HALF-YEAR FINANCIAL REPORT AS OF 30.6.2018

KEY FIGURES

Profit or loss statement (in € million)	Q2 2018	Q2 2017	Change (%)	Jan–Jun 2018	Jan–Jun 2017	Change (%)
Net interest income	202.9	197.4	2.8	410.7	393.1	4.5
Net fee and commission income	71.5	56.3	27.0	146.0	106.1	37.6
Core revenues	**274.4**	**253.7**	**8.2**	**556.7**	**499.2**	**11.5**
Gains and losses on financial instruments and other operating income and expenses	9.8	1.3	>100	25.1	19.7	27.4
Operating income	**284.2**	**255.0**	**11.5**	**581.8**	**518.9**	**12.1**
Operating expenses	**(124.8)**	**(110.6)**	**12.8**	**(254.9)**	**(218.0)**	**16.9**
Regulatory charges	(2.8)	(2.9)	(3.4)	(39.4)	(28.1)	40.2
Total risk costs	(4.9)	(15.6)	(68.6)	(20.7)	(26.7)	(22.5)
Profit before tax	**152.7**	**126.6**	**20.6**	**268.9**	**247.9**	**8.5**
Income taxes	(36.4)	(20.2)	80.2	(66.2)	(46.4)	42.7
Net profit	**116.3**	**106.4**	**9.3**	**202.7**	**201.5**	**0.6**

Share data	Q2 2018	Q2 2017	Change (%)	Jan–Jun 2018	Jan–Jun 2017	Change (%)
Pre-tax earnings per share (in €)	1.50	–	–	2.66	–	–
After-tax earnings per share (in €)	1.14	–	–	2.01	–	–
Shares outstanding[1)]	100,000,000	–	–	100,000,000	–	–
Book value per share (in €)	36.04	–	–	36.04	–	–

Performance ratios (figures annualized)	Q2 2018	Q2 2017	Change (pts)	Jan–Jun 2018	Jan–Jun 2017	Change (pts)
Return on equity[2)]	13.0%	13.0%	0.0	11.4%	12.5%	(1.1)
Return on equity (@12% CET1)	**15.3%**	**15.4%**	**(0.1)**	**13.2%**	**14.5%**	**(1.3)**
Return on tangible equity[2)]	15.2%	14.7%	0.5	13.4%	14.2%	(0.8)
Return on tangible equity (@12% CET1)	**18.3%**	**17.9%**	**0.4**	**15.8%**	**16.9%**	**(1.1)**
Net interest margin	2.15%	2.22%	(0.07)	2.15%	2.22%	(0.07)
Cost-income ratio	43.9%	43.4%	0.5	43.8%	42.0%	1.8
Risk costs / interest-bearing assets	0.05%	0.18%	(0.13)	0.11%	0.15%	(0.04)

Statement of financial position (in € million)	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Total assets	44,283	46,071	(3.9)	39,731	11.5
Customer loans	30,201	30,804	(2.0)	28,003	7.8
Customer deposits and own issues	34,816	36,611	(4.9)	31,356	11.0
IFRS equity (excl. AT1 capital)	3,604	3,609	(0.1)	3,336	8.0
IFRS tangible equity (excl. AT1 capital)	3,091	3,102	(0.4)	2,949	4.8
Risk-weighted assets	20,185	21,491	(6.1)	18,039	11.9

Balance sheet ratios	Jun 2018	Dec 2017	Change (pts)	Jun 2017	Change (pts)
Common Equity Tier 1 capital ratio (fully loaded)	**15.2%**	**13.5%**	**1.7**	**15.4%**	**(0.2)**
Total capital ratio (fully loaded)	17.2%	15.2%	2.0	18.1%	(0.9)
Leverage ratio (fully loaded)	7.5%	6.2%	1.3	7.0%	0.5
Liquidity coverage ratio (LCR)	184%	150%	34	146%	38
NPL ratio	1.8%	1.8%	0.0	1.9%	(0.1)

1) At the end of the period; 2) Excl. AT capital

Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” from page 84 onwards. Prior-year figures were adjusted due to the finalization of the preliminary purchase price allocation according to IFRS 3.45 from the acquisition of start:bausparkasse and IMMO-BANK in December 2016.

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The tables in this report may contain rounding differences.

LETTER FROM THE CEO

Dear Shareholders,

We delivered strong results in the first half 2018, with profit before tax at € 269 million, up 9% compared to the first half 2017. The results were driven by growth in our core products, underwriting and pricing discipline driving risk-adjusted returns across all our segments, a relentless focus on running the Bank efficiently while investing into technology, new products and expanding our retail partnerships.

With a return on tangible common equity (@12% CET1) of 15.8%, a cost-income ratio of 43.8% and a fully loaded CET1 ratio of 15.2% (up 170 basis points compared to year-end 2017); BAWAG Group ranks among the most profitable, efficient and best capitalized banks in the DACH region. We continue to maintain a conservative risk profile, which is best reflected in a risk cost ratio of 11 basis points and an NPL ratio of 1.8% (excluding the legal case with the City of Linz, this would be 1.2%).

The first half 2018 was also characterized by strong capital generation, continuing to execute on our operational transformation roadmap and progress on key strategic initiatives.

The **BAWAG P.S.K. Retail** segment recorded solid new originations, driven primarily by consumer and housing loans. We have made very good progress in accelerating our preferred stand-alone strategy as part of our separation from the Austrian Post, which was initiated earlier in the year. Our network transformation, known both internally and externally as *Concept 21*, is about enhancing the customer experience, building out our digitally integrated omni-channel distribution, maintaining high-touch advisory, and making our network more productive. Our transformed network will both optimize our cost base and enhance our overall service model. We've already initiated a targeted shift of customers to our future network, built an active pipeline for new branches and continue to add new financial advisors as needed.

easygroup further increased its customer base and executed on several strategic initiatives. During the first half 2018, significant investments were made in continuing to improve processes and digital capabilities. *easybank* launched a new website, providing an improved customer experience with complete digital capabilities. Furthermore, we made significant progress in the integration of PayLife.

Our **International Business** recorded solid performance in the first half 2018. We see a solid pipeline for the remainder of the year, with diversified opportunities generated from our real estate portfolio lending business.

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

We see strong integration momentum at **Südwestbank**. An agreement with the workers' council on a comprehensive social plan was reached in April. The transformation plan is being executed to improve operating performance across all products and channels with a focus on profitability, capital, operational efficiency and risk management with a goal to deliver results in line with the overall BAWAG Group targets.

We will continue to maintain our low-risk strategy focused on the DACH region, while providing our customers with simple, transparent and best-in-class products and services.

In addition, we will place a clear focus on technology, as this will be one of the key differentiators across the banking landscape given the pace of technological disruption.

On the M&A front, we continue to maintain a robust pipeline of opportunities, but will remain disciplined in following our underwriting guidelines on both strategic fit and value.

After *Global Finance*, one of the leading magazines for finance and capital market issues, awarded BAWAG Group as “Austria’s Best Bank” for the second consecutive year in March 2018, *Euromoney*, one of the world’s leading special-interest magazines for banking, finance and capital market issues, awarded the Bank with two awards in 2018: “Western Europe’s Best Bank Transformation” and “Austria’s Best Bank.” These prestigious awards underline BAWAG Group’s successful transformation over the past few years.

All of our team members across BAWAG Group are focused on continuing to deliver value to our customers and shareholders. We will continue to execute on a number of operational and strategic initiatives during the remainder of 2018.

Our focus remains on driving operational excellence and profitable growth, and we are confident in meeting or exceeding all our 2018 targets.

Anas Abuzaakouk, CEO of BAWAG Group AG

Half-Year Group Management Report

BAWAG GROUP ON THE STOCK MARKET

DEVELOPMENTS ON THE STOCK MARKET

Equity markets in Europe and the US continued to be supported by a sound economic environment, strong corporate earnings and favorable monetary conditions. After rather stable share price developments in 2017, the first half 2018 was characterized by an increase in price volatility. During the first half, the Austrian benchmark index ATX decreased by 5%, while the European Euro Stoxx 600 decreased by 2% and the US S&P 500 posted gains of 2% compared to year-end 2017. The Euro Stoxx Banks, a sub-index of Euro Stoxx 600 and the benchmark index for banks operating in the Euro area, decreased by 15% over the same period.

High economic growth rates translated into a solid financial performance by the corporate sector. Earnings per share of the ATX, of the Euro Stoxx 600, of the Euro Stoxx Banks and of the S&P 500 increased during the first half 2018. With increasing earnings and stable to decreasing prices, valuation metrics decreased in Europe and in the US during the first half. While the price-to-earnings ratio of the ATX, the Euro Stoxx 600 and of the Euro Stoxx Banks decreased to 14.0 to 16.0 and to 10.4, respectively, the price-to-earnings ratio of the S&P 500 still remained at a more elevated level of 20.7.

