |
| Retail exposures | 4,674 | 4,674 |
| Corporate | 10,736 | 10,736 |
| Exposures in default | 617 | 617 |
| Other exposures (e.g. equity, securitizations, and other non-credit obligation assets) | 3,562 | 3,562 |

# QUANTITATIVE DISCLOSURE USING THE INTERNAL RATINGS BASED APPROACH

## EXPOSURES TO CORPORATES

**Art. 452 points (d)–(g) CRR – EU CR6**

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

| 31.12.2018 in € million | PD scale | Original on-balance sheet gross exposures | Off-balance sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors |
|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 322 | 7 | 56.0% | 183 | 0.1% | 134 |
| | 0.15 to <0.25 | 31 | 2 | 46.0% | 29 | 0.2% | 26 |
| | 0.25 to <0.50 | 30 | 3 | 60.1% | 32 | 0.4% | 27 |
| | 0.50 to <0.75 | 19 | 6 | 38.8% | 17 | 0.7% | 25 |
| | 0.75 to <2.50 | 92 | 25 | 58.5% | 106 | 1.6% | 122 |
| | 2.50 to <10.00 | 77 | 4 | 59.5% | 78 | 6.0% | 114 |
| | 10.00 to <100.00 | 34 | 1 | 59.5% | 33 | 22.5% | 152 |
| | 100.00 (Default) | 7 | – | 55.0% | 7 | 100.0% | 30 |
| **Small and medium-sized enterprises** | **Subtotal** | **613** | **48** | **55.39%** | **485** | **3.4%** | **630** |
| | 0.00 to <0.15 | 1,453 | 183 | 6.6% | 1,237 | 0.1% | 121 |
| | 0.15 to <0.25 | 585 | 42 | 66.0% | 609 | 0.2% | 20 |
| | 0.25 to <0.50 | 430 | 49 | 15.5% | 428 | 0.3% | 48 |
| | 0.50 to <0.75 | 296 | 23 | 39.5% | 280 | 0.6% | 37 |
| | 0.75 to <2.50 | 750 | 89 | 55.8% | 793 | 1.2% | 113 |
| | 2.50 to <10.00 | 69 | 6 | 52.4% | 69 | 4.2% | 18 |
| | 10.00 to <100.00 | 4 | – | 48.3% | 4 | 17.6% | 133 |
| | 100.00 (Default) | 41 | 3 | 68.3% | 43 | 100.0% | 41 |
| **Corporates** | **Subtotal** | **3,628** | **395** | **28.17%** | **3,462** | **1.6%** | **531** |
| **Total (Corporates)** | | **4,241** | **442** | **41.78%** | **3,947** | **1.8%** | **1,161** |

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

| 31.12.2018 in € million | PD scale | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|
| | 0.0 to <0.15 | 37.7% | 2.5 | 38 | 20% | – | – |
| | 0.15 to <0.25 | 35.8% | 2.5 | 9 | 33% | – | – |
| | 0.25 to <0.50 | 36.6% | 2.5 | 14 | 45% | – | – |
| | 0.50 to <0.75 | 36.8% | 2.5 | 7 | 53% | – | – |
| | 0.75 to <2.50 | 39.0% | 2.5 | 79 | 74% | 1 | – |
| | 2.50 to <10.00 | 37.7% | 2.5 | 77 | 99% | 2 | – |
| | 10.00 to <100.00 | 34.9% | 2.5 | 46 | 138% | 3 | – |
| | 100.00 (Default) | 39.4% | 2.5 | – | 0% | 3 | 4 |
| Small **and medium-sized enterprises** | **Subtotal** | **37.6%** | **2.5** | **269** | **56%** | **8** | **4** |
| | 0.00 to <0.15 | 40.3% | 2.5 | 327 | 26% | – | 1 |
| | 0.15 to <0.25 | 43.4% | 2.5 | 281 | 46% | 1 | 1 |
| | 0.25 to <0.50 | 43.6% | 2.5 | 251 | 59% | 1 | 1 |
| | 0.50 to <0.75 | 44.5% | 2.5 | 216 | 77% | 1 | 1 |
| | 0.75 to <2.50 | 44.8% | 2.5 | 802 | 101% | 4 | 5 |
| | 2.50 to <10.00 | 45.0% | 2.5 | 102 | 149% | 1 | 1 |
| | 10.00 to <100.00 | 44.0% | 2.5 | 10 | 225% | – | – |
| | 100.00 (Default) | 42.1% | 2.5 | – | 0% | 18 | 10 |
| **Corporates** | **Subtotal** | **42.7%** | **2.5** | **1,991** | **58%** | **26** | **19** |
| **Total (Corporates)** | | **42.1%** | **2.5** | **2,260** | **57%** | **34** | **23** |

