CONSOLIDATED ANNUAL REPORT 2020

BAWAG GROUP HIGHLIGHTS 2020

FINANCIALS

€ 284 million

Net profit
and € 653 million
pre-provision profit

10.2%

Return on tangible common equity

44.3%

Cost-income ratio

CAPITAL MANAGEMENT

14.0%

CET1 ratio
post dividend accruals;
16.3% pre dividend deduction

+180 bps

Gross capital generation through earnings
in 2020 despite macroeconomic downturn during pandemic

€ 460 million

Earmarked dividend
€ 40 million in Q1 2021 and **€ 420 million in Q4 2021**, subject to shareholder and regulatory approval

HIGHLIGHTS

2020 marked by COVID-19 pandemic
Outbreak of COVID-19 triggered market uncertainty and macroeconomic downturn

Generating 10% RoTCE during a severe economic downturn
With the transformation since 2012, we positioned BAWAG Group to weather such a deteriorating economic environment

Remaining cautious and prudent
Conservative provisioning given continued economic uncertainty

Earmarked € 460 million dividends
Given the ECB recommendation, a down payment of € 40 million on the total € 460 million earmarked dividend will be proposed to the extraordinary general meeting during Q1 2021 … remaining € 420 million dividend to be paid in Q4 2021, subject to shareholder and regulatory approvals

TARGETS 2021

>13%

Return on tangible common equity

<41%

Cost-income ratio

MID-TERM TARGETS
(normalized environment)

>15%

Return on tangible common equity

<40%

Cost-income ratio

KEY FIGURES

Profit or loss statement (in € million)	**2020**	2019	Change (%)	2018	Change (%)
Net interest income	916.3	879.0	4.2	840.5	9.0
Net fee and commission income	254.8	283.5	(10.1)	282.8	(9.9)
Core revenues	**1,171.1**	**1,162.5**	**0.7**	**1,123.3**	**4.3**
Other income[1]	1.2	78.0	(98.5)	47.4	(97.5)
Operating income	**1,172.3**	**1,240.5**	**(5.5)**	**1,170.7**	**0.1**
Operating expenses	**(519.7)**	**(529.7)**	**(1.9)**	**(517.9)**	**0.3**
Pre-provision profit	**652.6**	**710.8**	**(8.2)**	**652.8**	**(0.0)**
Regulatory charges	(59.2)	(42.4)	39.6	(40.1)	47.6
Total risk costs	(224.6)	(69.3)	>100	(45.1)	>100
Profit before tax	**369.9**	**604.3**	**(38.8)**	**572.7**	**(35.4)**
Income taxes	(85.4)	(145.0)	(41.1)	(136.2)	(37.3)
Net profit	**284.2**	**459.1**	**(38.1)**	**436.5**	**(34.9)**

Performance ratios (figures annualized)	**2020**	2019	Change (pts)	2018	Change (pts)
Return on common equity[2]	8.5%	13.5%	(5.0)	12.7%	(4.2)
Return on tangible common equity[2]	**10.2%**	**16.1%**	**(5.9)**	**14.8%**	**(4.6)**
Net interest margin	2.29%	2.30%	(0.01)	2.21%	0.08
Cost-income ratio	44.3%	42.7%	1.6	44.2%	0.1
Risk costs / interest-bearing assets	0.56%	0.18%	0.38	0.12%	0.44

Statement of financial position (in € million)	**2020**	2019	Change (%)	2018	Change (%)
Total assets	53,128	45,662	16.4	44,698	18.9
Interest-bearing assets	40,410	36,841	9.7	37,984	6.4
Customer loans	32,004	30,467	5.0	30,482	5.0
Customer deposits and own issues	38,890	35,827	8.5	34,620	12.3
Common equity[2]	3,423	3,297	3.8	3,491	(1.9)
Tangible common equity[2]	2,871	2,728	5.3	2,987	(3.9)
Risk-weighted assets	20,072	20,385	(1.5)	20,465	(1.9)

Balance sheet ratios	**2020**	2019	Change (pts)	2018	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**14.0%**	**13.3%**	**0.7**	**14.5%**	**(0.5)**
Total capital ratio (fully loaded)	19.6%	17.0%	2.6	16.3%	3.3
Leverage ratio (fully loaded)	6.1%	6.5%	(0.4)	7.1%	(1.0)
Liquidity coverage ratio (LCR)	231%	146%	85	179%	52
NPL ratio	1.5%	1.7%	(0.2)	1.7%	(0.2)

1) The term "Other Income" includes gains and losses on financial instruments and other operating income and expenses
2) Excluding € 460 million earmarked dividends
Note: For details on definitions and calculation methodology, please refer to the section entitled "Definitions" on pages 268-270

SHARE RELATED FIGURES

Share & stock market data	2020	2019	Change (%)	2018	Change (%)
Pre-tax earnings per share (in €)[1]	4.15	6.17	(32.7)	5.75	(27.8)
After-tax earnings per share (in €)[1]	3.19	4.69	(32.0)	4.38	(27.2)
Book value per share (in €)	38.93	37.49	3.8	35.34	10.2
Tangible book value per share (in €)	32.65	31.02	5.3	30.23	8.0
Dividend per share (in €)[2]	5.17[3]	n/a	n/a	2.18	>100
Share price high (in €)	44.22	44.88	(1.5)	48.20	(8.3)
Share price low (in €)	20.34	32.50	(37.4)	34.16	(40.5)
Closing price (in €)	38.00	40.60	(6.4)	35.84	6.0
Price/book ratio	0.98	1.08	(9.9)	1.01	(3.8)
Price/tangible book ratio	1.16	1.31	(11.1)	1.19	(1.8)
Shares outstanding at the end of the period	87,937,130	87,937,130	–	98,794,893	(11.0)
Weighted average diluted number of outstanding shares	89,121,117	97,942,999	(9.0)	99,636,540	(10.6)
Market capitalization (in € billion)	3.3	3.6	(6.4)	3.5	(5.6)

1) Before deduction of AT1 coupon; 2020 Earnings per share after deduction of AT1 coupon: pre-tax € 3.98, post-tax: € 3.02
2) € 0.45 will be proposed to extraordinary general meeting in Q1 2021, with the remainder in Q4 2021, subject to shareholder and regulatory approvals
3) Based on shares outstanding of 88,855,047

BAWAG GROUP – WHO WE ARE

BAWAG Group is a banking group, focused on retail, small business, corporate and public sector clients.

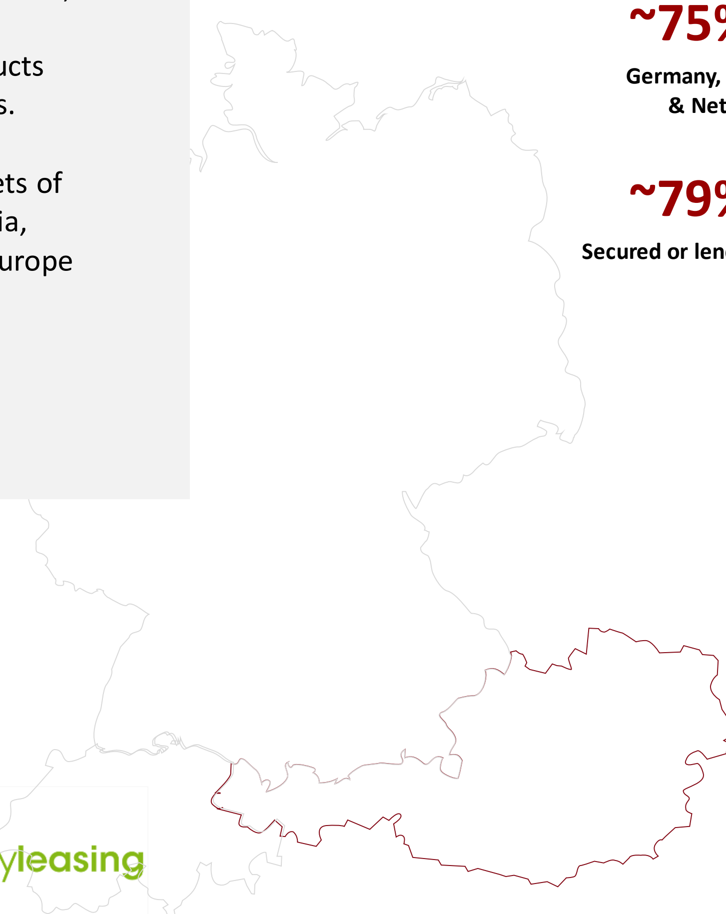
We offer comprehensive savings, payment, lending, leasing, investment, building society, factoring and insurance products and services through various channels.

We are active in the developed markets of the DACH/NL-region (Germany, Austria, Switzerland, Netherlands), Western Europe and the United States.

~2.3 million
customers

~75% lending
Germany, Austria, Switzerland & Netherlands (DACH/NL)

~79% lending
Secured or lending to public sector



Sustainable value creation is at the core of our business. In 2012, we launched a wholesale transformation of the Group and rank today amongst the most profitable and efficient banks across Europe, applying a multi-channel and multi-brand strategy focused on providing simple, straightforward and reliable financial products and services to our customers.

STRATEGY SUMMARY

GROWING IN OUR CORE MARKETS

- Our foundation is Austria with focus on DACH/NL region and developed markets
- Grow profitably into current account market share entitlement in Austria and address significant market opportunity in retail products across DACH/NL region
- Organic growth drivers ... Partnerships & platforms, enhancing digital engagement and growing share of wallet of 2.3 million customers
- Inorganic growth drivers … pursuing earnings-accretive M&A meeting our Group RoTCE targets of at least 15%

FOCUS ON CUSTOMER CENTRICITY

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

DRIVE EFFICIENCY THROUGH OPERATIONAL EXCELLENCE

- Our DNA is to focus on the things we control through “self-help” management
- Simplify, standardize and automate product offerings across all channels
- Create simple end-to-end processes across the Bank
- Continuously optimize our processes, footprint and technology infrastructure
- Embrace various forms of technological change and invest judiciously in technology

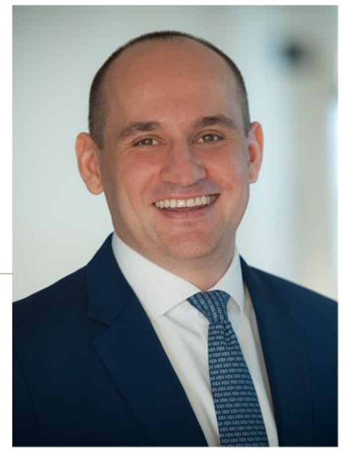
MAINTAINING A SAFE AND SECURE RISK PROFILE

- Maintaining strong capital position, stable retail deposits and low risk profile
- Focus on mature, developed and sustainable markets
- Applying conservative and disciplined underwriting in markets we understand with focus on secured lending
- Maintain fortress balance sheet
- Proactively manage and mitigate non-financial risk

Committed to responsible, sustainable and profitable growth considering ESG

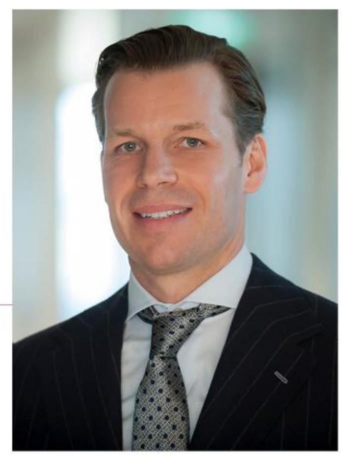
MANAGING BOARD OF BAWAG GROUP AG

Anas Abuzaakouk
Chairman of the Managing Board
Chief Executive Officer



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

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



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

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

The tables in this report may contain rounding differences.

CONTENTS

LETTER FROM THE CEO

Dear Fellow Shareholders,

2020 was a year like no other and will redefine many aspects of our lives. The year was defined by the outbreak of the COVID-19 global pandemic. This health crisis triggered significant market volatility and unprecedented amounts of fiscal and monetary support from governments and central banks across the globe. The governments in our core markets of the DACH/NL-region (Germany, Austria, Switzerland and the Netherlands) have gone to great lengths to support their economies and have put in place extensive fiscal stimulus packages and support measures, reflecting their financial strength and commitment to softening the economic and social impacts stemming from this health crisis.

BAWAG Group entered into this health crisis from a position of strength, having transformed our business over the years to be able to withstand economic downturns. We have strong capital levels, solid funding and liquidity, and an efficient platform that generated mid-teen returns pre-COVID-19. This allowed us to play our part in supporting our customers and our local communities, protecting our franchise and continuing to grow our business. The events of the past year will forever change how we operate. I will share some observations of the past year and how we are adapting to a post-COVID-19 world.

Delivering a 10% RoTCE (return on tangible common equity) in 2020

Our performance in 2020 was resilient, delivering net profit of € 284 million, EPS of € 3.19, and an RoTCE of 10%. Our solid operating performance was a result of having transformed our business over the years and entering the crisis as one of the most efficient banking platforms, which allowed us to offset COVID-19-related headwinds and generate pre-provision profits of € 653 million. Despite total revenues being down 5%, booking € 22 million restructuring reserves to accelerate a number of productivity initiatives and taking € 225 million of reserves (~3.3x prior year levels); we still generated a 10% RoTCE and a cost-income ratio of 44%.

To address the deteriorating macroeconomic environment throughout the course of the year and acting out of an abundance of caution in our provisioning, we booked total provisions of € 225 million and increased overall balance sheet reserves to € 402 million (+54% versus prior year). I will explain our approach to reserves and how our actions this past year reflected a strategy of preparing for the most adverse of scenarios and continuing to fortify our balance sheet.

Given our transformation since 2012, we were able to deliver a 10% RoTCE in a year with the worst economic deterioration on record and are confident our business will rebound to pre-COVID-19 mid-teens return levels sooner versus later. This past year was a true testament to the quality of our franchise, people and strategy.

Fortifying our balance sheet and taking a cautious approach to reserves

2020 represented the most significant deterioration in economic output on record for the Euro area, with Euro area GDP down 7% versus a prior decline of 4.5% during the global financial crisis in 2009. This unprecedented decline of economic output was driven by various lockdowns, travel restrictions and overall subdued appetite for consumption and investment. Unemployment rates in our core regions increased but remained under 6% throughout the year, a reflection of the effective social safety net programs in place, progressive work furlough schemes and stable unemployment benefits. Additionally, various moratoria (payment holiday) programs were put in place, both public and private, with the aim of supporting consumers and small businesses during these unprecedented times. Despite the extensive fiscal and monetary support that were highly effective and the underlying improving credit conditions we observed during the second half of 2020, we nevertheless decided to fortify our balance sheet even further, preparing for the worst although we are expecting a gradual and steady recovery during the second half of 2021.

As a result, we booked € 225 million of risk costs in 2020 (+224% versus prior year) and increased overall balance sheet reserves to € 402 million (+54% versus prior year). Of the € 225 million of risk costs, approximately € 100 million were tied to overlays and strengthening of ECL reserves. The management overlay, equal to € 38 million of the € 100 million are general reserves in excess of modelled reserves, resulting from our decision to apply the ECB Euro area's most adverse economic scenario of -12.6% GDP decline in 2020 published in June. The assumption turned out to be overly pessimistic as the actual GDP decline for 2020 was 7%. We decided not to release any credit reserves, although we see both an improved overall macroeconomic environment and continued positive developments across our customer base. We increased our Stage 1 & 2 reserves to € 130 million (+129% versus prior year) and Stage 3 reserves to € 271 million (+33% versus prior year). Our payment holidays peaked during the initial months of the pandemic at 6.8% across our Retail & SME business, and ultimately came down to 1.2% by year-end 2020. More importantly, the paying ratio of customers that came off payment holidays is running at 91%. We have been pleasantly surprised by the payment behavior of our customers, who initially acted out of an abundance of caution in the early days, no different than how we responded.

Overall, our NPL ratio was 1.5%, and 1.1% when excluding the City of Linz receivable. Given our overall capital strength, we decided to fully provision the City of Linz from a capital standpoint, even though we continue to feel strongly about the merits of our legal case. The receivable on the balance sheet stands at € 254 million, which is marked at 60% of the original amount owed to the Bank dating back to 2011. The provisioning of the receivable was through the use of CET1 capital prudential filters and resulted in a net impact of minus 60 basis points in 2020. We decided upon this action to ensure that the City of Linz legal case, which we expect will ultimately be referred to the Austrian Supreme Court in the absence of any reasonable compromise, does not become a lingering distraction and we can capitalize on the multiple organic and inorganic growth opportunities ahead of us.

Capital distribution plans & excess capital

We ended the year with a CET1 ratio of 14.0%. This is after deducting € 460 million of earmarked dividends (or dividends per share of € 5.17) tied to 2019 and 2020 earnings, which we have had to postpone distribution due to the continued ECB recommended dividend ban. Based on BAWAG Group's dividend policy of 50% payout ratio of net profits, we earmarked dividends of € 372 million for 2019 and 2020. Additionally, the Managing Board plans to recommend to the ordinary Annual General Meeting a special dividend of € 88 million for 2020, so as to keep the absolute annual dividend payment of € 230 million consistent between 2019 and 2020. The Managing Board proposed this special dividend as a show of appreciation and gratitude for the patience of our shareholders during these extraordinary times, many of whom are comprised of pension funds, retail investors and investment firms that have come to rely on our dividend payment. Given the most recent ECB recommendation from December 2020, a down payment of € 40 million on the total € 460 million earmarked dividend will be proposed to the extraordinary general meeting in Q1 2021, with the remaining € 420 million dividend to be paid in the fourth quarter 2021, subject to shareholder and regulatory approvals.

We fully understand the regulator's position on capital distributions this past year in light of the COVID-19 health crisis and dealing with these extraordinary and unprecedented times. We will remain patient, as we hope our investors will too. We are fully committed to distributing our earmarked dividends, as we look to honor commitments to shareholders and believe the Bank's resilience this past year and overall strong capital levels position us well to ultimately catch up on past dividend commitments and resume ordinary capital distributions.

Our year-end CET1 ratio of 14.0% represents an additional € 350 million of excess capital versus our target CET1 ratio of 12.25%. Our CET1 target of 12.25% represents an MDA buffer of 312 basis points, or € 625 million, versus our SREP (minimum capital requirements) of 9.13%. In total, this represents approximately 490 basis points, or € 975 million of CET1 capital, between our CET1 ratio of 14% (post-dividends) and our SREP of 9.13%.

Our aim is to always be good stewards of capital. Our preference is to use our excess capital to continue to grow our franchise, both organically and through acquisitions. However, we will remain disciplined and only pursue profitable growth, do deals that make sense and meet our minimum return requirements of 15% and return excess capital in the form of share-buybacks and/or special dividends.

Solid customer business performance

Across our customer businesses, we continued to deliver results. The focus of our Retail & SME business has been on the DACH/NL-region, with specific growth initiatives rolled out in Germany and the Netherlands. In the Corporates & Public business, we saw muted corporate loan demand offset by public sector and asset-backed lending opportunities. Both businesses demonstrated their resilience in 2020 and are positioned for success and profitable growth in 2021.

Retail & SME delivered net profit of € 281 million, a return on tangible common equity of 22% and a cost-income ratio of 40%. While responding in real-time to our customer needs during the crisis, we continued to execute on our strategic initiatives. We completed an important step in the simplification of the Group by consolidating our domestic and international Retail & SME businesses, focusing on building out a multi-channel and multi-brand Retail & SME customer franchise providing simple, straightforward and reliable financial products and services. We continued executing on our various operational and strategic initiatives to drive greater growth and efficiency across the business, building a strong front-end sales organization across key products and channels, leveraging central functions in order to provide customers with a seamless experience and continuing to drive synergies across the Group. Overall, we saw customers acting out of an abundance of caution and retail customer activity impacted by the various lockdowns put in place. This has impacted consumer loan demand and depressed consumer spending levels; however, we are hopeful that we will see a gradual resumption of activity in 2021 and expect to see more normalized levels during the second half of the year.

The **Corporates & Public** segment delivered net profit of € 80 million, a return on tangible equity of 9%, and a cost-income ratio of 29%. Risk costs in 2020 were € 80 million, of which € 49 million tied to specific reserves primarily related to residual oil & gas exposures that have been written off. We continue to see a solid lending pipeline with diversified opportunities in 2021. However, competition for defensive, high-quality assets continues to remain high. We will continue to maintain our disciplined and conservative underwriting, focusing on risk-adjusted returns, and avoid blindly chasing volume growth.

Our strategy in a post-COVID-19 world

Over the past decade at BAWAG, both as a private and publicly listed company, the one constant has always been change and the need to adapt. This past year was no different as we witnessed the significant impact of the COVID-19 pandemic resulting in depressed economic activity and the heavy toll this has taken on society. Our focus in 2020 was, first and foremost, supporting our customers, local communities and team members. We adapted in how we work and serve our customers during this particularly challenging period. We also continued to execute on our strategy and focus on the things that are within our control.

Confronted with the COVID-19 pandemic, the merits of our strategy were highlighted. Focusing on stable and mature developed markets, where fiscally conservative governments used their financial strength to support their economies through massive fiscal stimulus programs to mitigate the negative economic impacts of the pandemic, reflected the inherent security and low volatility of our core markets in the DACH/NL-region. We witnessed the benefits of reducing complexity across our organization to ensure we focus on serving customers, while not being bogged down by internal bureaucracy and hierarchy. Having a very low cost-to-serve and an efficient platform allowed us to withstand revenue headwinds and fortify our balance sheet, ensuring we are able to withstand any future severe economic downturn.

We know the post-COVID-19 world will be different, and we have already begun to adapt and change to this new environment. This past year was also a turning point in better understanding our role in society and how we (banks) can play a more meaningful role in society. With the growing importance of ESG (Environment, Social, Governance), we have embedded these values in our strategic roadmap across the Group to drive responsible and profitable growth that impact our various stakeholders.

This past year, more than any other, reflected the strength of our strategy. Reflecting on our four strategic pillars, here are a few examples of actions taken and how we will continue to execute on our strategic roadmap that has guided us over the years.

As far as **(1) growing in our core markets**, we made significant progress in expanding our Retail business in both Germany and the Netherlands. These markets will support our profitable growth initiatives in the future, and we took this past year to continue expanding our business footprint across the core markets of the DACH/NL-region.

In terms of **(2) focusing on customer centricity**, COVID-19 only accelerated the transition to new channels, as we continue to build out our multi-channel and multi-brand franchise across our branches, partners, platforms, brokers and digital products to provide 24/7 access to our customers. This past year, more than ever, also demonstrated the quality of our front-line team members in serving our customers during these extraordinarily difficult and challenging times and the merits of personally knowing our customers, high quality advisory sessions and enhanced data analytics to better serve their needs. COVID-19 also presented an opportunity for us to rethink how team members work with each other and how to best engage with customers. We have a number of initiatives to deepen our relationship with our 2.3 million customers, better understand and serve their needs, increase our share of wallet, and most importantly provide our customers with financial products and services that support their life goals.

Going forward, we will continue to **(3) drive efficiency and operational excellence** across the Group, as this is truly the one thing we can control and is the bedrock of our "self-help" DNA. We launched a number of simplification and standardization initiatives that we've found to be incredibly helpful to our customers and have allowed us to enhance the quality of our products and services. We still have a great deal of work ahead as far as simplifying processes, creating a more robust and efficient technology infrastructure, and streamlining our decision-making. These initiatives will allow us to continue better serving our customers and scale our business even further.

Last, but not least, we have always focused on **(4) maintaining a safe and secure risk profile**. Focusing on developed and mature markets and countries with the financial strength to provide significant economic support when most needed. In 2020, the fiscal stimulus provided by Austria and Germany alone amounted to 13% and 30% of each countries respective GDP. The countries in the DACH/NL-region also had some of the lowest moratoria figures and highest levels of labor market support through stable and generous unemployment benefits and effective work furlough programs. This validates our focus on mature, developed and fiscally sound economies of Austria, Germany, Switzerland and the Netherlands. Also, our conservative risk appetite, best reflected in our disciplined underwriting, was the reason we entered this crisis with de-minimis exposure to more volatile high-risk corporate sectors whereby historically, we believed returns were not sufficient for the credit risk being taken. Our guiding lending principle as a bank has always been to focus on risk-adjusted returns, and not blindly chasing volume growth. This discipline has served us well this past year and will continue to serve us well long into the future. We also decided to continue to fortify our balance sheet this past year, as we could afford to do so in terms of both reserves and capital. This was about preparing for the worst and having the ability to withstand a severe economic downturn, which we do not anticipate, but will nevertheless be prepared for.

The changing M&A landscape

This past year, we also witnessed a move towards greater banking consolidation. We have always believed and advocated that the European banking landscape was saturated and in need of consolidation. We are now seeing a move across various regions, albeit at the national level, to address the excess capacity in the sector. BAWAG has executed on 9 smaller bolt-on acquisitions since 2015. We are ready to play a role in European banking consolidation and believe the headwinds confronting the sector in the form of negative interest rates, broken cost structures, overleveraged balance sheets, sub-par technology and subdued economic growth will be with us for the foreseeable future. We stand ready to play our part, in both small and large transactions, but will always remain diligent and disciplined in our approach to M&A. We are screening multiple opportunities and will look to deploy our capital and operational capabilities in deals that meet our Group return requirements of at least 15%. We do believe there will be more opportunities ahead of us, however, we will always remain disciplined and patient.

2021 Outlook & targets

We expect a gradual improvement in 2021 and hope this year is a stepping-stone to our mid-term targets in a normalized environment. We delivered 10% RoTCE in a severely stressed economic environment, fortified our balance sheet and took a very conservative approach to provisioning. We anticipate that during the first half of 2021 we will continue to see subdued economic activity from imposed lockdowns, however, we should begin to see normalization of activities during the second half of the year.

In our outlook for 2021, we see core revenues growing approximately 2%, operating expenses below € 485 million and a significant reduction of greater than 40% in risk costs - given € 100 million ECL and general reserves, of which € 38 million management overlay, were taken in 2020 as well as de-minimis active payment holidays and the overall improving economic outlook we anticipate during the second half of the year.

Therefore, we are targeting a RoTCE greater than 13% in 2021 and RoTCE greater than 15% in a normalized environment, which from today's perspective could be as early as 2022. Our focus will be on driving continued efficiency, with a target cost-income ratio under 41% in 2021 and under 40% in a normalized environment.

Streamlined organizational design and extended Managing Board mandates

In September 2020, the Supervisory Board decided to reduce the number of Managing Board members from six to five members. This was a reflection of the ongoing simplification drive across the business, with the Managing Board reflecting the changing contours of the broader Group. This provided us with an opportunity to consolidate the domestic and international Retail & SME board roles, with Sat Shah leading the newly consolidated business and David O'Leary being appointed Chief Risk Officer. Enver Sirucic continues in his role as CFO and Andy Wise as CIO and head of all Non-Retail lending.

The Supervisory Board extended the mandates of all five Managing Board members for a five-year term through the end of March 2026. Additionally, the Supervisory Board appointed Enver Sirucic and Sat Shah as Deputy CEOs, two incredibly talented individuals that have both taken on expanded roles. These changes reflect the long-term commitment to the success of the Group from both the Supervisory Board and Managing Board members.

Supporting our team members, customers and local communities

2020 was clearly a challenging year in all aspects and our thoughts and prayers are with all the individuals, families, healthcare workers and front-line employees most impacted by this health crisis in our local communities and across the globe. With the trust of our customers and shareholders, the tireless commitment of our employees and the support of multiple stakeholders, we weathered the unprecedented health crisis this past year.

We are proud of all our employees, whose efforts in 2020 in supporting our customers and local communities reflects the best of the banking community. As a sign of recognition for their extraordinary commitment during these challenging times, we decided to pay a special bonus of € 300 to all employees. Additionally, we implemented a special bonus program for all front-line employees supporting customers during these challenging times. The Bank has also marshaled its resources to partner with a number of non-profit organizations to support our local communities. One in particular that I am very proud of is our partnership with Volkshilfe Austria in coordination with our Workers Council. The focus of the program is on early childhood education, addressing the needs of children suffering from economic hardship and at risk of falling below the poverty line. During the year-end holidays, we raised € 150,000 with almost 10% of all team members making contributions and will look to further expand our partnership through funding, volunteering, and community projects.

In light of the overall environment and challenges faced by many due to this health crisis, the Managing Board has voluntarily waived any potential bonuses for 2020, in addition to having already waived our bonuses for 2019.

It is only because of the dedication of our employees that we were able to weather such a crisis. The strong work ethic, dedication, commitment and execution of the team members across BAWAG Group is truly unique!

Anas Abuzaakouk, CEO of BAWAG Group AG

STRATEGY

GROWING IN OUR CORE MARKETS

BAWAG Group's strategy focuses on growth in the DACH/NL (Germany, Austria, Switzerland, Netherlands) region and more broadly developed markets. The strategy remains unchanged post COVID-19. We will continue to focus on organic growth and pursue M&A that is strategic, value-add and earnings-accretive meeting our overall Group RoTCE target of at least 15%. Our growth strategy is defined by the following principles:

- Our foundation is Austria with a focus on DACH/NL-region, Western Europe and the United States
- Grow profitably into our current account market share entitlement in Austria and expand DACH/NL-regional footprint
- Organic growth drivers through partnerships, platforms, brokers and expanding digital engagement
- Pursuing earnings-accretive M&A meeting our Group RoTCE target of at least 15%

Our foundation is Austria with a focus on growing across the DACH/NL-region and developed marekts. We look to developed and mature markets with a strong macroeconomic backdrop and stable legal and political system. The pandemic has demonstrated the fiscal strength and capabilities of the countries we are operating in, where governments have put in place extensive stimulus packages and support measures.

The DACH/NL-region comprises over 75% of our customer business. The region benefits from a common culture and language family, with a stable legal system and credit environment. The region also benefits from low levels of consumer indebtedness, home ownership and digital penetration; all of which presents opportunities for future growth. The macro fundamentals of the DACH/NL-region are the following:

- Growing population with over 118 million people
- Annual GDP of € 5.1 trillion and GDP per capita of more than € 50,000 in a normalized environment
- Average unemployment rate of less than 5%

With our foundation in Austria and 2.3 million customers, this business provides us with a stable platform, scale to build a multi-channel and multi-geography origination engine. Within Austria, we continue to focus on growing into our current account market share entitlement of up to 20% in other core products (such as consumer loans and mortgages). BAWAG Group's expansion outside of Austria has been focused on identifying large markets with sound macro fundamentals and finding profitable growth areas. This has been achieved through a mixture of organic growth initiatives and acquisitions. While we remain a niche player in the German, Dutch and Swiss markets as far as market share, the foundations that we have built provide us with significant opportunity to accelerate our growth.

Our Retail & SME focus continues to be about providing our 2.3 million customers quality products and services they have come to expect, preserving the differentiated value propositions of our separate brands, while ensuring we maintain a single Group mindset as we address the broader DACH/NL market for core retail and SME products. With the consolidation of the organizational structure of the domestic and international Retail & SME business in 2020, the future regional growth drivers will be organic growth through renewed focus on financial advisory, enhanced data analytics, more partnerships, investing in platform lending, enhancing digital engagement through leveraging technology across all our processes, and continuing to pursue earnings-accretive M&A. To this end, we have rolled out a number of growth initiatives in Germany and Netherlands as we expand our regional footprint.

The Corporates & Public business is focused on developed and mature markets providing direct lending opportunities and payments across the corporate, public sector and asset backed lending space. The corporates space has been challenged for a number of years, where we believe credit risk has not been appropriately priced, however we remain ready to actively engage once we believe risk is properly priced. We continue to expand our public sector business in Austria and see quality asset backed lending opportunities. The asset backed lending is real estate asset based with a focus on residential, industrial/logistics, and office assets. Our focus will continue to be on risk-adjusted returns, disciplined underwriting, driving profitable growth and being patient without ever chasing blind volume growth.

Going into 2021, we will continue executing on our growth strategy in the DACH/NL-region and developed markets more broadly. Our M&A activities focus primarily on our core Retail & SME franchise; however, we monitor the market for opportunities across the banking sector as we are convinced that consolidation will occur within the European banking landscape, where we look to be an active participant. These opportunities range from profitable platforms with a solid business model and strong origination channel to financial institutions that require either an extensive turnaround or an orderly wind-down. By leveraging our experience in integrating acquired businesses, operational execution and our in-house advisory unit uniquely positions us to extract value for our shareholders in a wide range of potential M&A activities. This would include, in some cases, value accretion through the preservation of capital in a target through a wind-down of operations.

FOCUS ON CUSTOMER CENTRICITY

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

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

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

The banking market today is filled with competition and customers have a multitude of options. With all of the noise on what to choose, it can become expensive to get a customer's attention and to keep it. This is why we believe the best approach to attracting new customers and maintaining a strong relationship with existing customers is to treat them fairly and to be a positive contributor to the society we live in. Our products are purposefully designed to be simple and transparent.

Ensuring access to finance by proactively reacting on changing customer behavior is key for our business. With the shift towards more digital engagement, we have adjusted our business model towards advisory services in our branch network, while shifting day-to-day business towards digital/online channels. At the same time, we established a mobile sales team to reach our customers in the rural areas, offer cash delivery and offer digital training hours in order to ensure everyone is prepared for the digital trend.

Investments into core infrastructure underpin a coherent customer service across both, our physical and digital channels. Branch advisors are aided by analytical tools to identify and offer best products for customers, while customers increasingly rely on self-service features and secure digital communication.

Additionally, we also continuously strive to make our services available to people who may not have as easy access to financial services. We believe that being a positive contributor to our community provides benefits to our brand beyond being a good corporate citizen. During 2020, we enriched our partnership with Volkshilfe Austria to support education in our younger population. By being more involved in such programs, we believe that in addition to giving back to the community in which we operate, we further develop our relationships with our existing and future customers.

DRIVING EFFICIENCY AND OPERATIONAL EXCELLENCE

The banking industry across Europe continues to undergo a significant transformation and still faces multiple headwinds driven by subdued economic growth, continued negative interest rates, broken cost structures, over-leveraged balance sheets, pricing pressure, increased regulatory costs, and sub-par technology. The focus on efficiency and driving operational excellence is part of our team's DNA. We believe this is one of the few things a management team truly controls.

We are convinced that in this challenging environment, banks have to transform their business models and cost structure to be much more simple and efficient. With the continued advancements in technology, the reality is that banking is becoming more commoditized. This leads us to believe that the traditional paradigm regarding cost in the banking space needs to be challenged to adapt to the many challenges facing the industry. To this end, the key is, and will continue to be, focusing on simplification, standardization, automation and applying technology judiciously as we continue to transform our business and focus on operational excellence.

Going into 2021, our focus continues to be on driving efficiency through process re-engineering, simplification, standardization and ultimately automation. Our focus will always be to:

- Focus on the things we control through “self-help” management
- Simplify, standardize and automate product and service offerings across all channels
- Create simple end-to-end processes across the Bank
- Continuously optimize our processes, footprint and technology infrastructure
- Embrace various forms of technological change and invest judiciously in technology

COVID-19 has been a catalyst for accelerating productivity initiatives across the Group. We will reduce our physical footprint due to the integration of a hybrid home-office working model, adapt to changing customer behavior through enhanced online/digital engagement, further streamline and simplify operations, and create more robust and efficient technology infrastructure. These initiatives will allow us to continue better serving our customers and scale our business even further.

Sustainable value creation is also key for us in order to be able to be a reliable partner to all our stakeholders on a long-term basis. Therefore, continuously simplifying and standardizing our processes, footprint and technology infrastructure is our priority in order to weather the ongoing challenges of the financial industry, whether from new market entrants, a prolonged negative interest rate environment, or continued pricing pressure. Through ongoing investment and optimization of our systems we were able to accelerate the integration of acquired businesses, while reducing operational complexity and overhead. This positions us well for future integrations and collaboration with partners across the entire value chain of financial services.

Lastly, a core centerpiece to our company values is the idea of meritocracy. We look to reward and promote people based on what they contribute to the Bank each day, regardless of gender, ethnicity, religion, upbringing or any other factor. Instilling this culture within the organization has been pivotal to our ability to drive efficiency and become one of the most efficient European banks from a cost-to-income perspective. We believe that this is not only a fair way to manage any workforce, but that it provides the benefit of attracting employees who know that their hard work will be rewarded.

MAINTAINING A SAFE AND SECURE RISK PROFILE

A strong capital position, stable deposits and a low risk profile are fundamental cornerstones to the execution of our business strategy. Management is committed to running BAWAG Group in a safe and secure way. We focus on developed and mature markets as we believe in doing business in countries with stable legal systems with sound macroeconomic fundamentals.

Our low risk profile is defined by the following principles:

- Maintaining strong capital position, stable retail deposits and low risk profile
- Focus on mature, developed and sustainable markets
- Applying conservative and disciplined underwriting in markets we understand with a focus on secured lending
- Maintain fortress balance sheet
- Proactively manage and mitigate non-financial risk

One key focus is maintaining a strong capital position, with a healthy CET1 and total capital ratios and conservative balance sheet leverage. We believe our target CET1 ratio of 12.25% for capital distribution strikes the right balance between maintaining a solid capital base and distributing capital to shareholders. We consider this to be a prudent level that also provides us with the flexibility to consistently support our organic and inorganic growth plans. This represents 312 basis points buffer to our SREP ratio of 9.13% (minimum regulatory capital requirement).

Retail and corporate deposits have been the core part of our funding strategy over the years and will continue to be the primary source of funding. We supplement our deposits with a diversified strategy of wholesale funding comprised of unsecured bonds, covered bonds secured by mortgage and public sector collateral. Our long-term goal is to maintain deposit funding and diversified wholesale funding.

Our lending is focused on disciplined underwriting focused on risk-adjusted returns across developed and mature markets. We routinely review our underwriting guidelines and adjust accordingly. Fundamental to our business strategy is the core concept of the quality of volume vs. the quantity of volume. We assess all channels and products that are being originated by a risk/return perspective to ensure our return thresholds are met and our future earnings remain resilient. As of December 2020, we had no relevant exposure to emerging markets or CEE countries and no operations in countries with elevated AML risk. We focus on solid asset quality, best reflected by an NPL ratio of 1.5% (excluding City of Linz: 1.1%) at year-end 2020 and maintaining a fortress balance sheet. We decided this past year to fully provision the City of Linz from a capital standpoint, even though we continue to feel very strongly about the merits of our legal case, as well as apply the 100% NPE backstop to all legacy NPLs. This is a reflection of our overall conservativism and continuing to fortify our balance sheet.

Banking in more volatile, less developed markets provides optically higher returns and higher growth, but we do not believe that these returns justify the risk and volatility associated with such markets. During BAWAG's transformation we made a conscious decision to divest all exposure to Eastern European and other less developed markets and to focus on the mature and sustainable markets of Western Europe and the United States. Our main geographic focus is the DACH/NL-region, which has strong macro fundamentals and governments that have the capability to support the economy during negative cycles or macro events.

Overall, this conservative approach positioned us well during the past year as we dealt with and will continue to deal with the impacts that the global pandemic will have on the banking industry. Our adherence to focusing on developed markets provides us with indirect benefits via the high-level of labor market support and social safety net our customers are provided with. Our discipline in adhering to our underwriting guidelines and focusing on risk-adjusted returns have served us well this past year. We will continue to maintain our conservative risk appetite, ensuring that we mitigate against both macro and micro risks. Our goal is to always maintain a fortress balance sheet and conservative underwriting, a cornerstone of how we run the Bank.

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKETS

Equity markets in Europe and the US were influenced by the global COVID-19 pandemic as well as various counter measures such as expansionary monetary and fiscal policies. After share prices corrected abruptly in the first quarter 2020, a recovery in prices took place starting in the second quarter 2020. The Euro Stoxx 600 decreased by 4%, the subindex Euro Stoxx Banks decreased by 24% and the S&P 500 increased by 16% until year-end 2020 compared to year-end 2019.

The financial performance of the corporate sector reflects the impact of the pandemic and the corresponding lockdown measures. Earnings per share of the Euro Stoxx 600, the Euro Stoxx Banks and the S&P 500 decreased significantly during the year 2020. With decreasing earnings and a less pronounced decrease or increase in prices, valuation metrics increased in Europe and in the United States compared to year-end 2019. The price-to-earnings ratio of the Euro Stoxx Banks and the price-to-earnings ratio of the S&P 500 increased to 28.5 and to 29.9 respectively, as of December 2020.

Global liquidity conditions remained ample and interest rates remained low throughout the year 2020. Interest rate cuts have been implemented in the United States and additional quantitative easing measures by the ECB have been introduced in Europe.

SHARE PERFORMANCE

BAWAG Group AG's shares closed the year 2020 at a share price of € 38.00 compared to € 40.60 as of year-end 2019. During the same period, the share price high was at € 44.22 and the low at € 20.34.

As the planned dividend for FY 2019 (approximately € 230 million) has been postponed, BAWAG Group AG's shares total return equals the price performance of -6.4% versus a total return of -23.8% for the Euro Stoxx Banks. Thus, BAWAG Group AG's shares outperformed the benchmark index for banks in the Euro area.

FUNDING

Following the accelerated change in composition of the P2R as part of the measures taken by the ECB, we optimized our capital structure by issuing € 175 million Additional Tier 1 capital (5.125% coupon) and € 200 million Tier 2 capital (1.932% yield, ms +235 basis points) in the third quarter 2020. With that we filled the P2R buckets and created additional RWA capacity.

On the back of a € 1 billion mortgage covered bond issuance in 2019, BAWAG P.S.K. successfully continued in 2020 with € 1.75 billion issuance volume, demonstrating solid access to long-term funding at attractive terms.

INVESTOR RELATIONS

The communication with the investment community is of great significance given BAWAG Group's IPO in October 2017 and ensuring we build a track record of open and transparent dialogue and look to attract global investors to the Group. Especially during the pandemic and the triggered market volatility during the first months of the year, the communication with investors was of the utmost importance as well as enhancing disclosure in order to provide greater insights into various exposures, payment behaviors and overall asset quality.

In addition to the Annual General Meeting, BAWAG Group communicates with shareholders, financial analysts, bondholders, ESG teams and rating agencies through earnings releases, presentations, event-related releases and meetings with various stakeholders.

In addition to the documents published on the website, BAWAG Group management meets current and potential investors during roadshows, conferences or one-on-one meetings. With the outbreak of COVID-19, all meetings were held virtually since beginning of March. In 2020, members of the Managing Board together with the Investor Relations team met with investors personally in the United Kingdom, the United States, France, Germany and Austria. The better use of technology with virtual conferences having turned to the new normal, this offered the opportunity to enhance the investor outreach and meeting with investors regularly from the United States, the United Kingdom, Germany, France, Austria, Denmark, Norway, Finland, the Netherlands, Belgium, Poland, Asia and the Middle East. In addition, we attended 14 conferences for financial institutions or small/mid cap companies in 2020. This was a mix of both specialists in the financial sector as well as generalists.

On the day of Earnings release we meet with investors for one-on-one as well as group meetings to discuss quarterly and annual developments. During the pandemic, members of the Managing Board were also available to ensure the continuous dialogue with our investors.

Through the course of 2020, we met with a mix of existing and new shareholders across multiple regions. While after the FY 2019 results, the main discussion points were related to profitability, targets, strategy and capital distribution, the focus since the outbreak of COVID-19 turned to asset quality of the portfolio, payment deferrals of customers, development of risk costs and the macroeconomic outlook. With the outbreak of the pandemic, the ECB also recommended not to pay out dividends during the pandemic and later capped the payout ratio. Potential capital distribution remained a key topic.

As of 31 December 2020, BAWAG Group was covered by 11 research houses, of which there were eight “Buy” recommendations and three “Hold” recommendations. The average target price as of year-end 2020 was € 41.

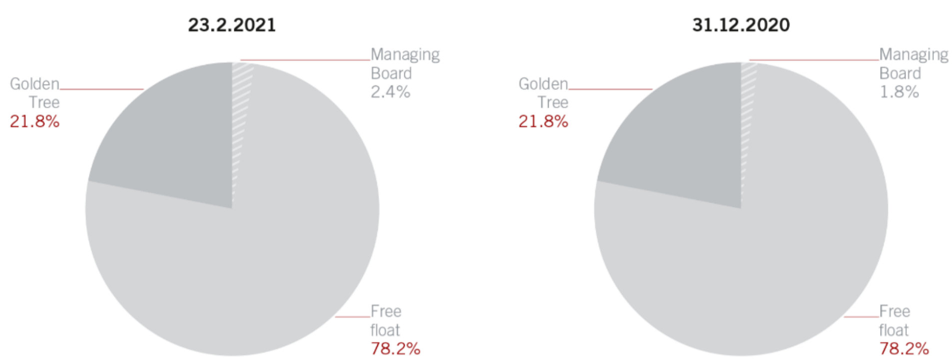
The shareholder base is well diversified with a broad geographic spread and different investment strategies. The institutional investors are primarily from Europe and North America.

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

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

We will host our inaugural Capital Markets Day in September 2021 in London or virtually, depending on the situation at that time.

Shareholder structure:



Group Management Report

ECONOMIC AND REGULATORY DEVELOPMENTS

ECONOMIC DEVELOPMENTS

Macro trends

Governments around the globe have implemented measures to counter the coronavirus (COVID-19) pandemic, which has resulted in subdued social and economic activity in various regions across the world that have had adverse effects on global economic growth. Initial uncertainty about the future has resulted in a significant deterioration in market confidence during the first quarter that resolved throughout the year 2020. Central banks, including the European Central Bank, the United States Federal Reserve and the Bank of England have implemented further expansionary monetary policy ranging from interest rate cuts, asset purchases and significant liquidity facilities for commercial banks. Additionally, governments have implemented stimulus measures of unprecedented size to support the hardest hit sectors of the economy. Governments with relatively balanced public finances and overall moderate debt levels before the pandemic acted quickly to support their national economies. Austria and Germany introduced sizable stimulus packages that countered a more drastic increase in unemployment and prevented financial stress for corporates, SMEs in particular. Lockdowns and a deterioration in international trade and tourism had a significant impact on most macroeconomic indicators in Austria. Austria's real gross domestic product (GDP) decreased by 7.4% in 2020 compared to 2019. Leisure activities, tourism, restaurants and retail trade were most impacted by the lockdown while construction remained relatively stable. Manufacturing activity decreased due to the drag from international trade. Unemployment peaked in April 2020 with more than half a million unemployed and recovered afterwards. During the second lockdown introduced in November, unemployment increased again to slightly below 500,000 late January 2020. The government-funded short-time work initiative with close to full-time equivalent compensation was utilized by up to 1.4 million people during the peak in April. As of late January 2021, the number of employees under this initiative remains below 500,000. In Germany, GDP decreased by 5.0% in 2020 compared to 2019. The uncertainty surrounding international trade relations during the pandemic led to a significant decrease of investments in equipment.

Market developments

The challenging economic environment resulted in decreasing loan demand from private households for consumer loans on the Austrian lending market, with outstanding volume decreasing by approximately 5%[1)] versus 2019 and new business volume dropping. Deposits from Austrian households increased during the COVID-19 pandemic despite the low interest rate environment. Loan demand from Austrian corporations was stable to increasing, with an increase in demand for short-term loans.

Outlook

The unprecedented crisis is causing a high degree of uncertainty with regards to the economic outlook, triggering frequent revisions to forecasts that differ among various institutions. However, the scenarios of major forecasting institutions call for the GDP decline in 2020 to be more pronounced than the contraction in the wake of the global economic and financial crisis of 2008/09. Following a GDP contraction of 6.8% in 2020, the ECB expects Euro Area GDP to recover by 3.9% in 2021 under its baseline scenario and by 0.4% under its severe scenario of a prolonged pandemic that stretches into 2021. For comparison, in 2009, Euro Area GDP decreased by 4.5%, German GDP decreased by 5.7% and the Austrian GDP decreased by 3.8%.

1) Source: Austrian National Bank (OeNB)

REGULATORY DEVELOPMENTS

The European Central Bank (ECB) continued its direct oversight of the Eurozone's main credit institutions, including BAWAG Group, under the Single Supervisory Mechanism (SSM). The main supervisory priorities in 2020 were continuing balance sheet repair (including follow-ups on NPL guidance, on internal ratings-based models and trading risk and asset valuations), strengthening future resilience (including credit underwriting criteria and exposure quality, capital and liquidity management, ICAAP and ILAAP and further integration into SREP, business model sustainability, IT and cyber risk, EU-wide (biennial) and/or ECB stress test exercises and governance) and other topics like the follow-up on Brexit work. Due to the COVID-19 pandemic, ECB has taken several measures to provide temporary capital and operational relief as well as taking a pragmatic approach for the annual Supervisory Review and Evaluation Process (SREP). In this context, EBA published Guidelines on a pragmatic and flexible approach to the 2020 supervisory review and evaluation process in light of the COVID-19 pandemic on 23 July 2020.

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

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

In November 2016, the European Commission published a so-called Banking Package with amendments to the CRR (so-called CRR II or Regulation (EU) 2019/876), CRD IV (so-called CRD V or Directive (EU) 2019/878) and BRRD (so-called BRRD II or Directive (EU) 2019/879). The negotiations on the proposals between the European Council, the European Parliament and the European Commission started in July 2018 and were finalized by the middle of 2019. The Banking Package was published in the Official Journal of the EU and has been partly applicable since June 2019. Changes in the CRR and CRD include the introduction of the leverage ratio, the net stable funding ratio, a revised SME supporting factor and amendments to the buffer regime. While parts of CRR II are already applicable, other chapters will apply as of 28 June 2021. CRD V, on the other hand, has to be implemented by all EU member states by 28 December 2020. While the already applicable parts were implemented by BAWAG Group, we finalized a gap analysis and expect only a de-minimis impact from the further amendments.

Due to the global COVID-19 pandemic and the economic impact on the banking industry, ECB published on 27 March 2020 recommendations on dividend distributions during the coronavirus pandemic and released updates on 27 July 2020 and 15 December 2020. Based on the latest recommendation, the ECB "calls on banks to refrain from or limit dividends until 30 September 2021" and "dividends to remain below 15% of cumulated 2019–20 profits and not higher than 20 basis points of CET1 ratio". Given the most recent ECB recommendation from December 2020, a down payment of € 40 million on the total € 460 million earmarked dividend will be proposed to the extraordinary general meeting during the first quarter 2021, with the remaining € 420 million dividend to be paid in the fourth quarter 2021, subject to shareholder and regulatory approvals.