Despite two interest rate hikes by the US Federal Reserve in March and in June 2018, global liquidity conditions remained ample in historic comparison on the back of asset purchases by the European Central Bank and the Bank of Japan.

Higher price volatility was caused by increased uncertainty due to the emergence of a mutual protectionist trade policy of various countries including the US, China and the EU.

SHARE PERFORMANCE

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

The Euro Stoxx Banks decreased by 15% during the first half 2018. Thus, BAWAG Group AG's shares outperformed the benchmark index for banks in the Euro area.

FUNDING AND INVESTOR RELATIONS

In the first half 2018, BAWAG Group executed main elements of the optimization of the total capital position planned for 2018. In April 2018, BAWAG Group successfully completed its inaugural Additional Tier 1 issuance, underlining its strong access to the capital markets. The € 300 million Additional Tier 1 perpetual issue with the first call date in May 2025 was priced with a coupon of 5.00%.

On 28 June 2018, BAWAG Group announced an any and all cash tender for the € 300 million 8.125% Tier 2 notes of BAWAG P.S.K. due 30 October 2023 (XS0987169637). Investor take-up was very strong with a total principal amount of € 268 million tendered (approximately 90% take-up). The final purchase price was set at 134.08%. The settlement was executed after the reporting date on 10 July 2018.

In terms of capital impact, the Additional Tier 1 issuance results in an increase of the Tier 1 and total capital ratios of approximately 1.4%. As of June 2018, the tender on a stand-alone basis has a negative impact on the total capital ratio of approximately 0.9%. The related negative impact on BAWAG Group's fully loaded CET1 ratio of approximately 0.3% will not be reflected until the third quarter. As the settlement took place in July, the tender has only a minor impact on IFRS equity in the second quarter as the instrument was already accounted for at fair value (since 1 January 2018) and therefore there was no negative one-off effect on the P&L.

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

FINANCIAL REVIEW

ANALYSIS OF PROFIT OR LOSS STATEMENT AND STATEMENT OF FINANCIAL POSITION

Profit or loss statement

in € million	**Q2 2018**	Q2 2017	Change (%)	**Jan–Jun 2018**	Jan–Jun 2017	Change (%)
Interest income	283.7	264.8	7.1	576.4	544.8	5.8
Interest expense	(85.5)	(74.2)	15.2	(171.7)	(158.5)	8.3
Dividend income	4.7	6.8	(30.9)	6.0	6.8	(11.8)
Net interest income	**202.9**	**197.4**	**2.8**	**410.7**	**393.1**	**4.5**
Fee and commission income	93.3	71.0	31.4	189.0	142.8	32.4
Fee and commission expenses	(21.8)	(14.7)	48.3	(43.0)	(36.7)	17.2
Net fee and commission income	**71.5**	**56.3**	**27.0**	**146.0**	**106.1**	**37.6**
Core revenues	**274.4**	**253.7**	**8.2**	**556.7**	**499.2**	**11.5**
Gains and losses on financial instruments and other operating income and expenses[1)]	9.8	1.3	>100	25.1	19.7	27.4
Operating income	**284.2**	**255.0**	**11.5**	**581.8**	**518.9**	**12.1**
Operating expenses[1)]	**(124.8)**	**(110.6)**	**12.8**	**(254.9)**	**(218.0)**	**16.9**
Regulatory charges	(2.8)	(2.9)	(3.4)	(39.4)	(28.1)	40.2
Operating profit	**156.6**	**141.5**	**10.7**	**287.5**	**272.8**	**5.4**
Total risk costs	(4.9)	(15.6)	(68.6)	(20.7)	(26.7)	(22.5)
Share of the profit or loss of associates accounted for using the equity method	1.0	0.7	42.9	2.1	1.8	16.7
Profit before tax	**152.7**	**126.6**	**20.6**	**268.9**	**247.9**	**8.5**
Income taxes	(36.4)	(20.2)	80.2	(66.2)	(46.4)	42.7
Profit after tax	**116.3**	**106.4**	**9.3**	**202.7**	**201.5**	**0.6**
Non-controlling interests	0.0	0.0	–	0.0	0.0	–
Net profit	**116.3**	**106.4**	**9.3**	**202.7**	**201.5**	**0.6**

1) In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges in the amount of € 37.7 million for the first half 2018. The item Operating expenses includes regulatory charges in the amount of € 1.7 million for the first half 2018 as well. However, BAWAG Group's management considers regulatory charges as a separate expense. Accordingly, they are shown in a separate expense line in the Half-Year Group Management Report.

Profit before tax increased by € 21.0 million, or 8.5%, to € 268.9 million in the first half 2018, mainly due to higher net fee and commission income.

Net interest income increased by € 17.6 million, or 4.5%, to € 410.7 million in the first half 2018.

Net fee and commission income increased by € 39.9 million, or 37.6%, compared to the first half 2017, mainly due to the acquisition of PayLife and Südwestbank, which were closed in the fourth quarter 2017, and lower commission expenses paid to the Austrian Post.

Gains and losses on financial instruments and other operating income and expenses increased by € 5.4 million to € 25.1 million in the first half 2018.

Operating expenses increased by 16.9% to € 254.9 million in the first half 2018, mainly due to the acquisitions of PayLife and Südwestbank, which were closed in the fourth quarter 2017. Operating expenses in the second quarter 2018 decreased compared to the first quarter 2018.

Total risk costs decreased by € 6.0 million to € 20.7 million in the first half 2018.

Income taxes amounted to € 66.2 million in the first half 2018.

Total assets

in € million	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Cash reserves	937	1,180	(20.6)	887	5.6
Financial assets					
Held for trading	393	458	(14.2)	510	(22.9)
Fair value through profit or loss	510	448	13.8	191	>100
Fair value through OCI	2,379	4,408	(46.0)	3,043	(21.8)
At amortized cost	38,650	38,027	1.6	33,764	14.5
Customers	30,201	30,804	(2.0)	28,003	7.8
Debt instruments	3,205	3,563	(10.0)	3,644	(12.0)
Credit institutions	5,244	3,660	43.3	2,117	>100
Hedging derivatives	440	517	(14.9)	590	(25.4)
Tangible non-current assets	224	223	0.4	53	>100
Intangible non-current assets	513	506	1.4	387	32.6
Tax assets for current taxes	19	12	58.3	6	>100
Tax assets for deferred taxes	95	102	(6.9)	161	(41.0)
Other assets	123	190	(35.3)	139	(11.5)
Total assets	**44,283**	**46,071**	**(3.9)**	**39,731**	**11.5**

Note: Due to the application of IFRS 9 from 1 January 2018 and the decision to not restate the accounts, as permitted in the regulations, the balance sheet from the first half 2018 is not comparable with previous reporting periods. Prior-year figures for 2017 have been presented in accordance with the new categories, without a reclassification or remeasurement according to the new standards.

The position **at amortized cost** increased by € 623 million, or 1.6%, and stood at € 38,650 million as of 30 June 2018.

Tax assets for deferred taxes decreased by € 7 million, or 6.9%, to € 95 million as of 30 June 2018.

Total liabilities and equity

in € million	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Total liabilities	**40,381**	**42,461**	**(4.9)**	**36,394**	**11.0**
Financial liabilities					
Fair value through profit or loss	948	726	30.6	847	11.9
Held for trading	295	345	(14.5)	405	(27.2)
At amortized cost	37,831	39,894	(5.2)	33,846	11.8
Customers	29,817	30,947	(3.7)	25,389	17.4
Issued securities	4,051	4,938	(18.0)	5,120	(20.9)
Credit institutions	3,963	4,009	(1.1)	3,337	18.8
Valuation adjustment on interest rate risk hedged portfolios	130	116	12.1	135	(3.7)
Hedging derivatives	131	94	39.4	140	(6.4)
Provisions	417	450	(7.3)	366	13.9
Tax liabilities for current taxes	2	17	(88.2)	21	(90.5)
Tax liabilities for deferred taxes	10	5	100	27	(63.0)
Other obligations	617	814	(24.2)	607	1.6
Total equity	**3,902**	**3,610**	**8.1**	**3,337**	**16.9**
Shareholders' equity	3,603	3,609	(0.2)	3,335	8.0
AT1 capital	298	–	–	–	–
Non-controlling interests	1	1	0.0	1	0.0
Total liabilities and equity	**44,283**	**46,071**	**(3.9)**	**39,731**	**11.5**

Note: Due to the application of IFRS 9 from 1 January 2018 and the decision to not restate the accounts, as permitted in the regulations, the balance sheet from the first half 2018 is not comparable with previous reporting periods. Prior-year figures for 2017 have been presented in accordance with the new categories, without a reclassification or remeasurement according to the new standards.

Financial liabilities at amortized cost decreased by € 2,063 million, or 5.2%, to € 37,831 million as of 30 June 2018 compared to 31 December 2017, but showed an increase of € 3,985 million, or 11.8%, compared to 30 June 2017.

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Total equity including Additional Tier 1 capital stood at € 3,902 million as of 30 June 2018.