# EXPOSURES TO RETAILS

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

| 31.12.2018 in € million | PD scale | Original on-balance sheet gross exposures | Off-balance sheet exposures pre-CCF | Average CCF | EAD post CRM and post CCF | Average PD | Number of obligors |
|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 1,183 | 13 | 50.0% | 1,190 | 0.1% | 8,830 |
| | 0.15 to <0.25 | 532 | 8 | 49.9% | 536 | 0.2% | 3,677 |
| | 0.25 to <0.50 | 1,213 | 22 | 50.0% | 1,224 | 0.4% | 8,212 |
| | 0.50 to <0.75 | 540 | 14 | 49.8% | 547 | 0.6% | 4,099 |
| | 0.75 to <2.50 | 1,333 | 30 | 49.7% | 1,348 | 1.5% | 9,468 |
| | 2.50 to <10.00 | 249 | 3 | 49.4% | 251 | 5.9% | 1,676 |
| | 10.00 to <100.00 | 173 | 1 | 49.9% | 174 | 25.7% | 1,104 |
| | 100.00 (Default) | 71 | – | 50.0% | 71 | 100.0% | 528 |
| **Exposures secured by real estate** | **Subtotal** | **5,295** | **91** | **49.8%** | **5,340** | **3.0%** | **37,594** |
| | 0.00 to <0.15 | 55 | 1,554 | 33.6% | 577 | 0.1% | 382,986 |
| | 0.15 to <0.25 | 19 | 326 | 36.8% | 139 | 0.2% | 91,164 |
| | 0.25 to <0.50 | 15 | 526 | 35.7% | 202 | 0.4% | 144,082 |
| | 0.50 to <0.75 | 31 | 234 | 34.7% | 113 | 0.6% | 69,287 |
| | 0.75 to <2.50 | 177 | 405 | 33.2% | 318 | 1.5% | 160,705 |
| | 2.50 to <10.00 | 38 | 29 | 30.1% | 50 | 5.2% | 31,563 |
| | 10.00 to <100.00 | 14 | 10 | 62.6% | 26 | 26.4% | 49,658 |
| | 100.00 (Default) | 19 | 1 | 47.2% | 19 | 100.0% | 14,801 |
| **Qualified revolving retail exposures** | **Subtotal** | **369** | **3,084** | **34.3%** | **1,444** | **1.3%** | **944,246** |
| | 0.00 to <0.15 | 350 | 14 | 44.5% | 356 | 0.1% | 17,981 |
| | 0.15 to <0.25 | 201 | 12 | 41.4% | 206 | 0.2% | 10,381 |
| | 0.25 to <0.50 | 249 | 23 | 42.3% | 259 | 0.4% | 10,930 |
| | 0.50 to <0.75 | 236 | 21 | 42.6% | 245 | 0.6% | 11,749 |
| | 0.75 to <2.50 | 970 | 67 | 36.0% | 995 | 1.7% | 48,284 |
| | 2.50 to <10.00 | 321 | 37 | 17.5% | 328 | 5.8% | 12,766 |
| | 10.00 to <100.00 | 125 | 14 | 20.8% | 129 | 23.5% | 7,266 |
| | 100.00 (Default) | 104 | 1 | 49.8% | 105 | 100.0% | 6,576 |
| **Other retail exposures** | **Subtotal** | **2,557** | **190** | **33.8%** | **2,623** | **6.5%** | **125,933** |
| **Total (Retail)** | | **8,220** | **3,365** | **39.4%** | **9,408** | **3.1%** | **1,107,773** |