Furthermore, a regulation amending the CRR was proposed by the European Commission in April 2020 and finalized in June 2020. The package is intended to encourage banks to make full use of the flexibility embedded in the EU's prudential and accounting framework, so that banks can fully support citizens and companies during the pandemic by providing funding. The amendments in this regulation concern inter alia:

- Transitional arrangements for mitigating the impact of IFRS 9 provisions on regulatory capital. The 5-year transition period for the IFRS 9 application that started in 2018 will be reset, so that it runs between 2020 and 2024
- Treatment of publicly guaranteed loans under the NPL prudential backstop
- The date of application of leverage ratio requirements is deferred by one year (until 1 January 2023)
- Exclusion of certain exposures from the leverage ratio calculation
- Date of application of the exemption of certain software assets from capital deductions
- Date of application of the specific treatment envisaged for certain loans backed by pensions or salaries
- Date of application of the revised SME supporting factor and the infrastructure supporting factor

Furthermore, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), has endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 on the global banking system. The measures endorsed by the GHOS comprise the following changes to the implementation timeline of the outstanding Basel III standards:

- The implementation date of the Basel III standards finalized in December 2017 has been deferred by one year to 1 January 2023. The accompanying transitional arrangements for the output floor have also been extended by one year to 1 January 2028
- The implementation date of the revised market risk framework finalized in January 2019 has been deferred by one year to 1 January 2023
- The implementation date of the revised Pillar 3 disclosure requirements finalized in December 2018 has been deferred by one year to 1 January 2023

In June 2019, the EBA launched a consultation on the guidelines on loan origination and monitoring in the EU. The guidelines were finalized in May 2020 and will be applicable as of 30 June 2021. The guidelines specify the internal governance arrangements for granting and monitoring of credit facilities throughout their lifecycle. The guidelines apply to the risk management practices, policies, processes and procedures for loan origination and for monitoring of performing exposures, along with their integration into the overall management and risk management framework.

On 24 June 2020, the EBA published final draft comprehensive ITS on institutions’ Pillar 3 disclosures and revised final draft ITS on supervisory reporting. The disclosure ITS implement the new requirements introduced by CRR II and aim to reinforce market discipline by increasing the consistency and comparability of institutions' public disclosures. The updated reporting framework reflects changes in the CRR and introduces new reporting requirements on net stable funding ratio and counterparty credit risk. In August 2020, the EBA published final draft ITS on disclosure and reporting on MREL and TLAC. The standards cover information on the minimum requirement for own funds and eligible liabilities to assure a maximum of consistency and comparability. The reporting and disclosure standards have a key function on Pillar 3 disclosures and supervisory reporting. The provisions on disclosures on MREL apply from 1 January 2024 at the earliest.

At its 25th meeting on 15 September 2020, the Austrian Financial Market Stability Board (FMSB) focused on the effects of the COVID-19 crisis on financial market stability in Austria and decided to update the recommendations on structural macroprudential capital buffers. In addition, the committee recommended that the countercyclical capital buffer should be kept at 0%. With the introduction of the new EU Capital Requirements Directive (CRD V), systemic risk buffers and O-SII buffers will be added from the end of 2020. The higher of the two buffers will apply until year-end 2020. However, in its recommendation on buffer requirements from the end of 2020, the committee has taken into account the high degree of uncertainty about the further course of the crisis. Therefore, the overall buffer requirements remain essentially unchanged.

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

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

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	2020	2019	Change	Change (%)
Interest income	1,113.7	1,154.1	(40.4)	(3.5)
Interest expense	(200.2)	(278.7)	78.5	(28.2)
Dividend income	2.8	3.6	(0.8)	(22.2)
Net interest income	**916.3**	**879.0**	**37.3**	**4.2**
Fee and commission income	329.1	374.7	(45.6)	(12.2)
Fee and commission expenses	(74.3)	(91.2)	16.9	(18.5)
Net fee and commission income	**254.8**	**283.5**	**(28.7)**	**(10.1)**
Core revenues	**1,171.1**	**1,162.5**	**8.6**	**0.7**
Gains and losses on financial instruments and other operating income and expenses[1]	1.2	78.0	(76.8)	(98.5)
Operating income	**1,172.3**	**1,240.5**	**(68.2)**	**(5.5)**
Operating expenses[1]	**(519.7)**	**(529.7)**	**10.0**	**(1.9)**
Pre-provision profit	**652.6**	**710.8**	**(58.2)**	**(8.2)**
Regulatory charges	(59.2)	(42.4)	(16.8)	39.6
Operating profit	**593.4**	**668.4**	**(75.0)**	**(11.2)**
Total risk costs	(224.6)	(69.3)	(155.3)	>100
Share of the profit or loss of associates accounted for using the equity method	1.1	5.2	(4.1)	(78.8)
Profit before tax	**369.9**	**604.3**	**(234.4)**	**(38.8)**
Income taxes	(85.4)	(145.0)	59.6	(41.1)
Profit after tax	**284.5**	**459.3**	**(174.8)**	**(38.1)**
Non-controlling interests	(0.3)	(0.2)	(0.1)	50.0
Net profit	**284.2**	**459.1**	**(174.9)**	**(38.1)**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 54.8 million for 2020. The item Operating expenses includes regulatory charges in the amount of € 4.4 million for 2020 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Group Management Report.

Profit after tax decreased by € 174.8 million, or 38.1%, to € 284.5 million in 2020. The underlying operating performance of the business remained solid during 2020, generating pre-provision profit of € 652.6 million. To address the deteriorating macroeconomic environment following the outbreak of COVID-19, risk costs increased to € 224.6 million (+224%) in 2020.

Net interest income increased by € 37.3 million, or 4.2%, to € 916.3 million in 2020 resulting from higher interest-bearing assets.

Net fee and commission income decreased by € 28.7 million, or 10.1%, compared to 2019 impacted by the lockdowns in Q2 2020 and Q4 2020 and subdued activity in selected business areas.

Gains and losses on financial instruments and other operating income and expenses decreased by € 76.8 million to € 1.2 million in 2020 driven by lower gains on financial instruments.

Operating expenses decreased by 1.9% to € 519.7 million in 2020 as a result of ongoing efficiency measures. We took approximately € 22 million restructuring reserves in Q4 2020 to accelerate new efficiency and productivity measures.

Regulatory charges of € 59.2 million included € 12 million additional deposit insurance charge due to Commerzialbank case in Austria. This charge represents an additional charge all banks that are part of the deposit insurance in Austria must pay in relation to the deposit protection scheme.

Total risk costs increased by € 155.3 million to € 224.6 million in 2020. To address the deteriorating macroeconomic environment and further adverse economic developments related to COVID-19, approximately € 100 million ECL and general reserves, thereof € 38 million management overlay, based on most severe macro forecast for 2020 of a 12.6% GDP decline across the entire Euro area, were booked. By year-end 2020, payment deferrals reduced to 1.2% in our Retail & SME business (from a high of 6.8% in June) and to 0.2% in our Corporates & Public business (from a high of 0.9% in June). However, we remain cautious and will act in a prudent manner given the new lockdowns and overall economic uncertainty in the coming months. Additionally, we took provisions to address specific exposures in our Corporates business, not related to the COVID-19 pandemic.

Total assets

in € million	2020	2019	Change	Change (%)
Cash reserves	1,032	1,424	(392)	(27.5)
Financial assets				
Held for trading	441	353	88	24.9
Fair value through profit or loss	693	740	(47)	(6.4)
Fair value through OCI	4,830	3,631	1,199	33.0
At amortized cost	44,153	37,556	6,597	17.6
Customers	32,004	30,467	1,537	5.0
Debt instruments	2,260	1,369	891	65.1
Credit institutions	9,889	5,720	4,169	72.9
Valuation adjustment on interest rate risk hedged portfolios	24	5	19	>100
Hedging derivatives	405	397	8	2.0
Tangible non-current assets	474	707	(233)	(33.0)
Intangible non-current assets	552	569	(17)	(3.0)
Tax assets for current taxes	9	15	(6)	(40.0)
Tax assets for deferred taxes	9	8	1	12.5
Other assets	370	257	113	44.0
Non-current assets held for sale	135	-	-	-
Total assets	**53,128**	**45,662**	**7,466**	**16.4**

The **cash reserves** decreased by € 392 million to € 1.03 billion in 2020.

The position **Fair value through OCI** increased by € 1.20 billion or 33.0% in 2020, primarily due to the purchase of high-quality securities.

The position **at amortized cost** increased by € 6.60 billion, or 17.6%, compared to year-end 2019 and stood at € 44.15 billion as of 31 December 2020. This primarily reflects higher volumes at central banks impacted by the TLTRO III drawdown. The customer volumes increased by 5.0% with a strong performance in retail housing loans, asset backed lending and public sector lending compensating for decreasing volumes in corporate and consumer loans impacted by COVID-19 compared to year-end 2019. The increase of debt instruments reflects the investment in high-quality securities.

Tangible non-current assets decreased by € 233 million to € 474 million as of 31 December 2020 compared to year-end 2019, which is mainly due to the reclassification of investment and other properties to the balance sheet position non-current assets held for sale according to IFRS 5.

Total liabilities and equity

in € million	2020	2019	Change	Change (%)
Total liabilities	**48,770**	**41,834**	**6,936**	**16.6**
Financial liabilities				
Fair value through profit or loss	324	369	(45)	(12.2)
Held for trading	422	334	88	26.3
At amortized cost	46,088	38,543	7,545	19.6
Customers	32,409	30,378	2,031	6.7
Issued securities	6,157	5,080	1,077	21.2
Credit institutions	7,522	3,085	4,437	>100
Financial liabilities associated with transferred assets	97	729	(632)	(86.7)
Valuation adjustment on interest rate risk hedged portfolios	358	337	21	6.2
Hedging derivatives	62	116	(54)	(46.6)
Provisions	425	480	(55)	(11.5)
Tax liabilities for current taxes	45	34	11	32.4
Tax liabilities for deferred taxes	112	54	58	>100
Other obligations	837	838	(1)	(0.1)
Total equity	**4,358**	**3,828**	**530**	**13.8**
Common equity	3,883	3,527	356	10.1
AT1 capital	471	297	174	58.6
Non-controlling interests	4	4	0	0.0
Total liabilities and equity	**53,128**	**45,662**	**7,466**	**16.4**

Financial liabilities at amortized cost increased by € 7.55 billion, or 19.6%, to € 46.09 billion as of 31 December 2020 compared to year-end 2019. In June 2020, we participated in the TLTRO III capacity with the maximum of € 5.8 billion. At the same time, we paid back the outstanding TLTRO II of € 0.6 billion. Furthermore, we issued 3 mortgage covered bonds throughout the year with a total volume of € 1.75 billion and a Tier 2 bond in the amount of € 200 million in September 2020. Additionally, our customer deposits in Retail as well as Corporates increased by 6.7% in 2020.

Total equity including Additional Tier 1 capital stood at € 4.36 billion as of 31 December 2020. The common equity includes the earmarked dividends of € 230 million for 2019 and € 142 million for 2020 and additionally a special dividend of € 88 million for 2020, which has not yet been paid out following the recommendation of the ECB. In September 2020, we issued an AT1 issue in the amount of € 175 million.

CAPITAL AND LIQUIDITY POSITION

Maintaining a strong capital position is considered a key strategic priority for BAWAG Group. Following the successful execution of our Additional Tier 1 and Tier 2 issuances in September 2020 we have updated our CET1 target ratio to 12.25% on a fully loaded basis. The target CET1 ratio takes the regulatory capital requirements into account and is calibrated to leave a conservative buffer above the minimum capital requirements set by the regulator.

For 2021, the regulatory minimum CET1 ratio applicable to BAWAG Group according to the SREP remains stable at 9.13% (based on the Pillar 1 minimum of 4.50%, a Pillar 2 requirement of 1.125% {2.0% total requirement of which 1.125% need to be met with CET1 instruments}), a capital conservation buffer of 2.50%, a systemic risk buffer of 1.0% and a countercyclical buffer of 0.01%). This already reflects the change in the composition of capital for the Pillar 2 requirement which was moved forward by the European Central Bank as part of the response to the outbreak of COVID-19 from 1 January 2021 to the first half 2020. To fulfill the total Pillar 2 requirement of 2.0%, 88 basis points can be filled with Additional Tier 1/Tier 2 capital. In addition to the capital requirement, the SREP for 2021 also includes a Pillar 2 guidance, which is set at 1% for BAWAG Group. The regulator therefore expects us to maintain a CET1 ratio of 10.13% (9.13% SREP requirement plus 1% Pillar 2 guidance).

Following the change in composition of the P2R, BAWAG Group reduced the management target from 13% to 12.25%. The 12.25% CET1 target ratio therefore represents a management buffer of 312 basis points versus our regulatory requirements (or approximately 212 basis points taking Pillar 2 guidance into account), which we consider to be a conservative level also compared to our competitors.

As of 31 December 2020, a fully loaded CET1 ratio of 14.0%, a fully loaded Tier 1 ratio of 16.3% and a fully loaded total capital ratio of 19.6% exceed both the target ratio and the regulatory requirements detailed above. These ratios consider the deduction of the 2019 dividend of € 230 million and the accrual of the 2020 dividend of also € 230 million based on a 50% payout ratio of net profit and a special dividend component. BAWAG Group will propose a € 40 million dividend to the extraordinary general meeting in March 2021 in line with the ECB's recommendations on dividends. BAWAG Group intends to pay out the remaining € 420 million in Q4 2021, subject to shareholder and regulatory approvals. Based on the fully loaded capital ratios as of 31 December 2020, the maximum distributable amount above the regulatory requirements for 2020 (Pillar 1 minimum ratios, Pillar 2 requirement and combined buffer requirements) is € 975 million (after taking the € 460 million dividend for 2019 and 2020 into account). Available distributable items as defined in Art. 4.1 (128) CRR on the level of BAWAG Group AG amount to approximately € 3.3 billion as of 31 December 2020.

Our strong capital position enables significant further growth and our capital distribution strategy. We target an annual dividend payout of 50% of net profit and aim to invest additional excess capital above the CET1 target ratio in organic growth and pursue earnings-accretive M&A at returns consistent with BAWAG Group's RoTCE target. To the extent excess capital is not deployed via such organic growth and M&A, we are committed to distributing excess capital to shareholders, based on a yearly assessment in the form of share buybacks and/or special dividends.

In Q1 2021, BAWAG Group received its new MREL decision from the Single Resolution Board ("SRB"). It is based on a single point of entry resolution strategy with BAWAG P.S.K. as the resolution entity. The MREL requirement (including combined buffer requirement) has been set at 25.3% of RWA on the consolidated level of BAWAG P.S.K. AG with the final requirement being applicable from 1 January 2024. The MREL decision also sets also a binding interim target of 22.0% of RWA, which needs to be met by 1 January 2022. The current MREL decision does not contain a subordination requirement.

As of 31 December 2020, BAWAG reported MREL-eligible instruments amounting to 26.2%[1)] of RWA, thereby already exceeding the binding interim target applicable from 1 January 2022 and the final requirement applicable from 1 January 2024.

1) Pro-forma figure including the impact of the merger between BAWAG P.S.K. AG and Südwestbank AG consumed in February 2021; number on BAWAG P.S.K. level

In addition to the MREL requirement based on RWA the SRB has also set an MREL requirement based on the leverage ratio exposure ("LRE"). This has been set at 5.91% of LRE on the consolidated level of BAWAG P.S.K. AG with the final requirement being applicable from 1. January 2022.

As of 31 December 2020, BAWAG reported MREL eligible instruments amounting to 9.7% [1)] of LRE, thereby already exceeding the final requirement applicable from 1. January 2022.

Our funding strategy continues to be based on our stable customer deposits. In addition to our strong deposit base, we have been active in the international capital markets with a number of successful transactions executed throughout 2020 across the capital structure. As part of our capital optimization measure to fully benefit from the change in the composition of the Pillar 2 requirement, we successfully placed € 175 million Additional Tier 1 and € 200 million Tier 2 in September 2020. In addition, we have been an active issuer in the covered bond space with three successful benchmark placements (one € 750 million and two € 500 million transactions).

BAWAG Group also participated in ECB's TLTRO III program to the with the maximum capacity of € 5.8 billion.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in our strong liquidity coverage ratio (LCR) of 231% at the end of 2020. BAWAG Group thereby significantly exceeds the regulatory LCR requirement of 100%.

1) On a pro-forma basis including the impact of the merger between BAWAG P.S.K. AG and Südwestbank AG expected to be executed in February 2021.

KEY QUARTERLY PERFORMANCE INDICATORS

in € million	**Q4 2020**	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Net interest income	233.8	234.8	227.8	219.9	223.9
Net fee and commission income	64.3	62.8	55.8	71.9	70.0
Core revenues	298.1	297.6	283.6	291.8	293.9
Operating income	302.3	290.2	284.2	295.6	314.3
Operating expenses	(144.7)	(125.3)	(124.7)	(125.0)	(133.9)
Pre-provision profit	157.6	164.9	159.5	170.6	180.4
Regulatory charges	(6.1)	(14.2)	(2.5)	(36.4)	(3.2)
Total risk costs	(45.3)	(49.7)	(74.6)	(55.0)	(25.0)
Profit before tax	107.3	101.3	80.8	80.5	153.8
Income taxes	(24.5)	(22.3)	(19.3)	(19.3)	(37.4)
Net profit	83.0	78.8	61.2	61.2	116.1
(figures annualized)					
Return on common equity[1)]	9.7%	9.3%	7.4%	7.5%	13.4%
Return on tangible common equity[1)]	**11.5%**	**11.1%**	**8.9%**	**9.1%**	**16.0%**
Net interest margin	2.28%	2.31%	2.27%	2.32%	2.36%
Cost-income ratio	47.9%	43.2%	43.9%	42.3%	42.6%
Risk costs / interest-bearing assets	0.44%	0.49%	0.74%	0.58%	0.27%
Tax rate	22.8%	22.0%	23.9%	24.0%	24.3%

1) Excluding AT1 capital and dividends

Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” on pages 268-270.

BUSINESS SEGMENTS

RETAIL & SME

Strategy

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

Across each of our brands, we drive a consistent strategy revolving around our 2.3 million customers, ensuring the best products and services are offered in the most efficient and frictionless manner. We deploy a sales-based organizational model where customer-facing teams are in the field, while centralizing back-office functions and leveraging the Group scale, which creates operational rigor and streamlined processes driving efficiency across the Group.

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

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

Across Austria and Germany, we operate 97 branches primarily for our Transactional & Advisory Banking customers. Our strength is founded in our large share of primary relationships focused on current accounts, credit cards, payments, savings, brokerage, funds and insurance advisory and private banking. This fee-driven business is focused on leveraging our high-quality and high-touch advisory with over 900 sales & sales support advisors with deep personal relationships, allowing us to understand our customer needs and deliver tailored offerings via our simple and transparent products and services. Over the years, as customer behavior has evolved, we have rapidly shifted our customers onto digital banking channels, primarily in the non-advisory daily banking needs. We will continue to invest in our advisory capacity, align our physical footprint to the constantly changing customer behavior and invest in enhancing our overall product and service offerings. The transformation of financial services will continue to move closer to the customers' everyday experiences through mobile and e-banking, online advisory and partnerships providing our customers the necessary financial products and services to meet their financial goals.

Our Retail Lending & Leasing product offering consists of secured lending products such as mortgages, building society housing products, auto loans & auto leases as well as unsecured consumer loans. These products are distributed through a variety of channels (both traditional and digital) and through partnerships across the DACH/NL-region. Our processes are highly automated, enabling us to have an efficient origination process from front-to-back in the markets we compete. This provides for a simple, easy and straightforward customer experience. Our 100+ Sales & Sales Support teams are physically located within our local markets, close to our Partners and end customers, while our back office is centralized in our operations factory, which enables us to ensure responses to the customer within 24 hours. In each of our markets, we try to compete on enhanced customer experiences and responsive turn-around times.

Our SME & Specialty Finance offerings span across Austria, Germany and Switzerland, consisting of factoring, equipment leasing and small-business banking (current accounts, lending and securities). We run multi-branded strategies across geographies with 150+ specialized sales & sales support advisors in the field.

While our sales organizations are split by experts in certain core products, all of our sales professionals are also equipped to sell any of our SME & Specialty Finance products. Our products are distributed across various channels including our branch networks, digital channels and/or partner relationships. Our end customers range from private entrepreneurs, domestic and international family run businesses to small cap public companies.

2020 Business Review

During 2020, the Retail & SME segment delivered a profit before tax of € 374 million, a return on tangible common equity of 22% and a cost-income ratio of 40%. While responding in real time to our customer needs during the prolonged COVID-19 crisis, we continued to execute on our strategic initiatives while delivering strong results.

From the onset of the COVID-19 pandemic, our response across our franchises was to stand by our customers and aid wherever necessary. During this time, 100% of our branch network remained open. In addition, our support teams pivoted to home office and we continue to deploy a "home-office" first strategy today. Our customer service centers, such as our call centers, maintained full capacity throughout the pandemic with some of the shortest wait times compared to competition. In addition, our digital banking teams simplified processes by creating online application forms allowing retail & SME customers to easily request payment holidays and allowing SME customers to easily access government-guaranteed lending programs.

Despite these challenging times, our teams continued to execute on our strategy around simplification. Our "Concept 21" footprint reduction initiative was completed in early 2020, ending with 86 branches versus the 436 branches (including post offices) from which we started. We continued to focus on making our operations simpler and more efficient. In 2020, we merged easybank into BAWAG P.S.K. and also began the merger of our German bank, Südwestbank, into BAWAG P.S.K. For both situations, we eliminate the banking licenses and centralize our back-office operations to leverage the Group platform. Our sales teams continue to be in the field and our go-to-market strategy and brands remain as easybank and Südwestbank.

In addition, our teams continued to execute on other operational initiatives and fast forwarding the integration of BFL Leasing, Health AG and Zahnärztekasse into BAWAG Group. We expedited the integration of these businesses into BAWAG Group and migrated two new core operating systems in under one year. Despite the operational challenges of integrating the businesses and dealing with the COVID-19 health crisis, each of these businesses was able to deliver strong results and continue to grow originations.

Finally, despite the challenges of the past year stemming from COVID-19 lockdowns and focusing on accelerating a number of operational initiatives, we delivered net asset growth of 6% in 2020, mainly from secured lending products. This is a further testament to the resilience of our business model, depth of our customer base and the rigor of our underwriting standards, where we continue to maintain disciplined pricing and focus on risk-adjusted returns to ensure responsible and profitable growth.

Outlook

We continue to execute on our long-term strategy centered around our 2.3 million customers, ensuring the best products and services are offered in the most efficient and simple manner. Our simplified operating model and focus on efficiency provides a cost advantage, enabling us to compete in low-risk but highly competitive markets and invest more to the benefit of both customers and shareholders. We anticipate a continued slowdown for the first half 2021 with customer behavior returning to normal in the second half 2021. While this pandemic has changed us forever, our promise to our customers remains the same – providing simple, transparent, and reliable financial products and services they need.

Financial results

Income metrics (in € million)	2020	2019	Change (%)	Q4 2020	Q4 2019	Change (%)
Net interest income	664.1	626.0	6.1	164.4	163.6	0.5
Net fee and commission income	218.6	242.2	(9.7)	54.9	59.9	(8.3)
Core revenues	**882.7**	**868.3**	**1.7**	**219.4**	**223.4**	**(1.8)**
Gains and losses on financial instruments	7.5	0.1	>100	2.5	(0.7)	-
Other operating income and expenses	2.7	2.4	12.5	0.8	1.5	(46.7)
Operating income	**892.9**	**870.8**	**2.5**	**222.7**	**224.2**	**(0.7)**
Operating expenses	**(360.8)**	**(372.9)**	**(3.2)**	**(90.4)**	**(90.3)**	**0.1**
Pre-provision profit	**532.2**	**497.9**	**6.9**	**132.2**	**133.9**	**(1.3)**
Regulatory charges	(31.4)	(27.0)	16.3	(4.6)	(1.7)	>100
Total risk costs	(126.3)	(76.3)	65.5	(21.4)	(25.9)	(17.4)
Profit before tax	**374.4**	**394.6**	**(5.1)**	**106.3**	**106.4**	**(0.1)**
Income taxes	(93.6)	(98.6)	(5.1)	(26.6)	(26.6)	0.0
Net profit	**280.8**	**295.9**	**(5.1)**	**79.7**	**79.8**	**(0.1)**

Key ratios	2020	2019	Change (pts)	Q4 2020	Q4 2019	Change (pts)
Return on tangible common equity	22.4%	23.5%	(1.1)	25.3%	24.6%	0.7
Net interest margin	3.55%	3.60%	(0.05)	3.42%	3.62%	(0.20)
Cost-income ratio	40.4%	42.8%	(2.4)	40.6%	40.3%	0.3
Risk costs / interest-bearing assets	0.68%	0.44%	0.24	0.44%	0.57%	(0.13)
NPL ratio	1.9%	1.9%	0.0	1.9%	1.9%	0.0
NPE ratio	2.2%	2.2%	0.0	2.2%	2.2%	0.0

Business volumes (in € million)	2020	2019	Change (%)
Assets	19,246	18,155	6.0
Risk-weighted assets	8,029	8,623	(6.9)
Customer deposits	25,837	24,848	4.0
Own issues	4,252	3,249	30.9

CORPORATES & PUBLIC

Overview & Strategy

The **Corporates & Public** segment focuses on domestic and international lending, deposits and payment services. Corporate lending includes the DACH-region as well as international lending, which is focused on developed and mature markets in Western Europe and the United States. We primarily target senior secured lending to strong sponsors on cash flow generating companies and assets. In the public sector business, our goal is to maintain our market position in Austria and retain our cash management business. We do this by focusing on payments with existing top clients, acquiring new clients for our payments business, focusing on specific tenders and cross-selling to existing borrowers. Furthermore, we have established an originate-to-sell platform in the public sector space focused on longer-term investors.

2020 business review

During 2020, the Corporates & Public segment delivered a profit before tax of € 107 million, a return on tangible common equity of 9% and a cost-income ratio of 29%. We continued to focus on our loan origination opportunities primarily in select developed markets. The focus remained on risk-adjusted returns. We see good opportunities across the domestic public sector business and idiosyncratic corporate lending.

The outbreak of COVID-19 resulted in subdued demand for commercial real estate and portfolio financing. Transactions that were in process were generally put on hold and inquiries for new borrowings from our clients came to a standstill.

Coordinated action from the various central banks provided stabilization to the markets and prompted clients to begin looking at new investments again. However, the type of transactions we are seeing have changed and are more idiosyncratic in nature.

While some of our clients have experienced increased financial pressure during this crisis, overall we have been pleasantly surprised at how they have responded to date. We will remain vigilant in monitoring our portfolio to ensure performance continues and are cautiously optimistic that any stress in our portfolio have limited impact.

Outlook

We continue to see a solid pipeline with diversified opportunities in 2021. However, competition for defensive, high-quality transactions will remain high. Our focus will be continuing to maintain our disciplined and conservative underwriting and focusing on risk-adjusted returns without ever chasing blind volume growth.

Financial results

Income metrics (in € million)	**2020**	2019	Change (%)	**Q4 2020**	Q4 2019	Change (%)
Net interest income	236.1	249.1	(5.2)	59.0	61.4	(3.9)
Net fee and commission income	38.9	43.0	(9.5)	10.0	10.5	(4.8)
Core revenues	**275.1**	**292.1**	**(5.8)**	**69.0**	**71.9**	**(4.0)**
Gains and losses on financial instruments	1.9	0.2	>100	1.1	1.3	(15.4)
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**276.9**	**292.3**	**(5.3)**	**70.1**	**73.3**	**(4.4)**
Operating expenses	**(80.4)**	**(100.1)**	**(19.7)**	**(19.1)**	**(22.3)**	**(14.3)**
Pre-provision profit	**196.5**	**192.2**	**2.2**	**51.0**	**51.0**	**0.0**
Regulatory charges	(9.3)	(10.0)	(7.0)	(0.9)	(0.9)	0.0
Total risk costs	(80.1)	7.6	-	(19.1)	(0.6)	>100
Profit before tax	**107.1**	**189.8**	**(43.6)**	**31.1**	**49.4**	**(37.0)**
Income taxes	(26.8)	(47.5)	(43.6)	(7.8)	(12.4)	(37.1)
Net profit	**80.3**	**142.4**	**(43.6)**	**23.3**	**37.1**	**(37.2)**

Key ratios	**2020**	2019	Change (pts)	**Q4 2020**	Q4 2019	Change (pts)
Return on tangible common equity	9.3%	14.4%	(5.1)	10.6%	15.6%	(5.0)
Net interest margin	1.70%	1.75%	(0.05)	1.67%	1.77%	(0.10)
Cost-income ratio	29.0%	34.2%	(5.2)	27.2%	30.4%	(3.2)
Risk costs / interest-bearing assets	0.58%	(0.05)%	-	0.54%	0.02%	0.52
NPL ratio	1.2%	1.0%	0.2	1.2%	1.0%	0.2
NPE ratio	1.2%	1.6%	(0.4)	1.2%	1.6%	(0.4)

Business volumes (in € million)	**2020**	**2019**	Change (%)
Assets	13,913	13,141	5.9
Risk-weighted assets	7,431	7,932	(6.3)
Customer deposits (incl. other refinancing) and own issues	12,950	7,118	81.9

CORPORATE CENTER AND TREASURY

Overview and strategy

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

Treasury continued to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our hold to collect and sell portfolio to preserve the flexibility of redeployment into customer loans or other balance sheet management activities. Treasury took advantage of the market sell-off during Q1 2020 to redeploy some of the liquidity into bonds from high-quality bank and corporate issuers. The overall composition of the portfolio reflects our strategy of maintaining high credit quality, short/medium duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

2020 business review

As of 31 December 2020, the investment portfolio amounted to € 6.5 billion and the liquidity reserve was € 9.8 billion. The investment portfolio's average maturity was four years, comprised 96% of investment grade rated securities, of which 76% were rated in the single A category or higher. The portfolio had no direct exposure to China, Russia, CEE or South-Eastern Europe. Exposure to Southern Europe continues to be moderate and comprises shorter-dated, liquid bonds of well-known issuers.

Outlook

Treasury & Markets will continue to focus on keeping streamlined processes in support of BAWAG Group's core operating activities and customer needs. Very accommodative monetary policy as well as ample fiscal support, lockdowns and immunization programs are likely to continue to be the key themes and drivers of the financial markets. However, we are committed to maintaining high credit quality and highly liquid investments with solid diversification.

Financial results

Income metrics (in € million)	**2020**	2019	Change (%)	**Q4 2020**	Q4 2019	Change (%)
Net interest income	16.0	3.8	>100	10.4	(1.1)	-
Net fee and commission income	(2.7)	(1.7)	(58.8)	(0.6)	(0.4)	(50.0)
Core revenues	**13.3**	**2.1**	**>100**	**9.7**	**(1.4)**	**-**
Gains and losses on financial instruments	(38.3)	70.4	-	(0.2)	(1.0)	80.0
Other operating income and expenses	27.3	4.9	>100	0.0	19.2	>-100
Operating income	**2.4**	**77.4**	**(96.9)**	**9.5**	**16.8**	**(43.5)**
Operating expenses	**(78.5)**	**(56.6)**	**38.7**	**(35.2)**	**(21.3)**	**65.3**
Pre-provision profit	**(76.1)**	**20.8**	**-**	**(25.7)**	**(4.5)**	**>-100**
Regulatory charges	(18.4)	(5.3)	>100	(0.7)	(0.6)	16.7
Total risk costs	(18.2)	(0.6)	>100	(4.8)	1.5	-
Profit before tax	**(111.6)**	**19.9**	**-**	**(30.0)**	**(2.0)**	**>-100**
Income taxes	34.9	1.1	>100	9.8	1.5	>100
Net profit	**(76.9)**	**20.8**	**-**	**(20.0)**	**(0.7)**	**>-100**

Business volumes (in € million)	**2020**	**2019**	Change (%)
Assets	19,968	14,366	39.0
Risk-weighted assets	4,612	3,829	20.4
Equity	3,894	3,594	8.3
Own issues and other liabilities	6,195	6,853	(9.6)

RISK MANAGEMENT

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

INTRODUCTION

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

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

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

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

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

CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Control environment

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

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

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

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

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

Risk assessment and control measures

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

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

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

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

Information and communication

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

Monitoring

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

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

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Per 31 December 2020, BAWAG Group AG's share capital amounted to € 89,142,237 and was divided into 89,142,237 non-par value bearer shares, which carry equal participation interest in the share capital of BAWAG Group AG.

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

> BAWAG Group AG on the one hand and (i) GoldenTree HoldCo Lux 1 S.à r.l., (ii) GoldenTree HoldCo Lux 2 S.à. r.l., (iii) GoldenTree HoldCo Lux 3 S.à r.l., (iv) GoldenTree Asset Management Dutch BV, (v) GN3 SIP LP and (vi) Stichting PGGM Depositary, (jointly the "GoldenTree Shareholders") on the other hand, have entered into a deconsolidation agreement (*Entherrschungsvertrag*) (the "GoldenTree Deconsolidation Agreement"). In the GoldenTree Deconsolidation Agreement, the GoldenTree Shareholders undertook vis-à-vis BAWAG Group AG certain self-restraints. These self-restraints apply in respect of the election and dismissal of Supervisory Board members, any vote of no-confidence and management matters that are brought before the general meeting of BAWAG Group AG. With respect to such matters the GoldenTree Shareholders shall exercise their voting rights only up to an aggregate maximum number equal to those voting rights of all other shareholders present at the respective general meeting minus 10,000 votes. This self-restraint undertaking only applies if the GoldenTree Shareholders were deemed to be the largest shareholder represented at such a general meeting. The GoldenTree Shareholders further undertook not to vote for the appointment (election) of Supervisory Board members of BAWAG Group AG who are not independent of GoldenTree and not to influence the composition of a board and any member of a board (other than by exercising GoldenTree Holdco Lux 2 S.à r.l.'s delegation right). If shares in BAWAG Group AG are to be transferred by a GoldenTree Shareholder to an affiliate or other entity controlled by GoldenTree, such transfer may only be effected if the transferee accepts to become a party to the GoldenTree Deconsolidation Agreement. Finally, the GoldenTree Shareholders are obliged to vote for the abolishment of GoldenTree Holdco Lux 2 S.à r.l.'s delegation right if the aggregated shareholding of the GoldenTree Shareholders falls below 20% of BAWAG Group AG's share capital for at least four consecutive weeks.
>
> Based on BAWAG Group AG's information pursuant to the most recent major holdings notifications the GoldenTree Shareholders held 19,448,595 shares in BAWAG Group AG, corresponding to 21.8% of BAWAG Group AG's share capital whereas no single GoldenTree Shareholders held shares corresponding to at least 10% of BAWAG Group AG's share capital.

Pursuant to BAWAG Group AG's Articles of Association, the shareholder GoldenTree Holdco Lux 2 S.à r.l. shall have the right to delegate one of the members of the Supervisory Board according to Section 88 Austrian Stock Corporation Act (*Aktiengesetz, AktG*), as long as it holds a direct participation in BAWAG Group AG of at least one share.

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

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

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

- Without prejudice to more extensive legal provisions, the following persons shall be excluded from membership in the Managing Board and in the Supervisory Board of BAWAG Group AG:
  - employees of BAWAG Group AG, with the exception of staff representatives who are appointed to the Supervisory Board in accordance with the provisions of the Works Constitution Act (*Arbeitsverfassungsgesetz, ArbVG*);
  - members of the managing boards and employees of Austrian credit institutions not belonging to the BAWAG P.S.K. group; furthermore, persons holding an interest of over 5% of the voting capital of Austrian credit institutions not

belonging to the BAWAG P.S.K. group, unless said credit institutions or persons themselves hold an interest of at least 2% of BAWAG Group AG's voting capital;
- persons who are directly and immediately related or related by marriage to a member of the Managing Board, the Supervisory Board or an employee of BAWAG Group AG or who are the spouse of a member of the Managing Board or Supervisory Board (whereas this ground for exclusion is only applicable to the members of the Managing Board and to the elected members of the Supervisory Board);
- persons who are prevented from carrying on a trade by Section 13 Para 1 to 6 of the Trade Act of 1994 (*Gewerbeordnung, GewO*).

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

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

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

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

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

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

- On 30 October 2020, the shareholders' meeting resolved to authorize the Managing Board for a period of 30 months from the date of the resolution in accordance with Section 65 Para 1 No 8 and Para 1a and 1b AktG to acquire own shares. Pursuant to the authorization, the consideration to be paid per share when acquiring shares must not be lower than € 1.0 and must not be more than 30% above the volume-weighted average price of the last 20 trading days preceding the respective purchase; in the event of a public offer, the reference date for the end of this period shall be the day on which the intention to launch a public offer has been announced. The Managing Board is authorized to determine the repurchase conditions.

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

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

  On 30 October 2020, the shareholders' meeting also resolved to authorize the Managing Board for a period of five years from the date of the resolution in accordance with Section 65 Para 1b AktG, to adopt a resolution, subject to the consent of the Supervisory Board, on the transfer of treasury shares using a different legally permitted method of sale than through the stock exchange or a public offer and on an exclusion of pre-emption rights (subscription rights) of shareholders, and to determine the terms and conditions of the transfer of shares.

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

All of these authorizations can be used once or on several occasions. The authorizations also include the use of treasury shares held by BAWAG Group AG, as well as shares in BAWAG Group AG acquired by subsidiaries or third parties for the account of BAWAG Group AG or a subsidiary pursuant to Section 66 AktG.

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

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

HUMAN RESOURCES

Our employees are the foundation for delivering on our strategy and building the BAWAG Group of tomorrow. Technology has not only changed customer behavior, but also the way we work together. Besides the traditional banking expertise, the capabilities and skillset of financial institutions' employees have and will continue to be enhanced to adapt to these changes. Attracting, developing and retaining excellent employees is key and therefore our responsibility is to create a working environment where people are given the space for their development.

Our culture differentiates us from others:

What defines our Bank is the incredible passion, commitment, work ethic, and faith we put in each other and our collective ability to both execute and deliver as one team.

DIVERSITY & INCLUSION

We do not make any distinction on gender, age, disabilities, (ethnic) backgrounds, religion, or sexual orientation in our recruitment and other human resources related processes. Equal treatment of our employees is not only part of our Code of Conduct, but also embedded in our culture: While the majority of our employees are located in Austria, our diverse workforce originates from over 45 nations.

In this context, we focused on our recruiting process in 2020. With the implementation of a modern recruiting tool in 2020, we also trained our hiring managers on diversity topics. Moreover, a specific workshop was held with our Human Resources recruiting team to raise awareness on unconscious bias and its effects.

PROMOTION OF WOMEN AT BAWAG GROUP

Attracting and retaining the right mix of employees is challenging. We have made great progress over the last years with the initiatives set. One key aspect of our women's promotion plan has been to encourage women to participate in personnel development programs. As examples, 12 of the total 21 participants in the "forTalents" Program in 2020 and 8 of the total 15 participants in the "Start & Move" Trainee Program were female.

We encourage women to take on leadership roles, in particular after maternity leaves. As year-end 2020, women represented 33% of senior leaders in BAWAG Group.

More details on the various programs are outlined in the Corporate Governance Section.

WELL-BEING OF OUR EMPLOYEES

Besides the working environment, we want to support our people during the different stages in their life, by offering flexible working hours and flexible work environments, supporting women after their return from maternity leave and promoting paternity leave, inhouse kindergarten, sabbatical options and leadership for part-time employees.

Throughout the COVID-19 pandemic, the health of our employees and customers has been of utmost importance to us. We took immediate action to ensure safety and provided specific COVID-19 information on all our communication channels, increased the cleaning intensity of our branches and headquarters, distributed masks, plexiglas panes, and disinfectants and security guards helped organize the customer flow in our branches. Employees from central areas were encouraged to work from home.

Especially during the lockdowns, our employees ensured – with untiring commitment – that our banking services were offered to our customers. This commitment has been acknowledged with a special "Corona-bonus" to all employees in BAWAG Group.

We also offer a health promotion program to our employees, which ranges from trainings to specific topics, health checks, a company doctor and preventive measures at reduced cost. Specially trained working psychologists offered online consultation during the COVID-19 lockdown.

LEADERSHIP DEVELOPMENT

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

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

In May 2020, the 23rd group of the "LEAD" curriculum was once again held in our central units. The program provides support and guidance for new members of the management team during their first year in their new function and serves as a platform to discuss day-to-day leadership challenges within the group of participants guided by an external consultor. The majority of workshops was held online.

Experienced leaders and management teams were again supported through individual (management) coaching and targeted change management measures - to meet the specific needs. The focus was on individual advice/coaching and optimal assistance for the managers (and their teams) from HR and outside coaches.

DEVELOPMENT, TRAINING AND SUCCESSION PLANNING

We support our employees in developing their talents and skills at different levels of their career. While offering specific programs, we also provide a wide range of training opportunities to help develop their personal as well as professional skills. During COVID-19 restrictions, all trainings and workshops were held online. Thus, training plans could be successfully completed in 2020.

With the increasing importance of sustainability for our Bank, we designed a self-learning program on sustainability and sustainable finance for all employees. An extensive and BAWAG Group-tailored self-learning program was rolled out for a defined group of risk managers and employees from related areas. Developing and retaining talented and qualified employees who show commitment and engagement is key for BAWAG Group. The banking landscape is undergoing constant changes and therefore it is our ultimate goal to promote a high-performing work environment, where we can strive together as a team for long-term success. While we promote professional as well as personal development, we simultaneously work on mitigating succession risk via rigorous succession and career planning.

With the talent identification and development process we have in place, we assess high potentials and develop them into potential successors for key functions in tailored programs.

Within the Risk area, the "Risk Center of Excellence"-Program supports young potentials in their development guided by risk mentors and prepares them for future broader responsibilities within BAWAG Group. The program includes job rotations, an inhouse academy, regular meetings with senior management and the assignment of a risk project.

Despite COVID-19, we launched in September 2020 an intense and focused training program for Data Analyst experts. The Data Analyst Academy was designed to attract talented graduates with technical and economic backgrounds and high affinity for data analysis. The program included a broad range of internal and external training on the business of banking and regulatory requirements, job rotations and "real-life" use cases. Following the Data Analyst Academy, eight – well trained – Data Analysts started their banking career with us.

BAWAG Group supports talented graduates: In October 2020, we welcomed ten trainees to our one-year Trainee Program to start their career and education in the financial industry. The multi-stage selection process was mainly held online.

In the branches, we offer the "Leader´s Basics" talent program. The participants are talented young employees with leadership potential who have been nominated as part of the succession planning process. They undergo a challenging program of technical and personal development training to prepare them to manage a branch. For experienced branch manager the "Leader`s Premium" program is a platform to exchange experience and work on personal development.

AWARDS AND CERTIFICATES

BEST RECRUITERS - the largest recruiting study in the German-speaking region – examines the recruiting measures of companies from the DACH-region on the basis of a scientific criteria catalogue that was created in cooperation with the scientific advisory board. The Candidate Journey is at the center of the survey. The extensive study results can be used to develop individual strategies for employers on how to optimize processes in recruiting and human resources.
BAWAG ranked second in the Banking & Financial Services industry and, out of 529 Austrian TOP employers, we took the 28th place in the overall evaluation.

Audit career and family: We strive to provide a good work-life balance and create a family-friendly work environment. In 2013, we were audited and awarded the title of "family-friendly company" by the Ministry of Science, Research and Economy and this year we successfully completed the re-auditing process.

In this context, we also participated in the new "Home Office/Remote Working" certification and continue to be represented in the "Network of Family-Friendly Enterprises".

equalitA: This seal of quality (Gütesiegel) from the Federal Ministry of Digital and Economic Affairs recognizes companies that support women internally and ensure gender equality within the company. Furthermore, women's careers are promoted and made visible, thus supporting professional gender equality both within the company and beyond. BAWAG Group received this award in July.

Offering a flexible working environment to our employees has been important to us even before the COVID-19 pandemic. With the events of the past months, the concept of flexible working models was clearly accelerated. We will continue supporting our employees with technical equipment and a modern FlexOffice framework. This is also in line with the needs of our employees. Working in a flexible environment with hybrid teams will remain a sustainable pillar of our culture.

MBO PROCESS (MANAGEMENT BY OBJECTIVES)

BAWAG Group’s remuneration policy is balanced in rewarding the performance, the competence and level of responsibility of the employees. Our “Management by Objectives” (MbO) approach remains a key management tool for supporting our business strategy. Setting targets in the yearly MbO process is important for the development of the bank and the performance of the employees. The performance evaluation reflects the employee’s competences and the achievements of the individual as well as Group targets. The MbO dialogues are held on a top-down basis to guarantee that the overall Bank targets are spread across each level.

CORPORATE SOCIAL RESPONSIBILITY

Being one of the biggest banks in Austria with 2.3 million customers, our business activities have a major influence on the local communities, the economy as well as the environment. The world is changing and, with that change, the expectations for a financial institution across stakeholders have changed as well. To achieve our goal of being the financial partner of choice for our customers, it is crucial for us to not only respond but to be proactive in addressing these changes. We not only strive to tackle the challenges we are faced with within our industry (i.e. the technological change, the macroeconomic themes, and the changing customer behavior), but also the challenges raised in the society we belong to (i.e. environmental and social aspects). The awareness of the latter has increased significantly over the last years and we at BAWAG Group want to contribute to not just mitigate potential negative impacts from our business activities, but also contribute in a positive way. We believe that by steadily increasing the sustainability of our core activities, we can make a difference for our local economy and society. The prerequisite for embedding these parameters in our organization and ensuring responsible growth that consequently allows us to invest in our people, capabilities and communities is our financial resilience as well as the proactive way we respond to changes in our business environment.

Steering these challenges just from the top or centrally would not reflect the way we interact and cooperate at BAWAG Group. To us, it is important that sustainability is embedded throughout the organization and to have each employee contributing within his or her own responsibilities. While monitoring these parameters and initiatives in the Non-Financial Risk and Environmental-Social-Governance Committee on a Managing Board level, we also have established other platforms, like ESG officers and working groups, which discuss strategic priorities with representatives of the organization's divisions, who also embed the topics in their teams. Furthermore, the key topics related to ESG are also reported and regularly discussed in Supervisory Board committees.

While we have continuously enhanced and improved our initiatives within BAWAG Group, we have besides our overall CSR strategy defined key focus areas for the respective pillars:

Environmental challenges

The preservation of an intact environment as the basis of life for future generations is one of the fundamental principles to us. Therefore, we aim to keep the direct effects on the environment in day-to-day working life and the indirect effects through products and services as low as possible. Our key focus areas are the following:

- Reducing our own scope 1 and scope 2 CO_2 emissions medium term … switching to 100% green electricity
- Continuously increasing ESG-related product offerings … both for environmental and social factors
- Introducing lending criteria and/or exclusion criteria for specific industries in 2021 … low or no volumes in customer loan book already today
- Planning a green bond issuance in 2021 … subject to market conditions

Due to the measures taken related to the pandemic, environmental factors were positively impacted, be it through significantly less business travel or less commuting by our employees. While part of it may return once the situation has normalized again, we are convinced that the situation served as a catalyst for accelerated changes in the way we work together and engage with our customers.

Social aspects

BAWAG Group assumes its social responsibility as a "good corporate citizen". Beyond the special situation during the pandemic, our regular company-wide initiatives consist of being a partner for several non-profit organizations, not providing support of any kind to political parties and offering volunteer days to our employees, to name a few.

Our key focus areas in the social pillar are:

- Empower our clients by continuously enhancing our services and digital/online functionalities for their financial well-being and ensuring them access to finance 24/7 … continuously enhancing our outreach by new platforms and partners
- Empower our employees by offering broad based career opportunities and focus on enhancing training and development programs
- Increase the number of women in management positions … offering targeted development programs
- Intensify collaboration with dedicated partners, bundling activities across the region and leveraging activities on a regional level for local communities

Furthermore, we have made several acquisitions since 2015, which supported to increase our SME business from approximately € 700 million in 2018 to € 1.3 billion by end of 2020. We are primarily active in specialty finance, specifically like dental factoring and IT and equipment leasing.

With the outbreak of COVID-19, corporate social responsibility came even further into the center of our activities. We established a task force early in the year which in line with the Managing Board defined measures to protect our employees and customers – beyond the measures taken by the government. We defined risk groups that had to strictly work from home, integrated home office in our working model starting in March and integrated safety measures for our employees working in the branches, which were opened throughout the pandemic as critical infrastructure. For our customers, we proactively launched several initiatives aimed at allowing a more frictionless banking experience during the pandemic, such as: implementing a new online processes to apply for payment holidays, engaging with customers on "take care" calls to address questions on digital/online banking, and providing digital solutions for small business to apply for government bridge loans. A detailed description of the measures is provided in the separate Corporate Social Responsibility Report.

To recognize the commitment of our employees during the pandemic, BAWAG Group paid a special bonus of € 300 to all employees, after having granted a € 1,000 special bonus to front-line employees following the first lockdown. Our initiatives in human resources can be found in the relevant section. Besides rewarding our employees during such a pandemic, we believe it is important for companies to support their local communities by providing financial and operational support to those individuals and groups that are most in need. Therefore, in addition to smaller regional donations and BAWAG P.S.K.'s traditional support for Licht ins Dunkel (€ 50,000 support for children and families experiencing various hardships), we raised € 150,000 together with our employees and the works council for a social project which provides educational opportunities for children and teenagers in Austria who are suffering from economic hardship (Volkshilfe).

Furthermore, the Managing Board also voluntarily waived any bonus for 2020, having already waived the bonus for 2019.

Governance

In addition to the standard governance framework a bank of our size and purpose is expected to have in place, we have also set out to put in place a governance structure which captures the right framework for the way we do business sustainably. This is to ensure we can achieve our ESG targets, track our ESG risks and impacts, and to align these components.

Many major ESG risks in the banking industry, such as privacy and data security, are not only a top priority for us, they are also on the agenda of directives set by our regulator. In addition, we are establishing a clear governance to address climate risks expectations and regulations.

While in 2020 the focus has been on dealing with the pandemic and on enhancing the disclosure on the most critical ESG risks for the banking industry, we are aware that the financial industry plays a key role for climate change through its lending activities. Being sustainable has been embedded in the choices we make – as a financial partner, as a business partner as well as how we select our suppliers. However, we are aware that our standards and engagement can be developed further, which will be our main target throughout the coming years and also to continuously enhance the related disclosure.

CSR REPORTING

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

In 2020, BAWAG Group again used the statutory option provided for in Section 267a Para 6 UGB to produce a separate consolidated non-financial report. This report can be downloaded from the BAWAG Group website under https://www.bawaggroup.com/csr

RESEARCH AND DEVELOPMENT

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

OUTLOOK AND TARGETS

The banking industry across Europe is undergoing a significant transformation and facing several challenges in form of negative interest rates, broken cost structures, overleveraged balance sheets, sub-par technology, new market entrants and subdued economic growth will be with us for the foreseeable future. We are confident that we have positioned BAWAG Group to successfully tackle these challenges in order to continue profitably grow our business while maintaining our conservative risk appetite.

Apart from continued industry-specific challenges, the outbreak of COVID-19 in 2020 led to severe economic disruptions this past year and will continue to impact economic activity in 2021. However, the governments in the DACH/NL-region, Western Europe and the United States have gone to great lengths to support their economies and have put in place extensive stimulus packages and support measures. Current forecasts expect the economies of the countries we operate in to recover during 2021, but a great deal will depend on the timing, effectiveness and wide-scale distribution of COVID-19 vaccines.

We expect a gradual improvement in 2021 and anticipate this year is a stepping-stone to our mid-term targets in a normalized environment. We delivered 10% RoTCE in a severely stressed economic environment, fortified our balance sheet, and took a very conservative approach to provisioning. We anticipate a subdued economic activity from imposed lockdowns during H1 2021, followed by a normalized environment in H2 2021.