KEY PERFORMANCE INDICATORS

in € million	**Q2 2018**	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Net interest income	202.9	207.8	202.8	195.5	197.4
Net fee and commission income	71.5	74.5	66.1	44.8	56.3
Core revenues	274.4	282.3	268.9	240.3	253.7
Operating income	284.2	297.6	369.2	249.6	255.0
Operating expenses	(124.8)	(130.0)	(207.7)	(103.0)	(110.6)
Total risk costs	(4.9)	(15.8)	(18.2)	(17.0)	(15.6)
Profit before tax	152.7	116.2	140.4	129.0	126.6
Income taxes	(36.4)	(29.8)	26.3	(30.5)	(20.2)
Net profit	116.3	86.4	166.7	98.4	106.4

(figures annualized)	**Q2 2018**	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Return on equity[1)]	13.0%	9.8%	19.1%	11.7%	13.0%
Return on equity (@12% CET1)	**15.3%**	**10.9%**	**22.5%**	**14.7%**	**15.4%**
Return on tangible equity[1)]	15.2%	11.5%	21.9%	13.3%	14.7%
Return on tangible equity (@12% CET1)	**18.3%**	**13.0%**	**26.6%**	**17.2%**	**17.9%**
Net interest margin	2.15%	2.15%	2.24%	2.26%	2.22%
Cost-income ratio	43.9%	43.7%	56.3%	41.3%	43.4%
Risk costs / interest-bearing assets	0.05%	0.16%	0.20%	0.20%	0.18%
Tax rate	23.8%	25.6%	(18.7)%	23.6%	16.0%

1) Excl. AT1 capital

Note: For details on definitions and calculation methodology, please refer to the section entitled “Definitions” from page 84 onwards.

BUSINESS SEGMENTS

BAWAG P.S.K. RETAIL

First Half 2018 Business Review

In the first half 2018, we made further progress on *Concept 21*, our retail transformation roadmap. To-date, we have reshaped our network by successfully consolidating our advisors into our target branch network, helping to drive growth in sales per FTE while delivering significant cost reduction and providing outstanding services to customers. We received positive feedback from our customers and continue to demonstrate steady strength in our deposit and current account market share, which remained stable at around 14.0% over the past few years. We initiated a targeted shift of customers to our future network and built an active pipeline of real estate for new branches, with nearly 50% of our newly planned branches already signed. We continue to work on establishing more than 20 new branches in our modernized network (*Concept 21*), with the first newly designed branches expected to be opened in the second half 2018.

Following the signing of a separation agreement with Austrian Post for a consensual and gradual wind-down of the partnership in February 2018 (following the letter of intent which was signed in December 2017), we have made significant progress accelerating our preferred stand-alone strategy focused on an optimized cost base and enhanced service model.

We continue to employ a data-driven and customer-focused approach to network transformation and consolidation. We are enhancing our strengths as a high-touch advisory-focused network, complemented with customized and digital processes and platforms. Our reshaped branch network will reflect this model, serving to increase our customer engagement and improve the customer experience, while providing a strengthened offering to our customers for the advice they need to be successful in their financial lives.

In the first half 2018, there continued to be a significant shift in transactions from over-the-counter services to online and self-service devices. While overall transactions remained at a similar level compared to the first half 2017, over-the-counter transactions represented only 10% of total transactions, down 19% from the first half 2017.

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

In the first half 2018, we continued to grow our consumer loan volume with new business of € 0.3 billion, which supported net asset growth of 2% compared to a year ago. These results were delivered while maintaining our disciplined underwriting standards. Our agreement to provide point of sale financing to MediaMarktSaturn customers from 2019 onwards also positions us at the forefront of the consumer finance market, with our technology and footprint at the critical points of the customer journey.

Additionally, the Austrian household lending to GDP ratio hovers just north of 40%, around 10 points less than the Euro area average of 50%, indicating further capacity for consumer and housing loan penetration within the population and a market opportunity for sustainable and disciplined growth.

Our partnership with Spotcap to give small and medium-sized enterprises (SMEs) fully digital and highly automated access to same-day financing is an example of our commitment to innovating via digital channels and offering best-in-class products. Through our “ExpressFinanzierung” product, with a broader release planned in the second half 2018, we are bringing a new product to the Austrian market for SMEs to address unmet needs, while enhancing our digital and analytical ecosystems.

Outlook

In the coming quarters, we will continue to execute on our long-term strategy by using the strength of our depository relationships and data-based customer analytics to offer value and assistance to our customers in their financial lives whenever appropriate. As we are focused on providing a superior experience through all channels, we are progressing towards a consolidated, digitally integrated platform as well as expanding our cooperation with retail partners and Fintechs. We expect continued focus on our customer experience and management as we progress on this important transformation, ultimately driving a better customer journey and enhanced productivity throughout the organization. Additionally, our retailer partnership strategy, initiated through the MediaMarktSaturn cooperation, will complement our omni-channel strategy aimed at strengthening our presence in the consumer lending space and leveraging our full offering of banking products.

Financial Results

Income metrics (in € million)	Q2 2018	Q2 2017	Change (%)	Jan–Jun 2018	Jan–Jun 2017	Change (%)
Net interest income	95.4	94.0	1.5	192.2	187.4	2.6
Net fee and commission income	40.4	42.8	(5.6)	82.9	78.6	5.5
Core revenues	**135.8**	**136.8**	**(0.7)**	**275.1**	**265.9**	**3.5**
Gains and losses on financial instruments	0.0	0.0	0.0	9.5	1.7	>100
Other operating income and expenses	0.4	0.4	0.0	0.0	0.0	0.0
Operating income	**136.2**	**137.0**	**(0.6)**	**284.6**	**267.6**	**6.4**
Operating expenses	**(62.5)**	**(68.3)**	**(8.5)**	**(124.6)**	**(132.7)**	**(6.1)**
Regulatory charges	0.0	(0.1)	(100)	(15.0)	(12.7)	18.1
Total risk costs	(11.3)	(6.0)	88.3	(27.6)	(18.4)	50.0
Profit before tax	**62.4**	**62.7**	**(0.5)**	**117.4**	**103.8**	**13.1**

Key ratios	Q2 2018	Q2 2017	Change (pts)	Jan–Jun 2018	Jan–Jun 2017	Change (pts)
Pre-tax return on tangible equity	33.3%	32.5%	0.7	32.0%	27.3%	4.7
Pre-tax return on tangible equity (@12% CET1)	40.3%	39.3%	0.8	37.9%	32.5%	5.4
Net interest margin	4.00%	3.88%	0.12	4.03%	3.86%	0.17
Cost-income ratio	45.9%	49.9%	(4.0)	43.8%	49.6%	(5.8)
Risk costs / interest-bearing assets	0.47%	0.25%	0.22	0.58%	0.38%	0.20
NPL ratio	2.2%	2.2%	0.0	2.2%	2.2%	0.0

Business volumes (in € million)	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Assets	9,534	9,502	0.3	9,724	(2.0)
Risk-weighted assets	3,864	3,679	5.0	3,612	7.0
Customer deposits	16,371	16,092	1.7	16,181	1.2
Own issues	2,657	2,862	(7.2)	2,924	(9.1)

Operating income increased by 6.4% to € 284.6 million compared to the first half 2017. This results from an improved net interest income, driven by higher average margins on lending products and an increase in net fee and commission income mainly driven by current account products and lower commission expenses paid to Austrian Post. Net fee and commission income in the second quarter 2018 decreased by 5.6% compared to the second quarter 2017, due to a one-off in 2017 related to payments to the Austrian Post.

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

Operating expenses decreased by 6.1% to € 124.6 million.

The increase in **regulatory charges** stems from the contributions to the deposit guarantee scheme, which represents the anticipated full-year expenses.

Risk costs amounted to € 27.6 million, translating into a risk cost ratio of 58 basis points with NPL ratio stable at 2.2%.

The segment delivered **profit before tax** of € 117.4 million and a pre-tax return on tangible equity (@12% CET1) of 37.9%.

Assets remained stable compared to year-end 2017, reflecting continued shift in mix towards core products of consumer and Euro housing loans and run-off of FX mortgages.

Customer deposits increased by 1.7% compared to year-end 2017, due to higher savings volumes on variable savings products.

EASYGROUP

First Half 2018 Business Review

easygroup's customer base increased to 1.4 million customers with the addition of PayLife and the transition of start:bausparkasse under easygroup management. easygroup consists of all our non-branch related origination channels, which includes *easybank*, *easyleasing*, *PayLife* and *start:bausparkasse*. All brands originate business through a mix of direct digital channels, dealers, brokers and retail/banking partner relationships.

The easygroup segment ended the first half 2018 with customer deposits at € 5.6 billion and total segment assets at € 5.6 billion.

In *easybank*, online consumer loan origination increased by 58% in the first half 2018 compared to the same period last year, with new customer loans up over 5 times. Additionally, we saw a positive trend in our online current accounts, with growth in our "easy konto" fee-bearing account of over 10% during the first half compared to year-end 2017.