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

| 31.12.2018 in € million | PD scale | Average LGD | Average maturity | RWAs | RWA density | EL | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|
| | 0.00 to <0.15 | 9.6% | 2.5 | 30 | 3% | – | – |
| | 0.15 to <0.25 | 10.4% | 2.5 | 26 | 5% | – | – |
| | 0.25 to <0.50 | 10.7% | 2.5 | 94 | 8% | 1 | – |
| | 0.50 to <0.75 | 11.2% | 2.5 | 60 | 11% | – | – |
| | 0.75 to <2.50 | 10.4% | 2.5 | 233 | 17% | 2 | 1 |
| | 2.50 to <10.00 | 9.1% | 2.5 | 80 | 32% | 1 | 1 |
| | 10.00 to <100.00 | 9.9% | 2.5 | 95 | 54% | 4 | 9 |
| | 100.00 (Default) | 16.7% | 2.5 | – | 0% | 12 | 8 |
| **Exposures secured by real estate** | **Subtotal** | **10.4%** | **2.5** | **618** | **12%** | **21** | **19** |
| | 0.00 to <0.15 | 58.3% | 2.5 | 21 | 4% | – | – |
| | 0.15 to <0.25 | 65.8% | 2.5 | 12 | 8% | – | – |
| | 0.25 to <0.50 | 72.0% | 2.5 | 29 | 14% | 1 | – |
| | 0.50 to <0.75 | 70.7% | 2.5 | 23 | 20% | 1 | – |
| | 0.75 to <2.50 | 69.4% | 2.5 | 121 | 38% | 3 | 1 |
| | 2.50 to <10.00 | 68.5% | 2.5 | 46 | 91% | 2 | – |
| | 10.00 to <100.00 | 68.0% | 2.5 | 49 | 189% | 4 | 1 |
| | 100.00 (Default) | 82.3% | 2.5 | – | 0% | 16 | 13 |
| **Qualified revolving retail exposures** | **Subtotal** | **65.2%** | **2.5** | **300** | **21%** | **27** | **15** |
| | 0.00 to <0.15 | 35.9% | 2.5 | 35 | 10% | – | – |
| | 0.15 to <0.25 | 36.5% | 2.5 | 35 | 17% | – | – |
| | 0.25 to <0.50 | 33.4% | 2.5 | 58 | 23% | – | – |
| | 0.50 to <0.75 | 36.3% | 2.5 | 77 | 31% | 1 | – |
| | 0.75 to <2.50 | 37.4% | 2.5 | 463 | 47% | 6 | 2 |
| | 2.50 to <10.00 | 36.3% | 2.5 | 182 | 55% | 7 | 3 |
| | 10.00 to <100.00 | 35.0% | 2.5 | 102 | 79% | 11 | 6 |
| | 100.00 (Default) | 45.3% | 2.5 | – | 0% | 47 | 59 |
| **Other retail exposures** | **Subtotal** | **36.7%** | **2.5** | **953** | **36%** | **73** | **68** |
| **Total (Retail)** | | **26.2%** | **2.5** | **1,871** | **20%** | **120** | **102** |

## CCR EXPOSURES

**Art. 452 (e) CRR – EU CCR4**

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

| 31.12.2018<br>in € million | PD scale | EAD post CRM and post CCF | Average PD | Number of obligors | Average LGD | Average maturity | RWAs | RWA density |
|---|---|---|---|---|---|---|---|---|
| Small and medium-sized enterprises | 0.00 to <0.15 | 3 | 0.1% | 8 | 45% | 2.5 | 1 | 20% |
| | 0.15 to <0.25 | 1 | 0.2% | 8 | 45% | 2.5 | 1 | 43% |
| | 0.25 to <0.50 | – | – | – | – | – | – | – |
| | 0.50 to <0.75 | – | – | – | – | – | – | – |
| | 0.75 to <2.50 | – | – | – | – | – | – | – |
| | 2.50 to <10.00 | – | – | – | – | – | – | – |
| | 10.00 to <100.00 | – | – | – | – | – | – | – |
| | 100.00 (Default) | 1 | 100.0% | 1 | 45% | 2.5 | – | 0% |
| | **Subtotal** | **5** | **11.3%** | **17** | **45%** | **2.5** | **2** | **34%** |
| Corporates | 0.00 to <0.15 | – | – | – | – | – | – | – |
| | 0.15 to <0.25 | – | – | – | – | – | – | – |
| | 0.25 to <0.50 | 1 | 0.4% | 2 | 45% | 2.5 | 1 | 65% |
| | 0.50 to <0.75 | – | – | – | – | – | – | – |
| | 0.75 to <2.50 | 3 | 1.4% | 4 | 45% | 2.5 | 3 | 76% |
| | 2.50 to <10.00 | – | – | – | – | – | – | – |
| | 10.00 to <100.00 | – | – | – | – | – | – | – |
| | 100.00 (Default) | – | – | – | – | – | – | – |
| | **Subtotal** | **4** | **0.9%** | **11** | **45%** | **2.5** | **4** | **99%** |
| **Total (Corporates)** | | **9** | **6.1%** | **28** | **45%** | **2.5** | **6** | **67%** |