In our outlook for 2021, we see core revenues growing approximately 2%, operating expenses below € 485 million and a significant reduction of over 40% in risk costs - given € 100 million ECL and general reserves, of which € 38 million management overlay, were taken in 2020 as well as de-minimis active payment holidays and the overall improving economic outlook we anticipate during the second half of the year.

Our targets are as follows:

Targets	2021	Mid-term (normalized environment)
Return on Tangible Common Equity	>13%	>15%
Cost/Income Ratio	<41%	<40%

In terms of capital generation and return, we target an annual dividend payout of 50% of net profit and will deploy additional excess capital to invest in organic growth and pursue earnings-accretive M&A at returns consistent with our Group RoTCE targets of at least 15%. To the extent excess capital is not deployed via such organic growth and M&A, we are committed to distributing excess capital to shareholders, based on a yearly assessment, in the form of share buybacks and/or special dividends.

The Managing Board deducted dividends of € 460 million from CET1 capital at the end of 2020. Based on BAWAG Group's dividend policy of 50% payout ratio of net profits, we earmarked dividends of € 372 million for 2019 and 2020. Additionally, the Managing Board plans to recommend to the ordinary annual general meeting a special dividend of € 88 million for 2020, so as to keep the absolute annual dividend payment of € 230 million consistent between 2019 and 2020. Given the most recent ECB recommendation from December 2020, a down payment of € 40 million on the total € 460 million earmarked dividend will be proposed to the extraordinary general meeting during the first quarter 2021, with the remaining € 420 million dividend to be paid in the fourth quarter 2021, subject to shareholder and regulatory approvals. The extraordinary general meeting, which will decide on the down payment € 40 million, will take place on March 3, 2021. The ordinary annual general meeting, in which the remaining € 420 million will be resolved upon, will be postponed to H2 2021.

Our solid operating performance, in a significantly challenged macroeconomic environment this past year, was a true testament to the resilience of BAWAG Group's franchise and strategic focus. We will continue to maintain our low-risk strategy focused on the DACH/NL-region and developed markets, providing our customers with simple, straightforward and reliable financial products and services that address our customers' needs.

23 February 2021

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Managing Board

Sat Shah
Member of the Managing Board

Andrew Wise
Member of the Managing Board

David O'Leary
Member of the Managing Board

Consolidated Financial Report

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

CONTENTS

CONSOLIDATED ACCOUNTS

PROFIT OR LOSS STATEMENT

in € million	[Notes]	2020	2019
Interest income		1,113.7	1,154.1
thereof calculated using the effective interest method		850.7	893.3
Interest expense		(200.2)	(278.7)
Dividend income		2.8	3.6
Net interest income	**[3]**	**916.3**	**879.0**
Fee and commission income		329.1	374.7
Fee and commission expense		(74.3)	(91.2)
Net fee and commission income	**[4]**	**254.8**	**283.5**
Gains and losses on financial assets and liabilities	[5]	(28.9)	70.7
thereof gains from the derecognition of financial assets measured at amortized cost		0.1	101.4
thereof losses from the derecognition of financial assets measured at amortized cost		(0.3)	(0.9)
Other operating income	[6]	127.7	111.0
Other operating expenses	[6]	(152.5)	(142.0)
Operating expenses		(524.0)	(533.8)
thereof administrative expenses	[7]	(443.0)	(460.6)
thereof depreciation and amortization on tangible and intangible non-current assets	[8]	(81.0)	(73.2)
Risk costs	[9]	(224.6)	(69.3)
thereof according to IFRS 9		(222.3)	(65.5)
Share of the profit or loss of associates accounted for using the equity method	[10]	1.1	5.2
Profit before tax		**369.9**	**604.3**
Income taxes	[11]	(85.4)	(145.0)
Profit after tax		**284.5**	**459.3**
Thereof attributable to non-controlling interests		0.3	0.2
Thereof attributable to owners of the parent		**284.2**	**459.1**

STATEMENT OF OTHER COMPREHENSIVE INCOME

in € million	[Notes]	2020	2019
Profit after tax		**284.5**	**459.3**
Other comprehensive income	[32]		
Items that will not be reclassified to profit or loss			
Actuarial gains (losses) on defined benefit plans		(13.9)	(29.4)
Fair value changes of shares and other equity investments at fair value through other comprehensive income		(40.0)	7.6
Change in credit spread of financial liabilities		(0.3)	(2.1)
Income tax on items that will not be reclassified		13.8	6.3
Total items that will not be reclassified to profit or loss		**(40.4)**	**(17.6)**
Items that may be reclassified subsequently to profit or loss			
Foreign exchange differences		(18.1)	(2.4)
Hedge of net investment in foreign operations		15.5	2.0
Cash flow hedge reserve		21.6	(12.8)
thereof transferred to profit (-) or loss (+)[1]		1.5	3.4
Fair value changes of debt instruments at fair value through other comprehensive income		123.0	54.1
thereof transferred to profit (-) or loss (+)		(30.2)	(3.0)
Share of other comprehensive income of associates accounted for using the equity method		0.8	2.3
Income tax relating to items that may be reclassified		(36.4)	(11.0)
Total items that may be reclassified subsequently to profit or loss		**106.4**	**32.2**
Other comprehensive income		**66.0**	**14.6**
Total comprehensive income, net of tax		**350.5**	**473.9**
Thereof attributable to non-controlling interests		0.3	0.2
Thereof attributable to owners of the parent		**350.2**	**473.7**

1) To net interest income.

For further details, please refer to Note 32 Equity.

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	31.12.2020	31.12.2019
Cash reserves	[12]	1,032	1,424
Financial assets at fair value through profit or loss	[13]	693	740
Financial assets at fair value through other comprehensive income	[14]	4,830	3,631
Financial assets held for trading	[15]	441	353
Financial assets measured at amortized cost	[16]	44,153	37,556
Customers		32,004	30,467
Credit institutions		9,889	5,720
Securities		2,260	1,369
Valuation adjustment on interest rate risk hedged portfolios		24	5
Hedging derivatives	[31]	405	397
Property, plant and equipment	[18]	332	396
Investment properties	[18]	143	311
Goodwill	[19]	94	94
Brand names and customer relationships	[19]	255	274
Software and other intangible assets	[19]	203	201
Tax assets for current taxes		9	15
Tax assets for deferred taxes	[20]	9	8
Associates recognized at equity	[53]	44	48
Other assets	[21]	326	209
Non-current assets held for sale	[22]	135	–
Total assets		**53,128**	**45,662**

Total liabilities and equity

in € million	[Notes]	31.12.2020	31.12.2019
Total liabilities		**48,770**	**41,834**
Financial liabilities designated at fair value through profit or loss	[23]	324	369
Financial liabilities held for trading	[24]	422	334
Financial liabilities at amortized cost	[25]	46,088	38,543
Customers		32,409	30,378
Issued bonds, subordinated and supplementary capital		6,157	5,080
Credit institutions		7,522	3,085
Financial liabilities associated with transferred assets	[41]	97	729
Valuation adjustment on interest rate risk hedged portfolios		358	337
Hedging derivatives	[31]	62	116
Provisions	[29]	425	480
Tax liabilities for current taxes		45	34
Tax liabilities for deferred taxes	[20]	112	54
Other obligations	[30]	837	838
Total equity	**[32]**	**4,358**	**3,828**
Equity attributable to the owners of the parent (ex AT1 capital)		3,883	3,527
AT1 capital		471	297
Non-controlling interests		4	4
Total liabilities and equity		**53,128**	**45,662**

STATEMENTS OF CHANGES IN EQUITY

in € million	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates
Balance as of 01.01.2019	**98.8**	**1,150.6**	**297.6**	**2,603.6**	**(7.7)**	**(82.0)**	**(10.9)**
Transfer from other comprehensive income	–	–	–	1.3	–	–	–
Transactions with owners	(10.9)	(24.4)	–	(605.2)	–	–	–
Share-based payment	–	(24.4)	–	–	–	–	–
Dividends	–	–	–	(215.2)	–	–	–
Buyback of shares	(10.9)	–	–	(390.0)	–	–	–
Transactions with non-controlling interests	–	–	–	0.5	–	–	–
AT1 capital	–	–	0.0	–	–	–	–
Change in scope of consolidation	–	–	0.0	–	–	–	–
AT1 coupon	–	–	–	(15.0)	–	–	–
Total comprehensive income	–	–	–	459.1	(9.6)[1)]	(21.7)	39.9[2)]
Balance as of 31.12.2019	**87.9**	**1,126.2**	**297.5**	**2,444.3**	**(17.3)**	**(103.7)**	**29.0**
Balance as of 01.01.2020	**87.9**	**1,126.2**	**297.5**	**2,444.3**	**(17.3)**	**(103.7)**	**29.0**
Transfer from other comprehensive income	–	–	–	(0.5)	–	–	–
Transactions with owners	–	21.9	–	–	–	–	–
Share-based payment	–	21.9	–	–	–	–	–
Dividends	–	–	–	–	–	–	–
Transactions with non-controlling interests	–	–	–	0	–	–	–
AT1 capital	–	–	173.0	–	–	–	–
AT1 coupon	–	–	–	(15.0)	–	–	–
Total comprehensive income	–	–	–	284.2	16.2[1)]	(10.3)	92.0[2)]
Balance as of 31.12.2020	**87.9**	**1,148.1**	**470.5**	**2,713.0**	**(1.1)**	**(114.0)**	**121.0**

1) Thereof transferred to profit or loss: plus € 1.1 million (2019: plus € 2.5 million).
2) Thereof transferred to profit or loss: minus € 22.2 million (2019: minus € 2.4 million).
This table may contain rounding differences.

Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
1.4	**5.4**	**(52.4)**	**–**	**(0.1)**	**4,004.3**	**1.1**	**4,005.4**
–	–	–	–	–	1.3	–	1.3
–	–	–	–	–	(640.5)	(0.9)	(641.4)
–	–	–	–	–	(24.4)	–	(24.4)
–	–	–	–	–	(215.2)	(0.9)	(216.1)
–	–	–	–	–	(400.9)[1)]	–	(400.9)
–	–	–	–	–	0.5	–	0.5
–	–	–	–	–	0.0	–	0.0
–	–	–	–	–	0.0	3.6	3.6
–	–	–	–	–	(15.0)	–	(15.0)
2.3	5.7	(1.6)	2.0	(2.4)	473.7	0.2	473.9
3.7	**11.1**	**(54.0)**	**2.0**	**(2.5)**	**3,824.3**	**4.0**	**3,828.3**
3.7	**11.1**	**(54.0)**	**2.0**	**(2.5)**	**3,824.3**	**4.0**	**3,828.3**
–	–	–	–	–	(0.5)	–	(0.5)
–	–	–	–	–	21.9	0	21.9
–	–	–	–	–	21.9	–	21.9
–	–	–	–	–	–	0	–
–	–	–	–	–	–	–	–
–	–	–	–	–	173.0	–	173.0
–	–	–	–	–	(15.0)	–	(15.0)
0.8	(29.9)	(0.2)	15.5	(18.1)	350.2	0.3	350.5
4.5	**(18.8)**	**(54.1)**	**17.5**	**(20.6)**	**4,353.9**	**4.3**	**4,358.2**

1) Including cost of share buyback in the amount of € 0.9 million.

For further details, please refer to Note 32 Equity.

CASH FLOW STATEMENT

in € million	[Notes]	2020	2019
I. Profit (after tax, before non-controlling interests)	Profit or loss statement	**284**	**459**
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities			
Depreciation, amortization, impairment losses, write-ups	[8], [9]	256	83
Changes in provisions	[29]	18	35
Changes in other non-cash items		220	(36)
Proceeds from the sale of financial investments, tangible non-current assets, intangible non-current assets and subsidiaries	[5], [6]	(9)	17
Share of profit of equity-accounted investees, net of tax	Profit or loss statement	1	(5)
Other adjustments (mainly received interest less paid interest)		(841)	(875)
Subtotal		**(71)**	**(322)**
Change in assets and liabilities arising from operating activities after corrections for non-cash items			
Financial assets at amortized cost		(5,938)	(740)
Other financial assets (not including investing activities)		(45)	(193)
Other assets		(89)	(77)
Financial liabilities at amortized cost		5,994	(1,219)
Other financial liabilities (not including financing activities)		808	854
Other obligations		6	(74)
Interest receipts		1,052	1,151
Dividend receipts	Profit or loss statement	3	4
Dividends from equity-accounted investees		6	4
Interest paid		(205)	(276)
Income taxes paid		(35)	(24)
II. Net cash from operating activities		**1,486**	**(912)**
Cash receipts from sales of			
Debt instruments at amortized cost		671	2,733
Debt instruments at fair value through other comprehensive income		325	1,173
Tangible and intangible non-current assets		26	32
Cash paid for			
Subsidiaries and other equity instruments at fair value through other comprehensive income		(11)	(31)
Debt instruments at amortized cost		(1,583)	(502)
Debt instruments at fair value through other comprehensive income		(1,573)	(1,696)
Tangible and intangible non-current assets	[18], [19]	(21)	(66)

in € million	[Notes]	2020	2019
Cash receipts from sales of associates		–	9
Acquisition of subsidiaries, net of cash acquired	[38]	–	(120)
III. Net cash used in investing activities		**(2,166)**	**1,532**
Changes in treasury shares	Statement of changes in equity	0	(401)[1]
Dividends paid	Statement of changes in equity	0	(216)
Issuance of subordinated liabilities (including those designated at fair value through profit or loss)		200	400
Changes in ownership interests in subsidiaries not resulting in a loss of control		0	5
Issuance of AT1 capital	Statement of changes in equity	175	–
AT1 coupon	Statement of changes in equity	(15)	(15)
Cash paid for amounts included in lease liabilities		(27)	(23)
Redemption of subordinated liabilities (including those designated at fair value through profit or loss)		(45)	(15)
IV. Net cash from financing activities		**288**	**(265)**
Cash and cash equivalents at end of previous period		**1,424**	**1,069**
Net cash from operating activities		**1,486**	**(912)**
Net cash used in investing activities		**(2,166)**	**1,532**
Net cash from financing activities		**288**	**(265)**
Cash and cash equivalents at end of period		**1,032**	**1,424**

1) Including cost of share buyback in the amount of € 0.9 million.

NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 | Accounting policies

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

The consolidated financial statements were prepared applying section 59a BWG, according to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and in accordance with the provisions of the standards (IFRS/IAS) published by the International Accounting Standards Board (IASB) and the interpretations by the IFRS Interpretations Committee (IFRIC/SIC) as applicable on the reporting date as adopted by the EU and therefore mandatory with respect to the consolidated financial statements as of 31 December 2020.

These consolidated financial statements for BAWAG Group according to IFRS are based on the individual annual financial statements for all fully consolidated Group companies according to IFRS as of 31 December 2020. All material associates are accounted for using the equity method.

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

The recognition and measurement principles described below have been applied uniformly with respect to all of the financial years stated in these consolidated financial statements.

We have maintained the accounting and valuation methods that were applied in the consolidated financial statements as of 31 December 2019.

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

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

Scope of Consolidation and Consolidation Principles

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

As of 31 December 2020, the consolidated financial statements included 60 (2019: 62) fully consolidated companies and 2 (2019: 2) companies that are accounted for using the equity method in Austria and abroad.

In the third quarter 2020, IMMO-BANK Aktiengesellschaft as the transferring company was merged with BAWAG P.S.K. Wohnbaubank Aktiengesellschaft as the absorbing company. Due to the merger, IMMO-BANK Aktiengesellschaft was eliminated from the scope of consolidation.

By resolution dated 29 October 2020, the Annual General Meeting of BAWAG P.S.K. AG approved the cross-border merger of SÜDWESTBANK Aktiengesellschaft as the transferring company with BAWAG P.S.K. AG as the acquiring company in accordance with the provisions of the joint merger plan dated 24 September 2020. The cross-border merger will be carried out in accordance with the German Transformation Act and the Austrian EU Merger Act and has been filed with the Commercial Register Court. The merger is expected to be registered at the end of February 2021.

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

The carrying amount of the associates that are not accounted for using the equity method totaled € 1 million (2019: € 13 million) on 31 December 2020. Controlled companies with a carrying amount of € 18 million (2019: € 11 million) were not consolidated because they did not have a material effect on the Group's assets, financial position or the results of its operations.

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

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

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

Capitalized goodwill in the amount of € 94 million (2019: € 94 million) is recognized under Goodwill on the Statement of Financial Position. In accordance with IFRS 3 in conjunction with IAS 36 and IAS 38, the recognized goodwill of all cash-generating units (CGUs) is subject to annual impairment testing in accordance with IAS 36.

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

Currently, the goodwill is allocated to the easybank franchise (€ 59 million), Zahnärztekasse AG (€ 20 million), Health Coevo AG (€ 15 million), BAWAG P.S.K. Versicherung AG (€ 11 million) and PSA Payment Services Austria GmbH (€ 2 million) – the latter two entities are accounted for using the equity method – as these are the smallest CGUs to which goodwill can be assigned. Further details on the entities accounted for using the equity method can be found in Note 37 and Note 53.

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

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

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

IFRS 9 Financial Instruments

Financial instruments are recognized and derecognized on the trade date.

Classification of Financial Assets and Financial Liabilities

Financial Assets

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

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

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

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

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

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

Business Model Assessment for Financial Assets

The Group identified the following business models:

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

In accordance with IFRS 9, financial liabilities

- not held for trading or
- designated as Financial liabilities at fair value through profit or loss

are measured at amortized cost.

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

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

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

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

Reclassifications

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

Contractual Modifications

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

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

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

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

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

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

Equity Instruments

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

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

Hedge Accounting

IFRS 9 also contains a new general hedge accounting model. This model aligns hedge accounting more closely with operational risk management and allows hedging strategies that are used for the purposes of risk management. The effectiveness test as a requirement for the use of hedge accounting was revised: Instead of the quantitative criterion (bandwidth of 80% to 125%), qualitative and quantitative criteria for a forward-looking effectiveness assessment have been introduced. Furthermore, voluntary terminations of hedge relationships are no longer allowed in general, but only if certain requirements are met.

Rules for rebalancing were introduced for hedging relationships in which the hedged risk and the risk covered by hedging instruments are not identical. These rules state that the hedge ratio can be adjusted in the event of correlation changes without having to terminate the hedge relationship.

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

BAWAG Group decided to continue applying hedge accounting according to IAS 39.

Impairment

Please see the Risk Report for information about impairments.

Hedge Accounting

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

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

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

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

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

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

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

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

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

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

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

Implications in Connection with Brexit

As of 31 December 2020, BAWAG Group uses hedging derivatives with a notional amount of € 676 million (2019: € 579 million) and a market value of € 13 million (2019: € 4 million) in a hedging relationship that were cleared via London Clearing House. The London Clearing House will keep its status as a central clearing counterparty (CCP) until 30 June 2022. Thus, there were no implications on the Group financials of BAWAG Group in 2020. BAWAG Group will monitor the development of this topic and will set appropriate measures if necessary.

Micro Fair Value Hedge

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

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

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

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

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

Portfolio Fair Value Hedge

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

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

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

Cash Flow Hedge

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

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

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

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in 2020 fair value gains in the amount of € 21.6 million (2019: losses in the amount of € 12.8 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied cash flow hedge accounting.

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

Net Investment Hedge

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

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

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

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

In other comprehensive income, the changes in the value of the hedging instruments are reported under Hedge of net investment in foreign operations. In 2020, fair value gains in the amount of € 15.5 million (2019: € 2.0 million) would have been presented in the line item Gains and losses on financial instruments in the income statement if BAWAG Group had not applied net investment hedge accounting.

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

IBOR Reform

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

For BAWAG Group, it is also relevant that the European Council finally adopted amendments to the Benchmark Regulation in February 2021 which are intended to ensure a smooth transition in the event of a discontinuation of financial benchmarks. The amendments are important for the European legislator to avoid systemic risks that could result from the discontinuation of LIBOR by the end of 2021 and to protect the financial stability of EU markets. Further, the amendments to the Benchmark Regulation are intended to ensure that regulators can introduce a statutory substitute reference benchmark before a systemically important reference benchmark is no longer used. It also establishes a framework for replacing a reference benchmark through national legislation. BAWAG Group is monitoring these developments at the legislative level and assumes that there are still some delegated acts to be considered in the course of the benchmark reforms, which will be enacted in 2021.

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

Non-derivative financial assets and financial liabilities

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

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

The securities without replacement language will mature within the next 5 years and consist of securities with interest rate floors that would require an increase in benchmark interest rates of more than 200bp for a benchmark interest rate to be applicable in the calculation of the coupon.

Derivatives and hedge accounting

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

ISDA has reviewed its definitions in light of the IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the 2006 ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The Group has adhered to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. If derivative counterparties also adhere to the protocol, then new fallbacks will be automatically implemented in existing derivative contracts when the supplement becomes effective – i.e. on 25 January 2021. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks. Consequently, the Group is monitoring whether its counterparties will also adhere to the protocol and, if there are counterparties that will not, then the Group plans to negotiate with them bilaterally about inclusion of new fallback clauses.

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

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

Financial Guarantees

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

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

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

Methods for Determining the Fair Value of Financial Instruments

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

Derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit-Linked Notes

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

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

Measurement for Asset Backed Investments

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

Fair Value of Participations

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

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

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

The post-tax discount rate is composed of the risk-free rate, the local market risk premium and the beta factor. The following parameters are used as of 31 December 2020:

- The risk-free rate (-0.14%) is the 30-year spot rate calculated in accordance with the Svensson method, based on the parameters published by Deutsche Bundesbank.
- The source for the country-specific market risk premium is the website of Damodaran in conjunction with the recommendation of the Austrian Chamber of Chartered Public Accountants and Tax Consultants, whose Business Valuation working group sets a range from 7.5% to 9%. Due to the low level of the risk-free rate, a market risk premium of 8.39% was chosen.

- The applied beta factor for banks and financial service companies (1.09) is the two-year weekly average beta of 11 banks listed on European stock exchanges with retail as their core business. To avoid unsustainable overemphasis of the market in the wake of the COVID 19 crisis, a rolling beta factor is derived, the two-year betas of the peer group are formed over 8 quarters taking the mean value (rolling beta). Bloomberg serves as the relevant source. Banks with an R^2 (coefficient of determination) of at least 0.15 and/or a value for the t-test (hypothesis test) of at least 1.98 qualify for the peer group. The applied beta factor for stock exchanges is 0.86.

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

Transfers of Financial Instruments

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

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

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

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

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

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

Intangible Non-Current Assets, Property, Plant and Equipment

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

Intangible non-current assets with an indefinite useful life are recognized at cost less impairments. Brands are not amortized as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life if there are no legal, contractual, regulatory or other factors limiting that useful life. Intangible assets and property, plant and equipment with limited useful lives are recognized at cost less straight-line amortization or depreciation and impairments. Buildings are depreciated at an annual rate of between 2.0% and 4.4%, other furniture and equipment is depreciated at annual rates between 5.0% and 100.0%, while IFRS 16 right-of-use assets are depreciated at annual rates between 5.0% and 92.2%. Purchased and self-produced software and other intangible assets and rights (other than goodwill and brand names) are amortized at annual rates between 3.5% and 100.0%. The high annual rates are due to Südwestbank, since depreciation of non-current assets is calculated using the remaining useful life starting with the closing date. Customer relationships are amortized over approximately 8–30 years (2019: approximately 8–30 years) using a linear amortization rate. The amortization method and period are reviewed annually according to IAS 38. For details, please refer to Note 19.

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

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

Investment Properties

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

Impairment Testing

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

The cash flow projections are based on the annual profits planned by the management of the company for the next five years and a perpetual growth rate (0.5% for Zahnärztekasse AG, 1.0% for all others) thereafter. The sustainable growth rate was determined on the basis of the estimated long-term annual profit growth rate, which matches the assumption that a market participant would make. The discount rate was estimated based on average equity returns in the sector and amounts to 7.16% for Zahnärztekasse AG and 9.01% for all other entities (2019: 8.57%).The planning assumptions for the period 2021–2025 are based on the ECB's economic assumptions, specifically the publication of the ECB Severe Scenario of June 2020 as expected value. The planning input is based on the business strategy, which envisages organic growth in the core market. Above all, growth is planned in the mortgage field. In addition, new products will be offered to the market. Potential in the NCI is to be realized through continuous improvement in the advisory business (insurance and securities).

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

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

IFRS 16 Leases

Definition of a Lease

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

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

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

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

BAWAG Group as Lessor

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

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

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

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

The operating leasing business is not material for BAWAG Group.

BAWAG Group as Lessee

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

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

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

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

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

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

Income Taxes and Deferred Taxes

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

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

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

According to IAS 12.34, a deferred tax asset is recognized for tax loss carryforwards if it is probable that future taxable profit will be available against which the unused tax losses can be utilized. As of 31 December 2020, unused tax losses amounted to € 0 million (2019: € 125 million) at the level of BAWAG Group AG and € 23 million (2019: € 31 million) at the level of members of the tax group included in the consolidated financial statements, hence a total of € 23 million (2019: € 156 million). Tax goodwill amortization will contribute another € 76 million per year as tax-deductible expenses until the end of 2021.

The utilizability of unused tax losses and deferred tax assets by BAWAG Group was tested on the basis of the Group's long-term plan (planning period: five years). The expected utilization of unused tax losses is projected to amount to € 23 million (2019: € 156 million). In total, deferred tax assets for tax loss carryforwards in the amount of approximately € 6 million (2019: € 39 million) are recognized within BAWAG Group. If the forecasted taxable results varied by 10% compared to management estimates, deferred tax assets would remain unchanged (2019: would remain unchanged) if results improve and would remain unchanged (2019: would remain unchanged) if forecasted results turn out to be lower than expected. COVID-19 has no effect on the utilizability of unused tax losses of BAWAG Group.

Foreign subsidiaries had tax loss carryforwards of € 106 million as of 31 December 2020 (2019: € 99 million), which are currently not utilized for tax purposes.

A tax group pursuant to section 9 KStG was parented by BAWAG Group AG in the financial year. On 31 December 2020, the tax group consisted of the group parent and 29 members, both consolidated and non-consolidated in these financial statements (2019: 25 members).

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

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

As of 31 December 2020, the exit of BAWAG Group AG from the tax group and the exit of all other group members, with the exception of the new members in 2019 and 2020, would not result in a corporate income tax back payment as of 31 December 2020 because the minimum period of three years as required by section 9 paragraph 10 KStG was already fulfilled. The new group members who entered the tax group in 2019 and 2020 would incur a corporate income tax back payment in the amount of € 1 million (2019: € 0 million).

In 2020, Südwestbank AG was merged into BAWAG P.S.K. AG in accordance with the principles of the Austrian Reorganization Tax Act and the German Reorganization Tax Act.

Provisions for Employee Benefits

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

The principal parameters underlying the actuarial calculations are:

Parameters for post-employment pension obligations

	2020	2019
Interest rate EUR	0.70% p.a.	1.00% p.a.
Interest rate CHF	0.20% p.a.	0.25% p.a.
Wage growth	1.0%–2.0% p.a.	1.0%–2.0% p.a.
Fluctuation discount	0%–7.64% p.a.[1)]	0%–8.30% p.a.[1)]

Parameters for severance payments and anniversary bonuses

	2020	2019
Interest rate	0.70% p.a.	1.00% p.a.
Wage growth severance payments	3.10% p.a.	3.10% p.a.
Wage growth anniversary bonuses	2.00%–2.80% p.a.	1.20%–2.80% p.a.
Fluctuation discount severance payments	0%–0.34% p.a.	0%–0.34% p.a.
Fluctuation discount anniversary bonuses	0%–9.75% p.a.[1)]	0%–9.75% p.a.[1)]
Retirement age	59–65 years[2)]	59–65 years[2)]

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

The interest rate used in 2020 was changed from 1.00% in the previous year to 0.70%.

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

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

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

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

The post-employment benefit rights of the majority of employees are defined contribution plans. The contributions that are made to these pension funds are recognized as expenses in the current period; there are no further obligations. Payments to pension funds for defined contribution plans amounted to € 8 million in 2020 (2019: € 8 million).

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

Share-Based Payments

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

Equity-Settled Awards

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

That cost is recognized in employee benefits expense together with a corresponding increase in equity (other capital reserves) over the period in which the service and, where applicable, the performance conditions (not relevant for the current program) are fulfilled (the vesting period).

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

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

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

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

Cash-Settled Awards

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

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

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

Modifications from Equity-Settled to Cash-Settled and vice versa

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

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

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

Contingent Liabilities and Unused Lines of Credit

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

Equity

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

Revenue Recognition

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

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

Description of P&L Lines

Interest Income and Interest Expense

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

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

Interest income and interest expense are recognized on an accrual basis

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

Fee and Commission Income and Expense

This item consists mainly of income from and expenses for payment transfers, securities and custody business, lending and payments to Österreichische Post AG for the use of its distribution network (until 2019). Income and expenses are recognized on an accrual basis. For details, see Note 4.

Gains and Losses on Financial Assets and Liabilities

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

Other Operating Income and Expenses

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

Administrative Expenses

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

Risk Costs

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

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

Net Gains or Losses on Financial Instruments

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

Cash Flow Statement

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

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

Latitude of Judgment and Uncertainty of Estimates

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

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

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

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

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

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

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

- recoverability of intangible assets
- recognition of provisions for uncertain liabilities
- assessments of legal risks from legal proceedings, supreme court rulings and inspections of regulatory authorities and the recognition of provisions regarding such risks
- assessment of the lease term applied for the standard IFRS 16 Leases
- assessing which entities are structured entities, and which involvements in such entities are interests
- IFRS 9: Judgment may be required when assessing the SPPI criterion to ensure that financial assets are classified into the appropriate measurement category. Assessments of the recoverability of long-term loans are based on assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to the lending business. In light of the ongoing COVID-19 pandemic, assessment regarding the measurement of individual financial assets, assessments regarding the transfer of financial instruments from stage 1 to stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans are based on the latest observations available to us. The long-term impact of the pandemic on economic development, development of labor and other industry-specific markets as well as the payment holidays granted inside and outside of state or industry moratoria may be overestimated or underestimated when applying hindsight in the future. For details regarding quantitative effects of COVID-19 as at 31 December 2020, please refer to the Risk Report.
- fair value calculation for unquoted financial instruments where some parameters required for the valuation model are not observable in the market (Level 3). For details regarding effects of COVID-19 as at 31 December 2020, please refer to Note 34 Fair value.

Latitude of Judgment and Uncertainty of Estimates – City of Linz

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

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

The City of Linz filed a lawsuit against BAWAG Group at the Commercial Court of Vienna at the beginning of November 2011 seeking payment of CHF 30.6 million (equaling € 24.2 million at the exchange rate at that time), which corresponds to the net cash payments made by the City of Linz whilst performing the swap agreement. 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, which mainly reflects close-out costs BAWAG Group incurred. The court combined the two suits. The first hearings were held in the spring of 2013 and a court commissioned expert opinion as well as a supplementary opinion thereto were submitted in August 2016 and December 2017. On 8 April 2019, the City of Linz filed a motion for an interim judgment (Zwischenurteil) with respect to their CHF 30.6 million claim to determine whether the swap agreement is valid. The court responded to such motion with a separation of the previously combined two proceedings and suspended BAWAG Group’s (counter) claim pending the outcome of a potential interim judgment. On 7 January 2020, the court issued an interim judgment (Zwischenurteil) in which it held that the swap agreement is void. The written reasoning of the court's interim judgment was rendered by the court on 18 November 2020. BAWAG Group appealed this decision on 15 December 2020. The interim judgment is not a decision on the mutual payment claims of BAWAG Group and the City of Linz. Further, notwithstanding the interim decision of the court of first instance, ultimately the case will be decided by the Court of Appeal and the Supreme Court. BAWAG Group therefore takes the view that its strong legal position remains unchanged and is well prepared for the forthcoming court proceedings. 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 judgment is enforceable will take several years.

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

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

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

Effects of Adopting Amended and New Standards

The following standards, amendments and interpretations to existing standards were mandatory for the first time for the 2020 consolidated financial statements:

Standards/Amendments/Interpretation	First-time application	Adopted by the EU	Impact on BAWAG Group
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1 January 2020	29 November 2019	Immaterial
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	1 January 2020	29 November 2019	Immaterial
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020	15 January 2020	See Note 1 – IBOR Reform
Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)	1 January 2020	21 April 2020	None
Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions (issued on 28 May 2020)	1 June 2020	9 October 2020	None

The following standards, amendments and interpretations to existing standards were approved by the International Accounting Standards Board (IASB) and endorsed by the EU but are not yet mandatory for the preparation of IFRS financial statements for the period ended 31 December 2020. BAWAG Group does not plan an early application of endorsed but not yet effective standards:

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

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

Standard/Interpretation/Amendment	Expected impact on BAWAG Group
IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)	None
Amendments to • IFRS 3 Business Combinations; • IAS 16 Property, Plant and Equipment; • IAS 37 Provisions, Contingent Liabilities and Contingent Assets • Annual Improvements 2018–2020 (issued on 14 May 2020)	Immaterial
Amendments to IAS 1: Classification of Liabilities as Current or Non-current and Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020, respectively)	Immaterial

DETAILS OF THE CONSOLIDATED PROFIT OR LOSS STATEMENT

2 | Earnings per share

Earnings per share pursuant to IAS 33

	2020	2019
Net result attributable to owners of the parent (in € million)	284.2	459.1
AT1 coupon (in € million)	(15.0)	(15.0)
Net result attributable to owners of the parent after deduction of AT1 coupon (in € million)	**269.2**	**444.1**
Weighted average number of outstanding shares	87,937,130	97,840,364
Basic earnings per share (in €)	**3.06**	**4.54**
Weighted average diluted number of outstanding shares	89,121,117	97,942,999
Diluted earnings per share (in €)	**3.02**	**4.53**

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

	2020	2019
Net result attributable to owners of the parent (in € million)	**284.2**	**459.1**
Weighted average diluted number of outstanding shares	89,121,117	97,942,999
After-tax earnings per share in (€) – BAWAG definition	**3.19**	**4.69**

Changes in number of outstanding shares

	2020	2019
Shares outstanding at the beginning of the period	87,937,130	98,794,893
Shares outstanding at the end of the period	87,937,130	87,937,130
Weighted average number of outstanding shares	87,937,130	97,840,364
Weighted average diluted number of outstanding shares	89,121,117	97,942,999

Earnings per share represent the net result attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding during the reporting period. A part of the shares bought back in prior periods is used for a part of our long-term incentive program which only has a service condition. For these shares, a potential dilutive effect is calculated. For further details regarding the 2019 share buyback, please refer to Note 32 Equity.

3 | Net interest income

in € million	2020	2019
Interest income	**1,113.7**	**1,154.1**
Financial assets at fair value through profit or loss	13.3	17.7
Financial assets at fair value through other comprehensive income	70.4	36.8
Financial assets held for trading	101.0	90.6
Financial assets at amortized cost	780.3	856.5
Derivatives – Hedge accounting, interest rate risk	102.5	138.6
Interest income from financial liabilities	46.3	14.0
Other assets	(0.1)	(0.1)
Interest expense	**(200.2)**	**(278.7)**
Deposits at central banks	(18.1)	(12.6)
Financial liabilities designated at fair value through profit or loss	(13.8)	(16.7)
Financial liabilities held for trading	(29.6)	(45.9)
Financial liabilities measured at amortized cost	(53.5)	(97.0)
Derivatives – Hedge accounting, interest rate risk	(68.1)	(91.3)
Provisions for social capital	(3.8)	(6.3)
Interest expense from IFRS 16 lease liabilities	(2.6)	(2.5)
Interest expense from financial assets	(10.7)	(6.4)
Dividend income	**2.8**	**3.6**
Financial assets mandatorily at fair value through profit or loss	2.3	3.1
Financial assets at fair value through other comprehensive income	0.5	0.5
Net interest income	**916.3**	**879.0**

Interest income and similar income are recognized on an accrual basis. Interest income also includes premiums and discounts on securities classified as financial investments as well as premiums and discounts on acquired loan portfolios that are allocated in accordance with the accruals concept, among other items. Interest income on impaired receivables during 2020 amounted to € 5.6 million (2019: € 5.5 million). Interest income includes income from negative interest of € 46.3 million (2019: € 14.0 million). Interest expense includes expenses from negative interest of € 28.8 million (2019: € 19.0 million). Interest income from financial assets at fair value through other comprehensive income and financial assets at amortized cost is calculated using the effective interest method. Dividend income from financial assets at fair value through other comprehensive income is related to investments held at the end of the reporting period.

4 | Net fee and commission income

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

Jan–Dec 2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**283.5**	**45.2**	**0.1**	**0.3**	**329.1**
Payment transfers	182.7	29.9	0.1	0.1	212.8
Lending	22.8	3.5	–	–	26.3
Securities and custody business	46.4	10.5	–	–	56.9
Factoring	15.9	–	–	–	15.9
Other services	15.7	1.3	–	0.2	17.2
Fee and commission expense	**(64.9)**	**(6.3)**	–	**(3.1)**	**(74.3)**
Payment transfers	(57.8)	(0.7)	–	0.1	(58.4)
Lending	(5.2)	(1.2)	–	(0.1)	(6.5)
Securities and custody business	(0.2)	(3.4)	–	(2.9)	(6.5)
Factoring	–	–	–	–	–
Others	(1.7)	(1.0)	–	(0.2)	(2.9)
Net fee and commission income	**218.6**	**38.9**	**0.1**	**(2.8)**	**254.8**

Jan–Dec 2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	BAWAG Group
Fee and commission income	**329.3**	**45.2**	**0.6**	**(0.4)**	**374.7**
Payment transfers	220.2	31.1	–	–	251.3
Lending	29.6	4.2	–	–	33.8
Securities and custody business	47.3	4.7	0.3	(0.3)	52.0
Factoring	12.7	–	–	–	12.7
Other services	19.5	5.2	0.3	(0.1)	24.9
Fee and commission expense	**(87.1)**	**(2.2)**	**(0.2)**	**(1.7)**	**(91.2)**
Payment transfers	(69.9)	(0.2)	–	–	(70.1)
Lending	(7.0)	(0.9)	–	–	(7.9)
Securities and custody business	(2.8)	(0.7)	(0.1)	(1.7)	(5.3)
Factoring	–	–	–	–	–
Others	(7.4)	(0.4)	(0.1)	–	(7.9)
Net fee and commission income	**242.2**	**43.0**	**0.4**	**(2.1)**	**283.5**

Net fee and commission income includes an amount of € 3.0 million (2019: € 2.6 million) for fiduciary transactions. Income from payment transfers and securities and custody business is recognized mainly at a point in time. Income from lending is recognized mainly over time. Other income is recognized using a mix of point in time and over time.

5 | Gains and losses on financial assets and liabilities

in € million	2020	2019
Realized gains and losses on financial assets and liabilities not measured at fair value through profit or loss, net	**25.4**	**107.3**
Financial assets at fair value through other comprehensive income	30.3	10.3
Financial assets measured at amortized cost	(1.9)	99.3
Financial liabilities measured at amortized cost	(1.3)	(2.5)
Gain from the sale of subsidiaries and associates	–	0.4
Net gain or loss from modifications	(1.7)	(0.2)
Gains (losses) on financial assets and liabilities held for trading, net	**(84.2)**	**(53.8)**
Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net	**20.1**	**7.7**
Gains (losses) from fair value hedge accounting	**14.2**	**7.4**
Fair value adjustment of hedged item	(23.0)	(189.8)
Fair value adjustment of hedging instrument	37.2	197.2
Exchange differences, net	**(4.4)**	**2.1**
Gains and losses on financial assets and liabilities	**(28.9)**	**70.7**

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

6 | Other operating income and expenses

in € million	2020	2019
Other operating income	**127.7**	**111.0**
Income from investment properties	31.7	34.2
Consolidation result from business combinations	–	0.7
Lease objects maintenance costs charged to the lessees	68.8	55.8
Other income	27.1	20.3
Other operating expenses	**(152.5)**	**(142.0)**
Expenses relating to investment properties	(13.4)	(6.1)
Losses from the sale and derecognition of property, plant and equipment	(0.7)	(16.1)
Restructuring expenses relating to business combinations	–	(3.7)
Regulatory charges	(54.8)	(38.2)
Lease objects maintenance costs	(69.3)	(56.1)
Other expenses	(14.3)	(21.8)
Other operating income and expenses	**(24.8)**	**(31.0)**

The line item Regulatory charges includes the bank levy and the contributions to the deposit guarantee scheme and to the bank resolution fund. The bank levy included in this item amounts to € 5.3 million for 2020 (2019: € 4.8 million).

Income from investment properties includes positive valuation results of net € 3.1 million (2019: € 14.1 million) and a gain from the sale of an investment property of € 9.1 million and rental income of € 19.5 million (2019: € 20.1 million).

Expenses relating to investment properties include operating costs of € 13.4 million (2019: € 6.1 million).

7 | Administrative expenses

in € million	2020	2019
Staff costs	**(297.4)**	**(307.9)**
Wages and salaries	(218.9)	(230.1)
Statutory social security contributions	(59.5)	(58.0)
Increase/Release of pension provision and pension payments	(10.9)	(10.5)
Increase/Decrease of provision for severance payments	(4.3)	(4.1)
Increase/Decrease of provision for jubilee benefits	(1.7)	(3.2)
Staff benefit fund costs	(2.1)	(2.0)
Other administrative expenses	**(145.6)**	**(152.7)**
IT, data, communication	(59.1)	(58.7)
Real estate, utility, maintenance expenses	(13.2)	(16.8)
Advertising	(13.7)	(20.7)
Legal, consulting, outsourcing	(12.2)	(14.3)
Postage fees and logistics	(15.6)	(16.5)
Regulatory and audit fees	(11.0)	(12.5)
Other general expenses	(20.8)	(13.2)
Administrative expenses	**(443.0)**	**(460.6)**

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

in € million	2020	2019
Depreciation and amortization		
Customer relationships	(9.2)	(9.1)
Software and other intangible assets	(39.2)	(33.5)
Property, plant and equipment	(32.6)	(30.6)
thereof depreciation of right-of-use assets	(18.6)	(17.9)
Depreciation and amortization	**(81.0)**	**(73.2)**

9 | Risk costs

in € million	2020	2019
Changes in provisions for financial assets at amortized cost	(229.5)	(59.2)
Stage 1	(13.5)	8.9
Stage 2	(43.4)	14.8
Stage 3	(172.6)	(82.9)
Changes in provisions for off-balance credit risk	10.0	(7.6)
Stage 1	(7.3)	2.4
Stage 2	(2.8)	(0.4)
Stage 3	20.1	(9.6)
Change in provisions for financial assets at fair value through other comprehensive income	(2.8)	1.3
Stage 1	(2.9)	1.3
Stage 2	0.1	–
Subtotal - risk costs according to IFRS 9	**(222.3)**	**(65.5)**
Provisions and expenses for operational risk	9.7	(4.3)
Impairment losses on non-financial assets	(12.0)	–
Provisions – other	0.0	0.5
Risk costs	**(224.6)**	**(69.3)**

Impairment losses on non-financial assets

in € million	2020	2019
Software and other intangible assets	(12.0)	–
thereof Brand name	(1.8)	–
thereof Software and other intangible assets	(10.2)	–
Impairment and appreciation of non-current assets	**(12.0)**	**–**

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

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

The result reported for 2020 of € 1.1 million (2019: € 5.2 million) contains the proportionate shares in BAWAG P.S.K. Versicherung AG of € 4.3 million (2019: € 3.9 million) and PSA Payment Services Austria GmbH of € 1.2 million (2019: € 1.3 million) and impairment of entities accounted for using the equity method of € 4.4 million (2019: € 0.0 million).

Planning projections are based on management estimations and take into account expected effects from COVID-19 as well as structural changes. Current cash flow projections led to impairment of entities accounted for using the equity method of € 4.4 million in 2020.

The underlying pre-tax discount rate for PSA Payment Services Austria GmbH is 11.3% (2019: 11.2%), for BAWAG P.S.K. Versicherung AG 10.8% (2019: 13.4%) and the sustainable growth rate after the detailed planning phase was assumed to be 1.0% (2019: 1.0%) for both entities. When planning the results during the detailed planning phase, the expected negative effect due to the COVID-19 pandemic was taken into account.

The unrecognized share of the losses of entities that were accounted for using the equity method according to IFRS 12.22 (c) came to € 0.0 million (2019: € 0.0 million).

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

Associates accounted for using the equity method

in € million	2020	2019
Cumulated assets	2,327	2,425
Cumulated liabilities	2,186	2,282
Cumulated equity	141	144
Earned premiums (gross)	190	210
Fee and commission income	193	206
Cumulated net profit	16	16

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

11 | Income taxes

in € million	2020	2019
Current tax expense	(50.6)	(41.2)
Deferred tax expense	(34.8)	(103.8)
Income taxes	**(85.4)**	**(145.0)**

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

in € million	2020	2019
Profit before tax	369.9	604.3
Tax rate	25%	25%
Computed tax expenses	**(92.5)**	**(151.1)**
Reductions in tax		
Due to tax-exempt income from equity investments	0.1	0.4
Due to tax goodwill amortization	18.7	18.9
Due to first time consolidation	–	1.5
Due to other tax-exempt income	4.5	4.2
Due to foreign exchange differences	0.5	–
Due to differing foreign tax rates	0.1	–
Due to use of tax loss carryforwards	0.1	2.5
Due to other tax effects	3.9	2.2
Increases in tax		
Due to gains and losses from the valuation of equity investments	(1.0)	(1.9)
Due to valuation of real estate properties	(3.8)	–
Due to unrecognized deferred taxes on tax loss carryforwards	(1.5)	(3.4)
Due to valuation of deferred taxes on tax loss carryforwards	–	(4.5)
Due to non-tax deductible expenses	(8.2)	(9.9)
Due to differing foreign tax rates	(3.6)	(0.2)
Due to other tax effects	(4.0)	(1.6)
Income tax in the period	**(86.7)**	**(142.9)**
Out-of-period income tax	1.3	(2.1)
Reported income tax (expense)	**(85.4)**	**(145.0)**

The Group's assets included deferred tax assets accounted for on the grounds of the recognized benefits arising from as-yet-unused tax losses in the amount of € 6 million (2019: € 39 million). The tax losses can be carried forward for an unlimited period.

As of 31 December 2020, unused tax losses amounted to € 0 million (2019: € 125 million) at the level of BAWAG Group AG, € 0 million (2019: € 0 million) at the level of BAWAG P.S.K. AG, € 23 million (2019: € 31 million) at the level of members of the tax group included in the consolidated financial statements and € 0 million (2019: € 0 million) at the level of other companies included in the consolidated financial statements, for a total of € 23 million (2019: € 156 million). Tax goodwill amortization will contribute another € 76 million per year as tax-deductible expenses until the end of 2021.

DETAILS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

12 I Cash reserves

in € million	31.12.2020	31.12.2019
Cash on hand	298	564
Balances at central banks	734	860
Cash reserves	**1,032**	**1,424**

13 I Financial assets at fair value through profit or loss

in € million	31.12.2020	31.12.2019
Financial assets designated at fair value through profit or loss	**90**	**100**
Receivables from customers	90	100
Financial assets mandatorily at fair value through profit or loss	**603**	**640**
Bonds and other fixed income securities	364	325
Receivables from customers	168	239
Subsidiaries and other equity investments	71	76
Financial assets at fair value through profit or loss	**693**	**740**

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

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

14 | Financial assets at fair value through other comprehensive income

in € million	31.12.2020	31.12.2019
Debt instruments	**4,611**	**3,425**
Bonds and other fixed income securities	4,611	3,425
Bonds of other issuers	4,548	3,263
Public sector debt instruments	63	162
Subsidiaries and other equity investments	**219**	**206**
AT1 capital	178	126
Investments in non-consolidated subsidiaries	13	8
Interests in associates	1	11
Other shareholdings	27	61
Financial assets at fair value through other comprehensive income	**4,830**	**3,631**

In 2020, 12-month ECL Stage 1 for financial assets at fair value through other comprehensive income was recognized in the amount of € 3.0 million (2019: € 1.7 million reversed) and lifetime ECL Stage 2 was reversed in the amount of € 0.4 million (2019: € 0.4 million recognized).

In 2020, fair value valuations of non-consolidated participations at fair value through other comprehensive income amounted to minus € 39.0 million (2019: minus € 0.3 million).

Reclassification of debt instruments in 2019

BAWAG Group found that for the ongoing management of the NIB book (the NIB book is intended to hedge the interest rate risk resulting from the net non-interest bearing position, i.e. non-interest bearing assets such as participations and non-interest bearing liabilities and equity), given its intention to serve as interest rate risk management measure, a more appropriate set-up would be to define the business strategies based on maturity buckets.

BAWAG Group therefore restructured the NIB book by designating existing and future new investments to the new time bucket-based business strategies.

As part of this restructuring, BAWAG Group wanted to selectively dispose of positions assigned to the NIB book based on a credit view/interest rate risk management perspective.

Faced with the unexpected and unprecedented drop in interest rates witnessed in the third quarter of 2019, BAWAG Group took decisions to reduce the exposure to interest rates. These decisions included further disposals from the NIB book as well as the temporary suspension of the hedging of replicated sight deposits, for example.

BAWAG Group also wanted to further upgrade the quality of the LCR buffer by moving from covered bonds into central bank reserves.

BAWAG Group views the historic interest rate lows as exceptional one-off circumstances. The change in the management of NIB book securities is significant to the operations of BAWAG Group. Changes in the internal management of large parts of the securities in the NIB book and more prudent external requirements for liquidity reserves have led to a material change in the business model of certain portfolios of the Bank.

BAWAG Group has analyzed all securities portfolios and determined that the business model for portfolios with significant sales in 2019 has changed. Management intends to sell further securities of the relevant portfolios and therefore no longer has the intention to hold the assets to collect principal and interest.

Therefore, the relevant securities were reclassified from hold-to-collect (amortized cost) to hold-to-collect and sell (at fair value through other comprehensive income) in December 2019. Portfolios where no sales have occurred and where the intention to hold the assets until maturity has not changed remain in hold-to-collect.

in € million	To fair value through other comprehensive income
From amortized cost	722

15 | Financial assets held for trading

in € million	31.12.2020	31.12.2019
Derivatives in banking book	**441**	**353**
Foreign currency derivatives	103	11
Interest rate derivatives	338	342
Financial assets held for trading	**441**	**353**

16 | Financial assets measured at amortized cost

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

31.12.2020 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	32,376	(46)	(60)	(266)	32,004
Securities	2,262	(2)	0	0	2,260
Public sector debt instruments	141	0	–	–	141
Debt instruments of other issuers	2,121	(2)	–	–	2,119
Receivables from credit institutions	9,889	0	0	–	9,889
Total	**44,527**	**(48)**	**(60)**	**(266)**	**44,153**

31.12.2019 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Receivables from customers	30,690	(30)	(16)	(177)	30,467
Securities	1,371	(2)	0	0	1,369
Public sector debt instruments	38	0	–	–	38
Debt instruments of other issuers	1,333	(2)	0	–	1,331
Receivables from credit institutions	5,720	0	0	–	5,720
Total	**37,781**	**(32)**	**(16)**	**(177)**	**37,556**

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

in € million	31.12.2020	31.12.2019
Loans	28,347	26,954
Current accounts	1,115	1,466
Finance leases	1,741	1,744
Cash advances	111	160
Money market	690	143
Receivables from customers	**32,004**	**30,467**

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

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

31.12.2019 in € million	Lifetime-ECL – not impaired	Lifetime-ECL – impaired	Purchased / originated credit impaired
Amortized cost before modification in the current reporting period	153	3	–
Net gain or loss from modification	0	–	–

Modified financial assets whose risk provision was allocated to stage 2 or stage 3 at the time of modification and that have been reallocated to stage 1 during the reporting period had a gross book value as of 31 December 2020 of € 186 million (2019: € 88 million).