Our leasing franchise, *easyleasing*, continued to perform well, generating 4% asset growth in comparison to the first half 2017 and up 1% versus the prior quarter. We continue to evaluate different organic and inorganic options when it comes to pursuing further growth in this segment.

start:bausparkasse, our building society and housing product origination channel, ended the first half 2018 with new volume originations of € 80 million. The last quarter was the strongest new loan origination quarter since the first quarter 2017.

In the beginning of 2018, significant investments were made in our processes and digital marketing for online consumer lending. In April 2018, *easybank* launched a new website providing an improved customer experience with complete digital capabilities. Since the launch of the new website, 60% of applications are processed completely digitally from end to end, including gathering of customer data, confirmation of the customer's identity, submitting digitally signed documents and supporting documentation. *easybank* is the first of its kind to offer this approach in Austria.

Providing first-class customer service has always been one of easygroup's core pillars to success. For the eighth consecutive year, in a row, *easybank* was awarded by the Financial Marketing Association Austria Recommender Award for having the highest Net Promoter Score (52%) of any bank in Austria. The brands of the companies within easygroup are among our most valuable assets, allowing us to continue generating customer growth at customer acquisition costs below our peers.

In the first half 2018, we made significant progress in integrating PayLife, with major milestones being achieved without any interruption to daily business. All employees from the acquisition are now located in the Group's offices and a new internal organizational structure has been set up to effectively assimilate the team and create a centralized hub where payment services expertise can be utilized across BAWAG Group. As we continue to look for new opportunities, we are not losing sight of ensuring past investments are being properly looked after.

Outlook

The core areas of easygroup continue their strong performance, with a focus on consumer lending, current accounts, credit cards, leasing and housing products. Integration of PayLife is progressing ahead of plan. The launch of our new website provides a state-of-the-art responsive design and provides full digital capabilities. We are making good progress in linking the *Qlick* digital platform to the core system infrastructure of Südwestbank, which will enable us to tap into the significant market opportunities in Germany. The international mortgage portfolio run-off is a development we had planned for, while we continue to drive different organic and inorganic opportunities that would further drive our customer franchise growth. The mortgage portfolio continues to pay down as anticipated.

Financial Results

Income metrics (in € million)	Q2 2018	Q2 2017	Change (%)	Jan–Jun 2018	Jan–Jun 2017	Change (%)
Net interest income	40.5	48.0	(15.6)	80.9	88.4	(8.5)
Net fee and commission income	14.5	4.5	>100	28.2	9.1	>100
Core revenues	**55.0**	**52.6**	**4.6**	**109.1**	**97.6**	**11.8**
Gains and losses on financial instruments	0.0	0.0	0.0	0.0	0.0	100
Other operating income and expenses	0.0	(0.2)	100	0.0	(0.3)	0.0
Operating income	**55.0**	**52.4**	**5.0**	**109.1**	**97.3**	**12.1**
Operating expenses	**(16.5)**	**(12.2)**	**35.2**	**(33.7)**	**(25.3)**	**33.2**
Regulatory charges	0.0	(2.0)	(100)	(4.2)	(4.1)	2.4
Total risk costs	1.0	4.0	(75.0)	(0.1)	7.6	–
Profit before tax	**39.5**	**42.3**	**(6.6)**	**71.1**	**75.5**	**(5.8)**

Key ratios	Q2 2018	Q2 2017	Change (pts)	Jan–Jun 2018	Jan–Jun 2017	Change (pts)
Pre-tax return on tangible equity	33.7%	27.6%	6.1	29.9%	24.8%	5.1
Pre-tax return on tangible equity (@12% CET1)	40.6%	33.4%	7.2	35.3%	29.4%	5.9
Net interest margin	2.87%	3.14%	(0.27)	2.83%	2.84%	(0.01)
Cost-income ratio	30.0%	23.3%	6.7	30.9%	26.0%	4.9
Risk costs / interest-bearing assets	(0.07)%	(0.26)%	(0.19)	0.00%	(0.24)%	0.24
NPL ratio	2.0%	2.5%	(0.5)	2.0%	2.5%	(0.5)

Business volumes (in € million)	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Assets	5,572	5,938	(6.2)	5,919	(5.9)
Risk-weighted assets	3,278	4,193	(21.8)	4,258	(23.0)
Customer deposits	5,611	5,550	1.1	5,512	1.8
Own issues	379	431	(12.1)	496	(23.6)

Operating income increased by 12.1% to € 109.1 million compared to the same period last year. While net interest income was affected by the run-off of the international mortgage portfolios, the increase in net fee and commission income stems from the integration of the card issuing business PayLife in the early fourth quarter 2017.

Operating expenses were up 33.2% to € 33.7 million due to the PayLife acquisition.

The slight increase in **regulatory charges** stems from the contributions to the deposit guarantee scheme, which represents the anticipated full-year expenses.

Risk costs include releases in the second quarter, resulting in € 0.1 million for the first half 2018, reflecting the low risk profile of the portfolio.

The segment contributed **profit before tax** of € 71.1 million with a pre-tax return on tangible equity (@12% CET1) of 35.3%.

Assets decreased by € 0.4 billion compared to year-end 2017 due to the run-off of the international mortgage portfolios.

Customer deposits increased by € 0.1 billion to € 5.6 billion whereas the residential mortgage-backed securities decreased in line with the reduction of the mortgage portfolio.

INTERNATIONAL BUSINESS

First Half 2018 Business Review

The segment generated new business of € 1.5 billion in the first half 2018, offsetting redemptions and translating into a rather stable asset volume compared to year-end 2017. While our corporate lending business increased its position by 2% to € 2.4 billion as of June 2018, our real estate lending business was impacted by higher repayments and therefore stood at € 2.7 billion at the end of the first half 2018, down 4% compared to year-end 2017.

Outlook

We see a solid pipeline with diversified opportunities for the remainder of the year, particularly from our real estate portfolio lending business. However, competition for defensive, high-quality transactions will remain high.

Financial Results

Income metrics (in € million)	Q2 2018	Q2 2017	Change (%)	Jan–Jun 2018	Jan–Jun 2017	Change (%)
Net interest income	30.1	32.0	(5.9)	61.6	65.4	(5.8)
Net fee and commission income	0.0	0.0	–	0.1	0.0	100
Core revenues	**30.1**	**32.0**	**(5.9)**	**61.7**	**65.4**	**(5.7)**
Gains and losses on financial instruments	2.7	(0.8)	0.0	2.7	(0.5)	0.0
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**32.8**	**31.2**	**5.1**	**64.4**	**64.9**	**(0.8)**
Operating expenses	**(6.5)**	**(6.8)**	**(4.4)**	**(13.5)**	**(15.4)**	**(12.3)**
Total risk costs	9.3	(12.5)	–	7.2	(15.5)	–
Profit before tax	**35.6**	**11.9**	**>100**	**58.1**	**34.0**	**70.9**

Key ratios	Q2 2018	Q2 2017	Change (pts)	Jan–Jun 2018	Jan–Jun 2017	Change (pts)
Pre-tax return on tangible equity	31.8%	10.3%	21.5	27.3%	14.9%	12.4
Pre-tax return on tangible equity (@12% CET1)	38.4%	12.5%	25.9	32.4%	17.7%	14.7
Net interest margin	2.32%	2.45%	(0.13)	2.36%	2.45%	(0.09)
Cost-income ratio	19.8%	21.8%	(2.0)	21.0%	23.7%	(2.7)
Risk costs / interest-bearing assets	(0.72)%	0.96%	(1.68)	(0.28)%	0.58%	(0.86)
NPL ratio	0.2%	0.9%	(0.7)	0.2%	0.9%	(0.7)

Business volumes (in € million)	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Assets	5,101	5,174	(1.4)	5,130	(0.6)
Risk-weighted assets	4,301	4,318	(0.4)	4,099	4.9

Operating income decreased slightly to € 64.4 million compared to the first half 2017 stemming from lower average volume whereas margins were kept stable.

Operating expenses decreased by 12.3% to € 13.5 million mainly due to staff cost reductions compared to the prior year.

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

The segment contributed **profit before tax** of € 58.1 million with a pre-tax return on tangible equity (@12% CET1) of 32.4%.

Assets decreased slightly by 1.4% to € 5.1 billion compared to year-end 2017.

DACH CORPORATES & PUBLIC SECTOR

First Half 2018 Business Review

At the end of the first half 2018, asset volumes were slightly higher at € 6.9 billion compared to year-end 2017. In terms of new loan originations, this was primarily the result of short-term lending to municipalities and social insurance companies.

Outlook

We expect the market to remain very competitive, impacted by structural and pricing challenges. We have the flexibility and speed necessary for strategic transactions requiring complete debt solutions for clients. We will continue our selective underwriting approach, while pursuing efficiency and funding optimization measures.