# IRB BACKTESTING

**Art. 452 (i) CRR – EU CR9**

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

| **31.12.2018** in € million | PD scale | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | Number of obligors | |
|---|---|---|---|---|---|---|
| | | | | | End of previous year | End of the year |
| | 0.00 to <0.15 | Aaa - A3 | 0.1% | 0.1% | 132 | 134 |
| | 0.15 to <0.25 | Baa1 | 0.2% | 0.2% | 29 | 26 |
| | 0.25 to <0.50 | Baa2 | 0.4% | 0.4% | 50 | 27 |
| | 0.50 to <0.75 | Baa3 | 0.7% | 0.7% | 36 | 25 |
| | 0.75 to <2.50 | Ba1 - Ba3 | 1.6% | 1.8% | 207 | 122 |
| | 2.50 to <10.00 | B1 - B3 | 6.0% | 5.9% | 178 | 114 |
| | 10.00 to <100.00 | Caa1 - Caa3 | 22.5% | 26.9% | 250 | 152 |
| | 100.00 (Default) | Ca, C | 100.0% | 100.0% | 37 | 30 |
| **Small and medium-sized enterprises** | **Subtotal** | | **3.4%** | **12.8%** | **919** | **630** |
| | 0.00 to <0.15 | Aaa - A3 | 0.1% | 0.1% | 179 | 121 |
| | 0.15 to <0.25 | Baa1 | 0.2% | 0.2% | 46 | 20 |
| | 0.25 to <0.50 | Baa2 | 0.3% | 0.4% | 71 | 48 |
| | 0.50 to <0.75 | Baa3 | 0.6% | 0.6% | 113 | 37 |
| | 0.75 to <2.50 | Ba1 - Ba3 | 1.2% | 1.5% | 342 | 113 |
| | 2.50 to <10.00 | B1 - B3 | 4.2% | 5.1% | 69 | 18 |
| | 10.00 to <100.00 | Caa1 - Caa3 | 17.6% | 28.6% | 183 | 133 |
| | 100.00 (Default) | Ca, C | 100.0% | 100.0% | 35 | 41 |
| **Corporates** | **Subtotal** | | **1.6%** | **15.5%** | **1,038** | **531** |
| **Total (Corporates)** | | | **2.5%** | **14.2%** | **1,957** | **1,161** |

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

| 31.12.2018 in € million | PD scale | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
|---|---|---|---|---|
| | 0.00 to <0.15 | – | – | 0.6% |
| | 0.15 to <0.25 | – | – | 2.4% |
| | 0.25 to <0.50 | – | – | 0.0% |
| | 0.50 to <0.75 | – | – | 0.0% |
| | 0.75 to <2.50 | – | – | 0.8% |
| | 2.50 to <10.00 | 5 | – | 1.8% |
| | 10.00 to <100.00 | 1 | – | 3.2% |
| | 100.00 (Default) | 7 | – | 2.0% |
| **Small and medium-sized enterprises** | **Subtotal** | **13** | – | **4.1%** |
| | 0.00 to <0.15 | 1 | – | 0.6% |
| | 0.15 to <0.25 | 1 | – | 2.6% |
| | 0.25 to <0.50 | 3 | – | 2.0% |
| | 0.50 to <0.75 | 8 | – | 2.0% |
| | 0.75 to <2.50 | 2 | – | 0.9% |
| | 2.50 to <10.00 | – | – | 3.2% |
| | 10.00 to <100.00 | 1 | – | 0.5% |
| | 100.00 (Default) | 10 | – | 2.0% |
| **Corporates** | **Subtotal** | **26** | – | **2.2%** |
| **Total (Corporates)** | | **39** | – | **3.2%** |