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

31.12.2020 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	19,032	(31)	(31)	(204)	18,766
Corporates & Public	13,358	(16)	(28)	(61)	13,253
Treasury	11,803	(1)	(1)	0	11,801
Corporate Center	334	0	0	(1)	333
Total	**44,527**	**(48)**	**(60)**	**(266)**	**44,153**

31.12.2019 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
Retail & SME	17,903	(15)	(9)	(135)	17,744
Corporates & Public	12,737	(15)	(7)	(42)	12,673
Treasury	5,985	(2)	0	0	5,983
Corporate Center	1,156	0	0	0	1,156
Total	**37,781**	**(32)**	**(16)**	**(177)**	**37,556**

17 | Asset maturities

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

Financial assets – breakdown by remaining period to maturity 2020

31.12.2020 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	3	8	34	45	90
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	0	4	17	54	93	168
Bonds and other fixed income securities	0	0	58	279	27	364
Financial assets at fair value through other comprehensive income						
Bonds and other fixed income securities	–	222	274	2,506	1,609	4,611
At amortized cost						
Receivables from customers	1,067	13,864	2,248	2,369	12,456	32,004
Receivables from credit institutions	1,826	7,940	3	13	107	9,889
Bonds and other fixed income securities	–	4	48	529	1,679	2,260
Total	**2,893**	**22,037**	**2,656**	**5,784**	**16,016**	**49,386**

Financial assets – breakdown by remaining period to maturity 2019

31.12.2019 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Financial assets designated at fair value through profit or loss						
Receivables from customers	–	4	8	37	51	100
Financial assets mandatorily at fair value through profit or loss						
Receivables from customers	0	5	13	111	110	239
Bonds and other fixed income securities	–	4	0	289	32	325
Financial assets at fair value through other comprehensive income						
Bonds and other fixed income securities	–	–	190	2,140	1,095	3,425
At amortized cost						
Receivables from customers	1,553	1,285	2,002	11,709	13,918	30,467
Receivables from credit institutions	1,501	4,095	10	7	107	5,720
Bonds and other fixed income securities	0	51	34	80	1,204	1,369
Total	**3,054**	**5,444**	**2,257**	**14,373**	**16,517**	**41,645**

18 I Property, plant and equipment, Investment properties

Changes in property, plant and equipment 2020

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

Changes in property, plant and equipment 2019

in € million	Carrying amount 31.12.2018	Acquisition cost 01.01.2019	Change in scope of consolida-tion Acquisition cost	Change in foreign exchange differences	Additions	Disposals	Reallo-cations	Reclassifi-cation to non-current assets held for sale	Write-downs cumulative	Carrying amount 31.12.2019	Depreciation (-), impairments (-) and reversal of impairments (+) Financial year
Property, plant and equip-ment	**116**	**506**	**10**	**0**	**66**	**(35)**	**14**	**–**	**(165)**	**396**	**(36)**
Land and buildings used by the enterprise for its own operations	64	77	0	0	0	(4)	14	–	(29)	58	(1)
Office furniture and equipment	35	155	2	0	47	(21)	16	–	(113)	86	(12)
Plant under construc-tion	17	17	–	–	3	0	(16)	–	–	4	–
Right-of-use assets IFRS 16	–	257	8	0	16	(10)	–	–	(23)	248	(23)

Changes in investment properties as of 31.12.2020

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

Changes in investment properties as of 31.12.2019

in € million	Carrying amount 31.12.2018	Change in scope of consolidation	Change in foreign exchange differences	Changes in fair value valuation in accordance with IAS 40	Additions	Disposals	Reallocations	Reclassification to non-current assets held for sale	Carrying amount 31.12.2019
Investment properties	**118**	**181**	**6**	**9**	**1**	**(6)**	**2**	**–**	**311**

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

The brand name “BAWAG P.S.K.” with a book value of € 114 million (2019: € 114 million), customer relationships of Group companies with a total book value of € 131 million (2019: € 148 million) and software and other intangible assets with a total book value of € 203 million (2019: € 201 million) are the Bank’s most important intangible non-current assets. The book value of the customer relationships is amortized on a straight-line pro rata temporis basis.

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

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

Changes in Goodwill, Brand names and customer relationships, Software and other intangible assets 2020

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

Changes in Goodwill, Software and other intangible assets 2019

in € million	Carrying amount 31.12.2018	Acquisition cost 01.01.2019	Change in scope of consolidation Acquisition cost	Additions	Disposals	Reallocations	Write-downs cumulative	Carrying amount 31.12.2019	Amortization (-), impairments (-) and reversal of impairments (+) Financial year
Goodwill	**59**	**624**	**–**	**35**	**–**	**–**	**(565)**	**94**	**–**
Brand name and customer relationships	**264**	**456**	**–**	**19**	**–**	**–**	**(201)**	**274**	**(9)**
Software and other intangible assets	**182**	**533**	**6**	**60**	**(20)**	**–**	**(378)**	**201**	**(34)**
Software and other intangible non-current assets	157	493	2	55	(19)	24	(363)	192	(34)
Thereof purchased	111	445	2	37	(18)	16	(352)	130	(24)
Thereof internally generated	46	48	0	18	(1)	8	(11)	62	(10)
Intangible non-current assets in development	25	25	4	5	(1)	(24)	–	9	–
Thereof purchased	17	17	–	3	(1)	(16)	–	3	–
Thereof internally generated	8	8	4	2	–	(8)	–	6	–
Rights and compensation payments	–	15	–	–	–	–	(15)	–	–

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

Intangible assets	Book value as of 31.12.2020 in € million	Remaining useful life	Book value as of 31.12.2019 in € million
Total goodwill	**94**		**94**
thereof: goodwill easybank franchise	59	Indefinite	59
thereof: goodwill Zahnärztekasse	20	Indefinite	20
thereof: goodwill Health Coevo	15	Indefinite	15
Total brand names	**124**		**126**
thereof: brand name BAWAG P.S.K.	114	Indefinite	114
thereof: brand name Südwestbank franchise	1	Indefinite	3
thereof: brand name Zahnärztekasse AG	6	Indefinite	6
thereof: brand name Health Coevo AG	2	Indefinite	2
Total customer relationships	**131**		**148**
thereof: customer relationships BAWAG P.S.K.	99	10–19 years	104
thereof: brand name Südwestbank franchise	6	17–27 years	8
thereof: customer relationships start:bausparkasse	8	16 years	15
thereof: customer relationships Paylife	7	5 years	8
thereof: customer relationships IMMO-BANK	2	16 years	3
thereof: customer relationships Zahnärztekasse AG	4	7 years	5
thereof: customer relationships Health Coevo	2	6 years	2
thereof: customer relationships BFL GmbH	3	8 years	3
Total other intangibles	**203**		**201**
thereof: core banking system for Austrian operations (Allegro)	42	13 years	44

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

If the carrying amount of the brand name is higher than the recoverable amount, an impairment loss will be recognized. The recoverable amount is calculated using a modified relief from royalty method. BAWAG Group uses the brand's fair value less cost of disposal as its recoverable amount, utilizing level 2 and level 3 input parameters. Major parameters are brand-specific core income and brand's royalty rate. Cash flow projections are expected cash flows based on the five-year business plan and a 0.5% growth rate (Zahnärztekasse AG) and 1% growth rate (other entities) of cash flows after this period. The after-tax discount rate was set at 7.16% for Zahnärztekasse AG and 9.01% for other entities (2019: 8.57%). Additionally, asset-specific premiums between 1% and 2% are added to the discount rate.

As of 31 December 2020, the individual impairment tests for the brand names resulted in an impairment of € 1.8 million (2019: € 0.0 million) of the brand name Südwestbank.

Customer relationships were reviewed for impairment as COVID-19 is deemed an impairment trigger. The fair value or value in use was calculated for all customer relationships taking into account current experience on customer retention, current cash flow forecasts and discount rates. Fair value was calculated using either value in use or fair value less cost of disposal valuations, using the multi-period excess earnings method. Major input parameters used in customer relationships valuation were customer-specific income, churn rate and asset charge. Fair value less costs of disposal represents the recoverable amount from the sale in an arm's length transaction. The value in use is determined by discounting the cash flows at a rate that contains present market rates and the specific risks of the entity.

After reviewing the planning projections regarding COVID-19, the expected cash flows were adjusted. Impairment was booked for the customer relationships of start:bausparkasse Austria of € 6.7 million, IMMO-BANK of € 0.8 million and Südwestbank of € 0.9 million. The pre-tax discount rates used for the impairment test of Südwestbank was 18.45% (no impairment test in prior year, as there were no impairment indicators). All customer relationships are part of the Corporate Center segment. The planning periods of both start:bausparkasse Austria and IMMO-Bank last until 2056; the planning period of Südwestbank until 2037. The original valuation was performed by an external advisor; the impairment test was carried out internally.

Impairment testing for cash-generating units with goodwill

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

in € million	31.12.2020	31.12.2019
easybank franchise, Vienna	59	59
Zahnärztekasse AG, Wädenswil	20	20
Health Coevo AG, Hamburg	15	15
Goodwill	**94**	**94**

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

The forecast is subject to greater uncertainty due to COVID-19, which has been reflected in the current cash flow projections. These projections take into account the most recent forecasts including the observed and expected impact of the COVID-19 pandemic on the relevant CGU's profitability. The planning assumptions for the period 2021–2025 are based on the ECB's economic assumptions, specifically the publication of the ECB Severe Scenario of June 2020. The planning input is based on the business strategy, which envisages organic growth in the core market and continuous improvement of our product range.

in %	2020	2019
Pre-tax discount rate easybank franchise, Vienna	11.9%	11.2%
Pre-tax discount rate Zahnärztekasse AG, Wädenswil	10.9%	10.7%
Pre-tax discount rate Health Coevo AG, Hamburg	12.3%	10.8%
Planned profit growth rate (average for the next five years) easybank franchise, Vienna	(4.2)%	(2.7)%
Planned profit growth rate (average for the next five years) Zahnärztekasse AG, Wädenswil	1.8%	0.1%
Planned profit growth rate (average for the next five years) Health Coevo AG, Hamburg	17.0%	5.6%
Sustainable growth rate easybank franchise, Vienna	0.5%	1.0%
Sustainable growth rate Zahnärztekasse AG, Wädenswil	0.5%	0.5%
Sustainable growth rate Health Coevo AG, Hamburg	1.0%	1.0%

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

Sensitivity analysis as of 31.12.2020

A sensitivity analysis was used to test the robustness of the impairment test for goodwill, which was based on the assumptions outlined above. A change in the discount rate and a change in growth were chosen as the relevant parameters. The table below shows to what extent an increase in the discount rate or a decline in growth after 2021 could occur without the fair value of the cash-generating unit falling below the carrying value (equity plus goodwill).

	Change in discount rate (in percentage pts)	Change in growth after 2021 (in %)
easybank franchise, Vienna	2.66	(1.76)%
Zahnärztekasse AG, Wädenswil	4.11	(6.72)%
Health Coevo AG, Hamburg	0.21	(13.39)%

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

Sensitivity analysis as of 31.12.2019

	Change in discount rate (in percentage pts)	Change in growth after 2020 (in %)
easybank franchise, Vienna	3.36	(2.33)%
Zahnärztekasse AG, Wädenswil	5.66	(14.30)%
Health Coevo AG, Hamburg	7.09	(15.79)%

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

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

in € million	31.12.2020	31.12.2019
Financial liabilities designated at fair value through profit or loss	24	30
Financial liabilities at amortized cost	172	168
Provisions	67	57
Tax loss carryforwards	6	39
Other	5	5
Deferred tax assets	**274**	**299**
Financial assets at fair value through profit or loss	14	10
Financial assets at fair value through other comprehensive income	40	25
Financial assets at amortized cost	59	53
Assets held for trading	30	33
Hedging derivatives	138	129
Internally generated intangible assets	18	16
Other intangible assets	65	69
Property, plant and equipment	13	10
Deferred tax liabilities	**377**	**345**
Net deferred tax assets/liabilities	**(103)**	**(46)**
Deferred tax assets reported on the balance sheet[1)]	**9**	**8**
Deferred tax liabilities reported on the balance sheet	**112**	**54**

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

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

Temporary differences for which no deferred tax liabilities were recognized, as permitted by IAS 12.39, came to € 841 million (2019: € 704 million). IAS 12.39 stipulates that in the case of temporary differences associated with investments in subsidiaries, deferred tax liabilities do not have to be recognized if the parent is able to control the timing of the reversal of the temporary difference and it is not probable that the temporary difference will be reversed in the foreseeable future.

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

As of December 2020, deferred tax assets on tax loss carryforwards of BAWAG Group amount to € 6 million. The risk that COVID-19 will have an impact on the recoverability of tax loss carryforwards that have not yet been utilized is therefore considered to be low. As can be seen in the table above, the statement of financial position shows a net deferred tax liability of € 103 million. There is therefore no increased risk that deferred tax assets cannot be used for future taxable profits.

21 | Other assets

in € million	31.12.2020	31.12.2019
Accruals	46	37
Other items	280	172
Other assets	**326**	**209**

The other items include accounts relating to payment and miscellaneous other assets. As of 31 December 2020, other assets in the amount of € 36 million (31 December 2019: € 46 million) have a maturity of more than one year.

22 | IFRS 5 Non-current assets held for sale

In the first half-year 2020, BAWAG Group decided to sell certain German real estate properties. After relevant resolutions were passed, a broker was appointed for the sales process, which was expected to be completed within a year. Since the criteria according to IFRS 5 were met, the relevant real estate properties were classified as non-current assets held for sale. At the time of the reclassification, the non-current assets held for sale include investment properties carried at fair value of € 161 million and the headquarters of Südwestbank of € 37 million, which is under the cost model according to IAS 16. The non-current assets held for sale are reported in the segment Corporate Center.

According to IFRS 5.15, an entity shall measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. As the headquarters was valued at cost and had a carrying amount below the fair value less costs to sell, no impairment loss was identified. In the financial year 2020, investment properties carried at fair value increased by € 19.1 million (less costs to sell) recognized in other operating income in accordance with IAS 40. Following the sale of the investment property of SWBI Stuttgart 2 GmbH in December 2020, the carrying amount of the non-current assets held for sale declined to € 135 million.

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

in € million	31.12.2020	31.12.2019
Issued bonds, subordinated and supplementary capital	**318**	**363**
Issued debt securities and other securitized liabilities	19	26
Subordinated capital	106	130
Short-term notes and non-listed private placements	193	207
Deposits from customers	**6**	**6**
Financial liabilities designated at fair value through profit or loss	**324**	**369**

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

The carrying amount of the securities issued by BAWAG Group and recognized at their fair value as of 31 December 2020 was € 21 million above their repayment amount (2019: € 30 million above the repayment amount).

24 | Financial liabilities held for trading

in € million	31.12.2020	31.12.2019
Derivatives banking book	**422**	**334**
Foreign currency derivatives	170	99
Interest rate derivatives	252	235
Financial liabilities held for trading	**422**	**334**

25 | Financial liabilities measured at amortized cost

in € million	31.12.2020	31.12.2019
Deposits from credit institutions	**7,522**	**3,085**
Deposits from customers	**32,409**	**30,378**
Savings deposits – fixed interest rates	509	713
Savings deposits – variable interest rates	6,037	6,488
Deposit accounts	6,187	5,905
Current accounts – Retail	11,551	10,212
Current accounts – Corporates	5,005	4,020
Other deposits[1)]	3,120	3,040
Issued bonds, subordinated and supplementary capital	**6,157**	**5,080**
Issued debt securities	5,261	4,220
Subordinated capital	61	87
Supplementary capital	612	413
Other obligations evidenced by paper	223	360
Financial liabilities at amortized cost	**46,088**	**38,543**

1) Primarily time deposits.

The issued bonds are mainly listed securities.

During Q2, 2020 BAWAG Group utilized € 5.8 billion of funding under the ECB's TLTRO III facility. At the same time, the remaining outstanding TLTRO II funding of € 0.6 billion was repaid. As of year-end 2020, the outstanding amount under the TLTRO III facility continues to be € 5.8 billion. BAWAG Group has decided to participate in the TLTRO III facility despite its already strong liquidity position as an economically attractive measure to pre-position liquidity and to support lending to the real economy.

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

For banks that achieve sufficient lending volumes between 1 March 2020 and 31 March 2021, the interest rate applied on all TLTRO III operations outstanding over the period between 24 June 2020 and 23 June 2021 will be 50 basis points below the average interest rate on the ECB's deposit facility prevailing over the same period, and in any case not higher than -1%. In subsequent years, the interest will be between the deposit facility and main refinancing operations rates, depending to what extent BAWAG Group meets the lending growth conditions of the TLTRO III program. BAWAG Group is closely monitoring its eligible lending vs. the applicable lending benchmark. Based on business development throughout 2020 and expectations for Q1 2021, BAWAG Group is highly confident that it will meet the required lending benchmark to benefit from the most advantageous TLTRO III interest rates.

The outstanding TLTRO facility is recognized at amortized cost using the effective interest rate method under deposits from credit institutions. The expected cash flows take into account the Bank's assessment of achieving the required lending benchmark.

26 | Issued bonds, subordinated and supplementary capital

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

	Recognized at fair value		Recognized at amortized cost		Total	
in € million	**2020**	2019	**2020**	2019	**2020**	2019
Issued bonds (own issues)	19	26	5,261	4,220	5,280	4,246
Subordinated capital	106	130	61	87	167	217
Supplementary capital	–	–	612	413	612	413
Short-term notes and unlisted private placements	193	207	223	360	416	567
Total	**318**	**363**	**6,157**	**5,080**	**6,475**	**5,443**

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

ISIN	Type	Currency	Nominal value in EUR million	Type of interest payment	Coupon	Maturity date
XS2234573710	Covered	EUR	750	Fixed	0.010%	23.09.2030
XS1514988689	RMBS	GBP	745	Variable	3M LIBOR + 0.7%	15.09.2045
XS1369268534	Covered	EUR	500	Fixed	0.375%	23.02.2022
XS1551294926	Covered	EUR	500	Fixed	0.750%	18.01.2027
XS2013520023	Covered	EUR	500	Fixed	0.625%	19.06.2034
XS2049584084	Senior unsecured	EUR	500	Fixed	0.375%	03.09.2027
XS2058855441	Covered	EUR	500	Fixed	0.010%	02.10.2029
XS2259776230	Covered	EUR	500	Fixed	0.010%	19.11.2035
XS2106563161	Covered	EUR	500	Fixed	0.010%	21.01.2028
XS1968814332	Tier II	EUR	400	Fixed	Fixed coupon until reset date (26 March 2024) of 2.375%, from including 26 March 2024 to final maturity (26 March 2029) the annual coupon will be a fixed coupon corresponding to 5y Swap rate + 230bp, whereas the 5y Swap rate will be fixed two payment days before the reset date	26.03.2029
XS0987169637	Tier II	EUR	300[1)]	Fixed	8.125%	30.10.2023
XS2230264603	Tier II	EUR	200	Fixed	Fixed coupon until reset date (23 September 2025) of 1.875%, from including 23 September 2025 to final maturity (23 September 2030) the annual coupon will be a fixed coupon corresponding to 5y Swap rate + 235bp, whereas the 5y Swap rate will be fixed two payment days before the reset date	23.09.2030

1) Thereof € 268 million bought back.

27 | Deposits from customers

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

Deposits from customers – breakdown by product class and segments

in € million	At amortized cost 31.12.2020	At amortized cost 31.12.2019
Savings deposits	**6,546**	**7,202**
Retail & SME	6,541	7,197
Corporates & Public	3	3
Corporate Center	2	2
Other deposits	**25,863**	**23,176**
Retail & SME	18,365	16,518
Corporates & Public	6,122	5,243
Treasury	729	911
Corporate Center	647	504
Deposits from customers	**32,409**	**30,378**

28 | Liabilities maturities

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

Financial liabilities – breakdown by remaining period to maturity 2020

31.12.2020 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	–	–	–	6	6
Bonds	–	–	–	19	–	19
Subordinated capital	–	–	–	89	17	106
Short-term notes and non-listed private placements	–	4	140	32	17	193
Liabilities at amortized cost						
Deposits from customers	27,296	824	2,227	1,186	876	32,409
Deposits from credit institutions	128	793	44	5,486	1,071	7,522
Bonds	–	–	175	886	4,200	5,261
Subordinated capital	–	–	3	58	–	61
Supplementary capital	–	–	–	–	612	612
Short-term notes and non-listed private placements	–	4	20	62	137	223
Total	**27,424**	**1,625**	**2,609**	**7,818**	**6,936**	**46,412**

Financial liabilities – breakdown by remaining period to maturity 2019

31.12.2019 in € million	Repayable on demand	Up to 3 months	3 months up to 1 year	1–5 years	Over 5 years	Total
Liabilities designated at fair value through profit or loss						
Deposits from customers	–	–	–	–	6	6
Bonds	–	–	7	9	10	26
Subordinated capital	–	–	16	96	18	130
Short-term notes and non-listed private placements	–	1	2	179	25	207
Liabilities at amortized cost						
Deposits from customers	25,588	240	2,336	1,632	582	30,378
Deposits from credit institutions	462	458	263	652	1,250	3,085
Bonds	–	50	574	923	2,673	4,220
Subordinated capital	–	–	25	62	–	87
Supplementary capital	–	–	–	–	413	413
Short-term notes and non-listed private placements	–	50	–	73	237	360
Total	**26,050**	**799**	**3,223**	**3,626**	**5,214**	**38,912**

29 | Provisions

in € million	31.12.2020	31.12.2019
Provisions for social capital	385	396
Thereof for severance payments	95	95
Thereof for pension provisions	258	268
Thereof for jubilee benefits	32	33
Anticipated losses from pending business	25	37
Credit promises and guarantees	25	37
Other items including legal risks	15	47
Provisions	**425**	**480**

Provisions for social capital are long-term liabilities. Provisions for anticipated losses from pending business in the amount of € 25 million and other risks including legal risks in the amount of € 5 million are expected to be used after more than 12 months.

Changes in social capital

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

in € million	Provisions for post-employment benefits	Provisions for severance payments	Provisions for jubilee benefits	Total social capital
Defined benefit obligation as of 01.01.2019	**263**	**93**	**32**	**388**
Service cost	1	4	1	6
Interest cost	4	1	1	6
Actuarial gain/loss				
from demographic assumptions	–	–	–	–
from financial assumptions	23	7	2	32
due to other reasons, mainly experience results	1	(1)	–	–
Gain from settlements	(2)	–	–	(2)
Other				
Payments	(16)	(9)	(3)	(28)
Payments from settlements	(4)	–	–	(4)
Change in scope of consolidation	12	–	–	12
Defined benefit obligation as of 31.12.2019	**282**	**95**	**33**	**410**
Fair value of plan assets	(14)	–	–	(14)
Provision as of 31.12.2019	**268**	**95**	**33**	**396**

On 31 December 2020, the weighted average duration was 12.03 years (2019: 12.24 years) for defined benefit obligations relating to pension plans (excluding Südwestbank, start:bausparkasse Germany, BFL Leasing, Health Coevo and Zahnärztekasse) and 11.75 years (2019: 11.88 years) for obligations arising from entitlement to severance payments.

On 31 December 2020, the weighted average duration was 16.60 years (2019: 16.26 years) for defined benefit obligations relating to pension plans of start:bausparkasse Germany.

On 31 December 2020, the weighted average duration was 8.50 years (2019: 8.60 years) for defined benefit obligations relating to pension plans of Südwestbank.

On 31 December 2020, the weighted average duration was 10.90 years (2019: 7.50 years) for defined benefit obligations relating to pension plans of BFL Leasing.

On 31 December 2020, the weighted average duration was 18.20 years (2019: 18.40 years) for defined benefit obligations relating to pension plans of Health Coevo.

On 31 December 2020, the weighted average duration was 15.90 years (2019: 16.00 years) for defined benefit obligations relating to pension plans of Zahnärztekasse.

Assignable unit-linked pension fund assets

in € million	2020	2019
Pension fund assets as of 01.01.2020	**14**	**6**
Additions	1	0
Payments	0	0
Changes in the scope of consolidation	0	8
Pension fund assets as of 31.12.2020	**15**	**14**

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

The pension fund assets consist of:

in %	2020	2019
Qualified insurance policies	59%	59%
Bonds	28%	27%
Equities	6%	7%
Cash and cash equivalents	2%	1%
Other	5%	6%

Bonds issued by BAWAG P.S.K. amount to 0.02% of plan assets.

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

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

- a strategic asset mix comprising 59% qualified insurance policies, 14% government bonds, 14% corporate bonds, 6% equities and 7% other investments;
- the weighting of the investment classes may vary from the long-term strategic asset allocation within a defined range: bonds: 25%–100%, equities: 10%–18%, other investments: 0%–33%;
- interest rate risk is monitored and managed through active duration risk management of all fixed-income assets;
- currency risk is managed with the objective of reducing the risk to a maximum of 20%.

BAWAG Group expects that payments in the amount of € 0.2 million will have to be made to the pension fund in 2021 (2020: € 0.5 million) for asset purchases.

Sensitivity analysis

Reasonably possible changes to one of the relevant actuarial assumptions on the reporting date, holding other assumptions constant, would have resulted in the following defined benefit obligation for pension and severance payments. The basis for the calculation is the present value of the defined benefit obligations as of 31 December 2020 in the amount of € 368 million (2019: € 377 million):

Sensitivity analysis as of 31 December 2020

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

Sensitivity analysis as of 31 December 2019

	Provisions for post-employment benefits and severance payments	
in € million	Increase of variable	Decrease of variable
Discount rate – 1 percentage point movement	326	419
Future salary growth – 1 percentage point movement	413	329
Attrition – 1 percentage point movement	356	370
Future mortality – 1 percentage point movement (post-employment benefits only)	273	273

Changes in other provisions

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

in € million	Balance 01.01.2019	Change in scope of consolidation	Added	Used	Released	Balance 31.12.2019
Other provisions	**83**	**4**	**19**	**(11)**	**(11)**	**84**
Anticipated losses from pending business	33	–	19	(5)	(10)	37
Other items	50	4	–	(6)	(1)	47

30 | Other obligations

in € million	**31.12.2020**	31.12.2019
Accounts relating to payment transactions	240	207
Lease liabilities IFRS 16	226	253
Liabilities resulting from restructuring	74	96
Other liabilities	264	252
Accruals	33	31
Other obligations	**837**	**838**

According to IFRS 16, a lease liability is recognized at the commencement of a lease. The lease liability is measured at the present value of the lease payments. As of 31 December 2020, other obligations in the amount of € 314 million (31 December 2019: € 389 million) have a maturity of more than one year.

31 | Hedging derivatives

in € million	31.12.2020	31.12.2019
Hedging derivatives in fair value hedges		
Positive market values	308	380
Negative market values	45	48
Hedging derivatives in cash flow hedges		
Positive market values	89	15
Negative market values	15	68
Hedging derivatives in net investment hedge		
Positive market values	8	2
Negative market values	2	–

Fair value hedge

	Notional of hedged items		Net book value of hedging instruments		Net result of hedged item and hedging instrument recognized in the financial year	
in € million	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Financial assets at fair value through other comprehensive income	**4,574**	**2,770**	**(3)**	**(11)**	**0**	**(0)**
Securities	4,574	2,770	(3)	(11)	0	(0)
Financial instruments recognized at amortized cost	**20,029**	**15,242**	**269**	**337**	**14**	**7**
Securities	325	22	(2)	0	0	0
Own issues	3,445	2,603	76	99	11	4
Savings deposits of customers	30	92	0	1	(0)	1
Loans to customers	2,775	721	(70)	(18)	0	(0)
Liabilities to customers	13,454	11,804	265	255	2	2
Total	**24,603**	**18,012**	**266**	**326**	**14**	**7**

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

Cash flow hedge

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

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

31.12.2019 in € million	Within 1 year	1 to 5 years	Over 5 years	Total
	564	2,303	608	3,475

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

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

31.12.2019 in € million	Within 1 year	1 to 5 years	Over 5 years	**Total**
	542	2,222	588	3,352

Disclosure according to IFRS 7.24B a)

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

	Micro hedges	Hedge adjustments on micro hedges		Macro hedges
31.12.2019 in € million	Carrying amount	Hedge adjustments included in the carrying amount of assets/liabilities	Remaining adjustments for discontinued micro hedges including hedges of net positions	Hedged items in portfolio hedge of interest rate risk
ASSETS				
Financial assets measured at fair value through other comprehensive income				
Interest rate related	2,848	32	0	–
Financial assets measured at amortized cost				
Interest rate related	823	42	0	164
LIABILITIES				
Financial liabilities measured at amortized cost				
Interest rate related	3,420	116	22	6,131

Hedged items in cash flow hedges

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

31.12.2019 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
Foreign exchange risk	10	17	-

Hedged items in net investment hedges

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

31.12.2019 in € million	Change in FV for the period used for calculating hedge ineffectiveness	Net investment hedge reserve for continuing hedges	Net investement hedge reserve for terminated hedges
Foreign exchange risk	2	2	-

32 | Equity

Share capital

The fully paid-in share capital of BAWAG Group AG amounts to € 89.1 million (2019: € 89.1 million) divided into 89,142,237 bearer shares (2019: 89,142,237 bearer shares). BAWAG Group AG holds 1,205,107 own shares (2019: 1,205,107 own shares), thus the share capital amounts to € 87.9 million for accounting purposes (2019: € 87.9 million). The number of bearer shares excluding own shares is 87,937,130 (2019: 87,937,130).

Share buyback 2019

On 25 October 2019, BAWAG Group AG published a voluntary partial tender offer pursuant to Sections 4 et seqq Austrian Takeover Act to repurchase a total of up to 10,857,763 shares in the Company. The offer period ended on 22 November 2019. The offer price was € 36.84 per share.

Up to the end of the acceptance period, 31,700,497 shares of the Company (ISIN AT0000BAWAG2) were tendered into the offer. This translated into an allocation ratio of approximately 34.25%.

Settlement occurred on 29 November 2019. Subsequently, the Company canceled the 10,857,763 shares.

Authorized capital

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

Conditional capital

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

Capital reserves and retained earnings

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

AT1 capital

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

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

Dividends

BAWAG Group earmarked dividends of € 372 million for the financial years 2019 and 2020. Additionally, the Managing Board plans to recommend to the ordinary Annual General Meeting a special dividend of € 88 million for 2020, so as to keep the absolute annual dividend payment of € 230 million consistent between 2019 and 2020. Given the most recent ECB recommendation from December 2020, a down payment of € 40 million on the total € 460 million earmarked dividend will be proposed to the extraordinary general meeting during the first quarter 2021, with the remaining € 420 million dividend to be paid in the fourth quarter 2021, subject to shareholder and regulatory approvals (total of € 5.17 per share; based on shares outstanding as of 31 December 2020).

Non-controlling interests

The 97.44% share in BFL Leasing GmbH, the 92.57% share in Morgenstern Miet + Leasing GmbH and the 75% share in ACP-IT Finanzierungs GmbH resulted in non-controlling interests in the amount of € 4 million (2019: € 4 million; 97.51% share in BFL Leasing GmbH, 92.64% share in Morgenstern Miet + Leasing GmbH and 75% share in ACP-IT Finanzierungs GmbH).

Liability reserve (Haftrücklage)

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

Changes in other comprehensive income

in € million	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	Debt instruments at fair value through other comprehensive income net of tax from equity associates	Shares and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2020	**284.2**	**16.2**	**(10.3)**	**92.0**	**0.8**	**(29.9)**	**(0.2)**	**15.5**	**(18.1)**	**350.2**	**0.3**	**350.5**
Consolidated profit/loss	284.2	–	–	–	–	–	–	–	–	284.2	0.3	284.5
Income and expenses recognized directly in equity	**–**	**16.2**	**(10.3)**	**92.0**	**0.8**	**(29.9)**	**(0.2)**	**15.5**	**(18.1)**	**66.0**	**–**	**66.0**
Change in cash flow hedge reserve	–	21.6	–	–	–	–	–	–	–	21.6	–	21.6
Change in debt securities at fair value through other comprehensive income	–	–	–	123.0	–	–	–	–	–	123.0	–	123.0
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	0.8	–	–	–	–	0.8	–	0.8
Actuarial gains (losses) on defined benefit pension plans	–	–	(13.9)	–	–	–	–	–	–	(13.9)	–	(13.9)
Fair value changes of shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	(40.0)	–	–	–	(40.0)	–	(40.0)
Change in credit spread of financial liabilities	–	–	–	–	–	–	(0.3)	–	–	(0.3)	–	(0.3)
Hedge of net investment in foreign operations	–	–	–	–	–	–	–	15.5	–	15.5	–	15.5
Foreign exchange differences	–	–	–	–	–	–	–	–	(18.1)	(18.1)	–	(18.1)
Income taxes	–	(5.4)	3.6	(31.0)	–	10.1	0.1	–	–	(22.6)	–	(22.6)

in € million	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt instruments at fair value through other compre-hensive income net of tax excluding equity associates	Debt instruments at fair value through other compre-hensive income net of tax from equity associates	Shares and other equity investments at fair value through other compre-hensive income net of tax	Change in credit spread of financial liabilities net of tax	Hedge of net investment in foreign operations net of tax	Foreign exchange differences	Equity attributable to the owners of the parent (ex AT1 capital)	Non-controlling interests	Equity including non-controlling interests
Total comprehensive income 2019	**459.1**	**(9.6)**	**(21.7)**	**39.9**	**2.3**	**5.7**	**(1.6)**	**2.0**	**(2.4)**	**473.7**	**0.2**	**473.9**
Consolidated profit/loss	459.1	–	–	–	–	–	–	–	–	459.1	0.2	459.3
Income and expenses recognized directly in equity	**–**	**(9.6)**	**(21.7)**	**39.9**	**2.3**	**5.7**	**(1.6)**	**2.0**	**(2.4)**	**14.6**	**–**	**14.6**
Change in cash flow hedge reserve	–	(12.8)	–	–	–	–	–	–	–	(12.8)	–	(12.8)
Change in debt securities at fair value through other comprehensive income	–	–	–	54.1	–	–	–	–	–	54.1	–	54.1
Share of other comprehensive income of associates accounted for using the equity method	–	–	–	–	2.3	–	–	–	–	2.3	–	2.3
Actuarial gains (losses) on defined benefit pension plans	–	–	(29.4)	–	–	–	–	–	–	(29.4)	–	(29.4)
Fair value changes of shares and other equity investments at fair value through other comprehensive income	–	–	–	–	–	7.6	–	–	–	7.6	–	7.6
Change in credit spread of financial liabilities	–	–	–	–	–	–	(2.1)		–	(2.1)	–	(2.1)
Hedge of net investment in foreign operations	–	–	–	–	–	–		2.0	–	2.0	–	2.0
Foreign exchange differences	–	–	–	–	–	–	–	–	(2.4)	(2.4)	–	(2.4)
Income taxes	–	3.2	7.7	(14.2)	–	(1.9)	0.5	–	–	(4.7)	–	(4.7)

Deferred income taxes recognized in Other comprehensive income

in € million	Before taxes	Income taxes	After taxes
	01.01.–31.12.2020		
Cash flow hedge reserve	21.6	(5.4)	16.2
Actuarial gains (losses) on defined benefit pension plans	(13.9)	3.6	(10.3)
Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	122.9	(30.9)	92.0
Debt instruments at fair value through other comprehensive income net of tax from equity associates	0.8	–	0.8
Shares and other equity investments at fair value through other comprehensive income net of tax	(39.9)	10.1	(29.8)
Change in credit spread of financial liabilities net of tax	(0.3)	0.1	(0.2)
Hedge of net investment in foreign operations net of tax	15.5	–	15.5
Foreign exchange differences	(18.1)	–	(18.1)
Income and expenses recognized directly in equity	**88.5**	**(22.5)**	**66.0**

in € million	Before taxes	Income taxes	After taxes
	01.01.–31.12.2019		
Cash flow hedge reserve	(12.8)	3.2	(9.6)
Actuarial gains (losses) on defined benefit pension plans	(29.4)	7.7	(21.7)
Debt instruments at fair value through other comprehensive income net of tax excluding equity associates	54.1	(14.2)	39.9
Debt instruments at fair value through other comprehensive income net of tax from equity associates	2.3	–	2.3
Shares and other equity investments at fair value through other comprehensive income net of tax	7.6	(1.9)	5.7
Change in credit spread of financial liabilities net of tax	(2.1)	0.5	(1.6)
Hedge of net investment in foreign operations net of tax	2.0	–	2.0
Foreign exchange differences	(2.4)	–	(2.4)
Income and expenses recognized directly in equity	**19.3**	**(4.7)**	**14.6**

SEGMENT REPORTING

This information is based on the Group structure as of 31 December 2020.

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

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

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

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

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

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

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

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

2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
Net interest income	664.1	236.1	56.1	(40.0)	916.3
Net fee and commission income	218.6	38.9	0.1	(2.8)	254.8
Core revenues	**882.7**	**275.1**	**56.3**	**(43.0)**	**1,171.1**
Gains and losses on financial instruments	7.5	1.9	18.2	(56.4)	(28.8)
Other operating income and expenses	2.7	0.0	0.0	27.3	30.0
Operating income	**892.9**	**276.9**	**74.5**	**(72.0)**	**1,172.3**
Operating expenses	**(360.8)**	**(80.4)**	**(30.1)**	**(48.4)**	**(519.7)**
Pre-provision profit	**532.2**	**196.5**	**44.4**	**(120.5)**	**652.6**
Regulatory charges	(31.4)	(9.3)	(6.7)	(11.8)	(59.2)
Total risk costs	(126.3)	(80.1)	(1.8)	(16.4)	(224.6)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	1.1	1.1
Profit before tax	**374.4**	**107.1**	**35.9**	**(147.5)**	**369.9**
Income taxes	(93.6)	(26.8)	(9.0)	44.0	(85.4)
Profit after tax	**280.8**	**80.3**	**26.9**	**(103.5)**	**284.5**
Non-controlling interests	–	–	–	(0.3)	(0.3)
Net profit	**280.8**	**80.3**	**26.9**	**(103.8)**	**284.2**
Business volumes					
Assets	19,246	13,913	17,451	2,518	53,128
Liabilities	30,089	12,950	3,840	6,249	53,128
Risk-weighted assets	8,029	7,431	2,579	2,033	20,072

2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
Net interest income	626.0	249.1	43.7	(39.8)	879.0
Net fee and commission income	242.2	43.0	0.4	(2.1)	283.5
Core revenues	**868.3**	**292.1**	**44.1**	**(42.0)**	**1,162.5**
Gains and losses on financial instruments	0.1	0.2	100.7	(30.3)	70.7
Other operating income and expenses	2.4	0.0	0.0	4.9	7.3
Operating income	**870.8**	**292.3**	**144.8**	**(67.4)**	**1,240.5**
Operating expenses	**(372.9)**	**(100.1)**	**(32.0)**	**(24.7)**	**(529.7)**
Pre-provision profit	**497.9**	**192.2**	**112.8**	**(92.1)**	**710.8**
Regulatory charges	(27.0)	(10.0)	(5.4)	0.0	(42.4)
Total risk costs	(76.3)	7.6	1.7	(2.3)	(69.3)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	5.2	5.2
Profit before tax	**394.6**	**189.8**	**109.3**	**(89.4)**	**604.3**
Income taxes	(98.6)	(47.5)	(27.3)	28.4	(145.0)
Profit after tax	**295.9**	**142.4**	**82.1**	**(61.1)**	**459.3**
Non-controlling interests	–	–	–	(0.2)	(0.2)
Net profit	**295.9**	**142.4**	**82.1**	**(61.3)**	**459.1**
Business volumes					
Assets	18,155	13,141	10,074	4,292	45,662
Liabilities	28,097	7,118	4,483	5,964	45,662
Risk-weighted assets	8,623	7,932	1,616	2,214	20,385

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

Geographical split

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

As an Austrian bank, BAWAG Group generates 63.1% of its core revenues in Austria. The business is focused on the DACH/NL-region, supported its German and Swiss subsidiaries and international corporate business and sales channels (brokers & platforms), in particular Vrij Leven, a mortgage origination platform in the Netherlands with focus on state guaranteed and low LTV mortgage loans.

The following tables show core revenues per segment and geography:

2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH/NL	836.2	111.1	12.0	(47.0)	912.3
thereof Austria	704.0	72.3	3.6	(41.4)	738.5
thereof Germany	113.3	34.5	2.8	(5.6)	145.0
Western Europe/USA	46.5	164.0	44.3	4.0	258.8
Total	**882.7**	**275.1**	**56.3**	**(43.0)**	**1,171.1**

2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total
DACH/NL	821.5	136.8	18.4	(43.1)	933.6
thereof Austria	713.9	80.7	15.1	(45.5)	764.2
thereof Germany	96.3	47.6	3.1	2.4	149.4
Western Europe/USA	46.8	155.3	25.7	1.1	228.9
Total	**868.3**	**292.1**	**44.1**	**(42.0)**	**1,162.5**

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

in € million	2020	2019
Other operating income and expenses according to segment report	30.0	7.3
Regulatory charges	(54.8)	(38.2)
Other operating income and expenses according to Consolidated Profit or Loss Statement	**(24.8)**	**(31.0)**

in € million	2020	2019
Operating expenses according to segment report	(519.7)	(529.7)
Regulatory charges	(4.4)	(4.1)
Operating expenses according to Consolidated Profit or Loss Statement	**(524.0)**	**(533.8)**

CAPITAL MANAGEMENT

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

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

BAWAG Group manages its capital position based on a fully loaded CRR environment and therefore without the benefit of any transitional rules regarding capital components and the calculation of risk-weighted assets. The capital management function is fully integrated into the Group's business planning process to ensure that the regulatory requirements as well as the target capital ratio are complied with throughout the planning horizon. Besides regulatory capital management, economic capital limits aligned with the business plan are assigned to the business segments as part of the ICAAP process.

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

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

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

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

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

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

The following table shows the breakdown of own funds of BAWAG Group applying transitional rules and its own funds requirement as of 31 December 2020 and 31 December 2019 pursuant to CRR applying IFRS figures and the CRR scope of consolidation. For further details regarding the 2019 share buyback, please refer to Note 32 Equity.

	BAWAG Group	
in € million	**31.12.2020**	31.12.2019
Share capital and reserves (including funds for general banking risk)[1)]	3,266	3,382
Deduction of intangible assets[2)]	(407)	(491)
Other comprehensive income	(43)	(123)
IRB risk provision shortfalls	(3)	(71)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	(5)	12
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	0	(4)
Deduction for CET1 instruments of financial sector entities where the institution does not have a significant investment	(1)	–
Common Equity Tier I	**2,807**	**2,705**
Additional Tier I	**473**	**300**
Tier I	**3,280**	**3,005**
Supplementary and subordinated debt capital	651	484
Tier II capital in grandfathering	1	3
Excess IRB risk provisions	25	0
Less significant investments	(24)	(24)
Tier II	**653**	**463**
Own funds	**3,933**	**3,468**

1) This item includes dividends in the amount of € 459.5 million (including € 229.5 million not yet paid out dividend for 2019 and € 229.9 million for the financial year 2020) (2019: dividends in the amount of € 229.5 million). Furthermore, this item includes a deduction of € 275 million prudential filter in 2020 (2019: € 50 million).

2) 2020: Including the amendments to delegated regulation (EU) No 241/2014 regarding the application of the deductions of software assets.

In September 2020, BAWAG Group issued a bond with a notional amount of € 175 million, which fulfills the criteria for eligibility as AT1 capital (XS2226911928). The costs of the issuance and the accrued coupon payment are deducted from CET1. Furthermore, BAWAG Group issued a Tier 2 bond (XS2230264603) with a notional amount of € 200 million in the same month.

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

	BAWAG Group	
in € million	31.12.2020	31.12.2019
Credit risk	18,048	18,258
Market risk	0	0
Operational risk	2,024	1,983
Capital requirements (risk-weighted assets)	**20,072**	**20,241**

Supplemental information on a fully loaded basis

	BAWAG Group	
	31.12.2020	31.12.2019
Common Equity Tier 1 capital ratio based on total risk	14.0%	13.3%
Total capital ratio based on total risk	19.6%	17.0%

Key figures according to CRR including its transitional rules

	BAWAG Group	
	31.12.2020	31.12.2019
Common Equity Tier 1 capital ratio based on total risk	14.0%	13.4%
Total capital ratio based on total risk	19.6%	17.1%

During the financial year 2020, BAWAG Group complied with the overall capital requirement imposed by the SREP of 9.13% CET1, 11.01% Tier 1 and 13.51% total capital or 10.13%/12.01%/14.51% including Pillar 2 guidance.[1]

[1] Countercyclical buffer based on exposure as of Q4 2020.

FURTHER DISCLOSURES REQUIRED BY IFRS

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

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

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

in € million	01.01.2019	Change in scope of consolidation	Fair value adjustment of hedged item from hedge accounting	Valuation of liabilities designated at fair value through profit or loss	Issuance of new bonds	Additions	Repurchase/ Re-demption/ Cash change	Others	31.12.2019
Financial liabilities designated at fair value through profit or loss									
Subordinated and supplementary capital	131	–	–	(1)	–	–	–	–	130
Financial liabilities measured at amortized cost									
Subordinated and supplementary capital	102	–	6	–	400	–	(15)	7	500
Other obligations									
Lease liability	261	–	–	–	–	23	(23)	(8)	253

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

34 | Fair value

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

in € million	Carrying amount 31.12.2020	Fair value 31.12.2020	Carrying amount 31.12.2019	Fair value 31.12.2019
Assets				
Cash reserves	1,032	1,032	1,424	1,424
Financial assets designated at fair value through profit or loss	90	90	100	100
Loans to customers	90	90	100	100
Financial assets mandatorily at fair value through profit or loss	603	603	640	640
Securities	364	364	325	325
Loans to customers	168	168	239	239
Subsidiaries and other equity investments	71	71	76	76
Financial assets at fair value through other comprehensive income	4,830	4,830	3,631	3,631
Debt instruments	4,611	4,611	3,425	3,425
Subsidiaries and other equity investments	219	219	206	206
Financial assets held for trading	441	441	353	353
At amortized cost	44,153	44,548	37,556	37,834
Customers	32,004	32,316	30,467	30,736
Credit institutions	9,889	9,892	5,720	5,722
Securities	2,260	2,340	1,369	1,376
Valuation adjustment on interest rate risk hedged portfolios	24	24	5	5
Hedging derivatives	405	405	397	397
Property, plant and equipment	332	n/a	396	n/a
Investment properties	143	143	311	311
Intangible non-current assets	552	n/a	569	n/a
Other assets	388	n/a	280	n/a
Non-current assets held for sale	135	146	–	–
Total assets	**53,128**		**45,662**	

in € million	Carrying amount 31.12.2020	Fair value 31.12.2020	Carrying amount 31.12.2019	Fair value 31.12.2019
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	324	324	369	369
Issued debt securities and other securitized liabilities	212	212	233	233
Subordinated and supplementary capital	106	106	130	130
Deposits from customers	6	6	6	6
Financial liabilities held for trading	422	422	334	334
Financial liabilities at amortized cost	46,088	46,262	38,543	38,621
Deposits from credit institutions	7,522	7,544	3,085	3,104
Deposits from customers	32,409	32,483	30,378	30,419
Issued bonds, subordinated and supplementary capital	6,157	6,235	5,080	5,098
Financial liabilities associated with transferred assets	97	97	729	729
Valuation adjustment on interest rate risk hedged portfolios	358	358	337	337
Hedging derivatives	62	62	116	116
Provisions	425	n/a	480	n/a
Other obligations	994	n/a	926	n/a
Equity	4,354	n/a	3,824	n/a
Non-controlling interests	4	n/a	4	n/a
Total liabilities and equity	**53,128**		**45,662**	

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

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

Fair value hierarchy

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

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

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

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

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

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

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

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

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

  Standard providers such as Bloomberg and Markit are used to evaluate the spreads of issued securities recognized at fair value through profit or loss. A senior unsecured spread curve and an LT2 spread curve are calculated based on the term structure of the Austrian banking sector curve and the quotes of the international BAWAG P.S.K. issues. For covered issues, the spread curve is derived directly from the quotes of several BAWAG P.S.K. benchmark bonds. The securities prices for BAWAG P.S.K. issues are then calculated by discounting the swap curve adapted by the spread.

In 2020, the portion of change in fair values of securities issued by BAWAG Group accounted for solely by changes in the Group's credit spreads was plus € 0.4 million (minus € 1.1 million as of 31 December 2019). This is defined as the product of the credit spread basis point value with the respective spread change, supplemented by the pull-to-par effect. As of 31 December 2020, the cumulative fair value change resulting from changes in the Group's credit rating amounted to minus € 1.9 million (minus € 1.6 million as of 31 December 2019).

A one basis point narrowing of the credit spread is expected to change their valuation by minus € 0.04 million (minus € 0.1 million as of 31 December 2019).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to € 0.0 million as of 31 December 2020 (€ 0.0 million as of 31 December 2019) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to € 0.0 million (minus € 2.9 million as of 31 December 2019).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.05 million (plus € 0.06 million as of 31 December 2019).

- **Level 3:** The measurement is based on unobservable input factors that have a material influence on the market value. This pertains primarily to illiquid funds of Südwestbank as well as own issues of BAWAG P.S.K. Wohnbaubank, former IMMO-BANK and Südwestbank. Loans and receivables and financial liabilities measured at amortized cost are valued using the discounted cash flow method using a spread-adjusted swap curve. This also pertains to stakes in non-consolidated subsidiaries that are classified as mandatorily at fair value through profit or loss or at fair value through other comprehensive income.

Regarding the determination of fair values of material investment properties, please refer to page 152.

For the determination of the credit value adjustment for the credit risk of OTC derivatives, netting effects at the customer level within transactions of the same kind and currency are taken into account.