Financial Results

Income metrics (in € million)	Q2 2018	Q2 2017	Change (%)	Jan–Jun 2018	Jan–Jun 2017	Change (%)
Net interest income	14.8	11.2	32.1	31.2	31.9	(2.2)
Net fee and commission income	9.3	9.8	(5.1)	19.2	19.8	(3.0)
Core revenues	**24.1**	**21.0**	**14.8**	**50.4**	**51.7**	**(2.5)**
Gains and losses on financial instruments	0.0	1.2	(100)	0.1	1.7	(94.1)
Other operating income and expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating income	**24.1**	**22.2**	**8.6**	**50.5**	**53.4**	**(5.4)**
Operating expenses	**(12.7)**	**(11.7)**	**8.5**	**(26.0)**	**(23.9)**	**8.8**
Total risk costs	(1.6)	3.8	–	(2.1)	5.5	–
Profit before tax	**9.8**	**14.4**	**(31.9)**	**22.4**	**35.0**	**(36.0)**

Key ratios	Q2 2018	Q2 2017	Change (pts)	Jan–Jun 2018	Jan–Jun 2017	Change (pts)
Pre-tax return on tangible equity	10.5%	12.1%	(1.6)	11.7%	15.1%	(3.4)
Pre-tax return on tangible equity (@12% CET1)	12.7%	14.6%	(1.9)	13.9%	18.0%	(4.1)
Net interest margin	0.88%	0.56%	0.32	0.92%	0.81%	0.11
Cost-income ratio	52.7%	52.7%	0.0	51.5%	44.8%	6.7
Risk costs / interest-bearing assets	0.10%	(0.19)%	0.29	0.06%	(0.14)%	0.20
NPL ratio	1.3%	0.9%	0.4	1.3%	0.9%	0.4

Business volumes (in € million)	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Assets	6,853	6,725	1.9	7,958	(13.9)
Risk-weighted assets	2,159	2,410	(10.4)	2,649	(18.5)
Customer deposits (incl. other refinancing) and own issues	6,008	6,762	(11.2)	6,811	(11.8)

Operating income decreased by 5.4% to € 50.5 million, mainly due to lower gains on financial instruments.

Operating expenses increased to € 26.0 million, primarily resulting from higher allocated overhead costs.

Risk costs amounted to € 2.1 million, reflecting the low risk profile of our asset portfolio.

The segment contributed **profit before tax** of € 22.4 million with a pre-tax return on tangible equity (@12% CET1) of 13.9%.

Assets increased by 1.9% compared to year-end 2017 despite low originations which were offset by higher short-term lendings.

Liabilities stood at € 6.0 billion due to a reduction of volumes in short-term deposits.

SÜDWESTBANK

First Half 2018 Business Review

Südwestbank is off to a strong start having been part of our Group since December 2017. Integration is progressing ahead of plan, with a number of initiatives ranging from capital efficiency to operational restructuring and transformation yielding results and financial benefits, which will become more visible in second half of the year.

Operational transformation: In the first half 2018, the integration and transformation process was fully launched, culminating in reaching an agreement with the workers' council on a comprehensive social plan in April.

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

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

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Outlook

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

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

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

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

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

Low risk profile: Maintain pricing and risk management discipline, ensuring full integration into BAWAG Group's risk appetite and underwriting standards, driving provisioning adequacy and transition from standardized into IRB risk management approach.

Financial Results

Income metrics (in € million)	Q2 2018	Q2 2017	Change (%)	Jan–Jun 2018	Jan–Jun 2017	Change (%)
Net interest income	20.9	–	–	43.5	–	–
Net fee and commission income	7.9	–	–	16.8	–	–
Core revenues	**28.8**	**–**	**–**	**60.3**	**–**	**–**
Gains and losses on financial instruments	0.0	–	–	0.0	–	–
Other operating income and expenses	0.0	–	–	0.0	–	–
Operating income	**28.8**	**–**	**–**	**60.3**	**–**	**–**
Operating expenses	**(18.4)**	**–**	**–**	**(37.6)**	**–**	**–**
Regulatory charges	0.0	–	–	(2.8)	–	–
Total risk costs	(3.8)	–	–	0.7	–	–
Profit before tax	**6.6**	**–**	**–**	**20.6**	**–**	**–**

Key ratios	Q2 2018	Q2 2017	Change (pts)	Jan–Jun 2018	Jan–Jun 2017	Change (pts)
Pre-tax return on tangible equity	5.9%	–	–	9.6%	–	–
Pre-tax return on tangible equity (@12% CET1)	7.1%	–	–	11.4%	–	–
Net interest margin	1.60%	–	–	2.01%	–	–
Cost-income ratio	63.9%	–	–	62.4%	–	–
Risk costs / interest-bearing assets	0.35%	–	–	(0.03)%	–	–
NPL ratio	1.9%	–	–	1.9%	–	–

Business volumes (in € million)	Jun 2018	Dec 2017	Change (%)	Jun 2017	Change (%)
Assets	4,179	4,183	(0.1)	–	–
Risk-weighted assets	3,566	3,349	6.5	–	–
Customer deposits and own issues	5,258	6,146	(14.4)	–	–

Operating income amounted to € 60.3 million. Customer loans are the main contributor to net interest income. Net commission income stems mainly from securities, loans and payment services.

Operating expenses amounted to € 37.6 million, while **risk costs** recorded a net release of € 0.7 million.

The segment contributed **profit before tax** of € 20.6 million with a pre-tax return on tangible equity (@12% CET1) of 11.4%.

Assets amounted to € 4.2 billion and remained stable compared to year-end 2017.

Liabilities decreased by € 0.9 billion compared to year-end 2017 to € 5.3 billion.

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

CORPORATE CENTER AND TREASURY SERVICES & MARKETS

First Half 2018 Developments

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

Treasury Services & Markets continued to pursue the strategy of balancing the investment portfolio between long-term investment in high-quality securities while still maintaining our hold to collect and sell portfolio to preserve the flexibility of redeployment into customer loans or other balance sheet management activities. De-risking measures in the investment book in the amount of € 1.2 billion in the first quarter led to a decreased investment portfolio amounting to € 5.3 billion and a liquidity reserve of € 4.8 billion at the end of the first half 2018. The overall composition of the portfolio reflects our strategy of maintaining high credit quality, shorter duration and strong liquidity in the securities portfolio in order to balance the goals of generating incremental net interest income while also minimizing fair value volatility.

Financial Results

Income metrics (in € million)	**Q2 2018**	Q2 2017	Change (%)	**Jan–Jun 2018**	Jan–Jun 2017	Change (%)
Net interest income	1.2	12.2	(90.2)	1.3	20.0	(93.5)
Net fee and commission income	(0.5)	(0.8)	37.5	(1.2)	(1.4)	14.3
Core revenues	**0.7**	**11.4**	**(93.9)**	**0.1**	**18.6**	**(99.5)**
Gains and losses on financial instruments	3.3	(1.1)	0.0	12.8	17.1	(25.1)
Other operating income and expenses	3.4	1.8	88.9	0.0	0.0	0.0
Operating income	**7.4**	**12.0**	**(38.3)**	**12.9**	**35.7**	**(63.9)**
Operating expenses	**(8.1)**	**(11.5)**	**(29.6)**	**(19.5)**	**(20.7)**	**(5.8)**
Regulatory charges	(2.8)	(0.7)	>100	(17.4)	(11.3)	54.0
Total risk costs	1.4	(4.9)	0.0	1.2	(5.9)	0.0
Share of the profit or loss of associates accounted for using the equity method	1.0	0.7	42.9	2.1	1.8	16.7
Profit before tax	**(1.1)**	**(4.3)**	**74.4**	**(20.7)**	**(0.4)**	**>(100)**
Income taxes	(36.4)	(20.2)	80.2	(66.2)	(46.4)	42.7
Net profit	**(37.5)**	**(24.5)**	**(53.1)**	**(86.9)**	**(46.8)**	**(85.7)**

Volumes (in € million)	**Jun 2018**	Dec 2017	Change (%)	Jun 2017	Change (%)
Assets and liquidity reserve	13,044	14,549	(10.3)	11,000	18.6
Risk-weighted assets	3,017	3,541	(14.8)	3,421	(11.8)
Equity	3,902	3,610	8.1	3,337	16.9
Own issues and other liabilities	4,098	4,619	(11.3)	4,469	(8.3)

Operating income decreased to € 12.9 million driven by lower reinvestment yields in the investment book, higher excess liquidity and lower share of customer assets.

Operating expenses decreased to € 19.5 million, already covering the costs for the integrated treasury activities of Südwestbank.

Regulatory charges amounted to € 17.4 million and included the full-year impact of charges to the resolution fund and pro-rata charges of bank levy and supervisory charges. The increase stems from the acquisitions.

Assets decreased by 10.3% compared to year-end 2017 mainly driven by de-risking activities in the investment book.