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

| 31.12.2018 in € million | PD scale | External rating equivalent | Weighted average PD | Arithmetic average PD by obligors | Number of obligors | |
|---|---|---|---|---|---|---|
| | | | | | End of previous year | End of the year |
| Exposures secured by real estate | 0.00 to <0.15 | Aaa - A3 | 0.1% | 0.1% | 8,975 | 8,830 |
| | 0.15 to <0.25 | Baa1 | 0.2% | 0.2% | 3,232 | 3,677 |
| | 0.25 to <0.50 | Baa2 | 0.4% | 0.4% | 6,076 | 8,212 |
| | 0.50 to <0.75 | Baa3 | 0.6% | 0.6% | 3,578 | 4,099 |
| | 0.75 to <2.50 | Ba1, Ba2 | 1.5% | 1.5% | 10,379 | 9,468 |
| | 2.50 to <10.00 | Ba3, B1 - B3 | 5.9% | 5.8% | 3,094 | 1,676 |
| | 10.00 to <100.00 | Caa1 - Caa3 | 25.7% | 26.7% | 1,684 | 1,104 |
| | 100.00 (Default) | Ca, C | 100.0% | 100.0% | 526 | 528 |
| | **Subtotal** | | **3.0%** | **3.0%** | **37,544** | **37,594** |
| Qualified revolving retail exposures | 0.00 to <0.15 | Aaa - A3 | 0.1% | 0.1% | 232,960 | 382,986 |
| | 0.15 to <0.25 | Baa1 | 0.2% | 0.2% | 30,711 | 91,164 |
| | 0.25 to <0.50 | Baa2 | 0.4% | 0.4% | 36,485 | 144,082 |
| | 0.50 to <0.75 | Baa3 | 0.6% | 0.6% | 24,315 | 69,287 |
| | 0.75 to <2.50 | Ba1, Ba2 | 1.5% | 1.5% | 37,818 | 160,705 |
| | 2.50 to <10.00 | Ba3, B1 - B3 | 5.2% | 5.8% | 3,738 | 31,563 |
| | 10.00 to <100.00 | Caa1 - Caa3 | 26.4% | 28.6% | 8,822 | 49,658 |
| | 100.00 (Default) | Ca, C | 100.0% | 100.0% | 158 | 14,801 |
| | **Subtotal** | | **1.3%** | **3.7%** | **375,007** | **944,246** |
| Other retail exposures | 0.00 to <0.15 | Aaa - A3 | 0.1% | 0.1% | 252,227 | 17,981 |
| | 0.15 to <0.25 | Baa1 | 0.2% | 0.2% | 62,994 | 10,381 |
| | 0.25 to <0.50 | Baa2 | 0.4% | 0.4% | 131,717 | 10,930 |
| | 0.50 to <0.75 | Baa3 | 0.6% | 0.6% | 82,294 | 11,749 |
| | 0.75 to <2.50 | Ba1, Ba2 | 1.7% | 1.7% | 171,147 | 48,284 |
| | 2.50 to <10.00 | Ba3, B1 - B3 | 5.8% | 5.7% | 38,735 | 12,766 |
| | 10.00 to <100.00 | Caa1 - Caa3 | 23.5% | 25.6% | 62,170 | 7,266 |
| | 100.00 (Default) | Ca, C | 100.0% | 100.0% | 20,646 | 6,576 |
| | **Subtotal** | | **6.5%** | **8.0%** | **821,930** | **125,933** |
| **Total (Retail)** | | | **3.1%** | **4.9%** | **1,234,481** | **1,107,773** |

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

| **31.12.2018** in € million | PD scale | Defaulted obligors in the year | Of which new obligors | Average historical annual default rate |
|---|---|---|---|---|
| | 0.00 to <0.15 | – | – | 0.1% |
| | 0.15 to <0.25 | – | – | 0.2% |
| | 0.25 to <0.50 | 1 | – | 0.1% |
| | 0.50 to <0.75 | 1 | – | 0.3% |
| | 0.75 to <2.50 | 8 | – | 0.4% |
| | 2.50 to <10.00 | 10 | – | 0.9% |
| | 10.00 to <100.00 | 45 | – | 4.8% |
| | 100.00 (Default) | 164 | – | 2.1% |
| **Exposures secured by real estate** | **Subtotal** | **229** | – | **1.0%** |
| | 0.00 to <0.15 | 2 | – | 0.0% |
| | 0.15 to <0.25 | 1 | – | 0.1% |
| | 0.25 to <0.50 | 5 | – | 0.1% |
| | 0.50 to <0.75 | 10 | – | 0.3% |
| | 0.75 to <2.50 | 106 | – | 1.5% |
| | 2.50 to <10.00 | 105 | – | 8.7% |
| | 10.00 to <100.00 | 815 | 9 | 10.7% |
| | 100.00 (Default) | 5,383 | 80 | 18.5% |
| **Qualified revolving retail exposures** | **Subtotal** | **6,427** | **89** | **2.0%** |
| | 0.00 to <0.15 | 2 | – | 0.0% |
| | 0.15 to <0.25 | 1 | – | 0.1% |
| | 0.25 to <0.50 | 5 | – | 0.2% |
| | 0.50 to <0.75 | 4 | – | 0.3% |
| | 0.75 to <2.50 | 101 | – | 1.0% |
| | 2.50 to <10.00 | 105 | – | 2.7% |
| | 10.00 to <100.00 | 469 | 5 | 4.5% |
| | 100.00 (Default) | 2,528 | 51 | 1.0% |
| **Other retail exposures** | **Subtotal** | **3,215** | **56** | **1.8%** |
| **Total (Retail)** | | **9,871** | **145** | **1.6%** |

# RISK CATEGORIES ACCORDING TO GEOGRAPHICAL LOCATION OF THE EXPOSURE VALUE

**Art. 452 point (j) CRR**

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

| | Austria | |
|---|---|---|
| **31.12.2018** in € million | Position-weighted average LGD | Position-weighted average PD |
| **Exposures to corporates** | **–** | **1.8%** |
| Exposures to SMEs | – | 3.5% |
| Exposures to other corporates | – | 1.6% |
| **Retail exposures** | **26.1%** | **3.1%** |
| Mortgage-secured retail exposure SME | 5.6% | 11.8% |
| Mortgage-secured retail exposure non-SME | 10.7% | 2.5% |
| Qualified revolving retail exposures | 65.2% | 1.3% |
| Retail exposures - other SMEs | 30.6% | 14.2% |
| Retail exposures - other non-SMEs | 37.2% | 5.7% |