31.12.2020 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	90	–	90
Financial assets mandatorily at fair value through profit or loss	32	58	513	603
Financial assets at fair value through other comprehensive income	4,650	139	41	4,830
Debt instruments	4,472	139	0	4,611
Subsidiaries and other equity investments	178	–	41	219
Financial assets held for trading	0	441	–	441
At amortized cost	1,126	10,057	33,365	44,548
Valuation adjustment on interest rate risk hedged portfolios	–	24	–	24
Hedging derivatives	–	405	–	405
Investment properties	–	–	143	143
Non-current assets held for sale	–	–	146	146
Total assets	**5,808**	**11,214**	**34,208**	**51,230**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	148	176	324
Issued debt securities and other securitized liabilities	–	36	176	212
Subordinated and supplementary capital	–	106	–	106
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	422	–	422
Financial liabilities at amortized cost	–	13,311	32,951	46,262
Financial liabilities associated with transferred assets	–	97	–	97
Valuation adjustment on interest rate risk hedged portfolios	–	358	–	358
Hedging derivatives	–	62	–	62
Total liabilities	**–**	**14,398**	**33,127**	**47,525**

31.12.2019 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial assets designated at fair value through profit or loss	–	100	–	100
Financial assets mandatorily at fair value through profit or loss	29	100	511	640
Financial assets at fair value through other comprehensive income	3,492	58	81	3,631
Debt instruments	3,366	58	1	3,425
Subsidiaries and other equity investments	126	–	80	206
Financial assets held for trading	0	353	–	353
At amortized cost	180	5,606	32,048	37,834
Valuation adjustment on interest rate risk hedged portfolios	–	5	–	5
Hedging derivatives	–	397	–	397
Investment properties	–	–	311	311
Total assets	**3,701**	**6,619**	**32,951**	**43,271**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	174	195	369
Issued debt securities and other securitized liabilities	–	38	195	233
Subordinated and supplementary capital	–	130	–	130
Deposits from customers	–	6	–	6
Financial liabilities held for trading	–	334	–	334
Financial liabilities at amortized cost	–	6,637	31,984	38,621
Financial liabilities associated with transferred assets	–	729	–	729
Valuation adjustment on interest rate risk hedged portfolios	–	337	–	337
Hedging derivatives	–	116	–	116
Total liabilities	**–**	**8,327**	**32,179**	**40,506**

BAWAG Group recognizes transfers between levels as of the end of the reporting period during which the transfer has occurred.

Movements between Level 1 and Level 2

In 2020, securities at fair value through other comprehensive income with a book value of € 66 million (2019: € 0 million) were moved from Level 1 to Level 2 due to subsequent illiquid market prices. Securities at fair value through other comprehensive income with a book value of € 0 million (2019: € 68 million) were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 financial instruments measured at fair value

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

			Financial assets at fair value through other comprehensive income		
in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Debt instruments	Subsidiaries and other equity investments	Financial liabilities
Opening balance as of 01.01.2020	**511**	**–**	**1**	**80**	**195**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	6	–	0	0	(7)
for assets no longer held at the end of the period	0	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	(38)	(2)
for assets no longer held at the end of the period	–	–	0	–	–
Purchases/Additions	84	–	–	12	–
Redemptions	(33)	–	(1)	–	(10)
Sales	(43)	–	–	(12)	–
Foreign exchange differences	(12)	–	–	(1)	–
Closing balance as of 31.12.2020	**513**	**–**	**0**	**41**	**176**

in € million	Financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Financial liabilities
			Debt instruments	Subsidiaries and other equity investments	
Opening balance as of 01.01.2019	**226**	**–**	**1**	**90**	**260**
Valuation gains (losses) in profit or loss					
for assets held at the end of the period	(4)	–	0	–	(6)
for assets no longer held at the end of the period	2	–	0	–	–
Valuation gains (losses) in other comprehensive income					
for assets held at the end of the period	–	–	0	0	2
for assets no longer held at the end of the period	–	–	–	–	–
Purchases/Additions	569	–	0	31	0
Redemptions	(273)	–	0	–	(61)
Sales	(42)	–	–	(9)	–
Foreign exchange differences	0	–	–	(1)	–
Change in scope of consolidation	0	–	–	2	–
Correction of editorial error	33	–	–	(33)	–
Closing balance as of 31.12.2019	**511**	**–**	**1**	**80**	**195**

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

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

The main unobservable input factor for own issues of BAWAG P.S.K. Wohnbaubank and former IMMO-BANK is the spread premium on the swap curve, which is used to determine the risk-adjusted discount curve. Subsequently, the fair value is calculated by discounting the future cash flows with the risk-adjusted discount curve. The gross spread premium for own issues of BAWAG P.S.K. Wohnbaubank depends on the maturity and is currently 117 basis points (31 December 2019: 100 basis points) for 5 years (mid). For issues of former IMMO-BANK, the spreads depend on the seniority of the bond and the maturity.

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

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

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

The fair value of non-traded investment funds is based on fair value quotes provided by the fund manager.

For real estate investment funds, the underlying investments are appraised at least annually by an independent appraiser engaged by the fund manager; net asset value (NAV) is determined at least quarterly. The net asset value of the investment fund corresponds to the excess of the value of the investment fund's assets over the value of its liabilities.

Funds investing in loan portfolios are valued by an independent external valuation agent based on a discounted cash flow methodology that uses proprietary default and prepayment models to derive expected cash flows, which are discounted at a market rate. The model utilizes credit and performance as well as macroeconomic indicators to forecast cash flows for each loan pool segmented by origination, vintage, sub-grade and term. Net asset value is calculated on a monthly basis.

The fund's financial statements are prepared according to local GAAP and an independent auditor conducts the annual audit for the funds, providing assurance on the accuracy of the above.

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

Expected dividends and earnings as well as external price indications take into account the most recent forecasts, including the observed and expected impact of the COVID-19 pandemic on the profitability of the companies concerned.

Sensitivity analysis of fair value measurement from changes in unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters can be drawn from a range of reasonably possible alternatives. The current COVID-19 situation results in increased uncertainty with regard to unobservable input parameters and the measurement of the fair value of such items. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank and former IMMO-BANK. BAWAG Group had Level 3 financial assets recognized at their fair value in the amount of € 554 million as of 31 December 2020 (31 December 2019: € 592 million).

If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 31 December 2020 would have increased by € 0.1 million (31 December 2019: € 0.5 million). If the credit spread used in calculating the fair value of own issues decreased by 20 basis points, the accumulated valuation result as of 31 December 2020 would have decreased by € 0.1 million (31 December 2019: € 0.5 million).

A one basis point narrowing of the credit spread is expected to change their valuation by plus € 0.07 million (31 December 2019: plus € 0.07 million).

The cumulative fair value change of receivables recognized at fair value through profit or loss that was recognized due to changes in credit spreads amounted to plus € 1.2 million as of 31 December 2020 (31 December 2019: plus € 1.6 million) and is calculated as the change in the spread between the government yield curve and the swap curve during the observed period. The respective annual fair value change amounted to minus € 0.5 million (31 December 2019: plus € 0.4 million).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 31 December 2020 would have decreased by € 7.1 million (31 December 2019: € 7.6 million). If the credit spread used in calculating the fair value of loans decreased by 100 basis points, the accumulated valuation result as of 31 December 2020 would have increased by € 8.1 million (31 December 2019: € 8.5 million).

If the liquidity discount of Südwestbank funds is increased by 10 percentage points, the valuation result as of 31 December 2020 would have decreased by € 1.3 million (31 December 2019: € 1.9 million). If the liquidity discount of Südwestbank funds is decreased by 10 percentage points, the valuation result as of 31 December 2020 would have increased by € 1.3 million (31 December 2019: € 1.9 million).

For the valuation of a part of the investments in equity instruments, the main input parameters are the discount factor, dividend income or earnings as well as (possibly) necessary capital measures. If the discount rate for investments in equity instruments is decreased by 100 basis points, the fair value would increase by € 5.9 million (thereof € 4.1 million FVTOCI and € 1.8 million FVTPL) (31 December 2019: € 7.0 million; thereof € 5.0 million FVTOCI and € 2.0 million FVTPL), whereas if the discount rate is increased by 100 basis points, the fair value would decrease by € 4.5 million (thereof € 3.1 million FVTOCI and € 1.4 million FVTPL) (31 December 2019: € 5.2 million; thereof € 3.7 million FVTOCI and € 1.5 million FVTPL). If changes in dividend income or net profit where applicable rose by 20%, the fair value of those assets would rise by € 1.1 million (thereof € 0.5 million FVTOCI and € 0.6 million FVTPL) (31 December 2019: € 1.3 million; thereof € 1.0 million FVTOCI and € 0.3 million FVTPL); if changes in dividend income or net profit where applicable declined by 20%, the fair value would decrease by € 0.9 million (thereof € 0.5 million FVTOCI and € 0.4 million FVTPL) (31 December 2019: € 1.2 million; thereof € 0.9 million FVTOCI and € 0.3 million FVTPL).

A part of the investments in equity instruments is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 6.1 million (thereof € 0.8 million FVTOCI and € 5.3 million FVTPL) (31 December 2019: € 9.7 million, thereof € 5.1 million FVTOCI and € 4.6 million FVTPL). If these indications were 10% higher, the fair value of this portion would increase by € 6.1 million (thereof € 0.8 million FVTOCI and € 5.3 million FVTPL) (31 December 2019: € 9.7 million; thereof € 5.1 million FVTOCI and € 4.6 million FVTPL).

The smallest portion is valued based on pro-rata equity. If the equity was 10% lower, this would result in a decrease of € 1.5 million (thereof € 0.0 million FVTOCI and € 1.5 million FVTPL) (31 December 2019: € 0.9 million; thereof € 0.3 million FVTOCI and € 0.6 million FVTPL), whereas if the equity was 10% higher, there would be an increase of € 1.5 million (thereof € 0.0 million FVTOCI and € 1.5 million FVTPL) (31 December 2019: € 0.9 million; thereof € 0.3 million FVTOCI and € 0.6 million FVTPL).

The fair value of two non-traded investment funds is based on fair value quotes provided by the fund manager. One fund has, based on the current portfolio allocation, an expected interest rate sensitivity of approximately minus € 1.1 million (31 December 2019: minus € 1.2 million) if rates rise by 100 bp and a credit spread sensitivity of minus € 1.2 million (31 December 2019: minus € 1.4 million) if credit spreads widen by 100bp (and vice versa).

For the other fund, the following applies: if the fair value indicated increased by 10%, the Group would recognize a gain of € 15.4 million in profit or loss (31 December 2019: € 10.0 million). If the fair value indicated decreased by 10%, the Group would recognize a loss of € 15.4 million in profit or loss (31 December 2019: € 10.0 million).

Fair value changes of Level 3 assets with alternative parametrization

To determine the potential impact, credit spreads are used for debt securities, income funds with the risk factor credit spreads as well as loans. For these, the value range between +100bp and -50bp is used in the sensitivity analysis. An increase (a reduction) in spreads leads to a reduction (an increase) in the respective fair value.

31.12.2020 in € million	(50)bp	+50bp	+100bp
Financial assets at fair value through profit or loss	**4.6**	**(4.4)**	**(8.5)**
Debt securities	0.1	(0.1)	(0.2)
Loans to customers	3.9	(3.7)	(7.1)
Income funds	0.6	(0.6)	(1.2)
Financial assets at fair value through other comprehensive income	**0.0**	**0.0**	**0.0**
Debt securities	0.0	0.0	0.0

35 | Treatment of day one gain

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

In the case of the acquisition of three loan portfolios, market interest rates on the transaction date were lower than when prices were negotiated. In all cases, the seller wanted to exit the respective business. Therefore, the transaction prices in these cases did not represent the fair value of the loans. The initial recognition is based on the fair value of the acquired loans and receivables determined using a DCF method taking into consideration market conditions on the purchase date. Because the fair value and therefore the day one gain is neither evidenced by a quoted price nor based on a valuation technique that uses only data from observable markets, the day one gain must not be realized on day one but must be accrued and the difference is subsequently recognized as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. IFRS 9 does not state how to subsequently measure this difference.

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

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

in € million	31.12.2020	31.12.2019
Balance at the beginning of the period	**36**	**55**
New transactions	–	–
Amounts recognized in profit or loss during the period	(11)	(19)
FX effects	0	0
Balance at the end of the period	**25**	**36**

36 | Receivables from and payables to subsidiaries and associates

BAWAG Group's receivables from and payables to non-consolidated subsidiaries and associates were as shown below. Business relationships with these entities were subject to normal banking terms and conditions.

Receivables from and payables to subsidiaries

in € million	31.12.2020	31.12.2019
Receivables from customers	32	35
Receivables from subsidiaries	**32**	**35**
Deposits from customers	107	109
Payables to subsidiaries	**107**	**109**

Interest income from business with subsidiaries in 2020 totaled € 1 million (2019: € 3 million) and interest expense € 1 million (2019: € 2 million).

Receivables from and payables to associates

in € million	31.12.2020	31.12.2019
Receivables from customers	69	74
Securities	15	24
Receivables from associates	**84**	**98**
Deposits from customers	30	21
Payables to associates	**30**	**21**

37 | Related parties

Owners of BAWAG Group AG

The shares of BAWAG Group AG were admitted for trading on the Vienna Stock Exchange as of 25 October 2017 (first day of trading). Pursuant to the major holdings notifications received by BAWAG Group AG, (i) several funds and accounts under management by or whose holdings in BAWAG Group AG are subject to an investment management agreement with Golden Tree Asset Management LP held 21.8% and (ii) funds and accounts under management by T.Rowe Price Group, Inc. and its affiliates held 5.6% as of 31 December 2020.

Major non-fully consolidated subsidiaries, joint ventures and equity investments of BAWAG P.S.K.

BAWAG P.S.K. Versicherung AG

BAWAG Group indirectly holds 25% plus one share of BAWAG P.S.K. Versicherung AG, Vienna. The majority of this company is owned by Generali Group. BAWAG P.S.K. Versicherung AG is accounted for using the equity method in BAWAG Group's accounts. The business dealings between BAWAG Group and BAWAG P.S.K. Versicherung AG cover insurance products, all of which are offered at standard market terms. The business relations between BAWAG Group and Generali are governed by contracts with standard market terms, including a cooperation agreement, a license agreement, a commission agreement and others.

PSA Payment Services Austria GmbH

BAWAG Group holds 20.82% in PSA Payment Services Austria GmbH. PSA is owned by several Austrian banks and banking groups and is engaged in the service and organization of ATM card business. PSA is accounted for using the equity method in BAWAG Group's accounts.

Other subsidiaries

Please refer to Note 51 for a list of all non-consolidated subsidiaries.

Transactions with related parties

The following table shows transactions with related parties (data included in Statement of Financial Position as at 31 December 2020; P&L data are for the full year 2020).

31.12.2020 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	39	2	68	0
Unutilised credit lines	–	–	5	23	20	–
Securities	–	–	–	24	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	5	91	1	0
Other liabilities (incl. derivatives)	–	–	–	–	–	–
Guarantees provided	–	–	0	–	1	–
Interest income[1]	–	–	0.7	0.3	0.2	–
Interest expense	–	–	0.0	1.2	0.0	0.0
Net fee and commission income	–	–	0.0	5.7	0.0	0.0

1) Gross income; hedging costs not offset.

The following table shows transactions with related parties (data included in Statement of Financial Position as at 31 December 2019; P&L data are for the full year 2019 and thus include associates of former shareholders until their de-investment from BAWAG Group). There have been no related party transactions with entities with joint control of, or significant influence over, the entity (thus no further contribution to profit or loss from transactions with related parties) since 1 December 2019.

31.12.2019 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries, not consolidated	Associates	Joint ventures	Other companies
Receivables – customers	–	–	38	1	73	–
Unutilised credit lines	–	–	4	22	33	–
Securities	–	–	–	24	–	–
Other assets (incl. derivatives)	–	–	6	–	–	–
Financial liabilities – customers	–	–	5	90	1	0
Other liabilities (incl. derivatives)	–	–	–	0	–	–
Guarantees provided	–	–	–	–	1	–
Interest income[1]	–	32.7	0.9	0.3	0.2	–
Interest expense	–	5.1	0.0	1.5	0.0	0.0
Net fee and commission income	–	–	0.0	8.2	0.0	0.0

1) Gross income; hedging costs not offset.

Consultancy fees to entities with joint control of, or significant influence over, the entity amounted to € 0.0 million in 2020 (2019: € 0.0 million).

A loan loss provision of € 4 million was recognized in 2019 and used in 2020 for one loan where related parties have been involved.

Information regarding natural persons

Key management

Key management of BAWAG Group refers to the members of the Managing Board and the Supervisory Board of BAWAG Group AG and BAWAG P.S.K. AG. Total personnel expenses for the key management amount to € 22.3 million (2019: € 21.5 million).

Expenses for remuneration (including accrued and deferred bonuses and payments to the pension fund) relating to active members of the Managing Board of BAWAG Group AG and BAWAG P.S.K. AG during the financial year amounted to € 21.3 million (2019: € 19.8 million). These expenses consist of short-term benefits in the amount of € 18.2 million, long-term bonus benefits in the amount of € 0.0 million and payments to the pension fund in the amount of € 3.1 million (2019: short-term benefits € 16.6 million, long-term bonus benefits € 0.0 million and payments to the pension fund € 3.2 million). Expenses for remuneration in 2020 for former members of the Managing Board amounted to € 0.0 million (2019: € 0.0 million).

As of 31 December 2020, contractual agreements governing the payment of contributions to pension funds were in force for all Managing Board members.

No bonus awards were awarded and recognized for 2020 for the Managing Board (2019: € 0.0 million). The Managing Board has waived potential bonuses for 2020 to address the current macroeconomic environment partly caused by the COVID-19 pandemic. Under consideration of the regulatory principles, a long-term incentive program was implemented in 2017, among others, for the Managing Board. The long-term incentive program is awarded 50% in shares and 50% in phantom shares or optionally 100% in shares of BAWAG Group AG under the precondition of long-term corporate success.

As of the reporting date, there were two outstanding loans in the amount of € 3.3 million to members of the Managing Board (2019: three outstanding loans in the amount of € 3.0 million). Loans, building society loans and leasing financing to members of the Supervisory Board totaled € 0.0 million (2019: € 0.0 million). Repayments of loans granted to executives and staff took place as contractually agreed.

Furthermore, Managing Board and Supervisory Board members made no use of current account limits (2019: € 0.0 million) as of the reporting date. Turnover on credit cards guaranteed to third parties by the Bank that belong to Managing Board members amounted to € 0.0 million in December 2020 (2019: € 0.0 million). Turnover on guaranteed credit cards that belong to members of the Supervisory Board amounted to € 0.0 million in December 2020 (2019: € 0.0 million).

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

Remuneration of members of the Supervisory Board of BAWAG P.S.K. AG amounted to € 0.8 million in 2020 (2019: € 1.2 million). Works Council delegates to the Supervisory Board do not receive any incremental remuneration. Remuneration of members of the Supervisory Board of BAWAG Group AG amounted to € 0.3 million (2019: € 0.4 million).

There were no consulting expenses in 2020 or 2019.

Pension payments to former members of the Managing Board and their surviving dependents came to € 1.5 million (2019: € 1.5 million).

Expenditures for severance pay for former members of the Managing Board came to € 0.0 million (2019: € 0.0 million).

Long-term incentive program

BAWAG Group established a long-term incentive program (LTIP) for the members of the Managing Board and key senior leaders as well as certain advisors. The LTIP is intended to closely align the interests of the participants with those of the shareholders. This shall be achieved by granting the bonus and part of the advisory fees in the form of shares in BAWAG Group AG to the participants based on the fulfillment of certain conditions. The LTIP initially represented an equity-settled share-based transaction only, which is accounted for in accordance with IFRS 2.

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

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

For 25% of the shares of each participant, there is a service condition ("part 2"): Those shares may only vest in 2022 and 2023 if the participant keeps working for the Group until 31 March 2021. This part is lost if the participant terminates the employment prior to 31 March 2021 himself or is dismissed prior to that date. Based on Austrian labor law requirements, a pro-rata allocation of non-vested parts of the LTIP shall take place for "good leavers."

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

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

On 29 April 2019, the Supervisory Board of BAWAG Group decided to modify the LTIP program. The prior arrangement defined a 100% share settlement. According to the new arrangement, 50% of the bonus award will still be settled in shares whereas for 50% of the bonus award the beneficiaries may choose between settlement of the rewards in cash or settlement in shares. The cash payment will depend on the fair value of the shares of BAWAG Group (phantom shares). Vesting and market conditions remain unchanged.

As 50% of the awards now contain a cash settlement alternative, these 50% qualify as a cash-settled share-based payment. Consequently, BAWAG Group recognized a liability to settle in cash at the modification date, based on the fair value of the shares at the modification date to the extent to which the specified services have been received. The initial recognition of this liability was P&L neutral, leading to a reduction of capital reserves in the amount of € 24.9 million. In the last quarter of 2020, the majority of all beneficiaries opted for settlement in 100% shares, this option was defined in the program. As a result of this decision, the LTIP program for the relevant beneficiaries changed from a cash-settled share-based payment to an equity-settled share-based payment. At the date of exercise of the option, the respective outstanding liability was remeasured at the current share price and subsequently reversed against equity.

Liabilities from cash-settled share-based payments resulting from the LTIP program amounted to € 0.6 million as of 31 December 2020 (31 December 2019: € 24.0 million).

The achievement of the performance targets set in relation to the LTIP Part 1 for the years 2018–2020 has been assessed by the responsible corporate bodies as part of an assessment. The result of this assessment was that the performance targets have been met and therefore 75% of the LTIP shares will be allocated in 2021. The remaining 25% will vest in 2022 (12.5%) and 2023 (12.5%) regardless of the achievement of performance targets. In all cases, the malus and clawback rules apply in accordance with the Compensation Policy.

The program includes a "net settlement feature" enabling BAWAG Group to withhold the number of shares necessary to pay the tax obligation (unless the participant pays the necessary amount to the employer). The following shares were awarded in 2018. No further shares have been awarded since then:

	Number of shares	Fair value in € million	Fair value per share as of 31.12.2020
Granted as of 31.12.2020	1,246,618	47.4	38.00
Thereof awarded in part 1 of the LTIP program	934,964	35.5	38.00

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

Group of beneficiaries	Number of shares awarded in part 1 of the LTIP program	Number of shares awarded in part 2 of the LTIP program	Maximum number of shares to be actually allocated	Minimum number of shares to be actually allocated	Number of shares actually allocated on grant date
Members of the Managing Board of the Company					
Anas Abuzaakouk	169,880	56,626	226,506	–	–
Stefan Barth	60,497	20,166	80,663	–	–
David O'Leary	108,395	36,131	144,526	–	–
Sat Shah	136,979	45,660	182,639	–	–
Enver Sirucic	60,497	20,166	80,663	–	–
Andrew Wise	124,573	41,524	166,097	–	–
Senior leadership team of the Company and its subsidiaries	274,143	91,381	365,524	–	–
Other share-based payment	–	–	–	–	–
Total	**934,964**	**311,654**	**1,246,618**	**–**	**–**

Valuation

BAWAG Group used the fair value of the equity instruments granted to measure the fair value of the services received from its employees.

The fair value of the equity instruments at the grant date was based on the observable market price of BAWAG Group AG shares. No adjustment for expected dividends and dividend restrictions were incorporated into the measurement of fair value.

For part 1 of the LTIP program, market and non-vesting conditions are taken into account by estimating the probability of achieving the earnings per share target. This probability was estimated to be 100%.

Service conditions as agreed in part 2 of the LTIP program are not taken into account when measuring the grant date fair value of equity instruments. Instead, those are taken into account by adjusting the number of equity instruments included in the measurement of the transaction. BAWAG Group expects that all participants will satisfy the service condition.

Accounting for cancellations

If a grant of equity instruments (equity-settled share-based payment) is cancelled or settled during the period between granting and vesting, the cancellation or settlement is accounted for as an acceleration of vesting, and the amount that otherwise would have been recognized for services received over the remainder of the vesting period is immediately recognized in profit or loss. Any payment made to the employee on the cancellation or settlement of the grant is accounted for as a deduction from equity. If the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date, the exceeding amount is recognized as an expense.

If parts of the modified part of the LTIP (cash-settled share-based payment) are cancelled or settled during the vesting period, the cancellation or settlement is also accounted for as an acceleration of vesting, and the amount that otherwise would have been recognized for services received over the remainder of the vesting period is immediately recognized in profit or loss. The liability is then remeasured at the current fair value on the reporting date taking into account all effects from cancellations and settlements through profit or loss.

Amounts recognized in the consolidated financial statements

The services received in an equity-settled share-based payment transaction are recognized as the services are received, with a corresponding increase in equity.

For the modified part of the LTIP program (which is now classifies as cash-settled), the grant date fair value of the shares granted continues to be recognized as a share-based payment cost as if no modification had occurred. The expense is credited partially to the liability and partially to equity. The amount credited to the liability is the amount that equals the annual proportion of the fair value of the liability at the date of modification, without taking into account any subsequent changes in the value of the liability. The remainder is credited to equity. In a second step, the liability is remeasured based on the current share price of the instruments granted with all changes in the fair value recognized in profit or loss.

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

For part 2, costs are recognized over the vesting period using a straight-line method following the modified grant date method. According to this method, the fair value of the equity instruments is measured at the grant date, with some true-up for instruments that do not vest. Pro-rata expense was recognized in the financial statements for awards relating to part 2 of the LTIP program as these relate to the service periods 2018 to 2021.

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

in € million	2020	2019
Expenses for equity-settled share-based payments	4.0	4.1
Thereof relating to		
Members of the Managing Board of the Company	2.7	2.6
Members of the Managing Board of a subsidiary	0.0	0.0
Senior leadership team of the Company and its subsidiaries	1.3	1.4
Other	0.0	0.1

in € million	2020	2019
Expenses/Income from cash-settled share-based payments	(2.4)	(2.7)
Thereof relating to		
Members of the Managing Board of the Company	(1.9)	1.2
Members of the Managing Board of a subsidiary	0.0	0.0
Senior leadership team of the Company and its subsidiaries	(0.5)	(2.0)
Other	0.0	(1.9)

Annual bonus program

Annual bonus awards are granted to selected employees and Managing Board members. The bonus of this group is based on the annual result and defined external targets. If the individual bonus exceeds a certain limit, 50% of the bonus is paid in cash and 50% in the form of BAWAG Group AG phantom shares.

All expected bonus allocations for employees that are granted for services rendered in 2020 were taken into account in the consolidated financial statements as of 31 December 2020 by recognition of a provision.

Business relations with related party individuals

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

in € million	Key management of the entity or its parent 31.12.2020	Other related parties 31.12.2020	Key management of the entity or its parent 31.12.2019	Other related parties 31.12.2019
Current account deposits	7	5	4	4
Savings deposits	0	5	0	3
Loans	3	5	3	6
Building savings deposits	–	0	–	–
Leasing	–	0	–	0
Securities	2	0	0	0
Interest income	0.0	0.1	0.0	0.1
Interest expense	0.0	0.0	0.0	0.0

Number of shares	Key management of the entity or its parent 31.12.2020	Other related parties 31.12.2020	Key management of the entity or its parent 31.12.2019	Other related parties 31.12.2019
Shares of BAWAG Group AG	927,156	724,965	111,923	3,073

38 | Major changes in the Group's holdings

There were no major acquisitions in 2020. For major acquisitions made in 2019, we refer to the Notes (Note 35 and 36) to the consolidated financial statements as of 31 December 2019.

39 | Assets pledged as collateral

in € million	31.12.2020	31.12.2019
Receivables and securities assigned to Oesterreichische Kontrollbank AG	460	206
Collateral pledged to the European Investment Bank	91	91
Cover pool for trust savings deposits	101	21
Cover pool for covered bonds	6,368	5,623
Collateral for RMBS	273	346
Collateral for tender facilities	6,750	1,034
Cash collateral for derivatives	91	68
Other collateral	183	212
Assets pledged as collateral	**14,317**	**7,601**

The Group pledges assets for repurchase agreements that are generally conducted under terms that are usual and customary for standard securitized borrowing contracts. In addition, the Group pledges collateral against other borrowing arrangements and for margining purposes on derivative liabilities. Receivables and securities are also pledged to Oesterreichische Kontrollbank AG in connection with export financing.

Pledges for trust savings deposits are conducted in accordance with legal regulations (section 68 BWG).

The cover pool for covered bonds is subject to the law on covered bank bonds (FBSchVG). Additionally, relevant collateral was provided for refinancing through the European Investment Bank.

40 I Total collateralized debt

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

in € million	31.12.2020	31.12.2019
Liabilities to Oesterreichische Kontrollbank secured with assigned receivables	153	180
Payables arising due to refinancing by the European Investment Bank	54	53
Trust savings deposits	95	18
Payables secured by the cover pool for covered bonds	3,931	2,747
RMBS	174	260
Tender facilities	5,772	792
Negative market values of derivatives	81	60
Other collateral	124	133
Total collateralized debt	**10,384**	**4,243**

41 I Genuine repurchase agreements

in € million	31.12.2020	31.12.2019
Lender – receivables from credit institutions	–	–
Repurchaser – payables to credit institutions	97	729
Repurchase agreements	**97**	**729**

42 I Transferred assets that are not derecognized in their entirety

	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income
in € million	31.12.2020	31.12.2019
Carrying amount of transferred assets[1)]	96	782
Carrying amount of associated liabilities	97	729

1) All of the transferred assets are bonds.

Transferred assets that are not derecognized in their entirety relate to genuine repurchase agreements. Since BAWAG Group is still the owner of the transferred assets, it remains exposed to market, interest rate, currency and credit risk with regard to these assets. The transferred assets are blocked for sale and are not taken into account in the liquidity calculation.

43 | Subordinated assets

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

in € million	31.12.2020	31.12.2019
Subordinated assets at amortized cost	2	1
Subordinated assets designated at fair value through profit or loss	30	60
Subordinated assets at fair value through other comprehensive income	178	126
Subordinated assets	**210**	**187**

44 | Offsetting financial assets and financial liabilities

BAWAG Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. Under such agreements, the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are generally aggregated into a single net amount that is payable by one party to the other. Under certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the Statement of Financial Position. This is because BAWAG Group currently does not have any legally enforceable right to offset recognized amounts because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

Repo and reverse repo transactions are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

The disclosures in the tables below include financial assets and financial liabilities that:

- are offset in BAWAG Group's Statement of Financial Position; or
- are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Statement of Financial Position.

Financial assets

31.12.2020 in € million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral received	
Derivatives (excl. hedging derivatives)	441	–	441	40	301	100
Hedging derivatives	405	–	405	38	366	1
Loans to and receivables from customers	239	181	58	–	–	58
Total	**1,085**	**181**	**904**	**78**	**667**	**159**

31.12.2019 in € million	Gross amounts of recognized financial assets	Gross amounts of financial liabilities offset in the Statement of Financial Position	Net amounts of financial assets presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral received	
Derivatives (excl. hedging derivatives)	353	–	353	12	244	97
Hedging derivatives	397	–	397	78	313	6
Loans to and receivables from customers	380	316	64	–	–	64
Total	**1,130**	**316**	**814**	**90**	**557**	**167**

Financial liabilities

31.12.2020 in € million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives (excl. hedging derivatives)	422	–	422	330	62	30
Hedging derivatives	62	–	62	49	13	–
Repo transactions	97	–	97	97	–	–
Customer deposits	181	181	–	–	–	–
Total	**762**	**181**	**581**	**476**	**75**	**30**

31.12.2019 in € million	Gross amounts of recognized financial liabilities	Gross amounts of financial assets offset in the Statement of Financial Position	Net amounts of financial liabilities presented in the Statement of Financial Position	Amounts not offset in the Statement of Financial Position		Net amount
				Financial instruments	Cash collateral pledged	
Derivatives (excl. hedging derivatives)	334	–	334	268	36	30
Hedging derivatives	116	–	116	93	22	1
Repo transactions	729	–	729	729	–	–
Customer deposits	316	316	–	–	–	–
Total	**1,495**	**316**	**1,179**	**1,090**	**58**	**31**

The following tables reconcile the net amounts of financial assets and financial liabilities presented in the Statement of Financial Position to the respective line items in the Statement of Financial Position:

Financial assets

31.12.2020 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	441	–	441
Hedging derivatives	Hedging derivatives	405	–	405
Loans to and receivables from customers	Loans to and receivables from customers	32,004	31,946	58
Total		**32,850**	**31,946**	**904**

31.12.2019 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Assets held for trading	353	–	353
Hedging derivatives	Hedging derivatives	397	–	397
Loans to and receivables from customers	Loans to and receivables from customers	30,467	30,403	64
Total		**31,217**	**30,403**	**814**

Financial liabilities

31.12.2020 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	422	–	422
Hedging derivatives	Hedging derivatives	62	–	62
Repo transactions	Financial liabilities associated with transferred assets	97	–	97
Customer deposits	Deposits from customers	32,409	32,409	–
Total		**32,990**	**32,409**	**581**

31.12.2019 in € million	Line item in Statement of Financial Position	Carrying amount of line item in Statement of Financial Position	Thereof without offsetting agreement	Thereof with offsetting agreement
Derivatives (excl. hedging derivatives)	Liabilities held for trading	334	–	334
Hedging derivatives	Hedging derivatives	116	–	116
Repo transactions	Financial liabilities associated with transferred assets	729	–	729
Customer deposits	Deposits from customers	30,378	30,378	–
Total		**31,557**	**30,378**	**1,179**

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

in € million	31.12.2020	31.12.2019
Contingent assets	**–**	**–**
Contingent liabilities	**339**	**372**
Arising from guarantees	339	280
Other contingent liabilities	–	92
Unused customer credit lines	**8,370**	**7,485**
Thereof terminable at any time and without notice	6,524	5,769
Thereof not terminable at any time	1,846	1,716

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

46 | Foreign currency amounts

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

in € million	31.12.2020	31.12.2019
USD	3,020	2,410
CHF	1,191	1,380
GBP	1,852	2,131
Other	358	330
Foreign currency	**6,421**	**6,251**
EUR	**46,707**	**39,411**
Total assets	**53,128**	**45,662**
USD	252	338
CHF	214	214
GBP	379	475
Other	149	146
Foreign currency	**994**	**1,173**
EUR	**52,134**	**44,489**
Total liabilities	**53,128**	**45,662**

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

47 | Information about geographical areas – Non-current assets

in € million	31.12.2020	31.12.2019
Austria	840	914
Western Europe	259	456
Total	**1,099**	**1,370**

Non-current assets consist of the balance sheet items Property, plant and equipment, Investment properties, Goodwill, Brand name and customer relationships, Software and other intangible assets, Associates recognized at equity and Other assets with a remaining maturity of more than one year.

48 | Leasing

Finance leasing from the view of BAWAG Group as lessor

Finance lease receivables are included in the balance sheet position Loans and advances to customers.

BAWAG Group leases both movable property and real estate to other parties under finance lease arrangements.

The following table shows the reconciliation between gross investment value and present value, broken down according to maturity for all ongoing leasing contracts (without open items):

31.12.2020 in € million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	426	1,357	59	1,842
As yet unrealized financial income	28	74	3	105
Receivables from finance leases (net investment value)	**398**	**1,283**	**56**	**1,737**

31.12.2019 in € million	Up to 1 year	1–5 years	Over 5 years	Total
Total outstanding leasing installments (gross investment value)	391	1,318	107	1,816
As yet unrealized financial income	29	61	6	96
Receivables from finance leases (net investment value)	**362**	**1,257**	**101**	**1,720**

As of 31 December 2020, the non-guaranteed residual value amounts to € 21 million (2019: € 25 million).

Impairments in the amount of € 6.2 million were recognized in respect of irrecoverable minimum lease installments (2019: € 0.0 million).

Operating leasing from the view of BAWAG Group as lessee

BAWAG Group leases office premises, branches, equipment and vehicles under various rental agreements. The lease contracts are concluded under standard terms and conditions and include price adjustment clauses in line with general office rental market conditions. The lease agreements do not include any clauses that impose any restriction on the Group's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

As of 31 December 2020, the right-of-use assets amount to € 223.7 million (2019: € 251.3 million). Of this amount, € 221.4 million (2019: € 248.2 million) are presented within property, plant and equipment and € 2.3 million (2019: € 3.1 million) are presented within receivables from customers at amortized cost. The following table presents the development of the right-of-use assets by asset classes:

31.12.2020 in € million	Land and buildings	Office furniture and equipment	Total
Carrying amount 01.01.2020	**250.1**	**1.2**	**251.3**
Additions	0.0	0.3	0.3
Disposals	(2.7)	0.0	(2.7)
Reassessments and modifications	0.2	0.0	0.2
Depreciation	(24.9)	(0.5)	(25.4)
Carrying amount 31.12.2020	**222.7**	**1.0**	**223.7**
thereof property, plant and equipment	220.4	1.0	221.4
thereof lease receivables	2.3	0.0	2.3

31.12.2019 in € million	Land and buildings	Office furniture and equipment	Total
Carrying amount 01.01.2019	**261.1**	**0.0**	**261.1**
Additions	22.2	1.5	23.7
Disposals	(10.2)	0.0	(10.2)
Reassessment and modification	0.7	0.0	0.7
Depreciation	(23.7)	(0.3)	(24.0)
Carrying amount 31.12.2019	**250.1**	**1.2**	**251.3**
thereof property, plant and equipment	247.0	1.2	248.2
thereof lease receivables	3.1	0.0	3.1

Since 1 January 2020, an addition to the right-of-use assets was recognized in the amount of € 0.3 million (€ 23.7 million). This results from new leases of vehicles.

As of 31 December 2020, the lease liability amounts to € 225.6 million (2019: € 252.8 million) and is presented within other obligations. The following table presents a maturity analysis of the lease liability:

in € million	31.12.2020	31.12.2019
Up to 1 year	23.9	24.3
1–5 years	84.8	90.0
Over 5 years	116.9	138.5
Total lease liablity	**225.6**	**252.8**

The following table presents the impact of IFRS 16 on profit or loss:

in € million	2020	2019
Depreciation of right-of-use assets	25.4	24.0
Land and buildings	24.9	23.7
Office furniture and equipment	0.5	0.3
Interest expense on lease liabilities	2.6	2.5
Expenses relating to short-term leases	0.5	0.5
Expenses relating to low-value assets	0.2	0.1
Expenses relating to variable lease payments independent from an index or rate	0.0	0.0
Total	**28.7**	**27.1**
Total rental payments for lease agreements	**(29)**	**(25)**
Rental income from subleasing right-of-use assets	3	1

In 2020, interest expenses in the amount of € 2.6 million (2019: € 2.5 million) and depreciation in the amount of € 25.4 million (2019: € 24.0 million) were recorded due to the adoption of IFRS 16. Rental expenses for operating leases in the amount of € 27.2 million (2019: € 25.5 million) were eliminated from other operating expenses and administrative expenses, resulting in a decrease of net profit before tax in the amount of € 0.8 million (2019: € 1.0 million).

49 | Derivative financial transactions

Derivative financial transactions as of 31.12.2020

31.12.2020 in € million		Nominal amount/maturity[1)				Fair value[1)	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**10,152**	**26,037**	**21,184**	**57,372**	**658**	**(315)**
Thereof	interest rate swaps banking book	9,889	25,685	20,490	56,063	632	(267)
	interest rate options banking book	263	352	694	1,309	26	(48)
	interest rate swaps trading book	–	–	–	–	–	–
	interest rate options trading book	–	–	–	–	–	–
Currency related business		**4,229**	**3,135**	**1,503**	**8,868**	**178**	**(163)**
Thereof	currency swaps banking book	1,030	2,891	1,503	5,425	87	(96)
	foreign currency forward transactions and options banking book	3,199	244	–	3,443	91	(67)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	–	–	–	–	–	–
Securities related business		**0**	**13**	**31**	**44**	**10**	**(6)**
Thereof	securities related business banking book	–	13	31	44	10	(6)
Total		**14,381**	**29,185**	**22,718**	**66,284**	**846**	**(484)**
Thereof	banking book business	14,381	29,185	22,718	66,284	846	(484)
	trading book business	–	–	–	–	–	–

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

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

31.12.2020 in € million		Nominal amount/maturity				Fair Value	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business	Fair value hedge – interest rate risk	1,310	11,101	12,038	24,449	308	(45)
Currency related business	Cash flow hedge – FX risk	901	1,921	1,341	4,163	89	(15)
Currency related business	Net investment hedge – FX risk	215	–	–	215	8	(2)
Total		**2,426**	**13,022**	**13,379**	**28,827**	**405**	**(62)**

Derivative financial transactions as of 31.12.2019

31.12.2019 in € million		Nominal amount/maturity[1]				Fair value[1]	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business		**7,256**	**22,799**	**17,574**	**47,629**	**725**	**(279)**
Thereof	interest rate swaps banking book	6,906	22,182	16,864	45,952	698	(237)
	interest rate options banking book	350	617	710	1,677	27	(42)
	interest rate swaps trading book	–	–	–	–	–	–
	interest rate options trading book	–	–	–	–	–	–
Currency related business		**2,462**	**3,054**	**749**	**6,265**	**23**	**(165)**
Thereof	currency swaps banking book	597	2,918	749	4,264	10	(148)
	foreign currency forward transactions and options banking book	1,862	136	–	1,998	13	(17)
	currency swaps trading book	–	–	–	–	–	–
	foreign currency forward transactions and options trading book	3	–	–	3	–	0
Securities related business		**1**	**40**	**27**	**68**	**3**	**(6)**
Thereof	securities related business banking book	1	40	27	68	3	(6)
Total		**9,719**	**25,893**	**18,350**	**53,962**	**751**	**(450)**
Thereof	banking book business	9,716	25,893	18,350	53,959	751	(450)
	trading book business	3	–	–	3	–	0

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

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

31.12.2019 in € million		Nominal amount/maturity				Fair value	
		Up to 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Interest rate related business	Fair value hedge – interest rate risk	901	6,859	10,450	18,210	380	(47)
Currency related business	Cash flow hedge – FX risk	565	2,211	588	3,364	15	(68)
Currency related business	Net investment hedge – FX risk	235	–	–	235	2	0
Total		**1,701**	**9,070**	**11,038**	**21,809**	**397**	**(115)**

50 | List of consolidated subsidiaries

	31.12.2020		31.12.2019	
Banks				
BAWAG P.S.K. AG, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Wohnbaubank Aktiengesellschaft, Vienna	F	100.00%	F	100.00%
IMMO-BANK Aktiengesellschaft, Vienna	–	–	F	100.00%
start:bausparkasse AG, Hamburg	F	100.00%	F	100.00%
start:bausparkasse AG, Vienna	F	100.00%	F	100.00%
Südwestbank Aktiengesellschaft, Stuttgart	–	–	F	100.00%
Real estate				
LSREF3 Tiger Aberdeen S.a.r.l., Luxembourg	F	100.00%	F	100.00%
LSREF3 Tiger Falkirk I S.a.r.l., Luxembourg	F	100.00%	F	100.00%
LSREF3 Tiger Gloucester S.a.r.l., Luxembourg	F	100.00%	F	100.00%
LSREF3 Tiger Romford S.a.r.l., Luxembourg	F	100.00%	F	100.00%
LSREF3 Tiger Southampton S.a.r.l., Luxembourg	F	100.00%	F	100.00%
Promontoria Holding 136 B.V., Amsterdam	F	100.00%	F	100.00%
R & B Leasinggesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RVG Realitätenverwertungsgesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
SWBI Darmstadt 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Mainz 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI München 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 1 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 2 GmbH, Stuttgart	F	100.00%	F	100.00%
SWBI Stuttgart 3 GmbH, Stuttgart	F	100.00%	F	100.00%
Leasing				
ACP IT-Finanzierungs GmbH, Vienna	F	75.00%	F	75.00%
BAWAG P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Kommerzleasing GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING GmbH & Co. MOBILIENLEASING KG., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. LEASING Holding GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. MOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%
BFL Leasing GmbH, Eschborn	F	97.44%	F	97.51%
CVG Immobilien GmbH, Vienna	F	100.00%	F	100.00%
easyleasing GmbH, Vienna	F	100.00%	F	100.00%
HBV Holding und Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
KLB Baulandentwicklung GmbH, Vienna	F	100.00%	F	100.00%
Leasing-west GmbH, Kiefersfelden	F	100.00%	F	100.00%
Morgenstern Miet + Leasing GmbH, Eschborn	F	92.57%	F	92.64%
P.S.K. IMMOBILIENLEASING GmbH, Vienna	F	100.00%	F	100.00%

	31.12.2020		31.12.2019	
Other non-credit institutions				
AUSTWEST ANSTALT GmbH, Triesen	F	100.00%	F	100.00%
BAWAG Education Trust Corp., Wilmington	F	100.00%	F	100.00%
BAWAG Group Germany GmbH, Eschborn	F	100.00%	F	100.00%
BAWAG P.S.K. Datendienst Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. IMMOBILIEN GmbH, Vienna	F	100.00%	F	100.00%
BAWAG P.S.K. Versicherung Aktiengesellschaft, Vienna	E	25.00%	E	25.00%
Bonnie RE UK 1 B.V., Amsterdam	F	100.00%	F	100.00%
BPI Holding GmbH & Co KG., Vienna	F	100.00%	F	100.00%
BV Vermögensverwaltung GmbH, Vienna	F	100.00%	F	100.00%
BVV Cayman Ltd., George Town	F	100.00%	F	100.00%
E2E Kreditmanagement GmbH, Vienna	F	100.00%	F	100.00%
E2E Service Center Holding GmbH, Vienna	F	100.00%	F	100.00%
E2E Transaktionsmanagement GmbH, Vienna	F	100.00%	F	100.00%
FCT Pearl, Pantin	F	100.00%	F	100.00%
Feldspar 2016-1 Mortgage Holding Limited, London[1)]	F	0.00%	F	0.00%
Feldspar 2016-1 PLC, London[1)]	F	0.00%	F	0.00%
Health Coevo AG, Hamburg	F	100.00%	F	100.00%
M. Sittikus Str. 10 Errichtungs GmbH, Vienna	F	100.00%	F	100.00%
MF BAWAG Blocker LLC, Wilmington	F	100.00%	F	100.00%
PFH Properties Funds Holding GmbH, Vienna	F	100.00%	F	100.00%
PSA Payment Services Austria GmbH, Vienna	E	20.82%	E	20.82%
P.S.K. Beteiligungsverwaltung GmbH, Vienna	F	100.00%	F	100.00%
RF fünfzehn BAWAG Mobilien-Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
RF zwölf BAWAG Leasing Gesellschaft m.b.H., Vienna	F	100.00%	F	100.00%
ROMAX Immobilien GmbH, Vienna	F	100.00%	F	100.00%
SWB Immowert GmbH, Stuttgart	F	100.00%	F	100.00%
Tiger Retail UK RE 1 S.a.r.l., Luxembourg	F	100.00%	F	100.00%
Tiger Retail UK RE 2 S.a.r.l., Luxembourg	F	100.00%	F	100.00%
Zahnärztekasse AG, Wädenswil	F	99.99%	F	99.99%

F … Full consolidation, E … Equity method
1) As these entities are set up for the funding and refinancing of BAWAG P.S.K. and BAWAG P.S.K. determines all contracts and processes, BAWAG P.S.K. is obligated to consolidate these entities according to IFRS 10.

Material subsidiaries are fully consolidated on the basis of IFRS 10, whereas material associates are at-equity consolidated according to IAS 28.

Subsidiaries are entities that BAWAG Group controls in accordance with IFRS 10. BAWAG Group controls an entity when it is exposed or has rights to variable returns from its involvement with a subsidiary and has the ability to influence those returns through its power over the subsidiary.

Associates in accordance with IAS 28 are all entities over which BAWAG Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

The classification of whether a subsidiary/associate is material is reviewed once a year.

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

	31.12.2020	31.12.2019
Real estate		
N & M Immobilienentwicklungs GmbH, Vienna	100.00%	100.00%
LSREF3 Tiger Falkirk II S.a.r.l., Luxembourg	100.00%	100.00%
Leasing		
BAWAG Leasing & fleet s.r.o., Prague	100.00%	100.00%
BAWAG Leasing s.r.o., Bratislava	100.00%	100.00%
Fides Leasing GmbH, Vienna	50.00%	50.00%
Gara RPK Grundstücksverwaltungsgesellschaft m.b.H., Vienna	100.00%	100.00%
HFE alpha Handels-GmbH, Vienna	50.00%	50.00%
Kommunalleasing GmbH, Vienna	50.00%	50.00%
PT Immobilienleasing GmbH, Vienna	100.00%	100.00%
RF sechs BAWAG P.S.K. LEASING GmbH & Co. KG., Vienna	100.00%	100.00%
Other non-credit institutions		
Athena Burgenland Beteiligungen AG, Eisenstadt	–	38.30%
AUSTOST ANSTALT, Balzers	100.00%	100.00%
BAWAG Finance Malta Ltd. in Liqu, Sliema	–	100.00%
BAWAG P.S.K. Equity Finance Limited, St. Helier	100.00%	100.00%
BFL Vertriebspartner BeteiligungsgesmbH, Eschborn	68.03%	68.92%
dd-roadmap Unternehmensberatung GmbH, Vienna	100.00%	–
easy green energy GmbH, Vienna	49.00%	49.00%
easy green energy GmbH & Co KG, Vienna	49.00%	49.00%
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H. i.L., Vienna	35.92%	35.92%
ESG Entwicklungsgesellschaft mbH. i.L., Stuttgart	–	100.00%
Fingorilla GmbH, Vienna	40.00%	–
Finventum GmbH, Munich	49.00%	49.00%
Finventum IT GmbH, Vienna	49.00%	49.00%
FlexSi Finanz Vermittlungsgesellschaft m.b.H., Hamburg	100.00%	100.00%
GTA Global Transformation Advisors GmbH, Eschborn	100.00%	49.00%
Omnicas Management AG, Wädenswil	99.99%	99.99%
Savity Vermögensverwaltungs GmbH, Vienna	49.00%	49.00%
SPG Software Solutions Limited, Minsk	25.03%	25.03%
SPGR Financial Solutions GmbH, Vienna	25.03%	25.03%
SWB Treuhand Gesellschaft mit beschränkter Haftung i.L., Stuttgart	100.00%	100.00%
Universa Protection Protocol XLII L.P., Miami	100.00%	–
Vertiva Family Office GmbH, Stuttgart	100.00%	100.00%

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

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

in € million	31.12.2020	31.12.2019
Cumulated assets	204	232
Cumulated equity	(20)	0
Cumulated net profit	0	(1)

The amounts presented in the table above are based on the latest available financial statements of the respective companies that have been prepared in accordance with the applicable accounting standards. At the time the annual financial statements of BAWAG Group as of 31 December 2020 were being prepared, financial statements as of 31 December 2019 were available for the majority of the respective entities (prior year: 31 December 2018).

From an economic point of view, we would like to note that the table above does not take the economic share invested into consideration. The average economic share is 43% (2019: 45%).

For further details, please refer to Note 37 Related parties.

53 | Involvement with associated companies

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

in € million	31.12.2020	31.12.2019
Carrying amounts of all associates	44	48
Aggregated amount of the Group's share of profit or loss	1.1	5.2
Aggregated amount of the Group's share of other comprehensive income	0.8	2.3
Aggregated amount of the Group's share of total comprehensive income	1.9	7.5

54 | Non-consolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor for determining control over the entity. This is the case, for example, when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following attributes:

- Restricted activities
- A narrow and well-defined objective
- Insufficient equity
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches)

The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements or other means. The Group's exposure to unconsolidated structured entities comprises leasing companies engaging in special leasing to which BAWAG Group provides the financing.