RISK MANAGEMENT

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

OUTLOOK & TARGETS

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

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

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

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

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

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

Consolidated Half-Year Financial Statements

CONSOLIDATED ACCOUNTS

CONDENSED PROFIT OR LOSS STATEMENT

in € million	[Notes]	**Jan–Jun 2018**	Jan–Jun 2017	**Q2 2018**	Q2 2017
Interest income		576.4	544.8	283.7	264.8
Interest expense		(171.7)	(158.5)	(85.5)	(74.2)
Dividend income		6.0	6.8	4.7	6.8
Net interest income	**[1]**	**410.7**	**393.1**	**202.9**	**197.4**
Fee and commission income		189.0	142.8	93.3	71.0
Fee and commission expenses		(43.0)	(36.7)	(21.8)	(14.7)
Net fee and commission income	**[2]**	**146.0**	**106.1**	**71.5**	**56.3**
Gains and losses on financial assets and liabilities	[3]	21.1	17.3	6.1	(0.7)
Other operating income and expenses		(33.7)	(24.6)	1.8	(0.3)
Operating expenses	[4]	(256.6)	(219.1)	(125.7)	(111.2)
Provisions and impairment losses	[5]	(20.7)	(26.7)	(4.9)	(15.6)
Share of the profit or loss of associates accounted for using the equity method		2.1	1.8	1.0	0.7
Profit before tax		**268.9**	**247.9**	**152.7**	**126.6**
Income taxes		(66.2)	(46.4)	(36.4)	(20.2)
Profit after tax		**202.7**	**201.5**	**116.3**	**106.4**
Thereof attributable to non-controlling interests		0.0	0.0	0.0	0.0
Thereof attributable to owners of the parent		**202.7**	**201.5**	**116.3**	**106.4**

In accordance with IFRS, the item Other operating income and expenses also includes regulatory charges (bank levy, contributions to the deposit guarantee scheme and to the single resolution fund) in the amount of € 37.7 million (Jan–Jun 2017: € 27.1 million). Expenses for the deposit guarantee scheme and for the single resolution fund comprise the total expected charges for 2018. The bank levy included in this item amounts to € 2.5 million for the first half 2018, compared to € 2.3 million for the first half 2017.

The item Operating expenses includes regulatory charges (FMA and ECB supervisory charges) in the amount of € 1.7 million (Jan–Jun 2017: € 1.0 million) as well. However, the Bank's management sees regulatory charges as a non-operating expense. Accordingly, they are shown in a separate expense line in the Half-Year Group Management Report.

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

Earnings per share

	Jan–Jun 2018	Jan–Jun 2017
Net result attributable to owners of the parent (in € million)	202.7	201.5
Pro rata AT1 coupon (in € million)	(2.0)	–
Net result attributable to owners of the parent after deduction of pro rata AT1 coupon (in € million)	**200.7**	**201.5**
Weighted average number of outstanding shares	100,000,000	100,000,000[1)]
Basic earnings per share (in €)	**2.0**	**2.0**
Weighted average diluted number of outstanding shares	100,000,000	100,000,000[1)]
Diluted earnings per share (in €)	**2.0**	**2.0**

Changes in number of outstanding shares

	Jan–Jun 2018	Jan–Jun 2017[1)]
Shares outstanding at the beginning of the period	100,000,000	100,000,000
Shares outstanding at the end of the period	100,000,000	100,000,000
Weighted average number of outstanding shares	100,000,000	100,000,000
Weighted average diluted number of outstanding shares	100,000,000	100,000,000

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

Earnings per share represent the net result attributable to ordinary equity holders divided by the weighted average number of ordinary shares outstanding during the reporting period. As no dilutive potential ordinary shares exist, basic earnings per share correspond to diluted earnings per share.

The Managing Board of BAWAG Group AG resolved on 27 June 2018 to carry out a share buyback program with a volume of up to 1,285,000 BAWAG Group AG shares for a total consideration of up to € 70 million. The share buyback commenced on 3 July 2018. 494,840 shares were bought back until the finalization of the Consolidated Half-Year Financial Report on 10 August 2018.

STATEMENT OF COMPREHENSIVE INCOME

in € million	[Notes]	**Jan–Jun 2018**	Jan–Jun 2017	**Q2 2018**	Q2 2017
Profit after tax		202.7	201.5	116.3	106.4
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/loss on defined benefit plans		(2.0)	3.9	(2.0)	3.9
Shares, investment funds and other equity investments at fair value through other comprehensive income		(5.9)		(9.2)	
Change in credit spread of financial liabilities		20.0		16.5	
Income tax on items that will not be reclassified		(3.4)	(1.0)	(1.7)	(1.0)
Total items that will not be reclassified to profit or loss		**8.7**	**2.9**	**3.6**	**2.9**
Items that may be reclassified subsequently to profit or loss					
Cash flow hedge reserve		(15.3)	(6.0)	(9.8)	6.5
thereof transferred to profit (-) or loss (+)		(3.2)	(2.6)	(1.1)	(1.6)
Debt securities at fair value through other comprehensive income		(41.2)		(13.5)	
thereof transferred to profit (-) or loss (+)		(20.7)		(7.5)	
Available-for-sale reserve			16.3		8.2
thereof transferred to profit (-) or loss (+)			(11.6)		(12.6)
Income tax relating to items that may be reclassified		14.4	(2.6)	6.1	(3.7)
Total items that may be reclassified subsequently to profit or loss		**(42.1)**	**7.7**	**(17.2)**	**11.0**
Other comprehensive income		**(33.4)**	**10.6**	**(13.6)**	**13.9**
Total comprehensive income, net of tax		**169.3**	**212.1**	**102.7**	**120.3**
Thereof attributable to non-controlling interests		0.0	0.0	0.0	0.0
Thereof attributable to owners of the parent		**169.3**	**212.1**	**102.7**	**120.3**

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

STATEMENT OF FINANCIAL POSITION

Total assets

in € million	[Notes]	Jun 2018	Dec 2017[1)]
Cash reserves		937	1,180
Financial assets at fair value through profit or loss	[7]	510	448
Financial assets at fair value through other comprehensive income	[6]	2,379	
Available-for-sale financial assets	[6]		4,408
Held-to-maturity investments			2,274
Financial assets held for trading	[8]	393	458
At amortized cost	[9]	38,650	
Customers		30,201	
Credit institutions		5,244	
Securities		3,205	
Loans and receivables	[9]		35,753
Customers			30,804
Credit institutions			3,660
Securities			1,289
Hedging derivatives		440	517
Property, plant and equipment		105	103
Investment properties		119	120
Goodwill		58	58
Brand name and customer relationships		287	291
Software and other intangible assets		168	157
Tax assets for current taxes		19	12
Tax assets for deferred taxes		95	102
Associates recognized at equity		43	44
Other assets		80	146
Total assets		**44,283**	**46,071**

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

The line items Goodwill, Brand name and customer relationships, and Software and other intangible assets are shown under the line item Intangible non-current assets in Note 17 of this Half-Year Financial Report.

Total liabilities and equity

in € million	[Notes]	Jun 2018	Dec 2017[1)]
Total liabilities		**40,381**	**42,461**
Financial liabilities designated at fair value through profit or loss	[10]	948	726
Financial liabilities held for trading	[11]	295	345
Financial liabilities at amortized cost	[12]	37,831	39,894
Customers		29,817	30,947
Issued bonds, subordinated and supplementary capital		4,051	4,938
Credit institutions		3,963	4,009
Valuation adjustment on interest rate risk hedged portfolios		130	116
Hedging derivatives		131	94
Provisions	[13]	417	450
Tax liabilities for current taxes		2	17
Tax liabilities for deferred taxes		10	5
Other obligations		617	814
Total equity		**3,902**	**3,610**
Equity attributable to the owners of the parent (ex AT1 capital)		3,603	3,609
AT1 capital		298	0
Non-controlling interests		1	1
Total liabilities and equity		**44,283**	**46,071**