# CRM TECHNIQUES

**Art. 453 (f), (g) CRR – EU CR3**

**Table 59: CRM techniques – overview**

| 31.12.2018<br>in € million | Exposures unsecured – Carrying amount | Exposures to be secured | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| 1 Total loans | 36,394 | 14,500 | 13,347 | 1,759 | – |
| 2 Total debt securities | – | – | – | – | – |
| **3 Total exposures** | **36,394** | **14,500** | **13,347** | **1,759** | **–** |
| 4 Of which defaulted | 474 | 204 | 176 | – | – |

**Art. 453 (f), (g) CRR – EU CR4**

**Table 60: Standardized approach – credit risk exposure and CRM effects**

| 31.12.2018<br>in € million | Exposure before CCF and CRM | | Exposure post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| Exposures to central governments or central banks | 5,150 | 532 | 5,303 | 31 | 250 | 4.7% |
| Exposures to regional governments or local authorities | 1,984 | 95 | 3,047 | 34 | 2 | 0.1% |
| Exposures to public-sector entities, administrative bodies and non-commercial undertakings | 1,130 | 624 | 494 | 12 | 98 | 19.3% |
| Multilateral development banks | 16 | – | 16 | – | – | – |
| International organisations | 67 | – | 67 | – | – | – |
| Exposures to institutions | 2,504 | 67 | 2,402 | 5 | 842 | 35.0% |
| Exposures to corporates | 3,564 | 862 | 3,527 | 165 | 3,568 | 96.6% |
| Retail exposures | 1,891 | 2,609 | 1,876 | 15 | 1,307 | 69.1% |
| Exposures secured by mortgages on immovable property | 5,318 | 81 | 5,173 | 27 | 2,137 | 41.1% |
| Exposures in default | 440 | 21 | 437 | 4 | 473 | 107.4% |
| Higher-risk categories | 11 | – | 11 | – | 16 | 150.0% |
| Covered bonds | 1,780 | – | 1,780 | – | 185 | 10.4% |
| Institutions and corporates with a short-term credit assessment | – | – | – | – | – | – |
| Exposures in the form of units or shares in collective investment undertakings ("CIUs") - Look Through | 885 | 3 | 886 | 1 | 809 | 91.2% |
| Equity exposures | 321 | – | 321 | – | 423 | 131.8% |
| Other items | 616 | – | 616 | – | 177 | 28.8% |
| **Total** | **25,676** | **4,894** | **25,954** | **295** | **10,289** | **39.2%** |

# ADEQUACY OF LIQUIDITY RISK MANAGEMENT

**Art. 411 CRR**

**Table 61: LCR quantitative disclosure (1/2)**

| **Scope of consolidation (consolidated)** in € million | Total unweighted value | | | |
|---|---|---|---|---|
| **Quarter ending on** | **31.03.2018** | **30.06.2018** | **30.09.2018** | **31.12.2018** |
| **Number of data points used in the calculation of averages** | **12** | **12** | **12** | **12** |
| **HIGH-QUALITY LIQUID ASSETS** | | | | |
| 1 Total high-quality liquid assets (HQLA) | – | – | – | – |
| **CASH-OUTFLOWS** | | | | |
| 2 Retail deposits and deposits from small business customers, of which: | 19,953 | 20,464 | 20,974 | 21,394 |
| 3 Stable deposits | 14,849 | 15,130 | 15,391 | 15,625 |
| 4 Less stable deposits | 5,104 | 5,335 | 5,583 | 5,769 |
| 5 Unsecured wholesale funding | 5,161 | 5,435 | 5,701 | 5,746 |
| 6 Operational deposits (all counterparties) and deposits in networks of cooperative banks | 1,224 | 1,305 | 1,403 | 1,391 |
| 7 Non-operational deposits (all counterparties) | 3,853 | 4,023 | 4,203 | 4,273 |
| 8 Unsecured debt | 84 | 106 | 95 | 82 |
| 9 Secured wholesale funding | – | – | – | – |
| 10 Additional requirements | 7,121 | 7,779 | 8,480 | 8,633 |
| 11 Outflows related to derivative exposures and other collateral requirements | 366 | 365 | 364 | 346 |
| 12 Outflows related to loss of funding on debt products | – | – | – | – |
| 13 Credit and liquidity facilities | 6,755 | 7,413 | 8,116 | 8,287 |
| 14 Other contractual funding obligations | 102 | 103 | 99 | 41 |
| 15 Other contingent funding obligations | 6 | 6 | 7 | 8 |
| **16 TOTAL CASH OUTFLOWS** | – | – | – | – |
| **CASH-INFLOWS** | | | | |
| 17 Secured lending (e.g. reverse repos) | – | – | – | – |
| 18 Inflows from fully performing exposures | 1,461 | 1,495 | 1,431 | 1,384 |
| 19 Other cash inflows | 320 | 312 | 273 | 266 |
| EU(19)a (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies) | – | – | – | – |
| EU(19)b (Excess inflows from a related specialised credit institution) | – | – | – | – |
| **20 TOTAL CASH INFLOWS** | 1,780 | 1,807 | 1,704 | 1,650 |
| EU(20)a Fully exempt inflows | – | – | – | – |
| EU(20)b Inflows Subject to 90% Cap | – | – | – | – |
| EU(20)c Inflows Subject to 75% Cap | 1,780 | 1,807 | 1,704 | 1,650 |
| 21 LIQUIDITY BUFFER | | | | |
| 22 TOTAL NET CASH OUTFLOWS | | | | |
| 23 LIQUIDITY COVERAGE RATIO (%) | | | | |