The Group provides a different measure for the size of structured entities depending on their nature. Regarding other structured entities, the total assets of these entities in the amount of € 83 million (2019: € 87 million) best measure their size. For securitizations, this is the notional of notes in issue in the amount of € 996 million (2019: € 935 million).

The table below shows an analysis of the carrying amounts of assets and liabilities of unconsolidated structured entities recognized by the Group and income from those structured entities. The maximum exposure to loss is the carrying amount of the assets held.

in € million	2020	2019
Carrying amounts of assets in connection with investments in structured entities	**1,037**	**980**
on the balance sheet shown under At amortized cost	1,037	980
Carrying amounts of liabilities in connection with investments in structured entities	**0**	**0**
Income	**9.7**	**8.2**
Interest income	9.7	8.2
Losses incurred during reporting period	0	0
Maximum exposure to loss	1,037	980

BAWAG Group neither provided any financial or other support to an unconsolidated securitization vehicle during the financial year nor does it have any current intention to do so.

RISK REPORT

BAWAG Group is a focused bank with a low-risk, simple and transparent business model. We focus on developed markets with strong banking and legal infrastructures, primarily the DACH/NL-region, Western Europe and the United States. We specialize in retail and SME banking activities and serve customers with comprehensive savings, lending, investment and bank-assurance products. Our liquidity is primarily provided by stable retail deposits. Simplicity and efficiency is the foundation of our operations, in which we simplify processes from end-to-end in order to provide our customers with clarity, ease and value through our products.

In addition to our low-risk business model, risk management and the active steering of risks are primary components of the Group's business strategy. "Safe and Secure" is a core pillar of our strategy and there is a high level of commitment across the entire organization to manage the Bank according to a low risk profile. We believe our risk management approach is a differentiator in our market and is key to achieving our strategic and financial objectives as well as creating value for our shareholders and protecting our customers.

Safe and Secure is a cornerstone of our Group strategy and our risk policies and governance. It is founded on the following tenets:

- Maintaining strong capital position, stable retail deposits and low risk profile
- Focus on mature, developed and sustainable markets
- Applying conservative and disciplined underwriting in markets we understand with focus on secured lending
- Maintain fortress balance sheet
- Proactively manage and mitigate non-financial risk

2020 summary

- Adjusted quickly and prudently to reflect the unprecedented economic shock caused by COVID-19. The portfolio demonstrated resilience in the initial phase due to our risk management profile and conservative underwriting, with continued fortification of the balance sheet into 2021.

- Adequate provisioning accounting for COVID-19 impacts drove an increase of expected credit loss (ECL) provisions of +129% and total reserves of +54%

- ECL reserves based on low point in ECB Euro area forecast in June (-12.6% GDP decline) and despite improved outlook have been compensated through management overlay. ECL reserves driven by management overlay of € 38 million.

- Stable NPL ratio (without City of Linz) at 1.1% (2019: 1.1%) with continued improvement of NPL cash coverage to 46% (2019: 37%)

- Including City of Linz receivable and prudential capital, total NPL ratio of 1.5% (2019: 1.7%) with NPL cash coverage of 61,7% (2019: 32,0%)

- Portfolio of € 49.6 billion net carrying amount (2019: € 41.8 billion), with continued focus on growth in the DACH/NL-region

- Highly collateralized Retail & SME portfolio (primarily mortgage) increased to 75% of total exposure versus 72% in 2019

- Robust liquidity at year-end with LCR of 231% (2019: 146%) and NSFR at 132% (2019: 126%), both ratios well above regulatory requirements

- Risk appetite set as foundation for business strategy and portfolio management

Development of key risk metrics

	Total book		
in € million	31.12.2020	31.12.2019	vpY
NPL ratio	1.5%	1.7%	(0.02)pp
NPL cash coverage ratio	61.7%	32.0%	29.7pp
NPL coverage ratio	94.0%	62.2%	31.8pp
Impairments Stage 1 and 2	130	57	73
Impairments Stage 3	271	177	94
Prudential filter	275	50	225
LCR	231%	146%	85pp
NSFR	132%	126%	6pp

Risk statement

BAWAG Group is active in banking activities, focusing primarily on retail banking with a secondary focus on corporate banking in selective markets with adequate risk-adjusted returns. As such, the Bank takes on the typical risks inherent to the banking industry, as well as the economy in general. BAWAG Group closely monitors and manages all such risks within a strict and comprehensive risk framework, with the intent to mitigate such risks as negative impacts may occur and ensure adequate levels of capital and liquidity.

BAWAG Group has established a comprehensive and forward-looking risk management framework, which considers the nature, scale, and complexity of the Group's business activities and the resulting risks. The Group's risk management governance and oversight involves understanding drivers of risks, types of risks and impacts of risks.

BAWAG Group's approach to risk

BAWAG Group's risk management framework is based on the following guiding principles:

- **Risk-conscious culture**: Risk management is a joint effort across business units and risk management divisions. We have established a risk-conscious mindset throughout the Group which ensures a risk-based decision making.
- **Prudent approach to risk and underwriting**: Our strategic commitment to maintain a low risk profile is reflected in our focus on developed markets, our conservative underwriting with emphasis on secured business and risk adjusted returns, a strong capital position, a stable retail-based funding model and the proactive mitigation of non-financial risks.
- **Integrated risk management**: We manage relevant risk categories on a Group-wide basis, ensuring a consistent and coherent approach towards our risk management activities throughout the Group.
- **Well-established risk governance**: The governance framework ensures a strict separation of business and risk functions at all organizational levels and contributes to the effective implementation and control of the Group's preferred risk appetite and strategy.
- **Effective risk analysis, management and reporting**: Comprehensive risk reporting together with sophisticated risk measurement and validation techniques covering all material risk types ensure the close monitoring and the early detection of emerging risks. Risk analysis is supplemented by a sound and comprehensive stress testing framework, allowing the targeted stressing of the Group's risk vulnerabilities.

The implemented risk management framework ensures the effective identification, measurement and management of risks across BAWAG Group and forms the basis for making informed, risk-based business decisions. It allows us to react quickly and proactively to market trends or other deteriorating developments as well as support the Bank’s sustainable organic and inorganic growth within the overall risk appetite.

Risk appetite

BAWAG Group has implemented a clear risk strategy, which is fully aligned with the Group’s overall business strategy. The Managing Board defines and approves the overall risk appetite and risk strategy on an annual basis. By defining the risk strategy, the overall risk appetite serves as a constraint and represents the Group's intention to use a defined extent of the available internal capital for risks under consideration of regulatory and economic capital availability, the liquidity position and the profitability expectations. The risk strategy breaks the overall risk appetite down into more detailed business appetite metrics and limits.

Governance framework

The established governance framework ensures the implementation of the Bank’s risk strategy with the operational and strategic risk management functions and the relevant committees of BAWAG Group. The Group’s approach to risk is founded on a control framework and put into practice through a strong risk management culture and management structure. Governance is maintained through the delegation of authority from the board to individuals by way of the management hierarchy and supported by a committee-based structure to ensure sound decision making and communications.

The Managing Board is continuously and proactively informed on the overall risk situation. The management risk reporting is based on clearly defined risk metrics and encompasses all Pillar I and Pillar II relevant topics (whereas Pillar I refers to the minimum regulatory capital requirements and Pillar II to the assessment of internal capital adequacy as defined by the Basel framework for covering all risks the Bank can potentially face beyond the minimum requirements). Quarterly risk reports are submitted to the monitoring and control committees of the Supervisory Board. Risk management policies are regularly and rigorously reviewed to reflect anticipated adjustments to the business strategy, regulatory requirements as well as market conditions. Particular attention is paid to the need for adjustment following BAWAG Group’s expansion strategy and environmental and sustainability objectives.

Emerging topics, risks and regulatory developments are proactively studied to assess potential impacts on policies and strategy, providing a separate channel of external inputs which continuously require risk management policies and frameworks to be reshaped.

The Chief Risk Officer (CRO) of BAWAG Group, together with the relevant risk management functions, is responsible for the implementation of and compliance with the defined risk strategy for all types of risk. This forms the independent risk management function.

The following divisions oversee the implementation and execution of risk-related guidelines (as of 01.01.2021):

- Risk Controlling
- Credit Risk Modelling
- Validation
- Group Data Warehouse (joint reporting line to Risk and Finance)
- Commercial Credit Risk Management
- Retail Credit Management
- Credit Risk Strategy & Analytics

55 | COVID-19 pandemic – impacts on risk management

The COVID-19 pandemic had a significant impact on our markets, customers and operations. As such, risk management took proactive steps to address the continued disruptions of the economy and our customers, as well as integrate regulatory measures and programs to provide relief to our communities. Throughout, risk management processes were designed to maintain transparency, measure underlying risk development and take action as necessary. The Bank's COVID-19 response is detailed separately given the prominence of the impacts through the year.

The temporary restrictions on public life resulting from lockdowns and travel restrictions in the course of the COVID-19 pandemic and the associated negative economic effects resulted in impacts on the following aspects of credit risk in 2020.

Governance	Underwriting	Moratoria and credit guarantees	Provisioning

Governance

During this crisis, the risk management framework of BAWAG Group has demonstrated that it can seamlessly adapt its risk assessment, measurement and reporting to reflect the unprecedented impacts and fluid nature of the current situation, which is a testament to our robust risk infrastructure (IT, reporting, analytics) and governance framework.

In response to the COVID-19 crisis, the management took a highly proactive and granular approach to adapting operations. Enhanced governance steps and frequencies were put into place to ensure immediacy of performance and areas of stress, unified responses across our operations and data-driven decisions. The following actions and initiatives have been taken:

- Recurring daily steering meetings with the Management Board and relevant divisions across the organization to facilitate focused operational reviews, timely decision making and prioritization for seamless operational execution
- Daily monitoring reports of key performance indicators (KPIs) of customer behavior across the credit risk lifecycle covering new business applications, revolving limit utilization and collections performance and macro developments
- Dedicated COVID-19 credit risk reporting with reviews of certain corporate sub-portfolios and regular outreach to financial sponsors or management to understand the latest position

- Proactive customer outreach initiatives to raise awareness for various support measures in place depending on customer segment (forbearance options for private individuals, government support schemes for SMEs, case-by-case assessment for corporate exposures)
- Review of the Group-wide daily payment deferral data that tracks various support measures provided by the Bank (e.g. payment deferrals by moratoria type, working capital facilities leveraging government guarantee schemes) broken down by product type/country and type of moratoria
- Extended risk reporting to provide up-to-date monitoring of the development of particular portfolios, customer groups and products affected by the pandemic
- Review of changes to accounting and regulatory guidance as they related to credit risk measurement in the context of COVID-19
- Ongoing review of IFRS 9 provisions under various macroeconomic scenarios

Underwriting

The Bank follows a conservative underwriting approach with clearly defined underwriting guidelines and a focus on high levels of securitization, appropriate debt service to income metrics and risk-adjusted returns. Underwriting decisions are supported by strong risk analytics capabilities, which ensured a targeted review of risk appetite and execution of associated credit actions during the crisis to reflect the anticipated adverse macroeconomic environment. The full range of loan products was provided during the pandemic, thereby consistently following our approach already initiated in 2019 to shift our new business mix towards securitized products.

COVID-19-induced moratoria and credit guarantees

To mitigate the economic impact of COVID-19 measures in the form of short-term operational or liquidity problems, many of our markets saw the introduction of various moratoria that can essentially be summarized as payment moratoria. Borrowers are granted a temporary deferral of obligations to make principal repayments as well as payments for interest and fees. The payment moratoria are structured differently depending on local legislation or the regulatory guidelines in the respective banking sector. BAWAG Group supported its clients following the legal (set by law and applying to all institutions within a given jurisdiction) or private (private initiatives in the form of industry-wide or sector-wide measures, agreed and documented by institutions through their industry associations in a given jurisdiction) loan moratoria, provided that the resulting payment bottlenecks are due to the COVID-19 pandemic.

- Austrian legal moratorium (based on § 2 2. COVID-19-JuBG) for private individuals and SMEs (up to defined thresholds) valid for loans (excluding leasing) effected before 15 March 2020 and installments due between April and June 2020 (with first extension until October 2020 and second extension until January 2021).
- Austrian private moratorium (supported by Austrian banking industry, EBA-compliant) for private individuals, SMEs and corporates valid for loans (including leasing) effected before 15 March 2020, installments due after 15 March 2020 and for approved deferrals between 15 March 2020 and 31 August 2020, maximum deferral period nine months.
- German legal moratorium (based on Art. 240 § 3 EGBGB) for private individuals valid for loans (excluding leasing) effected before 15 March 2020 and installments due between April and June 2020. For leasing contracts effected before 8 March 2020, a legal right to refuse performance for private individuals as well as for SMEs (up to defined thresholds) was established.
- UK private moratorium for mortgage loans (supported by Financial Conduct Authority [FCA], EBA-compliant): Combined payment deferrals for up to 6 months, customers can request a measure up to 31 March 2021, but deferrals must end on 31 July 2021. Expired interest-only moratorium: borrowers whose mortgages matured from 20 March 2020 can delay the repayment of the capital on their mortgage until 31 October 2021 if there are no arrears.

BAWAG Group considered the rules of the EBA guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis (EBA/GL/2020/02 amended by EBA/GL/2020/08 and EBA/GL/2020/15) aiming to provide clarity on the treatment of legislative and non-legislative moratoria applied before 31 March 2021. These guidelines specify conditions that the general legislative and non-legislative moratoria must fulfill in order not to be considered forbearance. These conditions include, in particular, the following:

- The moratorium was launched in response to the COVID-19 pandemic. In order to ensure this limited scope, it is required that the moratorium in question is announced and applied before 31 March 2021 (originally 30 June 2020). This means that the guidelines also apply to moratoria launched before the application of these guidelines, but a nine-month cap requirement on the overall length of the payment deferral applies. Changes in the payment schedules agreed on loan contracts before 30 September 2020 are not subject to this constrained length of nine months and, therefore, it may be that some already agreed payment extensions exceed the nine-month cap. In this respect, the guidelines clarify that these changes in payment schedules agreed prior to 30 September 2020 are not affected by the nine-month cap requirement.
- The moratorium must be broadly applied. This condition aims to ensure that the proposed treatment applies to the moratoria that are similar in economic substance, regardless of whether they are legislative or non-legislative.
- The moratorium must apply to a broad range of obligors. This condition is necessary to ensure that the change in the schedule of payment does not address specific financial difficulties of specific obligors, as this would meet the definition of forbearance. Therefore, in order to benefit from the treatment specified in these guidelines, the moratorium has to be available to a large, predefined group of obligors, regardless of the assessment of their creditworthiness. For the purpose of the application of these guidelines, the moratorium cannot apply to obligors based on their creditworthiness. For instance, it is not acceptable for the moratorium to apply only to obligors included on a watch list or those clients who experienced financial difficulties before the outbreak of the COVID-19 pandemic, as this would clearly lead to forbearance classification.
- The moratorium changes only the schedule of payments. In order to achieve this objective, the moratoria suspend, postpone or reduce the payments (principal, interest or both) within a limited period. This clearly affects the whole schedule of payment and may lead to increased payments after the period of the moratorium or an extended duration of the loan. However, the moratorium should not affect other conditions of the loan, in particular the interest rate. Public guarantees offered in response to the COVID-19 pandemic are not considered to change the terms and conditions of the loan, regardless of the way these guarantees are treated under the applicable accounting framework.
- **The moratorium does not apply to new loans granted after the launch of the moratorium**.

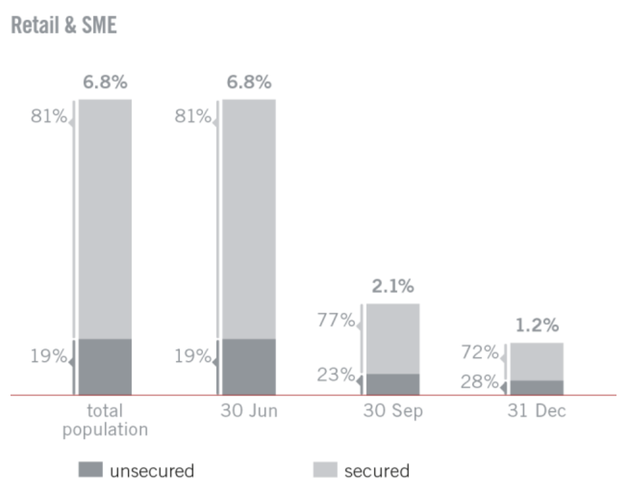
In addition to these EBA-compliant moratoria, bilateral moratoria were also granted to support clients during the pandemic.

The following table shows the volume and quantity of moratoria provided by BAWAG Group as of 31 December 2020:

	Active deferrals		Expired deferrals		
in € million	# of loans	Loan amount (€)	# of loans	Loan amount (€)	Paying ratio
Retail & SME	**3,636**	**229**	**19,673**	**1,019**	**92%**
EBA-compliant moratoria	3,502	216	18,376	934	92%
o/w secured	1,366	152	10,924	758	92%
o/w unsecured	2,136	64	7,452	176	90%
Non EBA-compliant moratoria	134	13	1,297	85	95%
o/w secured	98	12	706	81	95%
o/w unsecured	36	1	591	4	92%
Corporates & Public	**38**	**34**	**56**	**45**	**99%**
EBA-compliant moratoria	32	31	23	22	100%
Non EBA-compliant moratoria	6	3	33	23	99%
Total	**3,674**	**263**	**19,729**	**1,064**	**92%**

Active deferrals refer to those with an expiry date on or after 31 December 2020, which have already gone through at least one billing cycle after deferral with most loans having monthly installments. Expired deferrals refer to those with an expiry date before 31 December which have already had at least one billing date after expiry. The paying ratio shows the volume of loans that could pay the last installment in relation to total expired loan amounts.

Q2 2020 saw a peak of moratoria requests following the first lockdown in Austria accompanied by the first wave of the Austrian and German legal moratorium, seeing many clients being cautious in an unknown environment and not being able to assess the impacts on their financial situation. Given the continued public support measures (short-time work, compensation payment to affected companies), new applications for deferrals as well as extensions of existing ones flattened down to the current level. The following chart shows the development in relation to the customer loan book on a quarterly basis.



COVID-19-induced moratoria were mainly used by private individuals. 92% of the remaining active moratoria will expire by the end of January 2021, another 6% by the end of February 2021, only 2% have a longer maturity. As of 5th February 2021 the total population of retail customers with an active payment deferral amounted to 0.6% oft the total loan book (paying ratio 91%). There has been no extension of legal or private moratoria after the reporting date.

- The unsecured volumes of € 65 million consist solely of consumer loans. 68% of clients with active deferrals also have their salary account at BAWAG Group – allowing for detailed analysis of their income development, payment behavior and probability of continuing paying after expiry of the deferrals. It can be observed that still active deferrals have less stable income than those expired and paying, with more seeing a decrease in their income month on month. However, the percentage has remained flat over the last three months, whilst the paying population has seen their income improve by year-end. No differences in paying rates by channel were observed. Across all sub-groups, customers have consistently continued and across all sub-groups continued to return to paying after expiration in amounts in excess of 90% (with more than 65% being out of deferral for at least five months). We do not see this pattern changing materially.

- The secured volumes of € 164 million are mostly backed by mortgages with an average LTV of 76%. Almost all payment deferrals for domestic housing loans returned to paying when they expired. The same trend as for consumer loans could be observed, with income trends becoming more stable (improving) in the months leading up to December. The recent active deferral population shows a higher percentage of unemployed people, however, the final paying ratio is expected to remain flat due to the high observed expired paying rates and minimal remaining deferral balance. Again, no differences in paying rates by channel were observed.

Moreover, to counter the economic downturn caused by the COVID-19 pandemic, many countries adopted various forms of direct financial support for individuals, households and businesses, as well as bridge loans extended by banks and guaranteed by governments to ensure that companies have sufficient liquidity during the COVID-19 pandemic. Hence, as additional measure loans secured with state guarantees were granted in order to secure customer liquidity, with up to 100% of the loan being secured according to the specifications, depending on the guarantee scheme (Austria Wirtschaftsservice Gesellschaft mbH [aws], Wiener Kreditbürgschafts- und Beteiligungsbank AG [WKBG], Österreichische Hotel- und Tourismusbank [ÖHT], COVID-19-Finanzierungsagentur des Bundes GmbH [COFAG] and Kreditanstalt für Wiederaufbau [KfW]).

The following table shows the volume of loans provided by BAWAG Group with public guarantees as of 31 December 2020:

in € million	# of loans	Loan amount (€)	Amount drawn	Public guarantee
Retail & SME	707	56	52	94%
Corporates & Public	13	14	11	94%
Total	**720**	**70**	**63**	**94%**

Provisioning
BAWAG Group has taken measures to address the current inherent uncertainty as a result of the COVID-19 pandemic to ensure the appropriate and timely identification of distressed debtors and adequate levels of provisioning across all stages of credit risk.

The Bank has established a comprehensive framework to determine IFRS 9 expected credit loss (ECL), which provides for future losses which have not yet occurred by identifying macro forecast influences, customers with higher risk profiles and ultimately customers with increased likelihood of payment defaults. It was ensured that the core concepts for the assessment of a significant increase of credit risk were maintained with the fullest diligence (for a more detailed description, please refer to the ECL section on page 216 in the risk report of the annual report). Given the economic uncertainty created by the COVID-19 pandemic, the Bank has applied adaptions and created management overlays to these concepts to ensure an adequate level of provisioning. At 31 December 2020, BAWAG Group had increased ECL provisions by 129% or € 73 million since the start of the year, of which € 38 million was the result of a management overlay in excess of modeled ECL to ensure adequate provisioning in light of the economic uncertainty.

Forbearance classification and assessment of unlikeliness to pay
The Bank has granted to its customers, primarily in the Retail & SME segment, different types of payment moratoria based on public or private initiatives. Payment deferrals that fulfill the conditions as defined by the European Banking Authority (EBA), most recently updated in December 2020, are not being classified as forborne and thus trigger no automatic transfer from stage 1 (one-year expected credit loss) to stage 2 (lifetime expected credit loss). Concessions that did not fall under the purview of an EBA-compliant moratorium or that did not meet stipulated qualification criteria for a specific moratorium were classified as forbearance accordingly. Given there were no EBA-compliant moratoria in place for the Corporate & Public segment, all measures were subject to a case-to-case assessment in line with our internal processes and policies, which adhere to the current regulatory framework.

The Bank established the close monitoring of customers subject to a payment deferral if any other circumstances indicate a deterioration in credit quality. Significant enhancements to the operational process, controls, tracking and monitoring capabilities were proactively implemented to assist borrowers in potential financial distress. Clearly defined communication and engagement plans with customers nearing the end of moratoria were set up to inform them of further support options available to them. Furthermore, we leveraged our robust analytics infrastructure to analyze granular transactional data to determine customers' distress levels along with a targeted collections contact strategy and outreach program to support customers facing payment difficulties at the end of moratoria.

For corporate exposures, portfolio monitoring and management efforts have been significantly enhanced in terms of frequency and proactivity with the borrower. A monthly watch loan committee meeting is part of the Bank's early warning system. Clients on the watch list are monitored and reviewed on a more frequent basis, which was instituted weekly since the beginning of the pandemic to ensure a detailed understanding of credit conditions and developments to form a risk management strategy on an asset-by-asset basis. Weekly calls with the Managing Board on a comprehensive watch list tiered based on levels of risk of default were established. In addition, dedicated reviews of certain sub-portfolios with larger exposures are continually carried out and updated periodically as part of the weekly meetings. Unlikeliness to pay (UTP) assessment is a critical part of these watch list and review processes.

Assessment of significant increases in credit risk and staging

Credit risk assessment and stage allocation is generally conducted on the individual customer level; no collective assessment or stage transfer of certain groups of customers or industries is applied. Within the established IFRS 9 ECL framework, all quantitative and qualitative criteria that indicate a significant increase in credit risk, such as an increase in probability of default (PD) as a result of deteriorating macroeconomic forecasts, relative stage transfer thresholds, 30 days past due backstop triggers, forbearance measures etc., remain fully applicable and were not amended or relaxed due to COVID-19.

Macroeconomic scenarios/Forward-looking information

To determine stage allocation and expected credit loss, credit risk parameters are re-assessed applying forward-looking information derived from macroeconomic scenarios. In line with the recommendation provided by the ECB in its letter "IFRS 9 in the context of the coronavirus (COVID-19) pandemic" (April 2020), we applied a balanced distribution of alternative scenarios which are centered around the baseline scenario anchored in the European staff macroeconomic projections provided by the ECB (published on 4 December 2020).

Eurozone macroeconomic forecast considered for ECL

GDP growth in %	2020	2021	2022	2023
Optimistic (30% weight)	(7.1)	6.6	4.0	3.0
Baseline (40% weight)	(7.1)	3.9	4.1	3.3
Pessimistic (30% weight)	(7.1)	(0.3)	4.0	3.6

Management overlay

Significant progress has been made in combating the COVID-19 pandemic with the development and approval of vaccines. The level of provisioning is founded on the abovementioned macroeconomic scenarios derived from the ECB's economic outlook, which aim to take these developments into consideration. The fluid nature of this crisis and the continuously changing conditions, even since the publication of these forecasts in early December 2020 (e.g. availability of vaccines, extension of lockdowns across Europe, new variations of the COVID-19 virus), result in a high degree of uncertainty regarding the successful containment of the pandemic and the associated normalization of daily life and the initiation of a sustainable macroeconomic recovery. To take account of this uncertainty, we consider it appropriate to recognize higher provisions for expected credit risks. BAWAG Group has addressed the uncertainty of the further development and impacts of the COVID-19 pandemic by considering a portfolio ECL management overlay. Since the outbreak of the COVID-19 pandemic, BAWAG Group has ensured that an adequate level of provisions for expected credit losses are held by applying the ECB's most severe macroeconomic outlook of Q2 and Q3 2020. The provisions built on these estimates, which predicted a much sharper economic downturn (decline in Eurozone gross domestic product of 12.6% and 10.0%, respectively in comparison to the actual GDP decline of roughly 7% in 2020), serve as a basis for determining the management overlay. We maintained the ECL levels from these severe inputs without any release due to the improvement of economic forecasts, creating a substantial management overlay of € 38 million across all stages.

ECB severe Eurozone macroeconomic outlook – used for determining management overlay

GDP growth in %	2020	2021	2022
ECB outlook Q2 2020	(12.6)	3.3	3.8
ECB outlook Q3 2020	(10.0)	0.5	3.4

Impact of management overlays on ECL

in € million	Expected credit loss	Management overlay	Total
Impairments Stage 1	51	15	66
Impairments Stage 2	41	23	64
Total	**92**	**38**	**130**

BAWAG Group is closely monitoring the further macroeconomic development in the markets we operate in. The release of the management overlay will be assessed when a sustainable improvement of the macroeconomic environment can be observed.

56 | Risk and capital management

The Internal Capital Adequacy Assessment Process (ICAAP) is the central procedure of BAWAG Group's risk management and comprises business, finance and risk processes that together aim to assess and ensure at all times that BAWAG Group is adequately capitalized, considering the risk profile of the Group and the quality of the Group risk management and control environment. In line with the ECB ICAAP Guides, BAWAG Group has implemented two ICAAP perspectives, normative and economic, in order to assess capital adequacy over the long-term according to regulatory requirements as well as in short-term for all the BAWAG Group risks, assuming the same baseline and adverse scenarios in both perspectives. In particular, the objectives of BAWAG Group's ICAAP encompass all processes and actions that assure:

- the appropriate identification, measurement, evaluation and management of risks
- appropriate internal capital proportional to the risk profile
- appropriate liquidity situation
- internal capital adequacy
- the use and further development of suitable risk management systems

The framework is designed to support the Group management in managing the risk profile and capital adequacy of BAWAG Group.

The Group-wide ICAAP processes run in conjunction with the planning and budgeting processes. Close monitoring of their development is therefore imperative and is integrated in the proactive risk management of BAWAG Group.

The starting point of the ICAAP yearly review process is the risk self-assessment process (RSA), which provides an overview of the Group's risk situation using quantitative and qualitative evaluation methods, i.e. all potential risks arising in connection with the implementation of the business strategy are evaluated with respect to their relevance, materiality and their impact on BAWAG Group. In order to ensure this contribution to its continuity, the Group has implemented two perspectives by which risks are identified and measured: the normative and the economic perspective.

Normative perspective

The normative perspective is a multi-year assessment of the institution's ability to fulfill all of its quantitative regulatory and supervisory requirements and demands, and to cope with other external financial constraints, under different macroeconomic scenarios, including severe economic downturns.

In connection with the normative perspective, Pillar I risks (credit risk, market risk, operational risk) as well as all material risks are quantified, projected and subsequently considered in the respective capital (RWA) and P&L views over a medium-term horizon. The following risk types are considered and quantified:

- Credit risk: The quantification of credit risk is based on the regulatory approach (Standardized, Advanced and Foundation IRB) and is considered under the capital view (RWA). Credit risk losses are also accounted for in the P&L view in the form of expected credit losses.

- Market risk: The quantification of market risk for the trading book is based on the regulatory approach and is considered under the capital view (RWA). Currently, the Bank holds no positions in the trading book. BAWAG Group has identified interest rate risk in the banking book and credit spread risk as the material market risks and as such they are considered in the P&L under net interest income, gains and losses and other comprehensive income.

- Operational risk: The quantification of operational risk is based on the regulatory approach and is considered under the capital view (RWA). Operational risk losses are also accounted for in the P&L view.

Economic perspective

BAWAG Group's economic perspective compares all the material and non-material risks with the internal capital. Limits are defined for all risk categories and portfolios as part of the risk strategy in accordance with the annual budget and strategic planning. Compliance with the limits is monitored on a monthly basis according to the actual utilization.

In addition to risks considered in the normative perspective, the following risk types are considered and quantified differently in the economic perspective:

- Credit risk: The quantification of credit risk is based on the IRB approach for all portfolio segments. Additional capital surcharges are applied for concentration risk in connection with loans to major customers/to groups of affiliated customers and for the FX-induced credit risk.

- Market risk: The quantification of interest rate risk in the banking book and credit spread risk in the economic perspective are based on value-at-risk models, also considering correlation effects between the two market risks. Other market risks, such as funds risk or foreign currency risk in the banking book, are quantified with similar value-at-risk valuation models.

- Liquidity risk: Structural liquidity risk quantification is based on current liquidity gaps applying assumed potential deteriorations of own funding costs. Quantification methods based on historical worst-case analyses are used for market liquidity risk in the banking book and basis spread risk.

- Operational risk: Main sources of operational risk relate to legal risk, compliance risk, model risk, fraud risk, conduct risk as well as third party risk, outsourcing risk and information and communication risk. The quantification of operational risk in the Economic perspective is based on two components: business indicator component (simple financial statement proxy of exposure to operational risk, common to all institutions) and internal loss multiplier (component with bank-specific operational loss data); the two components are multiplied in order to obtain the operational risk capital requirement (Standardized Measurement Approach as prescribed by Basel IV).

- Other risks: This risk category includes reputation risk, participation risk and strategic risk. Participation risk is quantified using the PD/LGD approach based on IFRS book values, while for all other mentioned risk types, the required economic capital is quantified using simplified models.

Stress-Testing

Stress testing is a critical risk management tool that provides valuable input for the strategic assessment of the business as well as operational risk management such as risk identification, risk appetite and limit setting.

Stress testing identifies sources of potential vulnerability and assesses whether capital is adequate to cover the risks that the business faces. It ensures that our business planning accounts not only for the base case of our economic projections, but also accounts for more severe economic stresses and potential outcomes. Critically, the levels of capital and liquidity under such stresses are observed and provide guidance in optimizing results and limiting downsides while ensuring capital adequacy.

Regular stress tests supplement the overall risk management framework and are fully integrated into the strategic risk management, capital management and planning processes of BAWAG Group.

The methodology and results of both ICAAP perspectives as well as of the stress test exercises are discussed on a quarterly basis in the ICAAP & Stress Testing Committee (ISTC) and reported to the ERM. The ERM oversees the assessment of the results of the exercises and defines any corrective action for the risk appetite or business strategy, where necessary.

The interaction between the ICAAP perspectives, the stress test exercises and capital management is formally defined within the internal risk and capital governance.

The capital ratios defined within the capital planning process and monitored on a monthly basis by the Capital Management Meeting are used as a benchmark for the normative perspective and for stress testing. The capital contingency plan is drawn up to account for extreme stress scenarios. As part of the normative perspective and stress test exercises, senior management reviews whether the stressed capital ratios remain above the recovery levels. In the event that the recovery levels are breached, measures must be taken to improve the capital position sufficiently in order to keep the capital ratios above the recovery levels even under a stressed scenario.

57 | Credit risk

Credit risk is defined as the risk of loss due to a party in a financial transaction failing to pay its obligation to the other party.

Governance: The operational credit risk divisions are specifically set up to ensure functional risk management expertise for commercial and institutional (Commercial Risk Management) and retail and small business (Retail Risk Management) customers. The Credit Approval Committee (CAC), a specific committee at the Managing Board level, is responsible for approval of loan applications within the authorities defined in the Competence and Power Regulation. The Risk Controlling division is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

Risk mitigation: Core objectives of credit risk management are to

- Steer conservative credit risk taking in line with approved risk appetite
- Maintain a governance and control framework to oversee credit risks across the lifecycle
- Identify, assess and measure credit risk in a timely and accurate manner

In operative terms, these objectives translate into the following key credit risk principles:

- Disciplined underwriting in well established markets predominantly focused on
  - secured lending and/or
  - prime rated clients, based on a through-the-cycle lens view of performance.
- Clearly defined organizational units and approach to manage credit risk based on type. Corporate exposures are managed on a case-by-case basis by experts with deep expertise in relevant segment and retail exposures managed at the segment level leveraging best-in-class data, analytics and rating infrastructure.
- Robust early warning, collections and workout framework in place to ensure credit risk at the single obligor level is identified at its earliest stage and appropriate mitigating actions are taken to ensure good outcomes for our clients and for the Group.

Assessing creditworthiness

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

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

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

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

Due to the centralized structure and coordination of risk management processes across BAWAG Group, new risk regulations or changing market situations are considered and adapted in a timely manner within the risk management strategies.

Measuring credit risk

BAWAG Group is a banking group that applies the internal rating-based (IRB) approach and therefore sets high standards with regard to credit risk methodologies and processes. The risk organization continuously focuses on enhancements to risk quantification methods. Specific standards are in place for all sub-portfolios that are modeled, monitored, statistically calibrated and validated on a regular basis.

The following sections provide an overview of the structure and the portfolio quality in the individual segments.

31.12.2020 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total portfolio
At amortized cost	18,765	13,252	11,802	334	44,153
Financial assets FVPL/FVOCI	214	556	4,615	36	5,421
Off-balance business	4,152	1,626	958	1,341	8,077
Total	**23,132**	**15,434**	**17,375**	**1,710**	**57,651**
thereof collateralized	14,340	4,297	–	739	19,376
thereof NPL (gross view)	449	182	–	255	886
Impairments Stage 1	42	20	5	0	67
Impairments Stage 2	33	30	0	–	64
Impairments Stage 3	207	65	–	–	271
Total Impairments	**281**	**115**	**5**	**0**	**402**
Prudential filter	1	19	–	255	275

31.12.2019 in € million	Retail & SME	Corporates & Public	Treasury	Corporate Center	Total portfolio
At amortized cost	17,744	12,673	5,983	1,156	37,556
Financial assets FVPL/FVOCI	252	403	3,572	–	4,227
Off-balance business	3,676	1,688	31	2,006	7,401
Total	**21,672**	**14,764**	**9,586**	**3,162**	**49,184**
thereof collateralized	12,737	4,810	12	568	18,127
thereof NPL (gross view)	408	146	–	257	811
Impairments Stage 1	18	18	4	0	39
Impairments Stage 2	9	8	0	–	17
Impairments Stage 3	153	51	–	–	155
Total Impairments	**180**	**77**	**4**	**0**	**212**
Prudential filter	–	–	–	50	50

Regulatory view under CRR consolidation

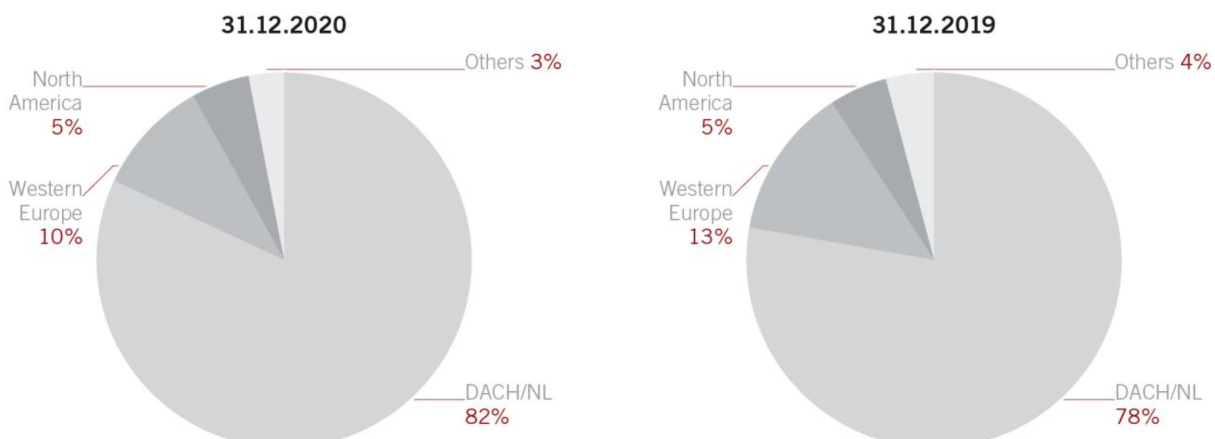
31.12.2020 in € million	Gross carrying amount	Total book Impairments	Net carrying amount
Total	**39,322**	**(372)**	**38,609**
At amortized cost	**34,365**	**(367)**	**33,998**
Stage 1	31,257	(48)	31,209
Stage 2	2,196	(59)	2,137
Stage 3	911	(260)	652
Financial assets at fair value through other comprehensive income	**4,617**	**(5)**	**4,611**
Stage 1	4,617	(5)	4,611
Stage 2	–	–	–
Stage 3	–	–	–
Financial assets at fair value through profit or loss	**341**	**–**	**341**

This table does not include equity instruments (regulatory definition), as these are not covered by the IFRS 9 impairment model

Geographical distribution of the lending and securities portfolio

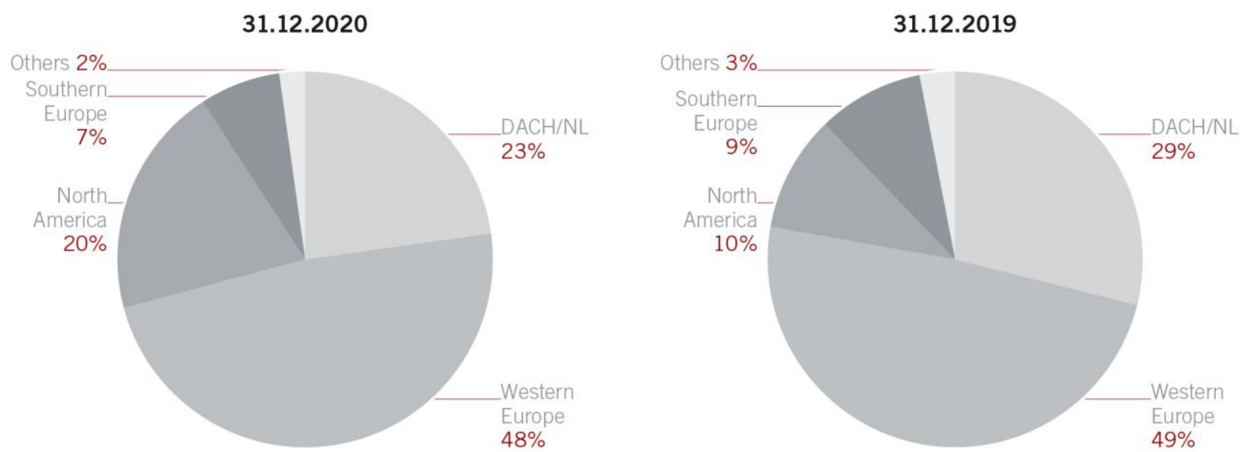
The geographic distribution of the lending portfolio is in line with BAWAG Group's strategy of focusing on stable economies and currencies. A total of 97% (2019: 96%) of the lending portfolio[1)] and 91% (2019: 88%) of the securities portfolio[2)] is located in Western Europe and North America.

Geographical distribution of the lending portfolio



1) The major share of the lending portfolio is allocated to Austria with 62% (Dec 2019: 60%), Germany with 14% (Dec 2019: 17%), Great Britain with 4% (Dec 2019: 6%), the United States with 4% (Dec 2019: 5%) and France with 1% (Dec 2019: 2%).
2) The major share of the securities portfolio is allocated to the United States with 20% (Dec 2019: 10%), Great Britain with 15% (Dec 2019: 12%), France with 10% (Dec 2019: 8%), Austria with 6% (Dec 2019: 8%) and Germany with 5% (Dec 2019: 6%).

Geographical distribution of securities



Lending and securities portfolio by currencies

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

	Book value		in %	
in € million	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
EUR	43,593	35,963	87.9%	86.1%
USD	2,968	2,366	6.0%	5.7%
GBP	1,611	1,809	3.3%	4.3%
CHF	1,045	1,338	2.1%	3.2%
Others	357	307	0.7%	0.7%
Total	**49,574**	**41,783**	**100.0%**	**100.0%**

Credit quality overview: Lending, provisions, delinquencies and collateral

The following table shows the NPL ratio and provisioning of the lending portfolio. The low risk profile is reflected by the low NPL ratio, low delinquency of loan volumes and good provisioning level and collateral coverage across the portfolios. More than 80% (2019: 84%) of the total exposure can be assigned to an investment grade rating which corresponds to the external rating classes AAA to BBB.

	Book value[1)]		in %	
in € million	31.12.2020	31.12.2019	31.12.2020	31.12.2019
At amortized cost (gross)	**44,527**	**37,781**	**100.0%**	**100.0%**
Provisions	374	232	0.8%	0.6%
thereof Stage 1	48	38	0.1%	0.1%
thereof Stage 2	60	17	0.1%	0.0%
thereof Stage 3	266	177	0.6%	0.5%
At amortized cost (net)	44,153	37,556	99.2%	99.4%
NPL ratio	–	–	1.5%	1.7%
NPL cash coverage ratio	–	–	61.7%	32.0%
NPL coverage ratio	–	–	94.0%	62.2%

1) Securities are not included since the securities portfolio does not show any days past due or any signs of non-performance

The following table shows the NPL ratio for the segments Retail & SME and Corporates & Public.

	Retail & SME		Corporates & Public	
in € million	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Total	**18,980**	**17,996**	**13,808**	**13,076**
NPL ratio	1.9%	1.9%	1.2%	1.0%
NPL cash coverage ratio	46.3%	38.4%	46.0%	35.1%
NPL coverage ratio	83.0%	87.7%	94.1%	72.9%

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

		Total portfolio		Retail & SME		Corporates & Public	
in %	Moody's rating equivalent	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Rating class 1	Aaa–Aa2	33.1%	24.7%	0.4%	0.6%	20.9%	17.6%
Rating class 2	Aa3–A1	9.9%	6.1%	7.6%	3.7%	13.3%	9.9%
Rating class 3	A2–A3	8.8%	11.3%	14.3%	18.9%	4.6%	4.7%
Rating class 4	Baa1–Baa3	28.9%	31.8%	44.1%	37.7%	38.2%	41.3%
Rating class 5	Ba1–B1	15.9%	21.3%	26.6%	31.3%	20.2%	22.7%
Rating class 6	B2–Caa2	2.0%	3.0%	3.7%	4.9%	2.1%	2.6%
Rating class 7	Caa3	1.4%	1.8%	3.2%	2.9%	0.7%	1.1%

Collateral

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

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

The following types of collateral are accepted:

- Real estate properties: residential real estate and commercial real estate
- Other collateral: vehicles and other physical collateral (at the moment not used for capital mitigation), pledging or assignment of life insurance policies
- Financial guarantees: financial collateral, securities, cash deposits at own bank
- Credit enhancements: guarantees and co-obligations

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

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

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

The following table contains the split of collateral by categories.

in € million	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Real estate	16,319	15,120	75.4%	78.3%
thereof residential	12,419	10,668	76.1%	70.6%
thereof commercial	3,900	4,452	23.9%	29.4%
Guarantees	3,402	2,207	15.7%	11.4%
Other collateral	1,447	1,476	6.7%	7.6%
Financial collateral	486	521	2.2%	2.7%
Total	**21,654**	**19,324**	**100.0%**	**100.0%**

Received collateral for the NPL portfolio

The numbers below refer to gross NPL (stage 3) exposure.

31.12.2020 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Credit enhancements
Lending portfolio	871	311	123	4	38
Securities	–	–	–	–	–
Off-balance business	15	8	2	0	0
Total	**886**	**319**	**125**	**4**	**38**

The values shown are market values.

31.12.2019 in € million	NPL exposure	Mortgage loan collateral	Other collateral	Financial guarantees	Credit enhancements
Lending portfolio	800	370	81	8	38
Securities	–	–	1	2	3
Off-balance business	11	8	22	0	1
Total	**811**	**378**	**104**	**10**	**42**

The values shown are market values.

Impairment

IFRS 9 requires a bank to determine the expected credit loss (ECL) as the difference between the contractual cash flows of a financial instrument and the cash flows that a bank expects to receive, which are probability-weighted future outcomes across several scenarios.

The main drivers in the ECL calculation are the stage allocation and lifetime risk parameters, which represent the Bank's expectation. With lifetime denoting the remaining maturity terms of a financial asset, lifetime risk parameters are, namely, probability of default (PD), the lifetime loss given default (LGD), and the lifetime exposure at default (EAD), which are estimated with an internally developed model. The ECL models in BAWAG Group apply to

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

Lifetime risk parameters

The IFRS 9 lifetime risk parameters consist of a through-the-cycle and a point-in-time component. The through-the-cycle component captures the idiosyncratic risks of the financial instruments, which are rather stable over time and measured by the long-term average of risk parameters. Point-in-time components gauge the systematic risks, typically represented by macroeconomic forecasts and the portfolio credit risk cycle.

Apart from satisfying the IFRS 9 requirements, the BAWAG Group IFRS 9 risk parameters keep the internal consistency in the following points.

Firstly, internal rating based (IRB) risk models, which are conceptually through-the-cycle, are the starting point for IFRS 9 risk parameter estimation. Further necessary adjustments are made to ensure compliance with the IFRS 9 guideline: increase the forecast horizon from 1 year to lifetime; adjust the through-the-cycle parameters to the point-in-time to reflect recent trends; factor in forward-looking information in the ECL estimation as IFRS 9 requires. Separate models are developed to estimate the lifetime risk parameters across the portfolios with different underlying risks. The accuracy of the models is continuously and rigorously confirmed by the annual internal model validation. Secondly, BAWAG Group applies the default definition according to Article 178 of Regulation (EU) No 575/2013 (Capital Requirement Regulation – CRR), which refers to 90 days past due and to unlikeliness-to-pay criteria, consistent for all asset classes and risk models: IFRS 9 lifetime risk parameters are estimated and calibrated accordingly.

Probability of default (PD)
Lifetime probability of default is the probability of clients' insolvency over the financial instrument's lifetime. The through-the-cycle component of PD is derived by the long-term average migration matrix defined across ratings, where ratings are determined by the IRB risk models. Point-in-time components are captured by shifting through-the-cycle PD, where the shifts are determined by a divergence of the forecasted future portfolio default rate and long-term average default rate of the portfolio. Future default rates are estimated with macroeconomic forecasts and other forward-looking information available to the Bank.

Loss given default (LGD)
Lifetime loss given default represents the Bank's expected loss in case the financial assets are in default. Like PD, the LGD's through-the-cycle and point-in-time components are modelled separately. Through-the-cycle LGDs reflect historically observed collateral, cash payment and other sources of recovery. For the incorporation of forward-looking information, the through-the-cycle LGD are shifted consistently with macroeconomic forecasts and information available to the Bank at the time of estimation.

Exposure at default (EAD)
Lifetime exposure at default measures the expected exposure amount at the time of default. For loans, the amount is estimated as a sum of discounted future cash flows the Bank expects to receive. For revolving products, EAD is a sum of the expected drawn commitments at the time of default. The expected drawn amounts are approximated by the credit conversion factor (CCF), which is modelled based on the historically observed consumed commitments.

Staging criteria and significant increase in credit risk (SICR)

A key feature of ECL estimation under IFRS 9 is the stage allocation of assets. If a financial asset show a significant increase in credit risk (SICR) or is recognized as credit-impaired, the ECL estimate of the asset is the lifetime expected credit loss (stage 2 or stage 3), and the 12-month expected credit loss otherwise (stage 1).

Stage 1: 12-month ECLs

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

Stages 2 and 3: Lifetime ECLs

When a financial instrument has been in stage 1, but a significant increase of credit risk since the initial recognition is observed, the instrument is transferred to stage 2. If the instrument's credit risk increases further to the point that it is credit-impaired, the instrument is then transferred to stage 3. The measurement of the risk provisions for stage 2 and stage 3 are lifetime expected credit loss, estimated by lifetime risk parameters.

BAWAG Group examines the stage allocation of assets at each reporting date. The transfer criteria from stage 1 to stage 2 are in three pillars:

- quantitative criteria
- qualitative criteria
- backstop criterion

The quantitative criteria examine the worsening of lifetime PDs since the initial recognition, while the qualitative criteria gather additional information about the assets to assess the SICR. As an additional backstop criterion, payment in arrears is considered in BAWAG Group. If one of the criteria is satisfied, a financial instrument is transferred from stage 1 to stage 2. Hence, if none of transfer criteria is active, the asset is kept or reassigned to stage 1.

Quantitative criteria
A quantitative criterion examines the financial asset's credit risk profile based on two aspects:

- the relative PD change
- the absolute PD change

If both indicators surpass the pre-determined thresholds and indicate a significant increase in credit risk, then the asset is transferred to stage 2.

Qualitative criteria
Qualitative staging criteria factors selected by BAWAG Group are:

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

If one of these factors is flagged as active, a financial asset is transferred to stage 2.

Backstop criterion
As a backstop criterion, BAWAG Group employs payment in arrears for more than 30 days. All financial instruments that are more than 30 days past due would be transferred to stage 2, if not yet in stage 3.

In cases where no staging factor is active, the exposure is automatically reassigned to stage 1. Defaulted exposures that are not impaired and with no arrears at either the customer or account level on the reporting date are deemed as cured from default and are assigned to stage 2 considering the lowest internal risk class for the purpose of the ECL calculation.