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

STATEMENTS OF CHANGES IN EQUITY

in € million	Subscribed capital	Capital reserves	Other equity instruments issued	Retained earnings reserve	Cash flow hedge reserve net of tax	Actuarial gains/losses net of tax	Debt securities at fair value through other comprehensive income net of tax excluding equity associates	Debt securities at fair value through other comprehensive income net of tax from equity associates	Shares, investment funds and other equity investments at fair value through other comprehensive income net of tax	Change in credit spread of financial liabilities net of tax	AFS reserve net of tax excluding equity associates	AFS reserve net of tax from equity associates	Equity attributable to the owners of the parent	Non-controlling interests	Equity including non-controlling interests
Balance as of 01.01.2017	**100**	**1,094**	**–**	**1,957**	**6**	**(73)**	**–**	**–**	**–**	**–**	**37**	**3**	**3,123**	**2**	**3,125**
Transactions with owners	–	–	–	–	–	–	–	–	–	–	–	–	–	0	0
Dividends	–	–	–	–	–	–	–	–	–	–	–	–	–	0	0
Total comprehensive income	–	–	–	202	(4)	3	–	–	–	–	12	–	212	0	212
Balance as of 30.06.2017	**100**	**1,094**	**–**	**2,159**	**2**	**(70)**	**–**	**–**	**–**	**–**	**49**	**3**	**3,335**	**2**	**3,337**
Balance as of 31.12.2017	**100**	**1,146**	**–**	**2,372**	**3**	**(77)**	**–**	**–**	**–**	**–**	**62**	**2**	**3,609**	**1**	**3,610**
Effect of the initial application of IFRS 9	–	–	–	(61)	–	–	48	2	13	(59)	(62)	(2)	(122)	0	(122)
Balance as of 01.01.2018	**100**	**1,146**	**–**	**2,311**	**3**	**(77)**	**48**	**2**	**13**	**(59)**	**–**	**–**	**3,487**	**1**	**3,488**
Transactions with owners	–	5	–	(58)	–	–	–	–	–	–	–	–	(53)	0	(53)
Dividends	–	–	–	(58)	–	–	–	–	–	–	–	–	(58)	0	(58)
Owner's contribution	–	5	–	–	–	–	–	–	–	–	–	–	5	–	5
Additional Tier 1 issuance	–	–	298	–	–	–	–	–	–	–	–	–	298	–	298
Total comprehensive income	–	–	–	203	(12)	(1)	(31)	–	(5)	15	–	–	169	0	169
Balance as of 30.06.2018	**100**	**1,151**	**298**	**2,456**	**(9)**	**(78)**	**17**	**2**	**8**	**(44)**	**–**	**–**	**3,901**	**1**	**3,902**

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

CONDENSED CASH FLOW STATEMENT

in € million	Jan–Jun 2018	Jan–Jun 2017
Cash and cash equivalents at end of previous period	**1,180**	**1,020**
Profit (after tax, before non-controlling interests)	203	202
Non-cash items included in the profit (loss) and reconciliation to net cash from operating activities	(282)	(404)
Change in assets and liabilities arising from operating activities after corrections for non-cash items	(2,751)	(535)
Interest receipts	575	578
Interest paid	(163)	(112)
Dividend receipts	9	7
Taxes paid	(7)	–
Net cash from operating activities	**(2,416)**	**(264)**
Cash receipts from sales of associates	2	–
Cash receipts from sales of		
Financial investments	2,469	968
Tangible and intangible non-current assets	3	–
Cash paid for		
Financial investments	(473)	(798)
Tangible and intangible non-current assets	(33)	(25)
Net cash used in investing activities	**1,968**	**145**
Dividends paid	(58)	–
Cash receipts from the issuance of AT1 capital	298	–
Others	(35)	(14)
Net cash from financing activities	**205**	**(14)**
Cash and cash equivalents at end of period	**937**	**887**

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

NOTES

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

These consolidated Half-Year Financial Statements for the first half 2018 were prepared in accordance with IAS 34 (Interim Financial Reporting).

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

The consolidated Half-Year Financial Statements include values which are determined, as permitted, on the basis of estimates and judgments. The estimates and judgments used are based on past experience and other factors, such as planning and expectations or forecasts of future events that are considered likely as far as we know today. The estimates and judgments themselves and the underlying estimation methods and judgment factors are reviewed regularly and compared with actual results.

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

- assessments of the recoverability of long-term loans are based on assumptions regarding the borrower's future cash flows, and, hence, possible impairments of loans and the recognition of provisions for off-balance-sheet commitments in relation to the lending business
- recognition of provisions for uncertain liabilities
- assessments of legal risks from legal proceedings, supreme court rulings and inspections of regulatory authorities and the recognition of provisions regarding such risks
- assessment of the impact of the adoption of the new standard IFRS 16 Leases
- IFRS 9: assessments regarding the transfer of financial instruments from stage 1 to stage 2, macroeconomic assumptions for the determination of forward-looking information in the course of the calculation of expected credit losses and assumptions for expected cash flows for impaired loans

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

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

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

IFRS 9 Financial Instruments

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

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

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

Total assets pursuant to IFRS 9

in € million	Jun 2018	01.01.2018
Cash reserves	937	1,180
Financial assets at fair value through profit or loss	510	795
Financial assets at fair value through other comprehensive income	2,379	4,133
Financial assets held for trading	393	439
At amortized cost	38,650	37,891
Customers	30,201	30,557
Credit institutions	5,244	3,660
Securities	3,205	3,674
Hedging derivatives	440	517
Property, plant and equipment	105	103
Investment properties	119	120
Goodwill	58	58
Brand name and customer relationships	287	291
Software and other intangible assets	168	157
Tax assets for current taxes	19	12
Tax assets for deferred taxes	95	144
Associates recognized at equity	43	44
Other assets	80	146
Total assets	**44,283**	**46,030**

Total liabilities and equity pursuant to IFRS 9

in € million	Jun 2018	01.01.2018
Total liabilities	**40,381**	**42,542**
Financial liabilities designated at fair value through profit or loss	948	1,140
Financial liabilities held for trading	295	345
Financial liabilities at amortized cost	37,831	39,563
Customers	29,817	30,947
Issued bonds, subordinated and supplementary capital	4,051	4,607
Credit institutions	3,963	4,009
Valuation adjustment on interest rate risk hedged portfolios	130	116
Hedging derivatives	131	94
Provisions	417	448
Tax liabilities for current taxes	2	17
Tax liabilities for deferred taxes	10	5
Other obligations	617	814
Total equity	**3,902**	**3,488**
Equity attributable to the owners of the parent (ex AT1 capital)	3,603	3,487
AT1 capital	298	–
Non-controlling interests	1	1
Total liabilities and equity	**44,283**	**46,030**

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

Classification of Financial Assets and Financial Liabilities

Financial Assets

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

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

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

Business Model Assessment for Financial Assets

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

Reclassifications

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

Equity Instruments

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

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

Hedge Accounting

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

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

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

Impairment

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

The main drivers in the ECL calculation are the lifetime probability of default (PD), the lifetime loss given default (LGD) and the lifetime exposure at default. Existing internal rating based (IRB) risk models are the starting point for

IFRS 9 parameter estimation. Necessary adjustments to increase the forecast horizon and to consider forward-looking information were made.

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

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

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

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

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

The ECL model in BAWAG Group applies to:

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

Risk provisioning of expected credit losses in staging concept:

Stage 1: 12-month ECLs

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

Stages 2 and 3: Lifetime ECLs

The measurement of the risk provisions for stage 2 and stage 3 positions based on the lifetime Expected Credit Loss model applies when a significant increase in credit risk since initial recognition has occurred. It is to point out, that the stage 3 exposures in BAWAG Group comply with the default definition according to CRR.

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

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

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

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

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

and the exposure will only be considered as stage 2 with a lifetime ECL if both thresholds are exceeded.

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

- customer segment,
- initial rating,
- remaining term (difference between reporting date and maturity date), and
- vintage of the financial instrument (difference between initial date and reporting date).

Qualitative staging criteria factors selected by BAWAG Group are:

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

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

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

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

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

Classification and Measurement

- **Business model:** The Group holds a small portfolio of loans to the public sector with a book and also fair value of € 5 million as of 1 January 2018 as hold to sell ("other" business model). All other loans are classified in the business model hold to collect, thus leading to no impact as these loans have been accounted for as loans and receivables under IAS 39.

  With regard to a bond portfolio – with a book value of € 117 million as of 1 January 2018 – that was classified as available for sale under IAS 39 and held within the business model hold to collect under IFRS 9, an impact on equity in the amount of minus € 4 million before taxes arises. With the new business model, these bonds are measured at amortized cost.

  Accounting for all other bonds based on the business model remains unchanged, meaning that bonds that were classified as available for sale under IAS 39 are in the business model hold to collect and sell under IFRS 9, and bonds that were classified as held to maturity or as loans and receivables under IAS 39 are held within the business model hold to collect under IFRS 9. Thus, the total impact from changed classification and measurement rules on equity amounts to minus € 4 million.

- **SPPI test:** Loans with a book value of € 182 million as of 1 January 2018 failed the SPPI test due to their interest rate indicator being non-compliant. These loans show a hidden reserve in the amount of € 1 million. With regard to the bond portfolio, a portfolio with a book value of € 91 million must be reclassified from available-for-sale under IAS 39 to fair value, as these loans do not fulfill the SPPI criteria.

  In addition, under IAS 39 separated embedded floors of loans at amortized cost are reversed, as rules for separation no longer exist under IFRS 9 and as the loans pass the SPPI test under IFRS 9. This leads to an impact of minus € 9 million. Therefore, the total impact on equity arising from financial assets failing the SPPI test and reversing embedded floors amounts to minus € 8 million.

- **Changes in fair value option:** The fair value option is newly applied for an own issue (Tier II; XS0987169637) where an accounting mismatch exists with a nominal value of € 300 million, leading to an impact of minus € 82 million on equity due to changes in own credit spread. The maturity of the own issue is the fourth quarter 2023.