**Table 61: LCR quantitative disclosure (2/2)**

| Scope of consolidation (consolidated)<br>in € million | Total weighted value | | | |
|---|---|---|---|---|
| **Quarter ending on** | **31.03.2018** | **30.06.2018** | **30.09.2018** | **31.12.2018** |
| **Number of data points used in the calculation of averages** | **12** | **12** | **12** | **12** |
| **HIGH-QUALITY LIQUID ASSETS** | | | | |
| 1 Total high-quality liquid assets (HQLA) | 5,576 | 6,061 | 6,546 | 6,736 |
| **CASH-OUTFLOWS** | | | | |
| 2 Retail deposits and deposits from small business customers, of which: | 1,277 | 1,322 | 1,369 | 1,406 |
| 3 Stable deposits | 742 | 756 | 770 | 781 |
| 4 Less stable deposits | 535 | 566 | 599 | 625 |
| 5 Unsecured wholesale funding | 2,264 | 2,378 | 2,480 | 2,505 |
| 6 Operational deposits (all counterparties) and deposits in networks of cooperative banks | 302 | 322 | 347 | 344 |
| 7 Non-operational deposits (all counterparties) | 1,878 | 1,949 | 2,039 | 2,079 |
| 8 Unsecured debt | 84 | 106 | 95 | 82 |
| 9 Secured wholesale funding | – | – | – | – |
| 10 Additional requirements | 994 | 1,003 | 1,000 | 983 |
| 11 Outflows related to derivative exposures and other collateral requirements | 366 | 365 | 364 | 346 |
| 12 Outflows related to loss of funding on debt products | – | – | – | – |
| 13 Credit and liquidity facilities | 628 | 638 | 636 | 637 |
| 14 Other contractual funding obligations | 53 | 53 | 53 | - |
| 15 Other contingent funding obligations | 6 | 6 | 7 | 8 |
| 16 TOTAL CASH OUTFLOWS | 4,594 | 4,763 | 4,910 | 4,903 |
| **CASH-INFLOWS** | | | | |
| 17 Secured lending (e.g. reverse repos) | – | – | – | – |
| 18 Inflows from fully performing exposures | 886 | 912 | 879 | 853 |
| 19 Other cash inflows | 94 | 106 | 97 | 121 |
| EU(19)a (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies) | – | – | – | – |
| EU(19)b (Excess inflows from a related specialised credit institution) | – | – | – | – |
| **20TOTAL CASH INFLOWS** | 980 | 1,018 | 976 | 974 |
| EU(20)a Fully exempt inflows | – | – | – | – |
| EU(20)b Inflows Subject to 90% Cap | – | – | – | – |
| EU(20)c Inflows Subject to 75% Cap | 1,542 | 1,643 | 1,648 | 1,727 |
| **TOTAL ADJUSTED VALUE** | | | | |
| 21 LIQUIDITY BUFFER | 5,576 | 6,061 | 6,546 | 6,736 |
| 22 TOTAL NET CASH OUTFLOWS | 3,614 | 3,745 | 3,935 | 3,928 |
| 23 LIQUIDITY COVERAGE RATIO (%) | 154% | 161% | 167% | 172% |

# QUANTITATIVE DISCLOSURES ACCORDING TO FMA CIRCULAR

## QUANTITATIVE DISCLOSURES USING MACRO HEDGING

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

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

| 31.12.2018 | (200)bp | (145)bp | (110)bp | (50)bp | (25)bp | 25bp | 50bp | 110bp | 145bp | 200bp | Flatte-ning | Steepen-ing |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EUR incl. other currencies | 110% | 110% | 110% | 110% | 110% | 110% | 110% | 110% | 110% | 110% | 70% | 131% |
| USD | 101% | 101% | 101% | 101% | 101% | 101% | 101% | 101% | 101% | 102% | 114% | 124% |

The dollar offset method is used to measure the prospective effectiveness. Various scenario analyses (parallel shifts, steepening or flattening of the relevant interest rate curves) are employed to prove that the simulated value changes from the underlying transactions and hedging instruments offset each other. A differentiation by currency is also undertaken in the process.