Stage 3: Lifetime ECLs

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or group of financial assets is impaired, and impairment losses are incurred if:

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

To allow management to determine whether a loss event has occurred on an individual basis, all significant counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in interest or principal payments.

The loan loss provision for significant individual counterparty risks is based on expected future recoveries in accordance with the risk analysts' estimates. For counterparty risks that were not individually significant, the Group implemented a new approach to determine loan loss provisions in 2020. The loss rate estimates used for Retail and SME portfolios are based on historically observed default and recovery information, customer time in default and LTV information (for mortgage loan exposures) to calculate the applicable level of loan loss provision.

In the second half of 2020, BAWAG Group implemented the new default definition aligned with the latest EBA requirements (EBA/GL/2016/07) for all Austrian banking institutions. The remaining subsidiaries will follow in 2021, with limited impacts expected on the overall level of expected credit loss. The new default definition requires adaptions of the Bank's IRB credit risk models. These adjustments are subject to approval by the supervisory authorities before implementation (Delegated Regulation EU 529/2014). BAWAG Group is currently adapting its models to this new default definition.

Furthermore, the Bank has fully implemented the ECB's "Guidance to banks on non-performing loans supervisory expectations for prudential provisioning of non-performing exposures" and Regulation (EU) 2019/630 amending CRR Regulation (EU) No 575/2013. For exposures classified as non-performing (NPE) before 1 April 2018, the Bank has accelerated the implementation of NPE backstop provision requirements and fully provisioned secured NPEs greater than seven years in default and unsecured NPEs greater than two years in default via loan loss provisions and prudential filters.

The approval procedures for impairments and debt waivers are described in the handbook on competencies and authorizations. Receivables are written off in coordination with the respective divisions when all attempts to collect the debt have failed or when there is no intention to actively continue the collection process.

The following table provides an overview of the development of IFRS book values (net of impairments) across stages.

Reconciliation of book values by stage

31.12.2020 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Closing balance
Book values for impairments in Stage 1 (without POCI)	**37,728**	**8,148**	**(5,252)**	**3,606**	**44,230**
Lending portfolio	32,962	6,749	(4,217)	1,819	37,313
Securities	4,766	1,399	(1,035)	1,787	6,917
Book values for impairments in Stage 2 (without POCI)	**1,170**	**245**	**(224)**	**937**	**2,128**
Lending portfolio	1,113	245	(224)	993	2,127
Securities	57	–	–	(56)	1
Book values for impairments in Stage 3 (without POCI)	**644**	**218**	**(167)**	**(77)**	**618**
Lending portfolio	644	218	(167)	(77)	618
Securities	–	–	–	–	–
Total POCI	**4**	**(0)**	**(1)**	**(1)**	**2**
Lending portfolio	4	(0)	(1)	(1)	2
Securities	–	–	–	–	–
Total	**39,546**	**8,610**	**(5,643)**	**4,465**	**46,977**

Only IFRS 9-relevant book values are shown.

Reconciliation of impairments per stage

31.12.2020 in € million	Starting balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes on existing assets	Closing balance
Impairments Stage 1 (without POCI)	**39**	**19**	**(11)**	**19**	**66**
Lending portfolio	35	13	(8)	8	48
Securities	2	4	(2)	1	5
Off-balance business	2	2	(1)	10	13
Impairments Stage 2 (without POCI)	**17**	**15**	**(6)**	**38**	**64**
Lending portfolio	15	14	(6)	36	60
Securities	2	0	–	(2)	–
Off-balance business	0	1	–	4	4
Impairments Stage 3 (without POCI)	**205**	**14**	**(62)**	**115**	**272**
Lending portfolio	174	12	(41)	121	266
Securities	–	–	–	–	–
Off-balance business	31	2	(21)	(6)	6
Total POCI	**3**	**–**	**–**	**(3)**	**–**
Lending portfolio	3	–	–	(3)	–
Securities	–	–	–	–	–
Off-balance business	–	–	–	–	–
Total	**265**	**48**	**(79)**	**169**	**402**

Transition of impairments by financial instruments

31.12.2020 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	29	60	1	30	0	1
Securities	–	–	0	–	–	–
Off-balance business	2	–	0	–	0	0
Total	**31**	**60**	**1**	**30**	**0**	**1**

31.12.2019 in € million	From Stage 1 to Stage 2	From Stage 1 to Stage 3	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 1	From Stage 3 to Stage 2
Lending portfolio	9	21	1	22	0	0
Securities	0	–	–	–	–	–
Off-balance business	0	–	0	–	0	0
Total	**9**	**21**	**1**	**22**	**0**	**0**

Distribution of book values by impairment stage and rating

The numbers below refer to IFRS book values (net of stage 1 to 3 provisions).

31.12.2020 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**14,482**	**4,656**	**4,220**	**13,665**	**6,521**	**555**	**131**	**–**	**44,230**
Lending portfolio	10,958	3,181	3,229	12,784	6,475	555	131	–	37,313
Securities	3,524	1,475	991	881	46	–	–	–	6,917
Book values for impairments in Stage 2 (without POCI)	**1**	**5**	**10**	**102**	**1,090**	**427**	**493**	**–**	**2,128**
Lending portfolio	1	5	10	102	1,090	426	493	–	2,127
Securities	–	–	–	–	–	1	–	–	1
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**618**	**618**
Lending portfolio	–	–	–	–	–	–	–	618	618
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Lending portfolio	–	–	–	–	–	–	–	2	2
Securities	–	–	–	–	–	–	–	–	–
Total	**14,482**	**4,661**	**4,230**	**13,767**	**7,611**	**982**	**625**	**620**	**46,978**

Only IFRS 9-relevant book values are shown.

31.12.2019 in € million	Rating class 1	Rating class 2	Rating class 3	Rating class 4	Rating class 5	Rating class 6	Rating class 7	Rating class 8	Total portfolio
Book values for impairments in Stage 1 (without POCI)	**9,824**	**3,405**	**4,577**	**12,652**	**8,149**	**921**	**419**	**–**	**39,947**
Lending portfolio	7,671	1,855	3,916	11,876	8,131	916	415	–	34,779
Securities	2,153	1,550	661	776	18	5	5	–	5,168
Book values for impairments in Stage 2 (without POCI)	**1**	**36**	**15**	**167**	**431**	**310**	**227**	**–**	**1,188**
Lending portfolio	1	36	15	167	373	310	227	–	1,130
Securities	–	–	–	–	58	–	–	–	58
Book values for impairments in Stage 3 (without POCI)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**644**	**644**
Lending portfolio	–	–	–	–	–	–	–	644	644
Securities	–	–	–	–	–	–	–	–	–
Total POCI	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Lending portfolio	–	–	–	–	–	–	–	4	4
Securities	–	–	–	–	–	–	–	–	–
Total	**9,825**	**3,441**	**4,592**	**12,819**	**8,581**	**1,231**	**646**	**648**	**41,783**

Only IFRS 9-relevant book values are shown.

Expected credit loss

Expected credit losses of BAWAG Group are based on a probability-weighted expected outcome as IFRS 9 stipulates: the ECL estimates under three different scenarios are aggregated with scenario weights to constitute a final ECL estimate. The macroeconomic scenario is comprised of forecasts of major macroeconomic variables: among all variables, BAWAG Group uses the GDP growth as a main source of forward-looking information to consider in ECL estimates, with additional variables such as inflation, unemployment rate or housing prices in a complementary role.

The distribution among three scenarios (baseline 40%, optimistic 30% and pessimistic 30%) allows the Bank to cover the broad range of future expectations and has been chosen as the most appropriate within the industry standards. Please note that a 30% baseline, 32,5% optimistic, 37,5% pessimistic scenario weighting was applied for year-end 2019. The scenario weights have been adapted versus 2019 as BAWAG Group has broadened the range of forecasts by changing the pessimistic scenario to more severe forecasts with a harsher adverse macroeconomic shock in order to better incorporate uncertainty ahead in the ECL estimation. This change of the scenario set led to the reassessment of scenario occurrence probabilities. The following table provides an overview of GDP growth assumptions and scenario weights applied to determine ECL.

Eurozone GDP growth assumptions by scenario

in %	2020	2021	2022	2023
Optimistic (30% weight)	(7.1)	6.6	4.0	3.0
Baseline (40% weight)	(7.1)	3.9	4.1	3.3
Pessimistic (30% weight)	(7.1)	(0.3)	4.0	3.6

As noted earlier in the COVID-19 section of this Risk Report, the applied macroeconomic scenarios were centered around the baseline macroeconomic projection provided by the ECB on 4 December 2020.

Sensitivity analysis

The following table illustrates the weighted impairment allowance as well as the results of the sensitivity analysis where ECLs are measured under each scenario with 100% weight. The sensitivity analysis is based on the baseline ECL excluding the applied management overlay as described in the COVID-19 section of the Risk Report. As of year-end 2020, an additional ECL management overlay of € 38 million is held to address the uncertainties of further development of the COVID-19 pandemic. This overlay would fully cover the additional provisioning requirements in case the pessimistic scenario does materialize.

			ECL scenario change		
31.12.2020 in € million	ECL incl. management overlay	ECL excl. management overlay	100% optimistic	100% baseline	100% pessimistic
Stage 1 & Stage 2 impairments	130	92	(11)	(2)	17

Forborne loans and forbearance measures

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

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

By implementing forbearance measures that are appropriate in terms of time and scope, BAWAG Group supports clients in maintaining financial stability. If the supporting measures are not successful, exposures will be recognized as non-performing and impaired according to regulatory and accounting standards.

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

For customers who have made use of a payment deferral in connection with the COVID-19 pandemic crisis falling under the EBA definition of a legislative or non-legislative moratorium, the Bank has refrained from classifying these customers as forborne.

Collateral and valuation of residential and commercial real estate

The centralized Residential Real Estate Appraisal team determines the value of all residential properties in Austria on the basis of a standard methodology and valuation tool. Valuation of real estate properties in other countries is also done by independent experts according to international standards. The periodic review and updating of property values is automated based on the real estate price index published by the Association of Real Estate and Asset Trustees of the Austrian Federal Economic Chamber (*Fachverband der Immobilien- und Vermögenstreuhänder der Wirtschaftskammer Österreich)* for Austrian residential properties, on the Halifax House Price Index for residential properties in Great Britain and by MAC (MeilleursAgents.com) for French residential properties. The values of the properties in the Netherlands are periodically updated based on the CBS index (Centraal Bureau voor de Statistiek) and the real estate properties situated in Germany are periodically checked with the help of the market volatility concept.

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

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

Workout departments

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

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

Early recognition of troubled assets

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

Retail & SME

The Retail & SME portfolio is comprised of 75% housing loans (2019: 72%) and 25% consumer and SME (2019: 28%). The segment comprises assets across the DACH/NL-region as well as international portfolios.

The mortgage portfolio is characterized by strong collateral coverage and shows low LTVs. As specified in the retail strategy, new business volumes were originated primarily mortgages.

BAWAG Group applies the following principles for credit assessment of retail customers. These principles are clearly reflected in the underwriting guidelines taking into account approved risk appetite.

- Capacity or affordability measures a borrower's ability to repay a loan by comparing income against recurring expenses and credit commitments. In addition, we apply backstop rules based on debt service to income ratio (DSTI) to limit borrower leverage.
- Creditworthiness refers to a borrower's reputation or track record of servicing debt as evidenced by previous payment history internally and externally. As an IRB institution, we apply robust statistical scorecards to rate customers at the point of lending and on an ongoing basis. Scorecard cut-offs are set based on risk/reward assessment within the approved risk appetite.
- Conditions refer to how the borrower intends to use the credit and it needs to be aligned to the credit facility's purpose and terms and condition. We have a clearly defined product construct defining loan amount thresholds, duration and purpose.
- Collateral refers to the ability to recover via enforcement of the collateral in the event of borrower default. Clearly defined eligibility criteria for collateral are in place and have been appraised by a panel of internal and external experts.
- Commitment or capital considers the borrower's personal financial contribution to the purpose of the facility. Clearly defined minimum borrower contribution and/or loan to value (LTV) thresholds are applied.

Lending portfolio by products

	Book value		NPL ratio	NPL coverage ratio
in € million	**31.12.2020**	31.12.2019	**31.12.2020**	**31.12.2020**
Consumer & SME	4,740	5,007	2.8%	69.8%
Housing loans	14,240	12,989	1.5%	96.8%
Total	**18,980**	**17,996**	**1.9%**	**83.0%**

The NPL ratio of the Retail & SME portfolio is 1.9% (2019: 1.9%). The NPL coverage ratio of 83.0% (2019: 78.9%) conveys the risk profile of this portfolio.

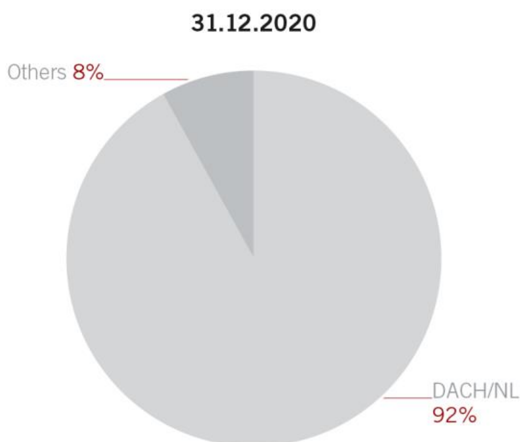
The Retail & SME housing loan portfolio is characterized by standard LTVs, a low NPL ratio, a high coverage ratio and good geographic diversification. The weighted average tenor of the housing loan portfolio is less than 22 years (2019: 19 years).

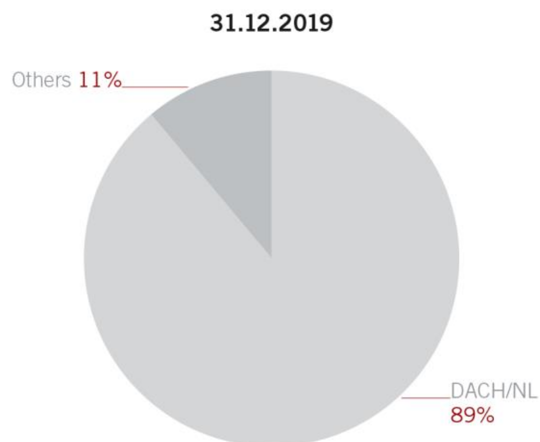
The Consumer & SME lending portfolio consists of unsecured private loans, overdrafts and credit cards across different sales channels of the Group. It includes leasing activities, which are characterized by a mix of leasing assets (car leasing, IT, equipment and real estate leasing).

For the Retail & SME segment, the overall NPL and coverage ratios reflect a stable and low-risk, highly collateralized portfolio. BAWAG Group has continued to apply the strategy of rigorous management of non-performing loans in order to achieve low NPL volumes and to concentrate on the main business focus. In addition, the early detection, collection and recovery processes were further improved with a view to successfully repaying loans from a technical and risk perspective.

Retail assets – regional distribution

Geographical distribution of the lending portfolio





Forbearance by products

	Consumer & SME		Housing loans		Total	
in € million	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Forborne assets	**46**	**85**	**92**	**187**	**138**	**272**
Impairments	5	8	7	7	12	15
Collateral	6	14	133	280	139	294

Days past due

The product portfolio is monitored by days past due (i.e. delinquency buckets) on an ongoing basis. The aim is to ensure early identification of negative credit developments within the portfolio and to work with customers on a proactive basis to ensure the full repayment of loans.

The Retail & SME portfolio is 98.9% (2019: 98.0%) current (i.e. no days past due). Overall, the low days past due volumes, the stable vintages and the product-specific scorecard results reflect the strong credit quality of the portfolio.

	Consumer lending		Housing loans		Total	
in € million	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Total	**4,740**	**5,007**	**14,240**	**12,989**	**18,980**	**17,996**
1–30 days	1.2%	1.9%	0.2%	0.2%	0.5%	0.5%
31–60 days	0.5%	0.7%	0.1%	0.1%	0.2%	0.2%
61–90 days	0.3%	1.0%	0.0%	0.1%	0.1%	0.1%

Corporates & Public

	Book value		NPL ratio	NPL coverage ratio	Investment grade
in € million	**31.12.2020**	31.12.2019	**31.12.2020**	**31.12.2020**	**31.12.2020**
Corporate lending	3,993	5,128	2.2%	98.7%	60.7%
Asset backed lending	4,916	4,595	1.5%	88.1%	66.9%
Public	4,899	3,351	–	–	100.0%
Total	**13,808**	**13,076**	**1.2%**	**94.1%**	**76.8%**

The corporate lending and asset backed lending portfolios includes DACH and international assets from stable markets (primarily US, UK and EU). This business is based upon a conservative underwriting approach, proactive risk management and disciplined growth in stable and mature developed economies. Throughout the business cycle, we maintain a highly disciplined approach to risk-adjusted pricing. The foundation is a disciplined and conservative underwriting over the years with a clear focus on cash flow generating companies, asset quality and solid capital structures with strong lender protection features.

Corporate lending: The corporate lending portfolio is composed primarily of loans directly issued to companies. The segment is characterized by moderate (net) debt/EBITDA ratios of <4.0x and strong cash flow profiles. In addition, the portfolio is predominantly senior in structure, reflecting the conservative positioning in the capital structure. The relatively low NPL ratio of 2.2% (2019: 2.5%) in the corporate lending segment is reflective of the selective underwriting and resilient portfolio.

Corporate lending industries

	Total	Total	in %	in %
in € million	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
Services	706	757	18%	15%
Food & Beverages	680	812	17%	16%
Pharmaceuticals	394	277	10%	5%
Health Care	366	290	9%	6%
Lender Financing	319	387	8%	8%
B–2–C Products	295	292	7%	6%
Engineering and B–2–B	280	371	7%	7%
Telecommunication	186	195	5%	4%
Other	767	1,747	19%	34%
Total	**3,993**	**5,128**	**100%**	**100%**

Asset backed lending: Asset backed lending transactions include direct lending against real estate assets or against portfolios backed by real estate assets. The lending portfolio consists predominantly of senior secured structures with a moderate day 1 LTC/V of <65% on average. The portfolio financings contain strong lender protection features such as cash flow sweeps, interest coverage accounts and covenant tests. The industry segments of our asset backed lending portfolio are well diversified with a limited direct exposure to hotel and retail of ~8% of the total asset backed lending book value.

Asset backed lending underlying assets

in € million	Total 31.12.2020	Total 31.12.2019	in % 31.12.2020	in % 31.12.2019
Residential	1,633	1,643	33%	36%
Office	1,208	1,015	25%	22%
Shopping / Retail	328	311	7%	7%
Industrial / Logistics	344	289	7%	6%
Mixed	1,087	1,097	22%	24%
Other	316	241	6%	5%
Total	**4,916**	**4,595**	**100%**	**100%**

Public: The Public portfolio primarily consists of loans and limits directly to public entities such as sovereigns, federal states or municipalities or to agencies owned by such public entities. It is customary for a guarantee to be in place provided by the public entity. The main focus of the portfolio is Austria, with secondary exposure in Germany. Overall, this portfolio is characterized by low risk and sovereign, state or municipality guarantees. Historically, there is not a significant default history for public entities and support can strongly be assumed for publicly owned entities and agencies, which usually fulfill a public task and are therefore systemically important. There are no NPLs in this category.

Material credit decisions are made by the Credit Approval Committee (CAC), a special body at the Managing Board level. Every credit decision is strictly reviewed, discussed and coordinated in accordance with BAWAG Group's guidelines. BAWAG Group's credit risk managers have a diverse and experienced background spanning different asset classes with domestic and international business. For loan applications below a certain threshold, risk managers are granted authority to approve credit applications.

Corporates & Public – Forbearance

in € million	31.12.2020	31.12.2019
Forborne assets	144	72
Impairments	28	16
Collateral	84	45

Particular risk concentrations in the lending portfolio

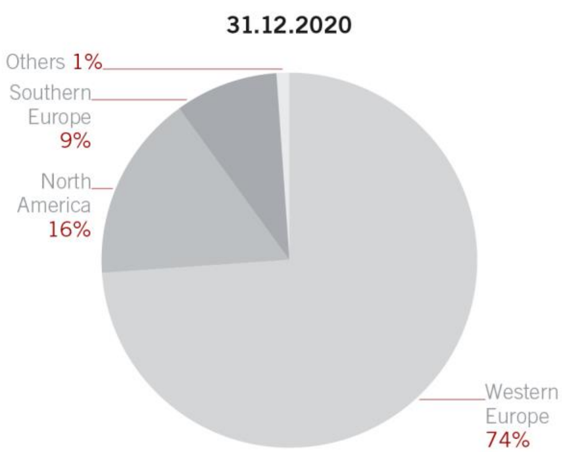
A major focus of risk management in the Corporates & Public segment is centered on managing concentration risk. Concentration risk arises from large exposures in individual customer segments or from large industry/country/foreign currency exposures.

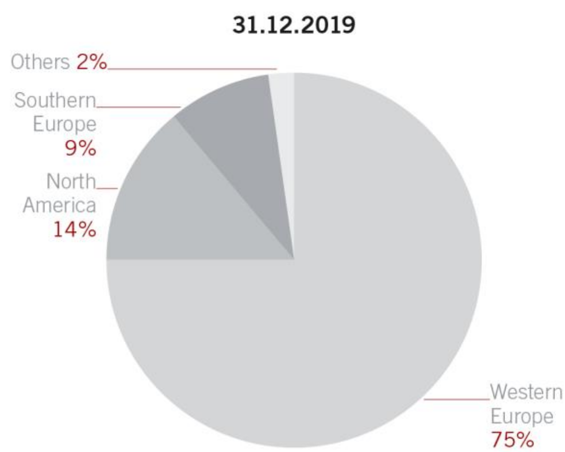
Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
EUR	10,695	9,980	77.4%	76.3%
USD	1,984	1,944	14.3%	14.9%
GBP	675	713	4.9%	5.4%
SEK	298	257	2.2%	2.0%
CHF	135	172	1.0%	1.3%
Others	21	10	0.2%	0.1%
Total	**13,808**	**13,076**	**100.0%**	**100.0%**

Corporates & Public assets – Regional distribution

Geographical distribution of the lending portfolio





Risk concentrations by industry segmentation

Corporates & Public	Book value		in %	
in € million	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
Real Estate	4,705	5,147	34.1%	39.4%
Public Sector	4,022	3,532	29.1%	27.0%
Services	723	762	5.2%	5.8%
Food & Beverages	693	807	5.0%	6.2%
Utilities	646	241	4.7%	1.8%
Lender Financing	589	390	4.3%	3.0%
Health Care	510	444	3.7%	3.4%
Pharmaceuticals	399	136	2.9%	1.0%
Engineering and B–2–B	289	369	2.1%	2.8%
B–2–C Products	274	289	2.0%	2.2%
Other	958	959	6.9%	7.3%
Total	**13,808**	**13,076**	**100.0%**	**100.0%**

Using internal industry segmentation.

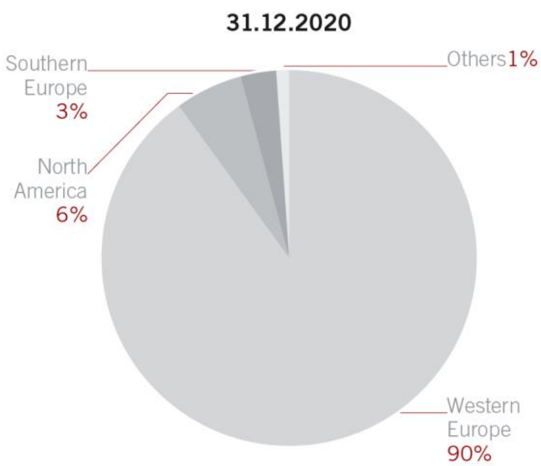
Treasury

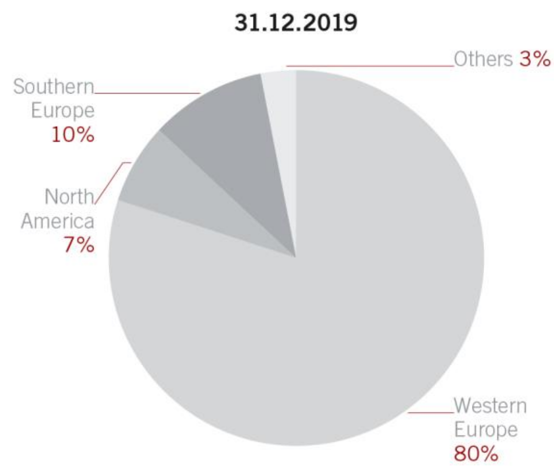
	Book value		Investment grade	
in € million	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
Banks	5,420	3,684	99.3%	96.3%
Sovereigns	9,550	4,655	100.0%	100.0%
CLOs	996	935	100.0%	100.0%
Others	452	281	93.0%	81.8%
Total	**16,417**	**9,555**	**99.6%**	**98.9%**

Treasury acts as a service center for BAWAG Group's customers, subsidiaries and partners through treasury activities and selected investment activities. The investment strategy continues to focus on investment grade securities predominantly representing secured and unsecured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures. In addition, the Bank also selectively invests in structured credit (CLOs) with high credit quality (AAA and AA) and which show a high degree of diversification with respect to countries and industries.

The bond investment portfolio of the Treasury segment amounts to 40% of the total book value and is comprised 96.0% of investment grade rated securities (2019: 96.1%), of which 75% were rated in the single A category or higher (2019: 75%). As of 31 December 2020, the portfolio had no direct exposure to China, Russia, Hungary or South-Eastern Europe. Direct exposure to the UK focuses on internationally diversified issuers with solid credit quality. Exposure to Southern Europe continues to be moderate and comprises liquid bonds of well-known issuers. The overall composition of the investment portfolio reflects the strategy of maintaining high credit quality, shorter durations and strong liquidity in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Geographical distribution of the securities portfolio[1)]





1) Investment book only. These regions include the United Kingdom with 17% (Dec 2019: 13%), the United States with 15% (Dec 2019: 6%), France with 10% (Dec 2019: 8%), Austria with 5% (Dec 2019: 7%) and Germany with 5% (Dec 2019: 6%).

Currency distribution of the lending and securities portfolio

	Book value		in %	
in € million	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
EUR	15,387	9,215	93.7%	96.4%
USD	883	264	5.4%	2.8%
Others	147	76	0.9%	0.8%
Total	**16,417**	**9,555**	**100.0%**	**100.0%**

Corporate Center

The Corporate Center includes unallocated items related to support functions for the entire Group, accounting positions (e.g. market values of derivatives) and select results related to subsidiary and participation holdings. Regulatory charges (except for deposit guarantee scheme contributions) and corporate taxes are assigned to the Corporate Center as well. The focus of the Corporate Center is set on non-business-related positions.

58 | Market risk

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

BAWAG Group has a clearly defined market risk appetite. All related risks (from an economic perspective as well as regarding IFRS fair value and OCI risks) are strategically managed at the Group level. All subsidiaries of the Group basically run no open market risk positions, as the customer business (e.g. loans and deposits) investment books and own issues are fully hedged according to the ALM hedging policy. All outright risk positions are subject to approval by the Strategic Asset Liability Committee and are measured and reported separately.

The primary market risk components for BAWAG Group are interest rate and credit spread risk. Both risk categories are measured and monitored via sensitivity, value-at-risk (VaR) and scenario-based approaches. In addition, the financial treatment of the positions is considered in the risk reporting.

The primary body for dealing with market risks is the Strategic Asset Liability Committee (SALCO). In the monthly SALCO, all strategic interest, FX- and liquidity-risk-related business opportunities along with their impact on risk, earnings and balance sheet targets are discussed and the desired balance sheet and risk structure is generally specified, thereby taking into consideration interest rate, FX and liquidity limits for the banking book.

Market risk in the trading book

BAWAG Group runs no active trading book. No trading activities are currently planned for the entire Group.

Market risk in the banking book

The primary components of market risk for BAWAG Group are interest rate risk and credit spread risk.

Interest rate risk in the banking book

Interest rate risk in the banking book is the potential loss resulting from net asset value changes and the future development of net interest income due to adverse interest rate shifts.

The Strategic Asset Liability Committee (SALCO) has assigned interest rate risk limits to the Treasury & Markets division in order to manage the interest rate risk in terms of an optimal risk/return ratio at the BAWAG Group level. Risk Controlling reports to the SALCO on a daily basis as well as monthly at the BAWAG Group level on limit utilization and the distribution of risk.

The target interest rate risk structure defined by the SALCO is implemented by the Treasury & Markets division.
BAWAG Group uses interest rate derivatives:

- to implement the interest risk strategy within the requirements and limits defined by the SALCO
- to manage the sensitivity of the valuation result and the revaluation reserve
- to hedge the economic risk position, thereby taking the accounting treatment into consideration

BAWAG Group uses hedge accounting pursuant to IAS 39. The following fair value hedge accounting methods are currently used to mitigate market risks:

Micro fair value hedge
Hedging of financial assets or financial liabilities against changes in their fair value. The decision on instruments to be assigned to micro hedge accounting is made in the context of the overall interest rate risk position.

Portfolio fair value hedge ("EU carve-out"):
BAWAG Group has identified sight deposits in euros as a portfolio that is to be protected against interest rate risks. These deposits are divided into time buckets in accordance with the expected repayment and interest rate adjustment dates. BAWAG Group determines an amount of liabilities from the identified portfolio that corresponds to the amount to be hedged as the underlying for the portfolio fair value hedge using a bottom layer approach. At the end of 2020, approximately 28% (2019: 25%) of the total volume of sight deposits was allocated to a portfolio fair value hedge.

In addition, contractually agreed interest rate caps and/or floors embedded in financial assets (e.g. loan receivables or securities) or liabilities (e.g. savings deposits) are designated to portfolio fair value hedge accounting in order to mitigate changes in the fair value of these instruments resulting from changes in interest rates. The decision on the amount to be designated to portfolio fair value hedge accounting is determined using a bottom layer approach and made in the context of the overall interest rate risk position and limit framework.

Interest rate risk is measured using sensitivities based on the present value of a basis point (PVBP) concept. The PVBP, which is derived from the duration of interest-bearing financial instruments, reflects the impact on net asset value resulting from an upward parallel shift of the yield curves by one basis point (0.01%). The following table depicts BAWAG Group's interest rate risk sensitivities as of 31 December 2020 on the basis of the PVBP concept:

Interest rate sensitivity

31.12.2020 in € thousand	<1Y	1Y–3Y	3Y–5Y	5Y–7Y	7Y–10Y	>10Y	Total
EUR	8	(271)	(289)	32	832	394	705
USD	(7)	(76)	(31)	(11)	28	0	(98)
CHF	4	2	(1)	(5)	(9)	(7)	(15)
GBP	13	(8)	(5)	(2)	0	0	(3)
Other currencies	(5)	(17)	(6)	0	0	0	(28)
Total	**13**	**(370)**	**(331)**	**13**	**851**	**387**	**561**

31.12.2019 in € thousand	<1Y	1Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	>10Y	Total
EUR	87	444	(150)	(96)	317	50	651
USD	0	(4)	(5)	0	(5)	(5)	(20)
CHF	3	(8)	13	(13)	(8)	(11)	(24)
GBP	14	5	(6)	15	1	2	31
Other currencies	2	(10)	(8)	(1)	0	0	(16)
Total	**106**	**427**	**(157)**	**(94)**	**304**	**36**	**622**

The impact upon the Profit or Loss Statement and Other Comprehensive Income of fair value changes arising from interest rate changes is calculated and monitored separately. The sensitivity of financial assets designated at fair value through profit or loss amounted to minus € 115 thousand on 31 December 2020 (average 2020: plus € 267 thousand, 31 December 2019: plus € 235 thousand). For the fair value through other comprehensive income assets, the sensitivity amounted to minus € 217 thousand (31 December 2019: minus € 222 thousand).

Furthermore, a value-at-risk calculation for BAWAG Group is conducted within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) on a monthly basis.

Credit spread risk in the banking book

Credit spread risk in the banking book refers to the risk of decreasing fair values of securities and derivatives due to changes in market credit spreads. The risk management models employed by BAWAG Group to address this risk have been continuously refined. The credit spread risk is measured on the basis of the sensitivities (basis point value). The basis point value reflects the impact on net asset value resulting from an upward parallel shift of the credit spreads by one basis point (0.01%). The following table shows the total credit spread sensitivity of BAWAG Group along with the breakdown by accounting categories impacting the Profit or Loss Statement and other comprehensive income:

Credit spread sensitivity

in € thousand	31.12.2020	31.12.2019
Total portfolio	(3,072)	(2,136)
Financial assets at fair value through profit or loss	(144)	(162)
Financial assets at fair value through other comprehensive income	(1,895)	(1,341)
Financial assets at amortized cost	(1,033)	(633)

The risk indicators “value-at-risk” and “expected shortfall” are also calculated and scenario calculations are run, both on a monthly basis.

Credit spread risk is also taken into account and limited for BAWAG Group as a whole in the ICAAP and is part of the Bank-wide stress tests.

All employed models are calibrated regularly and validated at least once per year by assessing the assumptions and by back testing.

FX risk in the banking book

The extent of open foreign exchange positions in BAWAG Group’s banking book is managed by conservative limits in order to ensure that only marginal FX risks are carried in the banking book. Compliance with these limits is observed on a daily basis.

The following table shows sensitivities of foreign currencies due to the open currency positions. None of the currencies poses a significant valuation risk.

in € thousand	USD		GBP		CHF		Other FX	
FX change (in %)	(10)	10	(10)	10	(10)	10	(10)	10
Impact	(1205)	1205	676	(676)	382	(382)	(644)	644

For managing FX risks, BAWAG Group also applies hedge accounting pursuant to IAS 39.

Cash flow hedge
FX risk from the future credit spread income of BAWAG Group’s foreign currency portfolios is mitigated by the implementation of a cash flow hedge for FX margins. BAWAG Group applies a bottom layer approach designating defined amounts of cash flows for a defined period of time as the hedged item. Currently, cash flows resulting from margin income denominated in GBP, USD and CHF are hedged via FX forwards. The following target hedge ratios for future FX credit spread income apply:

- USD: 70% of USD credit spread income for next 36 months
- GBP: 70% of GBP credit spread income for next 36 months
- CHF: 70% of CHF credit spread income for next 36 months

BAWAG Group also applies the cash flow hedge for cross currency basis risk. The hedged risk is the FX risk of future cash flows of notional and indicator-based payments ("reference rate" – e.g. cash flows based on LIBOR rates) including FX-related lending spreads of BAWAG Group’s foreign currency portfolios. BAWAG Group has implemented a bottom layer approach in regard to the notional/tenor of the hedged item. Therefore, the amounts of hedged risk and hedging instruments (cross currency swaps) have to be adjusted and rolled over continuously in regard to replaced/new business up to the dedicated bottom layers in order to meet the Bank’s hedging requirements. At the end of 2020, approximately 84% and 66% (2019: 65% and 60%) of the total notional available have been designated to cash flow hedge accounting for USD and GBP, respectively.

Net investment hedge
A foreign currency exposure also arises from the Group’s net investment in a subsidiary that has CHF as its functional currency and in a subsidiary that has USD as its functional currency. The risk arises from the fluctuation in spot exchange rates between the CHF and the EUR and between the USD and the EUR, which causes the amount of the net investment to vary.

The hedged risk in the net investment hedge is the risk of a weakening CHF against the EUR or the USD against the EUR that will result in a reduction in the carrying amount of the Group's net investment in the CHF functional currency subsidiary or in the USD functional currency subsidiary, respectively.

The full amount of the Group's net investment in its CHF functional currency subsidiary is hedged by a foreign exchange swap between EUR and CHF (notional amount: CHF 55 million; 2019: CHF 55 million), which mitigates the foreign currency risk arising from the subsidiary's net assets. Part of the Group's net investment in its USD functional currency subsidiary is hedged by a foreign exchange swap between EUR and USD (notional amount USD 177 million; 2019: USD 150 million), which mitigates the foreign currency risk arising from the subsidiary's net assets. The foreign exchange swaps are designated as hedging instruments for the changes in the value of the net investment that is attributable to changes in the EUR/CHF and EUR/USD spot rates.

The Group's policy is to hedge the net investment up to 100% of the net investment amount.

Concentration risk

All essential risk factors are incorporated within VaR models/scenario analyses and stress test calculations, which are applied to all trading and bank book positions. Instabilities of correlations which could result in an overestimation of diversification are taken into consideration by the fact that only correlations within a specific risk factor (interest, FX, volatilities) and (after a comprehensive analysis of empirical coefficients) between interest rate risk in the banking book and credit spread risk are employed, whereas no diversification beyond these is assumed. Stress test results are also broken down, calculated, reported and limited by risk factor category in order to identify any correlations within a single risk factor.

59 | Liquidity risk

Liquidity risk is the risk of not being able to fulfill payment obligations when they become due (dispositive liquidity risk) or only being able to meet these obligations at higher refinancing costs (structural liquidity risk). Furthermore, liquidity risk includes the risk that transactions cannot be closed or sold or that doing so is only achievable at a loss because of insufficient market depth or due to market interruptions (market liquidity risk). The objective of BAWAG Group's liquidity risk management framework is to ensure that BAWAG Group can fulfill its obligations at all times and to manage liquidity risk within the risk appetite.

Liquidity risk management framework

In accordance with the ECB's Supervisory Review and Evaluation Process (SREP), BAWAG Group has implemented an annual Internal Liquidity Adequacy Assessment Process (ILAAP), which forms the basis for the Group-wide assessment, management and monitoring of liquidity risks.

The Managing Board defines the liquidity and funding risk strategy as well as the overall liquidity risk appetite. At least once per year, the Managing Board reviews the ILAAP and approves the Group-wide limit framework and funding plans.

The main decision-making body for liquidity risk is the Strategic Asset Liability Committee (SALCO), in which all board members are represented. The SALCO is informed at least once a month about the performance compared to the risk metrics.

Treasury is responsible for managing the overall liquidity and funding position. Risk Controlling acts as an independent risk control function and is responsible for reviewing the ILAAP framework.

Liquidity strategy

BAWAG Group's overall strategy has an explicit commitment to a deposit-based funding strategy. Retail and corporate savings products have been the core part of the funding strategy over the years and will continue to be the dominant source of funding for the balance sheet. The deposit base is supplemented with a diversified strategy of wholesale funding. BAWAG Group has issued both unsecured bonds as well as bonds secured by mortgages.

Liquidity management

Liquidity management is performed on a Group-wide basis.

For managing short-term liquidity, a 30-day liquidity forecast is prepared daily, which allows for the close tracking and management of the short-term liquidity position.

For a mid-term perspective, a liquidity forecast for the next 15 months is prepared and reported monthly to the SALCO. As part of the forecast process, which takes scenario analyses for planned measures and assumptions about customer behavior into account, the development of all major liquidity risk metrics is projected based on the underlying business plans to ensure compliance with the overall risk appetite.

Long-term liquidity management is conducted as part of the annual planning process for the coming five years. Strategic measures are also analyzed during the course of the year.

Liquidity stress testing

Liquidity stress testing and scenario analyses are applied to evaluate BAWAG Group's liquidity position, determine the limit framework and calibrate the liquidity buffers. They complement the operational liquidity management and the mid- to long-term liquidity strategy.

Stress testing is conducted at the BAWAG Group level and the subsidiaries level and covers scenarios that differ in length and severity (systemic stress, idiosyncratic stress, combined stress). The results of the stress tests are reported to the SALCO monthly.

Liquidity buffer

BAWAG Group maintains a liquidity buffer to cover unexpected liquidity outflows in a stress scenario. The liquidity buffer is kept as a preventive measure against liquidity risk. The liquidity buffer consists of a portfolio of liquid assets which can be used to generate cash in a stress situation in order to prevent the illiquidity of the Bank. BAWAG Group's liquidity buffer only includes assets that can be liquidated with minimal execution risk within 30 days. The market liquidity of the liquidity buffer is tested regularly.

The table below shows the liquidity buffer composition based on the market values of unencumbered assets after a component-specific haircut.

Structure of the liquidity buffer

in € million	31.12.2020	31.12.2019
Balances at central banks	9,756	5,801
Securities eligible for Eurosystem operations	518	1,885
Other assets eligible for Eurosystem operations	63	1,544
Short-term liquidity buffer	**10,337**	**9,230**
Other marketable securities	3,315	1,389
Total	**13,652**	**10,619**

Maturity analysis of contractual undiscounted cash flows of financial liabilities

31.12.2020 in € million	Contractual cash flows	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(7,674)	(582)	(288)	(68)	(6,070)	(666)
Deposits from customers	(32,727)	(29,661)	(163)	(779)	(1,458)	(665)
Debt securities issued	(7,034)	(16)	(174)	(402)	(2,303)	(4,140)
Subtotal	**(47,436)**	**(30,260)**	**(625)**	**(1,249)**	**(9,831)**	**(5,471)**
Derivative liabilities	(775)	(105)	(30)	(94)	(109)	(437)
Other off-balance-sheet financial obligations	(2,184)	(2,184)	0	0	0	0
Total	**(50,394)**	**(32,549)**	**(655)**	**(1,343)**	**(9,940)**	**(5,908)**

31.12.2019 in € million	Contractual cash flows	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	More than 5 years
Liabilities						
Deposits from banks	(3,362)	(1,014)	(375)	(625)	(618)	(730)
Deposits from customers	(30,937)	(27,281)	(514)	(720)	(1,531)	(890)
Debt securities issued	(5,992)	(16)	(152)	(694)	(2,097)	(3,033)
Subtotal	**(40,290)**	**(28,311)**	**(1,042)**	**(2,039)**	**(4,246)**	**(4,653)**
Derivative liabilities	(665)	(144)	(48)	(33)	(70)	(371)
Other off-balance-sheet financial obligations	(1,996)	(1,996)	0	0	0	0
Total	**(42,952)**	**(30,450)**	**(1,089)**	**(2,072)**	**(4,317)**	**(5,024)**

The table above shows the consolidated nominal (not discounted) cash flows including interest payments on financial liabilities. They are assigned to time buckets on the basis of their contractual maturities. Deposits with non-defined maturity profiles are presented in the shortest time bucket. In the case of call or put options, the end of the term equals the next day on which the option can be exercised.

BAWAG Group maintains a conservative liquidity management strategy, which is reflected in a strong liquidity coverage ratio (LCR) of 231% at the end of 2020. This significant improvement compared to 146% at year-end 2019 is mainly a result of the overall improved liquidity position and the participation in the TLTRO III provided by the ECB. BAWAG Group thereby significantly exceeds the regulatory LCR requirement.

The year 2020 was characterized by a solid liquidity position with stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. Increased liquidity outflows, which were observed during the first lockdown in connection with the COVID-19 crisis, have fully recovered and customer deposits are above pre-crisis levels. Considering the stability of retail deposits that was proved during this crisis, the funding strategy continues to be focused on this funding source. The Bank's risk-conscious strategy in recent years of only granting committed credit facilities to a limited extent has meant that no increased drawing on credit lines has been observed.

In order to further optimize its liquidity position and provide liquidity to the real economy, BAWAG Group has participated in the ECB's TLTRO III with the amount of € 5.8 billion. In addition to the stable deposit base, in September 2020 BAWAG Group issued Tier 2 and AT1 notes with principal amounts of € 200 and € 175 million, respectively. Furthermore, in the course of 2020 the Bank successfully placed € 1,750 million in mortgage covered bonds (January € 500 million; September € 750 million; November € 500 million), which again proved BAWAG Group's good capital markets access and the positive perception among investors.

With the outbreak of the COVID-19 pandemic crisis, the Bank took a number of measures to assess its liquidity position at all times and, if necessary, to implement timely measures to improve the liquidity position. The measures taken include the monitoring of intraday liquidity, monitoring of cash transactions (ATMs and branch network), extended liquidity risk reporting to the Managing Board and regulatory authorities and the mobilization of unused collateral to strengthen the Bank's economic liquidity buffer.

60 | Operational risk

Operational risk is present in virtually all of the Company's transactions and activities and is defined as the risk of loss resulting from inadequacy or failure of internal processes, people, systems or external events. The definition of operational risk explicitly includes legal risk, compliance risk, model risk, fraud risk, conduct risk as well as third-party risk, outsourcing risk and information and communication risk. Information/cyber security and the protection including the appropriate use of customer data remain important factors in retaining customer trust. As IT systems, IT networks and the sharing of data become increasingly important to both banks and customers, there is a growing focus on how this is safeguarded.

Governance:
A clear organizational structure and authorization levels form the basis of operational risk governance. Operational risks are managed by established Group wide processes for loss data collection via OpRisk Monitor (ORM), a yearly risk assessment process for all divisions and subsidiaries, uniform materiality and risk assessment of outsourcing activities, a sound product implementation process (PIP), as well as monthly key risk indicators. By exceedance of defined thresholds, e.g. red KRI, high risks identified, mandatory measures for risk mitigation are agreed and monitored. In addition, BAWAG Group works continuously to bolster defenses against cyberattacks. The selected security approach is based on regulatory requirements and the security policy set. A consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) as well as a security control set including a variety of organizational and technological measures are in place to manage and mitigate BAWAG Group's operational risk. Aligned teams in the first and second line of defense ensure the implementation and effectiveness of these measures.

Risk identification, assessment and mitigation:
The losses resulting from operational risk are collected in a centrally administrated, web-based database within clearly defined regulations and processes. The collected data are analyzed to identify patterns/clusters and faulty processes

Using the RCSAs framework, all organizational units and subsidiaries identify and assess their material processes, operational risks, the risk of disregarding regulatory requirements and the effectiveness of their control measures on a yearly basis via a uniform framework. This includes the assessment of individual control measures, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of appropriate measures is mandatory.

Key risk indicators (KRI) are implemented as additional steering instruments to identify and forecast negative trends or a changed risk profile in company workflows and divisions/subsidiaries in a timely manner. Each KRI is monitored via a traffic light system (green/yellow/red). For KRIs with a red status, the definition and implementation of appropriate countermeasures is mandatory.

According to Austrian Banking Act section 39 paragraph 6, credit institutions must define appropriate criteria and procedures in writing taking into consideration the nature, scale and complexity of their business activities. In addition, a regular update is necessary to avoid the risk of disregarding of guidelines as well as to reveal the associated risks and to keep such risks to a minimum ("BWG compliance").

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

BAWAG Group continues to invest in the awareness of staff and resilience and security of systems, ensuring that customer data remains safe despite the significant pace of change in technological trends. In addition, the Group also focuses on supporting suppliers in meeting the respective requirements for cybersecurity in our supply chain. To ensure collaboration when it comes to security, BAWAG Group is an active member of the Austrian Trust Circle – Finance and focuses on close exchange with other banks as well.

The Managing Board receives regular reports about current OpRisk developments, as well as activities to protect and assess the cybersecurity in the Non-Financial Risk and ESG Committee (NFR & ESGC).

Risk quantification:
BAWAG Group applies the Standardized Approach for the calculation of the regulatory own fund requirements according to Article 317 CRR to assess operational risk. However, the realized operational risk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The operational risk RWAs are assigned to the segments based on revenues.

For the purpose of ICAAP, a standardized approach is used to calculate the normative and economic perspective for OpRisk. The quantification in the economic perspective is based on the standardized approach for OpRisk (SMA) as defined in Basel III Finalizing post-crisis reforms. The SMA is calculated based on the business indicator, business indicator component and internal loss multiplier. The method of calculation used is based exactly on the guidelines and covers the expected und unexpected loss.

The normative perspective is based on the P&L impact and qualitative scenarios based on the historic OpRisk losses and the consideration of the business strategy. The quantification in the economic perspective is based on the standardized approach for OpRisk (SMA) as defined in Basel III Finalizing post-crisis reforms.

Governance and risk mitigation concerning COVID-19:
BAWAG Group has responded to the current situation regarding the COVID-19 virus with an integrated action plan.

Measures taken since the beginning of the COVID-19 crisis:

- Business trips and events remain limited until further notice
- Implementation of instructions for repeated and correct hand washing and positioning of dispensers with disinfectant
- Permission to work more from home, test operation of remote working for entire areas and thus approval for remote working first, where technically possible

- Definition of risk groups such as the elderly or people with previous illnesses to work strictly from home
- Switch to conference calls instead of face-to-face meetings
- Call for customer vigilance against phishing attacks in the wake of COVID-19
- Awareness raising in customer communication for numerous cashless payment options (VPAY, etc.), digital banking, both on the website and in the call center
- Distribution of respiratory masks, disinfectant to the headquarters and branches, as well as spacers for all branches
- Implementation of rules of conduct concerning COVID-19

The measures are continuously evaluated by a task force in close coordination with the Managing Board of BAWAG Group and brought in line with the current government measures and regulations.

61 | Other risks

Reputation risk

Reputation risk is defined as the potential damage or harm of the Bank's image in the eyes of the interested public (capital investors/lenders, employees, customers, the press, etc.) regarding competence, integrity and reliability. Expert-based quantification is mainly driven by assumptions about the loss of interest spread income and possible alternative refinancing costs of decreasing deposits affecting customers within liquidity risk.

The Group actively avoids occurrence of reputation risks with a sound risk management culture, ongoing improvement of risk management and compliance with internal and external regulations. Furthermore, the Group has established a sound complaint management system, and closely follows potential fraud and other operational risk events which might affect the public appreciation.

Participation risk

Participation risk includes potential losses in the fair value of non-consolidated equity investments, potential write-offs on the carrying amount of investments and low profitability of non-consolidated equity investments. Participation risk does not include consolidated operating subsidiaries because their risks are assessed separately according to the specific risk types and accounted for as such. Participation risk is considered non-material.

Impairment tests are conducted every year to validate the values of the equity investments in BAWAG Group's portfolio. These impairment tests are predominantly completed on the basis of the planning projections (budgeted financial statements – i.e. P&L, balance sheet and cash flow) prepared for future periods by the management of each entity. The results indicated in the projections are discounted using risk-adjusted rates. The proportionate value of the entity based on BAWAG Group's shareholding is then compared with the carrying amount of the investment.

In addition to the procedure described above, there are simplified procedures for very small investments or if the book value is covered by the proportionate equity or other value indicators, such as the substance value in the case of real estate companies. The overall results of the impairment tests are reviewed and confirmed by the Credit Risk Management team.

Strategic risk

Strategic risk refers to the risk that the Bank's business strategy does not adequately reflect trends in external factors, is not effectively executed, or fails to respond in a timely manner to external environments or changes in stakeholder behaviors and expectations. The Group faces significant risks due to the changing regulatory and competitive environments in the financial services sector. The Bank strives to play an active role in the current transformation of the European banking industry. Austria as our core market builds the basis for further organic and inorganic growth in the DACH/NL region. The multi-brand and multi-channel distribution approach together with targeted use of analytics ensures the capability to adapt product offerings to changes in customer behavior and needs at an early stage. The Group assesses and monitors the impact of the strategic risk implications of new business, product entries and other strategic initiatives as part of the business planning processes and stress testing scenarios.

ADDITIONAL DISCLOSURES REQUIRED BY AUSTRIAN LAW

62 | Fiduciary assets

in € million	31.12.2020	31.12.2019
Fiduciary assets	**66**	**91**
Receivables from credit institutions	1	–
Receivables from customers	65	91
Fiduciary liabilities	**66**	**91**
Deposits from credit institutions	62	80
Deposits from customers	4	11

63 | Breakdown of securities pursuant to the Austrian Banking Act (BWG)

The following table breaks down securities in accordance with section 64 paragraph 1 line 10 and line 11 BWG as of 31 December 2020 (IFRS figures):

		Listed			
in € million	Not listed	Total	At amortized cost	Other measurements	BAWAG Group Total 2020
Bonds and other fixed income securities	1,802	5,156	1,332	3,824	6,958
Shares and other variable income securities	324	142	–	142	466
Shares in associates and other shares	83	–	–	–	83
Shares in non-consolidated subsidiaries	18	–	–	–	18
Total securities	**2,227**	**5,298**	**1,332**	**3,966**	**7,525**

The securities shown in the table are mainly non-current assets.

The difference between carrying amounts and lower repayment amounts for the purposes of section 56 paragraph 2 BWG amounted to € 43 million (2019: € 18 million). The difference between carrying amounts and higher repayment amounts for the purposes of section 56 paragraph 3 BWG amounted to € 8 million (2019: € 4 million). The difference between carrying amounts and higher market values for the purposes of section 56 paragraph 4 BWG amounted to € 1 million (2019: € 0 million).

Own issues amounting to a repayment amount of € 341 million and bonds and other fixed-income securities amounting to a repayment amount of € 598 million will come due in 2021 under the corresponding contracts.

Subordinated and supplementary capital liabilities are primarily issued in the form of securities. These securities are bullet bonds and some include issuer call options. Supplementary and subordinated capital bonds are primarily sold to major domestic and international investors. In the past, there have been also placements to private investors.

As of 31 December 2020, the average weighted nominal interest rate on supplementary and subordinated capital bonds issued by BAWAG P.S.K. AG was 7.53% (2019: 6.84%), and the average remaining term to maturity was 2.9 years (2019: 3.6 years). One supplementary capital bond (Tier II) issued by BAWAG Group AG has a fixed coupon of 2.375% and matures in 2029. The other supplementary capital bond (Tier II) issued by BAWAG Group AG has a fixed coupon of 1.875% and matures in 2030.

64 | Collateral received

Different types of collateral have been pledged to BAWAG Group as part of its business transactions. To reduce credit risk for derivative instruments, the Bank received consideration (collateral deals) in the amount of € 725 million (2019: € 565 million) and paid consideration (collateral deals) in the amount of € 91 million (2019: € 68 million).

in € million	Collateralized on-balance-sheet claims	Collateralized off-balance-sheet claims	Total
Financial collateral			
Stocks	5	–	5
Cash deposits	158	811	969
Bonds	3	–	3
Real estate			
Commercial properties	773	16	789
Private properties	10,032	145	10,177
Personal collateral			
Guarantees	2,773	35	2,808
Other forms of collateral			
Assignation of claims	–	1	1
Life insurance policies	13	1	14
Collateral received	**13,757**	**1,009**	**14,766**

65 | Human resources

Headcount – salaried employees

	31.12.2020	31.12.2019
Number of employees on reporting date	4,071	4,353
Average number of employees	4,201	4,367

Full-time equivalents – salaried employees

	31.12.2020	31.12.2019
Number of employees on reporting date	3,485	3,696
Average number of employees	3,580	3,694
Active employees[1]	3,118	3,249

1) Excluding employees on any form of temporary leave or who have entered into an agreement under a social compensation scheme.

66 | Branches

in € million	31.12.2020	31.12.2019
Name of branch	BAWAG P.S.K. International	BAWAG P.S.K. International
Business segment	Corporates & Public	Corporates & Public
Country of residence	Great Britain	Great Britain
Net interest income	0.0	0.0
Operating revenue[1]	52.0	55.3
Number of full-time employees	31.0	33.0
Profit/Loss before tax[1]	19.5	22.1
Income tax accrued	3.7	4.2
Government aid received	0.0	0.0

1) BAWAG P.S.K. International: Income is based on internal funds transfer pricing.

Due to the size of the UK branch of BAWAG P.S.K. and the fact that business activities in the UK are carried out by the branch as an agent for BAWAG P.S.K., the effects of Brexit will cause a minor organizational impact.

in € million	31.12.2020	31.12.2019
Name of branch	Südwestbank - BAWAG AG Niederlassung Deutschland	–
Business segment	Corporates & Public, SME & Retail	–
Country of residence	Germany	–
Net interest income	–	–
Operating revenue	–	–
Number of full-time employees	–	–
Profit/Loss before tax	–	–
Income tax accrued	–	–
Government aid received	–	–

67 | Trading book

In 2019, BAWAG Group had trading book derivatives, which broke down by volume as follows:

in € million	31.12.2020	31.12.2019
Derivative financial instruments in the trading book (nominal value)	–	3
Trading book by volume	**–**	**3**

68 | Geographical regions

Gross income of BAWAG Group relates to the following geographical regions according to IFRS 8:

in € million	Austria	Western Europe[1)]	North America	Rest of the world	Total
Interest and similar income	577.6	375.5	101.0	59.6	1,113.7
Income from securities and equity interests	2.6	0.2	0.0	0.0	2.8
Fee and commission income	280.3	47.4	0.1	1.3	329.1
Gains and losses on financial instruments	(42.0)	(14.0)	21.1	6.0	(28.9)
Other operating income	26.8	100.9	0.0	0.0	127.7

1) Includes Germany.

69 | Other disclosures required by BWG and Austrian GAAP (UGB)

The Statement of Financial Position entry for Land and buildings includes land with a carrying amount of € 35 million (2019: € 39 million).

The Statement of Financial Position as of 31 December 2020 contains accrued interest on supplementary capital bonds in the amount of € 8 million (2019: € 7 million).

Expenses for subordinated liabilities amounted to € 34 million (2019: € 27 million).

Expenses for BAWAG Group's group auditor in the current financial year amount to € 2.2 million (2019: € 2.0 million) and comprise audit fees in the amount of € 1.7 million (2019: € 1.5 million), tax advisory fees of € 0.1 million (2019: € 0.0 million) as well as other advisory fees in the amount of € 0.4 million (2019: € 0.5 million).

As of 31 December 2020, the return on total assets in accordance with section 64 paragraph 1 item 19 BWG amounts to 0.54% (2019: 1.01%).

BAWAG Group uses the Internet as the medium for publishing disclosures under section 65 BWG and the Disclosure Regulation. Details are available on the website of BAWAG Group at https://www.bawaggroup.com/financial-results.

70 | Date of release for publication

The Group financial statements were approved by the Managing Board for submission to the Supervisory Board on 23 February 2021. The Supervisory Board is responsible for reviewing and acknowledging the Group financial statements.

71 | Events after the reporting date

Acquisition of DEPFA BANK

On 15 February 2021, BAWAG Group signed a definitive agreement to acquire DEPFA BANK plc, and its subsidiary DEPFA ACS Bank DAC, from Germany's FMS Wertmanagement AöR. The transaction is subject to customary closing conditions and regulatory approvals.

23 February 2021

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Managing Board

Sat Shah
Member of the Managing Board

Andrew Wise
Member of the Managing Board

David O'Leary
Member of the Managing Board

STATEMENT OF ALL LEGAL REPRESENTATIVES

“We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.”

23 February 2021

Anas Abuzaakouk
Chief Executive Officer

Enver Sirucic
Member of the Managing Board

Sat Shah
Member of the Managing Board

Andrew Wise
Member of the Managing Board

David O’Leary
Member of the Managing Board

BOARDS AND OFFICERS OF BAWAG GROUP AG

MANAGING BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2020

Anas ABUZAAKOUK
Chairman of the Managing Board of BAWAG Group AG from 19 August 2017

David O'LEARY
Member of the Managing Board of BAWAG Group AG from 19 August 2017

Sat SHAH
Member of the Managing Board of BAWAG Group AG from 19 August 2017

Enver SIRUCIC
Member of the Managing Board of BAWAG Group AG from 19 August 2017

Andrew WISE
Member of the Managing Board of BAWAG Group AG from 19 August 2017

Further Members 2020

Stefan BARTH
Member of the Managing Board of BAWAG Group AG from 19 August 2017 until 31 December 2020

SUPERVISORY BOARD OF BAWAG GROUP AG AS OF 31 DECEMBER 2020

Chairman

Egbert FLEISCHER
(from 12 December 2019,
Deputy Chairman of the Supervisory Board of BAWAG Group AG from 15 September 2017 until 12 December 2019,
Member from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2022)

Deputy Chairman

Kim FENNEBRESQUE
(from 12 December 2019,
Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2022)

Members

Frederick HADDAD
(Member of the Supervisory Board of BAWAG Group AG from 19 August 2017 until revoked)

Adam ROSMARIN
(Member of the Supervisory Board of BAWAG Group AG from 15 September 2017 until the end of the Annual General Meeting adopting the Annual Financial Statements for 2022)

Works Council Delegates

Ingrid STREIBEL-ZARFL
(from 25 October 2017)

Verena SPITZ
(from 25 October 2017)

COMMITTEES OF BAWAG GROUP AG AS OF 31 DECEMBER 2020

Risk and Credit Committee

Frederick HADDAD
Chairman

Kim FENNEBRESQUE

Adam ROSMARIN

Ingrid STREIBEL-ZARFL
Works Council Delegate

Verena SPITZ
Works Council Delegate

Audit and Compliance Committee

Adam ROSMARIN
Chairman

Egbert FLEISCHER

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Verena SPITZ
Works Council Delegate

Nomination and Remuneration Committee

Egbert FLEISCHER
Chairman

Kim FENNEBRESQUE

Frederick HADDAD

Ingrid STREIBEL-ZARFL
Works Council Delegate

Verena SPITZ
Works Council Delegate

AUDITOR'S OPINION

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated financial statements of **BAWAG Group AG, Vienna, Austria** and its subsidiaries ("the Group"), which comprise the consolidated Statement of Financial Position as at 31 December 2020, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the Austrian commercial and banking law as well as the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to Section 245a UGB and Section 59a BWG.

Basis for our Opinion

We conducted our audit in accordance with Regulation (EU) 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group, in accordance with Austrian company law and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained up to the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion on this date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans and advances to customers

The Management Board explains the procedure for recognizing loan loss provisions in the notes to the consolidated financial statements in the risk report.

Risk to the Consolidated Financial Statements

The loans and advances to customers valued at amortized cost amount to EUR 32.0 bn and are mainly comprised of the segments "Retail & SME" as well as "Corporates & Public".

The bank evaluates in the context of credit risk management whether default events exist, and specific loan loss provisions need to be recognized. This includes an assessment whether customers are able to fully meet their contractual liabilities.

The calculation of the loan loss provisions for defaulted individually significant customers is based on an analysis of the estimated scenario-weighted future recoveries. This analysis reflects the assessment of the economic situation and development of the individual customer, the valuation of collateral and the estimation of the amount and timing of future cashflows derived thereof.

For loan loss provision for defaulted individually not significant customers the bank performs a risk provision based on statistical derived common risk characteristics. This loan loss provision is determined either by days past due or the occurrence of a legal case in accordance with fixed flat-rate loss ratios. The parameters used in the valuation model are based on statistical experience.

For all non-defaulted loans and advances to customers a loan loss provision for expected credit losses ("ECL") is recognized. The loan loss provision is generally based on the 12-month-ECL (Stage 1). In case of a significant increase in the credit risk (Stage 2), the ECL is calculated on a lifetime basis. The calculation of ECLs is highly dependent on assumptions and estimates, which include rating-based probabilities of default (“PD”) and loss given default ("LGD") that are derived from current and forward-looking information. In response to the COVID-19 crisis, the bank has recognized a management overlay in addition to the model results.

Considering the above-mentioned factors, the risk to the financial statements arises from the fact that the stage transfers and the determination of the loan loss provisions taking into account the management overlay are based on assumptions and estimates. This may lead to a significant margin of discretion and estimation uncertainties regarding to the amount of the loan loss provisions.

Our Audit Approach

We have performed the following audit procedures in respect to the recoverability of loans and advances to customers:

- We have analysed the processes of monitoring and risk provisioning for loans and advances to customers and assessed whether these are suitable to identify impairment triggers and to adequately reflect the valuation of loans and advances to customers. Moreover, we have identified the relevant key controls, assessed their design and implementation and tested their effectiveness in samples.

- We have examined whether there were any indicators of default on a sample basis of different loan portfolios. The selection of the sample was performed risk-oriented with special regard to ratings and economic sectors with higher probabilities of default taking into account the impact of the COVID-19 crisis.

- For defaults of individually significant loans we assessed the bank’s assumptions with respect to conclusiveness and consistency of the timing and amount of the assumed recoveries on sample basis.

- For defaults of individually not-significant loans, for which the loan loss provision was calculated based on ECL, we analysed the Bank's documentation of methodology for consistency with the requirements of IFRS 9. Furthermore, based on the bank´s model validations, we have checked the models and the parameters used to determine whether they are suitable for calculating loan loss provisions in an appropriate amount.

- We have assessed the adequacy of PDs based on 12-month and lifetime models as well as LGDs. In particular, we assessed the suitability of the statistical models and parameters used as well as the mathematical functionality. Further, we focused on the assessment of the impact of the COVID pandemic on the method of determining PDs. In addition, we analyzed the selection and assessment of forward-looking information and scenarios and their consideration in the used parameters. We evaluated the reasoning and the justification of the management overlay with regard to their appropriateness. We reperformed the mathematical accuracy and the completeness of the provisions by means of an approximate calculation for all credit risk exposed loans and advances to customers. For these audit procedures we have involved our financial risk management specialists. Moreover, we have involved our internal IT-specialists to assess the effectiveness of automated controls of the underlying IT-systems of the calculation model.

- Finally, we assessed whether the disclosures concerning the impairment measurement approach for loans and advances to customers as well as the disclosures on significant assumptions and estimation uncertainties in the notes to the consolidated financial statements are in line with the applied procedures.

Valuation of claims and provisions from litigation with City of Linz

Management describes the uncertainty of estimates and the course of the litigation with regard to a Swiss Franc swap with the City of Linz in the Note 1 "Accounting policies" section "Latitude of Judgment and Uncertainty of Estimates – City of Linz".

Risk to the Consolidated Financial Statements

Since November 2011, BAWAG P.S.K. is engaged in a lawsuit with the City of Linz in connection with this Swiss Franc swap. City of Linz has filed a lawsuit at the Commercial Court of Vienna (Handelsgericht Wien) against BAWAG P.S.K. claiming a payment of CHF 31 million. BAWAG P.S.K. filed a (counter)suit against the City of Linz to enforce its contractual entitlements in the amount of EUR 418 million.

The claim against the City of Linz is presented under the loans and advances to customers and amounts to the market value of the swap on the date of early termination. The assessment of the carrying amount of the receivables was based on management estimate taking into consideration the risks related to this assessment. These estimates comprise the duration and costs of the lawsuit as well as its outcome, especially from negligent actions from one of the parties as well as assumptions regarding claims resulting thereof. Management based its assessment for the valuation and the related uncertainties on legal opinions from external legal counsels, who represent the bank legally, as well as opinions of the internal legal department and the analysis of the professional opinions of the appointed court experts.

The risk to the consolidated financial statements results from the assessment of the above-mentioned factors, especially the probability of success of the ongoing litigation and the amount and timing of cash flows arising from the lawsuit. Moreover, the lawsuit has gained increased public and political interest. The proceeding is already ongoing for several years. In January 2020 the court issued a non-final interim judgement (Zwischenurteil) in which it held that the swap agreement is void. A decision on the mutual payment claims has not yet been made. Thus, the valuation of the claims and provisions from the lawsuit against the City of Linz are affected by estimate uncertainties.

Our Audit approach

- We have evaluated whether the valuation of the claims against the City of Linz as well as provisions connected to the lawsuit have been determined adequately and whether the estimates with regard to this litigation are appropriate.

- We have critically assessed the estimations of the board and of the bank’s internal and external legal experts. We have obtained and analysed statements of the involved law firms addressing the state of the lawsuit. We have analysed whether the amount of the claim is consistent with the contractual terms and the market parameters on the closure date as well as whether the assumptions for the valuation of the claim on the reporting date are consistent with the current assessment of the progress of the litigation and current market parameters. We have consulted our internal legal experts to analyse the experts’ statements provided.

- Finally, we have evaluated whether the disclosures in Note 1 "Accounting policies" section "Latitude of Judgment and Uncertainty of Estimates – City of Linz” are in line with the applied procedures.

Other information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements pursuant to Section 245a UGB and Section 59a BWG and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- We conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.

- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.

- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor’s report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

Group Management Report

In accordance with Austrian company law, the management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the management report in accordance with Austrian company law.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB are appropriate.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the group management report.

.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 30 April 2019 and were appointed by the supervisory board on 7 June 2019 to audit the consolidated financial statements of Company for the financial year ending 31 December 2020.

In addition, during the Annual General Meeting on 30 October 2020, we have been elected as auditors for the financial year ending 31 December 2021 and appointed by the supervisory board on 17 November 2020.

We have been auditors of the Company, without interruption, since the financial statements at 31 December 2015.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Company.

Engagement Partner

The engagement partner is Mr Bernhard Mechtler.

Vienna, 23 February 2021

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

CORPORATE GOVERNANCE

BAWAG GROUP'S DECLARATION OF COMMITMENT

In 2006, BAWAG P.S.K. made a (voluntary) commitment to apply the applicable provisions of the Austrian Code of Corporate Governance ("Code", accessible under http://www.corporate-governance.at). Following the listing of BAWAG Group in 2017, BAWAG Group declared its commitment to comply with the rules of the Code.

This is the (consolidated) Corporate Governance Report prepared in accordance with sections 243c and 267b of the Austrian Commercial Code (UGB).

Generally speaking, the Code is a set of self-regulation rules for listed Austrian companies and it contains rules based on compulsory legal requirements (L rules); rules that should be complied with, where deviations must be explained and justified in order for the company's conduct to conform with the Code (C rules, comply or explain); and rules that are recommendations, where non-compliance must not be disclosed or justified (R rules).

DEVIATIONS

Since issuance of its commitment to comply with the rules, BAWAG Group has complied with all L rules and all C rules. The deviation from one C rule is explained as follows:

Rule 2 (*"one share one vote" principle*): One shareholder has been granted the right to delegate a member of BAWAG Group AG's Supervisory Board for as long as such shareholder holds at least one share in the BAWAG Group AG. This delegation right shall be repealed, once the shareholding of the GoldenTree shareholders (jointly) falls below 20% for at least four consecutive weeks.

MANAGING BOARD

MANAGING BOARD MEMBERS AND ALLOCATION OF RESPONSIBILITIES

As of the date hereof, the Managing Board of BAWAG Group and BAWAG P.S.K. was composed of the following members:

MANAGING BOARD of BAWAG Group and BAWAG P.S.K. per 31 December 2020

Name	Function	Year of birth	Date of first appointment[1)]	End of current tenure
Anas ABUZAAKOUK	Chairperson	1977	19.08.2017	31.03.2026
David O'LEARY	Member	1975	19.08.2017	31.03.2026
Enver SIRUCIC	Member	1982	19.08.2017	31.03.2026
Sat SHAH	Member	1978	19.08.2017	31.03.2026
Andrew WISE	Member	1971	19.08.2017	31.03.2026

1) Regarding BAWAG Group AG.

Member who left the Managing Board since BAWAG Group's declaration of commitment

Name	Function	End of current tenure
Stefan BARTH	Member	31.12.2020

As of the date hereof, responsibilities among the Managing Board members were allocated as follows:

Name	Responsibilities
Anas ABUZAAKOUK (CEO)	Technology Group, General Counsel Office, Real Estate/Producrement and Advisory Unit
Sat SHAH (Retail & SME, Deputy CEO)	Domestic and International Retail & SME brands, channels and products and branch sales, mobile sales, sales support, partnerships, patforms, call centers and digital channels
Enver SIRUCIC (CFO, Deputy CEO)	Financial Planning & Analysis, Accounting, Financial Data & Regulatory Office, Operations Group, Treasury Group, DACH Corporates & Public Sector, M&A, Human Resources, Investor Relations, ESG and Strategy
Andrew WISE (CIO)	Chief Investment Officer overseeing all International Corporate Lending, Asset Backed Lending and North American Markets
David O'LEARY (CRO)	Commercial & Retail Risk Management, Financial Crime Management & Compliance, Market Risk, Operational Risk, Regulatory developments and Data Risk Office
Entire Managing Board	Internal Audit, Compliance & AML Office, Ethics

The following describes the Supervisory Board mandates and comparable functions of Managing Board members as of the date hereof at other Austrian or foreign stock corporations, which are not fully consolidated in the consolidated financial statements. Members not listed in the following do not have any comparable functions:

Sat SHAH	
Name of the company	**Function**
Amundi Austria GmbH	Supervisory Board member
Enver SIRUCIC	
Name of the company	**Function**
BAWAG P.S.K. Versicherung AG	Chairman of the Supervisory Board

MANAGING BOARD MEETINGS AND COMMITTEES

Managing Board Meetings / Extended Managing Board Meetings

The Managing Board of BAWAG meets on a weekly basis. BAWAG has also introduced Extended Managing Board Meetings which are held approximately 8 times per year. In these all-day sessions, the Managing Board and executive leadership team across BAWAG Group discuss a variety of topics such as BAWAG's group strategy, the organizational design, M&A and integration, technology developments, retail partnerships, talent assessment and development, regulatory developments, and key risk topics amongst other things.

The following committees exist at the level of BAWAG's Managing Board:

- Strategic Asset Liability Committee (S-ALCO)
- Enterprise Risk Meeting (ERM)
- Credit Approval Committee (CAC)
- Non-Financial Risk and ESG Committee (NFR & ESGC)

The Managing Board committees consist of all members of the Managing Board and further voting and non-voting members of BAWAG's senior staff/designated experts (e.g. BAWAG's ESG Officers). They are chaired by the CEO or the CRO. The following section describes the main responsibilities of these Managing Board committees.

Strategic Asset Liability Committee (S-ALCO)

The Strategic Asset Liability Committee (S-ALCO) is in charge of strategic capital and liquidity planning as well as operational aspects of asset and liability management. In this capacity the S-ALCO approves interest and FX/ limit for trading and managed bank books. With respect to liquidity, capital and interest, the S-ALCO approves liquidity costs, capital costs and internal reference rates. It further determines parameters for measuring interest risk, liquidity risk and foreign exchange risk and monitors risk metrics by way of regular reports. The S-ALCO is chaired by the CEO and meets on a monthly basis.

Enterprise Risk Meeting

The main duties of the Enterprise Risk Committee (ERM) are risk limit setting for the overall bank, approval of the risk strategy and determination of the risk appetite, approval of capital allocation within the ICAAP framework. The Committee is further responsible for credit guidelines, strategies and reviews and approves policies, procedures and underwriting guidelines/models. The ERM is chaired by the CEO and meets on a monthly basis.

Credit Approval Committee

The Credit Approval Committee (CAC) decides on financing transactions above a certain threshold and on the approval of loan applications within the authorities defined in the Competence and Power Regulation. The committee is chaired by the CRO and meets weekly.

Non-Financial Risk and ESG Committee (NFR & ESGC)

The Non-Financial Risk and ESG Committee (NFR & ESGC) is in charge of non-financial risk and ESG related topics. In particular, it discusses the bank-wide non-financial risk assessment (as part of the Group Risk Strategy), significant outcomes of sub risk self-assessments, large-scale marketing campaigns, changes in regulatory requirements and topics with regards to cybersecurity and data privacy. Furthermore, the NFR & ESGC reviews and acknowledges reports on inter alia, operational risk, conducted product implementation processes, complaint management reports and regular reports on cybersecurity and data privacy matters. It also receives regular updates from BAWAG's ESG Officers on ESG related topics and discusses the groupwide ESG strategy. The NFRC is chaired by the CRO and meets on a quarterly basis.

COMPLIANCE

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

The Compliance Office reports directly to the Managing Board and the Audit and Compliance Committee. The key responsibilities of the Compliance Office are prevention of insider dealing and market manipulation and managing of conflicts of interest. The Compliance Policy ensures observation of legal and proper conduct obligations, as well as the identification and prevention of conflicts of interest.

In accordance with the Austrian Stock Exchange Act, personal trades in shares of BAWAG Group AG by members of the Managing Board and Supervisory Board as well as their related persons are published on BAWAG Group's website (https://www.bawaggroup.com/BAWAGGROUP/IR/EN/Corporate_Governance/Mandatory_Disclosures/404218/directors-dealings-eng.html).

SUPERVISORY BOARD

SUPERVISORY BOARD MEMBERS

Per 31 December 2020, the Supervisory Board was composed of the following members:

SUPERVISORY BOARD of BAWAG Group per 31 December 2020

Name	Function	Year of Birth	Date of first appointment	End of current tenure
Egbert FLEISCHER	Chairperson	1957	15.09.2017	2)
Kim FENNEBRESQUE	Deputy Chairperson	1950	15.09.2017	2)
Frederick S. HADDAD	Member	1948	15.09.2017	1)
Adam ROSMARIN	Member	1963	15.09.2017	2)
Ingrid STREIBEL-ZARFL	Delegated by the Works Council	1959	25.10.2017	
Verena SPITZ	Delegated by the Works Council	1970	25.10.2017	

1) Until revoked.
2) Until the end of the Annual General Meeting deciding on the discharge of the members of the Supervisory Board for the financial year 2022

Independence of Supervisory Board Members

According to the company's "Independency criteria for members of the Supervisory Board of BAWAG Group AG", a member of the Supervisory Board shall be deemed independent if said member does not have any business or personal relations to the company or its Managing Board that constitute a material conflict of interests and are therefore suited to influence the behavior of the member. The Supervisory Board shall also follow the guidelines below when defining the criteria for the assessment of the independence of a member of the Supervisory Board:

- The Supervisory Board member has not been a member of the Managing Board or Managing Director or a management-level staff of the company or a subsidiary in the two years prior to the appointment.
- The Supervisory Board member does not maintain or has not maintained in the past year any business relations with the company or one of its subsidiaries to an extent of significance for the member of the Supervisory Board. This shall also apply to relationships with companies in which a member of the Supervisory Board has a considerable economic interest, but not for exercising functions in the bodies of the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 does not automatically mean the person is qualified as not independent.
- The Supervisory Board member has not acted as auditor of the company or has owned a share in the auditing company or has worked there as an employee in the past three years.
- The Supervisory Board member is not a member of the Managing Board of another company in which a member of the Managing Board of the company is a Supervisory Board member.
- The Supervisory Board member has not belonged to the Supervisory Board of the company for more than 15 years. This shall not apply to Supervisory Board members who are shareholders with an entrepreneurial investment in the company or who represent the interests of such a shareholder.
- The Supervisory Board member is not a close family member (direct descendants, spouses, companions, parents, uncles, aunts, siblings, nieces, nephews) of a member of the Managing Board of the company or of persons who are in a position described in the points above.

The following members are regarded as independent pursuant to C Rule 53:

Independence of Supervisory Board members

Name	Independent
Egbert FLEISCHER	YES
Kim FENNEBRESQUE	YES
Frederick S. HADDAD	YES
Adam ROSMARIN	YES

Supervisory Board Mandates and Comparable Functions at Listed Companies

The following describes the Supervisory Board mandates and comparable functions of Supervisory Board members at listed companies in Austria and abroad as at the date hereof.

Members not listed in the following do not have any functions at listed companies.

Kim FENNEBRESQUE

Name of listed company	Function
Ally Financial	Member
BlueLinx Holdings	Chairperson

Attendance of meetings of the Supervisory Board and its committees

The Supervisory Board members attended all of the meetings of the Supervisory Board and its committees (attendance rate of 100%).

Supervisory Board Activity Report

In 2020 the Supervisory Board convened for six virtual meetings and adopted three resolutions via circulars. With respect to the activities of the Supervisory Board reference is made to the respective paragraph in the report of the Chairman included in this report.

The Supervisory Board has the following committees:

- Audit and Compliance Committee
- Risk and Credit Committee
- Nomination and Remuneration Committee

Audit and Compliance Committee

Name	Function
Adam ROSMARIN	Chairperson
Egbert FLEISCHER	Member
Frederick S. HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Verena SPITZ	Delegated by the Works Council

Decision Making Powers and Activity Report
The Audit and Compliance Committee reviews the company's accounts and the annual financial statements and monitors the company's internal control system as well as the independence and work of the external auditor. The Audit and Compliance Committee prepares the auditor selection process, receives regular reports on compliance/AML/cybersecurity/ethics and data security and data privacy topics and approves the annual audit plans of Internal Audit and the Compliance Office. The Head of Internal Audit, the Compliance Officer and the external auditor have direct access to the Chairperson and members of the Audit and Compliance Committee and, once a year, the external auditor holds.

The Audit and Compliance Committee held four meetings. With respect to the activities of the Audit and Compliance Committee reference is made to the respective paragraph in the report of the Chairman included in this report.

Risk and Credit Committee

Name	Function
Frederick S. HADDAD	Chairperson
Kim FENNEBRESQUE	Member
Adam ROSMARIN	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Verena SPITZ	Delegated by the Works Council

Decision Making Powers and Activity Report
The committee advises the Supervisory Board on the current and future risk-bearing ability of the Group and monitors the effectiveness and efficiency of the risk management systems and compliance with the legal provisions and regulatory requirements. It receives quarterly risk reports (including reports on credit, market, liquidity and operational risks and complaint management) and prepares, on an annual basis, the risk planning guidelines and the risk strategy which are subsequently approved by the entire Supervisory Board.

The Risk and Credit Committee held four meetings. With respect to the activities of the Risk and Credit Committee reference is made to the respective paragraph in the report of the Chairman included in this report.

Nomination and Remuneration Committee

Name	Function
Egbert FLEISCHER	Chairperson
Kim FENNEBRESQUE	Member
Frederick HADDAD	Member
Ingrid STREIBEL-ZARFL	Delegated by the Works Council
Verena SPITZ	Delegated by the Works Council

Decision Making Powers and Activity Report
The Nomination and Remuneration Committee deals with Managing Board succession planning and the regular Fit & Proper evaluation of Managing Board and Supervisory Board members. The committee further deals with the general principles of the company's remuneration policy. It also monitors the remuneration policy pursuant to the Austrian Banking Act, remuneration practices and remuneration-based incentive structures pursuant to section 39c of the Austrian Banking Act. It also supports the Supervisory Board in preparing recommendations to the General Meeting with respect to new Supervisory Board candidates and the remuneration policies/reports pursuant to the Austrian Stock Corporation Act. It further discusses succession planning topics which are reported to the entire Supervisory Board.

The Nomination and Remuneration Committee held four meetings. With respect to the activities of the Nomination and Remuneration Committee reference is made to the respective paragraph in the report of the Chairman included in this report.

INFORMATION ABOUT THE REMUNERATION OF THE MANAGING BOARD AND SUPERVISORY BOARD

The remuneration policies for members of the Managing Board and the Supervisory Board have been presented to and approved by the shareholders of BAWAG Group AG at the Annual General Meeting 2020. These remuneration policies are disclosed on BAWAG Group's website.

The remuneration of the Supervisory Board members for their activities as members of the Supervisory Board of BAWAG Group AG is illustrated in the table below:

Remuneration for financial year 2020	
in € thousand	**Remuneration**
Egbert FLEISCHER	86.25
Kim FENNEBRESQUE	66.25
Frederick S. HADDAD	53.75
Adam ROSMARIN	51.25

The remuneration of the members of the Managing Board is illustrated in the table below. The Managing Board has waived potential bonuses for 2020 in light of the overall environment and challenges faced by many due to this health crisis.

	Remuneration for financial year 2020			
in € thousand	**Fixed salaries**	**Other remuneration**	**Bonus**	**Total**
Anas ABUZAAKOUK	3,990	1,300	0	5,290
David O'LEARY	2,400	890	0	3,290
Enver SIRUCIC	2,300	460	0	2,760
Sat SHAH	3,000	1,190	0	4,190
Andrew WISE	2,880	980	0	3,860
Total of active Managing Board members	14,570	4,280	0	19,390
Stefan BARTH	1,580	330	0	1,910
Total of Managing Board members as of 31 December 2020	16,150	5,150	0	21,300

BAWAG Group AG will present a remuneration report pursuant to sections 78c and 98a of the Austrian Stock Corporation Act to the Annual General Meeting 2021, which will take place in H2 2021. The report will include a comprehensive overview of the total remuneration of each Managing Board and Supervisory Board member, split out by component and the relative proportion of fixed and variable remuneration, as legally required. The remuneration report will be published on BAWAG Group's website together with the materials for the Annual General Meeting.

REFINEMENT OF THE DIVERSITY RULES

Rule L 52, which was incorporated from Sec 87 para 2a of the Stock Corporation Act, requires that the aspects of diversity be appropriately taken into consideration in the Supervisory Board with regard to the representation of both genders and the age structure and, at listed companies, also with regard to the internationality of its members.

According to the interpretation of the Austrian Working Group for Corporate Governance, the individual bodies to whom each rule is addressed are responsible for compliance with Corporate Governance principles pursuant to Rule C 61. Although Rule L 52 is not directly binding for shareholders, compliance with Corporate Governance principles should be strived for by the company in general. To this end, the shareholders should be encouraged to implement the rule, for example, by referring to it at the Annual General Meeting or in the published documents for the Annual General Meeting. Compliance with the rule is therefore achieved by making reference at the Annual General Meeting or in the documents for the Annual General Meeting to the principles for appointing members to the Supervisory Board including the importance of taking appropriate consideration of the aspects of diversity.

BAWAG Group takes into account the members’ expert knowledge, gender, internationality, age structure and professional reliability. The Nomination and Remuneration Committee has defined a target ratio for the underrepresented gender among the Supervisory Board and the Managing Board.

MEASURES TAKEN TO PROMOTE WOMEN ON THE MANAGING BOARD, THE SUPERVISORY BOARD AND IN MANAGEMENT POSITIONS

The preamble of the Code governs companies' responsibility toward society and recommends that appropriate voluntary measures and initiatives be taken such as to reconcile work and family life. According to Rule L 60, the Corporate Governance Report must contain measures taken to promote women on the Managing Board, on the Supervisory Board and in management positions as well as in key functions within BAWAG Group.

BAWAG Group makes efforts to implement initiatives and measures aimed, for example, at increasing the number of women in management positions.

Women's promotion program

Since 2012, BAWAG has had a women´s promotion program, which was jointly evaluated by the BAWAG P.S.K. Women´s Initiative and the works council in 2018 and was agreed in writing with BAWAG P.S.K.

It serves as a binding framework to promote equality and equal opportunities for women and men in the enterprise.

The women´s promotion program is based on four principles and concrete measures:

- Awareness raising
- Equal career opportunities
- Financial equality
- Promoting a better balance between career and family for women and men

One key aspect of the women's promotion plan has been to encourage women to participate in personnel development programs. Therefore, the balanced mix of male and female in all development programs is considered.

BAWAG P.S.K. Women´s Initiative

BAWAG P.S.K. Women's Initiative is a network of experts and female managers from all areas of the bank supported by the Managing Board of BAWAG Group. The initiative aims to promote equality for women in BAWAG Group in the form of achieving career goals in managerial or expert positions, monetary equality, and compatibility of family and work. Its actions further facilitate the exchange of experience and knowledge as well as networking within and outside the company.

BAWAG P.S.K. Women Mentoring Program

To raise the gender diversity awareness within the organization, BAWAG Group has set up a women mentoring program, having accompanied 86 women since 2013. Throughout 2020, 12 Austrian top managers from various industries supported female managers and top performers from BAWAG Group throughout one year as mentors. The program was accompanied by knowledge trainings and specific workshops which were mainly held virtually due to COVID-19 restrictions.

The 8th BAWAG Group mentoring program has started.

In addition, the Bank offers women-specific business workshops to all female employees, including part-time.

BAWAG P.S.K. Women’s Prize

The BAWAG P.S.K. Women’s Prize which has been awarded since 2013 recognizes outstanding achievements by women or special commitment to positioning women in society.

With this € 5,000-award, BAWAG Group encourages women and organizations to tackle challenging and innovative projects, especially in the areas of

- science, journalism and art,
- social commitment,
- intercultural understanding,
- promoting equality of opportunity between women and men, and
- creating awareness for the role of women in the professional environment.

The 8th BAWAG P.S.K. Women's Prize reflects the overarching theme of 2020.

Elisabeth Puchhammer-Stöckl, Head of the Centre for Virology of the Medical University of Vienna, and Judith Aberle, Group Science Head, received the BAWAG P.S.K. Women's Price for their research related to COVID-19 and their empowerment and encouragement of female scientists. The Centre for Virology is a role model in regards to gender equality.

REPORT FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

The Supervisory Board of BAWAG Group AG properly fulfilled all duties incumbent upon it by law, its Articles of Association and its Rules of Procedure. The Managing Board informed the Supervisory Board of all material issues in a timely and comprehensive manner either in writing or verbally. In addition to periodic meetings, the Chairmen of the Supervisory Board, the Audit and Compliance Committee and the Risk and Credit Committee discussed current business matters with the Managing Board members. Further details regarding the composition of the Supervisory Board and its committees as well as their working procedures are disclosed under Corporate Governance in this report.

SUPERVISORY BOARD

As of 31 December 2020, the Supervisory Board consisted of six members. The Supervisory Board focused on the annual financial statements and the consolidated financial statements for 2019 and discussed the appointment of the external auditor for 2021.

Other material topics which the Supervisory Board dealt with were BAWAG Group's strategy and budget, ESG-related topics, the preparation of the cross-border merger of Südwestbank into BAWAG P.S.K., the risk strategy and the mid-term plan and topics related to the board's self-evaluation and succession planning. Furthermore, the Supervisory Board was regularly updated about all relevant developments and measures in connection with the COVID-19 pandemic. It also received updates on BAWAG's multi-branded strategy in the international Retail & SME segment, priorities within the technology group (simplification and modernization) and the SREP process.

SUPERVISORY BOARD COMMITTEE MEETINGS

Audit and Compliance Committee

The Audit and Compliance Committee discussed the quarterly reports by Internal Audit and the Compliance Office as well as the 2021 audit plans of Internal Audit and of Compliance. The annual audit process for 2020 was also presented. Furthermore, regular updates on legal issues, compliance/conduct (including ethics) and AML topics were given, including updates on cybersecurity and data security and data privacy. The external auditor as well as the Head of Internal Audit attended all meetings.

Risk and Credit Committee

The Risk and Credit Committee discussed the Group Risk Report, which includes the calculation of the risk-bearing capacity and reports on credit, market and operational risk. In addition, regulatory updates (including reports on credit, market, liquidity and operational risk and complaint management) and credit risk updates in light of the COVID-19 pandemic were presented to the committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee approved amendments of the remuneration policy pursuant to the Austrian Banking Act and also prepared the remuneration policies for the Supervisory Board and the Managing Board pursuant to the Austrian Stock Corporation Act, which were presented and ultimately approved by the General Meeting. In addition, the annual Fit & Proper assessment of the Supervisory Board and the Managing Board members was performed. The Committee also dealt with BAWAG's organizational structure and succession planning topics.

All committees also reported their discussions and decisions to the entire Supervisory Board.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements and the consolidated annual financial statements for 2020 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungs-gesellschaft headquartered in Vienna. The audit revealed no reason for objections. The legal regulations were complied with in full, and an unqualified auditor's opinion was issued. After an in-depth discussion, the Supervisory Board approved and adopted the annual financial statements in accordance with Section 96 Para 4 Stock Corporation Act. In addition, the Supervisory Board reviewed the separate consolidated non-financial report. The consolidated financial statements were noted by the Supervisory Board.

In conclusion, I would like to express my sincere thanks to the Managing Board as well as all employees within BAWAG Group on behalf of the entire Supervisory Board for their performance and sustained commitment in 2020.

March 2021

Egbert Fleischer
Chairman of the Supervisory Board of BAWAG Group AG

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
After-tax earnings per share	Net profit / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit per every individual share (diluted) of the stock.
Average interest-bearing assets	Month-end interest-bearing assets / number of months	Average of month-end interest-bearing assets within the quarter or the year is used for calculating net interest margin and risk cost ratio (see KPIs below)
Basic earnings per share	(Net profit - AT1 coupon) / weighted average number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon) per every individual share of the stock.
Book value per share	Common equity (excluding AT1 capital and dividends) / number of shares outstanding	Book value per share represents the total amount of common equity divided by the number of shares outstanding at the end of the period.
Common equity	Equity attributable to the owners of the parent	Common equity as presented in the consolidated financial statements
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	CET1 capital is defined by the CRR and represents the highest quality of capital. It therefore only comprises capital instruments that are available to the bank for unrestricted and immediate use to cover risks or losses as soon as they occur. The higher the bank's CET1 capital, the higher its resilience against such risks or losses.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 (CET1) capital / risk-weighted assets	The CET1 ratio is one of the most important regulatory metrics and demonstrates the bank's financial strength by providing a measure for how well a bank can withstand financial stress. The ratio is consistently monitored to ensure compliance with regulatory minimum requirements. Before any business opportunities are entered into, they are thoroughly assessed with regard to their impact on the CET1 ratio.
Core revenues	The total of net interest income and net fee and commission income	Core revenues total the line items net interest income and net fee and commission income and demonstrate the success of the bank in its core activities.
Cost-income ratio (CIR)	Operating expenses / operating income	The cost-income ratio shows the company's operating expenses in relation to its operating income. The ratio gives a clear view of operational efficiency. BAWAG Group uses the cost-income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions.
Customer loans	Customer loans measured at amortized cost	The book value of customer loans measured at amortized cost.
Diluted earnings per share	(Net profit - AT1 coupon) / weighted average diluted number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding AT1 coupon) per every individual share (diluted) of the stock.
Interest-bearing assets	Financial assets + Assets at amortized cost – Assets at central banks	Interest-bearing assets comprise the line items Financial assets and Assets at amortized cost excluding Assets at central banks
Leverage ratio	Tier 1 capital / total exposure (calculation according to CRR)	The leverage ratio is a regulatory metric and expresses the relationship between the bank's Tier 1 capital and its total exposure, where total exposure includes on-balance and certain off-balance exposures but not on a risk-weighted basis. The ratio provides a metric to judge how leveraged a bank is. The higher the leverage ratio, the lower a bank is leveraged and the higher the likelihood of a bank withstanding negative shocks to its balance sheet.

Liquidity coverage ratio (LCR)	Liquid assets / net liquid outflows (calculation according to CRR)	The liquidity coverage ratio is a regulatory metric that ensures that banks maintain adequate levels of liquidity, i.e. sufficient highly liquid assets, to meet short-term obligations under stressed conditions. In keeping with this, the bank shall sustain any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days. The ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements and short-term liquidity needs.
Loan-to-Value (LTV)	Mortgage loans / appraised value (market value) of the property	The LTV ratio is a financial term to express the ratio of a mortgage loan in relation to the value in use or market value of the underlying property.
Net interest margin	Net interest income / average interest-bearing assets	The net interest margin is a performance measure and is expressed as a percentage of what a bank earns on loans and other assets in a time period less the interest it pays on deposits and other liabilities divided by average interest-bearing assets. It is used for external comparison with other banks as well as internal profitability measurement of products and segments.
Net profit	Profit after tax attributable to owners of the parent	This profitability measure represents the profit after tax that is available for distribution to the shareholders in absolute amounts for the respective period as presented in the consolidated financial statements.
NPL ratio	Non-performing loans (NPLs) / Exposure	The NPL ratio is a ratio to demonstrate the proportion of loans that have been classified as non-performing in relation to the entire credit risk exposure (on-balance and off-balance sheet receivables). The ratio reflects the quality of the portfolio and of the Group's credit risk management.
NPL coverage ratio	Stage 3 incl. prudential filter and collateral / NPL exposure economic	The total of stage 3 impairments including prudential filter and collateral relative to the NPL exposure economic
NPL cash coverage ratio	Stage 3 incl. prudential filter / NPL exposure economic	The total of stage 3 impairments including prudential filter relative to the NPL exposure economic
Off-balance business	CCF weighted off-balance business	The off-balance business in the risk report is CCF weighted.
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses	As presented in the respective line item in the income statement
Operating profit	Operating income less operating expenses and regulatory charges	As presented in the respective line item in the income statement
Pre-provision profit	Operating income less operating expenses	As presented in the respective line item in the income statement
Pre-tax earnings per share	Profit before tax / weighted average diluted number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax per every individual share (diluted) of the stock.
Return on common equity (RoCE)	Net profit / average common equity excluding AT1 capital and dividends and dividend accruals; average equity based on 1 January 2018 due to IFRS 9 implementation	These metrics provide a profitability measure for both management and investors by expressing the net profit as presented in the income statement as a percentage of the respective underlying (either equity related or asset related). Return on common equity and return on tangible common equity demonstrate profitability of the bank on the capital

Return on tangible common equity (RoTCE)	Net profit / average tangible common equity excluding AT1 capital and dividends and dividend accruals; average equity based on 1 January 2018 due to IFRS 9 implementation	invested by its shareholders and thus the success of their investment. The "Return on …" measures are useful for easily comparing the profitability of the bank with other financial institutions. Allocated equity to segments is based on an internal model taking into account risk-weighted assets and balance sheet size of the respective segment.
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Group, fully loaded)	The calculation of risk-weighted assets is defined in the CRR. The figure describes the total amount of exposure at risk for a bank and includes both on-balance and off-balance positions. When calculating the amount, the bank can consider risk-mitigating elements (e.g. collateral) and has to derive regulatory risk weights for each position depending on the (external) credit rating of the counterparty or customer. Risk-weighted assets are used as the denominator for calculating the CET1 ratio (see above). "Fully loaded" refers to the full application of the CRR without any transitional rules.
Risk costs / interest-bearing assets; (risk cost ratio)	Provisions and loan loss provisions, impairment losses and operational risk (total risk costs) / average interest-bearing assets	This ratio is a measure for the quality of credit risk management and the loan portfolio itself. It provides a relative view of the risk costs for the period based on the average interest-bearing assets and allows benchmarking with other banks. Low risk costs may result from a high collateralization and/or a close monitoring of the credit rating of the customers. As a result, this implies that there are only few actual credit losses and little need for provisioning.
RWA density	Risk-weighted assets / total assets	The RWA density is a metric to obtain an "average risk weight" for a bank's balance sheet, i.e. the bank's total risk-weighted assets (see above) compared to the total assets. The ratio indicates the average risk weightings of the assets based on their regulatory assessment, which can be impacted by asset quality, the collateralization level or the applied models for assessing the risk weights.
Tangible book value per share	Tangible common equity (excluding AT1 capital and dividends) / number of shares outstanding	Tangible book value per share represents the total amount of common equity less intangible assets divided by the number of shares outstanding at the end of the period.
Tangible common equity	Common equity reduced by the carrying amount of intangible assets	Tangible common equity is another viability indicator for banks and facilitates the comparison of equity figures excluding intangible assets. It is used as the denominator of the return on tangible equity calculation (see below).
Total capital	Based on IFRS CRR regulatory figures (BAWAG Group), excluding any transitional capital (fully loaded)	Total capital and total capital ratio are regulatory metrics and compare to CET1 capital and the CET1 ratio in a way that the eligible capital for this purpose is extended by other instruments (e.g. Additional Tier 1 and Tier 2 instruments) not falling within the strict Common Equity Tier 1 definition. The total capital ratio is consistently monitored by the management to ensure compliance with regulatory minimum requirements. However, CET1 capital is of higher significance as it is also the base for prudential thresholds such as the SREP requirement. Therefore, BAWAG Group focuses more on CET1 capital and the CET1 ratio.
Total capital ratio	Total capital / risk-weighted assets	
Value-at-risk (VaR)	Measure of risk of investments	A method for quantifying risks that measures the potential maximum future losses that can occur within a specific period and with a certain probability.

GLOSSARY

Associated company	A company over which a material influence is exerted in terms of its business or financial policy and that is recognized in the consolidated accounts using the equity method.
AML	Anti-Money-Laundering
Backtesting	A method for verifying projected VaR values by comparing them with the actual developments.
Banking book	All risk-bearing on- and off-balance-sheet positions of a bank that are not assigned to the trading book.
Cash flow hedge	A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.
CDS	Credit default swap; a financial instrument that securitizes credit risks, for example those associated with loans or securities.
CLO	Collateralized loan obligation; securities that are collateralized by a pool of credit claims.
Cross-selling	The active selling of complementary products and services to existing customers.
CRR	Capital Requirements Regulation; Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance; in the applicable version.
Derivatives	Financial instruments whose value depends on the value of an underlying asset (such as stocks or bonds). The most important derivatives are futures, options and swaps.
Expected credit loss	IFRS 9 requires a bank to determine the expected credit loss (ECL) based on a probability assessment of future cash flows and losses. The ECL is basically defined as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive (considering probabilities of default and expected recoveries).
Fair value	Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.
Fair value hedge	Assets or liabilities, generally with fixed interest rates, are protected against changes in their fair value using derivatives.
Futures	Standardized, exchange-traded forward agreements in which an asset must be delivered or purchased at a specific time and at a price that is agreed in advance.
Hedge accounting	An accounting technique that aims to minimize the effects that the opposing developments in the value of a hedge transaction and its underlying transaction have on the income statement.
Hedging	Protecting against the risk of disadvantageous interest rate and price changes.
ICAAP	Internal Capital Adequacy Assessment Process; an internal procedure to ensure that a bank has sufficient own funds to cover all material types of risk.
ILLAP	Internal Liquidity Adequacy Assessment Process; an internal procedure to ensure that a bank has robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk.
Impairments stage 1	Impairments (ECL) for assets without increase in credit risk since initial recognition.
Impairments stage 2	Impairments (ECL) with increase in risk since initial recognition but not credit-impaired.
Impairments stage 3	Impairments (provisions and reserves) for credit-impaired debt instruments.
Industry segmentation	Allocation to individual industries based on internal industry codes.
Investment properties	Properties held as financial investments, primarily to generate rental income.
Monte Carlo simulation	A numerical method for solving mathematical problems by modelling random values.
Option	The right to buy (call) or sell (put) an underlying reference asset at an agreed price within a specific period of time or at a fixed point in time.
OTC	Over the counter; trade with non-standardized financial instruments directly between the market participants instead of through an exchange.
SALCO	Strategic Asset Liability Committee; a bank committee with a full board representation that decides on the most relevant issues related to liquidity, capital and interests.
Swap	A financial instrument that is generally used to exchange payment flows between two parties.
Trading book	All positions that a bank holds in financial instruments for the purpose of sale again in the short term when the best result can be achieved depending on the development of prices and interest rates. Positions that are not assigned to the trading book are managed in the banking book.

OWNER AND PUBLISHER

BAWAG Group AG
Wiedner Gürtel 11, A-1100 Vienna, Austria
Companies Registry number: 269842b
EU VAT number: ATU72252867
Telephone: +43 (0)5 99 05-0
Internet: www.bawaggroup.com

Investor Relations:
investor.relations@bawaggroup.com

Media:
communications@bawaggroup.com

Typesetting:
In-house using firesys