The hedging relationships for all defined currency portfolios are effective as of 31 December 2018 because since at least one of the two conditions has been observed:

- The cumulative effectiveness applying the dollar offset method is between 80% and 125%.
- Neither the absolute change in value of the hedge nor the absolute change in the value of the underlying transaction is greater than 0.1% of the cumulative nominal value of the hedged item.

## QUANTITATIVE DISCLOSURES OF FOREIGN CURRENCY LOANS AND LOANS WITH REPAYMENT VEHICLES

**FMA minimum standard in June 2017**

BAWAG Group in accordance with FMA Minimum Standards for Risk management and Granting of Foreign currency Loans and Loans with repayment vehicles (FMA–FXTT–MS) dated June 2017 is disclosing the information on loans with repayment vehicles due to the funding gap for loans with repayment vehicles being over prescribed threshold of 20% as follows: Share of loans with repayment vehicles is 2.53% of total Portfolio. The share of non–performing loans is 4.8% of the repayment vehicles portfolio.

**Table 63: Asset quality of loans with repayment vehicles**

| 31.12.2018<br>in € million | Loans with repayment vehicles |
|---|---|
| **Total** | **1,250** |
| of which: NPL | 48 |
| LLP | 14 |
| of which: NPL LLP | 14 |

**Table 64: Loans with repayment vehicles by maturity**

| 31.12.2018<br>in € million | Loans with repayment vehicles | of which: Bullet loans |
|---|---|---|
| **Residual maturity** | | |
| < 1 year | 29 | – |
| 1 - 5 years | 154 | – |
| 5 - 10 years | 362 | – |
| 10 - 15 years | 647 | – |
| > 15 years | 56 | – |
| **Total** | **1,250** | **–** |

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

| Funding gap based on portfolio booked in Austria | 31.12.2018 |
|---|---|
| Currency | GAP (%) |
| EUR | 15.5% |
| CHF | 27.3% |
| JPY | 23.4% |
| **Total** | **26.1%** |

# APPENDIX (QUALITATIVE DISCLOSURE): OVERVIEW RISK-REPORT

| Topic | Details | Qualitative disclosure Pages | Consolidated annual report Pages | Annual Financial Report BAWAG Group Pages | Other publications |
|---|---|---|---|---|---|
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| **Risk management** | Internal capital adequacy assessment process | 13-15 | 145-148, 191-192 | 236 | |
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| | Group-wide risk management | 18-22 | 43-44, 191 | | |
| **Credit risk** | Objectives and principles | 23-25 | 191-192 | 236, 237 | |
| | Couterparty default risk Treasury | 26-28 | 77-83 | | |
| | Credit risk mitigation | 29-31 | 200-201, 205-206 | 239, 240 | |
| | Value adjustments and reserves | 31-32 | 202-206 | 239, 240 | |
| | Rating systems and rating processes | 33-43 | 192-193 | 236 | |
| **Market risk** | Objectives and principles | 44-46 | 191-192, 220 | 243 | |
| | Internal models for limitation of market risk | 46-47 | 220-223 | 243, 244 | |
| | Interest rate risk from positions not held in the trading book | 48-49 | 221-223 | 243, 244 | |
| **Non-Financial risk** | Strategy, processes and management | 50 | 226 | 247 | |
| | Structure and organization | 50 | 226 | 247 | |
| | Risk measurement systems | 51-53 | 192, 226 | 247 | |
| | Risk hedging and mitigation | 54 | 226 | 247 | |
| | Own fund requirements | 54 | 226 | 247 | |
| **Other risks** | Liquidity risk | 55-59 | 192, 223-226 | 244-246 | |
| | Concentration risk | 60-61 | 196-197, 211-220 | 238-239, 241 | |
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| | Company information | | 2-5, 7-15, 17-20 | 224-228 | Pages Internet BAWAG P.S.K. |
| | BAWAG Group on the Stock Market | | 14-15 | | Pages Internet BAWAG P.S.K. |
| | Funding | | 13, 15, 27 | 227, 228 | Pages Internet BAWAG P.S.K. |
| | Corporate Governance BAWAG P.S.K. | | 17-18 | | Pages Internet BAWAG P.S.K. |

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