- **Equity instruments:** BAWAG Group designated all participations except for a portfolio with a book value of € 28 million at fair value through OCI. This led to a reclassification of an AFS reserve to retained earnings in the amount of € 1 million. All other participations and equity instruments are classified at fair value through OCI.

The total impact for accounting of classification and measurement under IFRS 9 thus leads to an impact of minus € 95 million (thereof € 82 million due to the new application of the fair value option for the Tier II own issue mentioned before) before taxes on equity when applying IFRS 9 for the first time as of 1 January 2018.

Impairment

The ECL as of 31 December 2017 for stage 1 and 2 amounts to minus € 118 million. Of this amount, € 6 million belong to financial instruments measured at Fair Value through OCI. Total impact on equity amounts to minus € 112 million. This impact is counterbalanced by the release of a major part of the IBNR in the amount of € 44 million, leading to a total impact from changes in loan loss provision accounting in the amount of minus € 69 million. BAWAG Group has no significant impact from changes in stage 3.

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

Hedge Accounting

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

Impact on Equity and Own Funds

Including an impact from deferred taxes in the amount of plus € 42 million, this leads to a total impact on equity of minus € 122 million.

in € million	
Equity under IAS 39	**3,609**
Changes in accounting for impairment	(69)
Changes in accounting of classification and measurement	(95)
Overall deferred taxes	42
Total impact	**(122)**
Equity under IFRS 9	**3,487**

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

Adjustment Impact

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

The correction of the parameters also affects ECL as of 31 March 2018. The impact on equity amounts to minus € 10 million, PnL in the first quarter is marginally impacted. CET 1 ratio remains unchanged.

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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

IFRS 16 Leases

IFRS 16 is effective from 1 January 2019, replaces the previous leases standard, IAS 17 Leases, and related interpretations and will be applicable to the consolidated financial statements of BAWAG Group. BAWAG Group is currently evaluating the effects of IFRS 16 on the consolidated financial statements. One major effect for BAWAG Group as a lessee in an operating lease contract will be the recognition of a "right-of-use" asset and the related lease liability at commencement of the lease. Furthermore, rental expenses, which so far have been recognized on a straight-line basis, will be replaced by interest expenses for the lease liability and depreciation of the "right-of-use" asset. Major impacts from the application of IFRS 16 are expected in connection with rented real estate – i.e. the Group's premises and branches. BAWAG Group expects an increase of total assets of €200-250 million in connection with the initial application of IFRS 16. The impact on the profit and loss statement is considered as immaterial. More precise information is not available in the current project phase. The application of possible simplifications and options within the transition provisions are currently evaluated within the framework of the project. A final decision is yet to be made. The Bank currently does not expect major impacts in accounting for its lease business, where it acts as a lessor. BAWAG Group will apply IFRS 16 as of its effective date.

Miscellaneous

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

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

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

As of 30 June 2018, the Group consists of 44 (31 December 2017: 44) fully consolidated entities and 2 (31 December 2017: 2) entities that are accounted for using the equity method in Austria and abroad. In the first quarter 2018, BAWAG P.S.K. Datendienst Gesellschaft m.b.H. was included in the scope of consolidation. In the second quarter 2018, RF 17 BAWAG Immobilienleasing GmbH was sold.

The Half-Year Financial Report as of 30.06.2018 was reviewed by the external auditor.

The tables in this report may contain rounding differences.

CLAIM AGAINST THE CITY OF LINZ

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

MAJOR EVENTS AFTER THE REPORTING DATE

The Managing Board of BAWAG Group AG resolved on 27 June 2018 to carry out a share buyback program with a volume of up to 1,285,000 BAWAG Group AG shares for a total consideration of up to € 70 million. The share buyback commenced on 3 July 2018. BAWAG Group AG retains the right to terminate the share buyback program at any time. 494,840 shares were bought back until the finalization of the Half-Year Financial Report on 10 August 2018.

On 28 June 2018, BAWAG Group announced an any and all cash tender for the € 300 million 8.125% Tier 2 Note of BAWAG P.S.K. due 30 October 2023 (XS0987169637). Investor take-up was very strong with a total principal amount of € 268 million tendered (approximately 90% take-up). The final purchase price was set at 134.08%. The settlement was executed after the reporting date on 10 July 2018.

DETAILS OF THE PROFIT OR LOSS STATEMENT

1 | Net interest income

in € million	Jan–Jun 2018	Jan–Jun 2017
Interest income	576.4	544.8
Interest expense	(171.7)	(158.5)
Dividend income	6.0	6.8
Net interest income	**410.7**	**393.1**

2 | Net fee and commission income

Jan-Jun 2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank	Treasury Services & Markets	Corporate Center	**BAWAG Group**
Fee and commission income	**105.5**	**43.6**	**0.1**	**19.6**	**20.1**	**–**	**0.0**	**189.0**
Payment transfers	66.1	36.9	–	15.4	3.7	–	0.0	**122.0**
Lending	10.9	1.7	0.1	2.0	1.6	–	0.0	**16.4**
Securities and custody business	16.6	0.9	–	1.7	11.6	–	0.0	**30.9**
Other	11.9	4.1	–	0.5	3.3	–	–	**19.7**
Fee and commission expenses	**(22.6)**	**(15.4)**	**0.0**	**(0.5)**	**(3.4)**	**–**	**(1.2)**	**(43.0)**
Payment transfers	(15.8)	(15.1)	–	(0.1)	(0.5)	–	0.0	**(31.4)**
Lending	0.0	0.0	–	(0.4)	(0.6)	–	–	**(1.0)**
Securities and custody business	0.0	(0.1)	–	–	(1.9)	–	(1.2)	**(3.2)**
Other	(6.8)	(0.2)	0.0	0.0	(0.4)	–	0.0	**(7.4)**
Net fee and commission income	**82.9**	**28.2**	**0.1**	**19.2**	**16.8**	**–**	**(1.2)**	**146.0**

Jan-Jun 2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwestbank	Treasury Services & Markets	Corporate Center	BAWAG Group
Fee and commission income	**109.8**	**12.7**	**–**	**20.3**	**–**	**–**	**0.0**	**142.8**
Payment transfers	64.0	4.9	–	16.8	–	–	0.0	**85.7**
Lending	11.4	1.6	–	2.2	–	–	0.0	**15.2**
Securities and custody business	19.2	1.0	–	1.2	–	–	0.0	**21.4**
Other	15.2	5.1	–	0.1	–	–	0.0	**20.4**
Fee and commission expenses	**(31.2)**	**(3.5)**	**0.0**	**(0.5)**	**–**	**–**	(1.4)	**(36.7)**
Payment transfers	(15.1)	(3.2)	–	(0.1)	–	–	0.0	**(18.4)**
Lending	(0.5)	0.0	–	(0.4)	–	–	0.0	**(0.9)**
Securities and custody business	0.0	0.0	–	0.0	–	–	(1.2)	**(1.3)**
Other	(15.6)	(0.3)	0.0	0.0	–	–	(0.2)	**(16.2)**
Net fee and commission income	**78.6**	**9.1**	**0.0**	**19.8**	**–**	**–**	(1.4)	**106.1**

3 | Gains and losses on financial assets and liabilities

in € million	**Jan–Jun 2018**	Jan–Jun 2017
Realized gains on sales of subsidiaries and securities	32.7	17.8
Fair value gains/losses	(17.4)	(4.6)
Gains/losses from fair value hedge accounting	0.7	4.0
Others	5.1	0.1
Gains and losses on financial assets and liabilities	**21.1**	**17.3**

In other comprehensive income, the changes in the value of the hedging instruments that can be attributed to the hedged risk are reported under Cash flow hedge reserve. Therefore, in the first half 2018, fair value losses in the amount of € 15.3 million (H1 2017: losses in the amount of € 6.0 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 cash flow hedge accounting.

4 | Operating expenses

in € million	Jan–Jun 2018	Jan–Jun 2017
Staff costs	(145.8)	(130.5)
thereof one off income/expenses	0.8	(7.2)
Other administrative expenses	(88.7)	(69.1)
thereof one off income/expenses	0.1	(1.1)
Depreciation and amortization on tangible and intangible assets	(22.1)	(19.5)
Operating expenses	**(256.6)**	**(219.1)**
Operating expenses excluding one-off income/expenses	(257.5)	(210.8)

Last year's acquisitions (Südwestbank Aktiengesellschaft and SIX Payment Services GmbH) are not included in prior-year comparables, as the closing took place in the fourth quarter 2017 only.

5 | Provisions and impairment losses

in € million	Jan–Jun 2018	Jan–Jun 2017
Loan-loss provisions and changes in provisions for off-balance credit risk	(19.7)	(21.4)
Provisions and expenses for operational risk	(1.0)	(4.9)
Impairment losses on non-financial assets	–	(0.4)
Provisions and impairment losses	**(20.7)**	**(26.7)**

DETAILS OF THE STATEMENT OF FINANCIAL POSITION

6 | Financial assets at fair value through other comprehensive income

in € million	Jun 2018	Dec 2017
Debt instruments	2,176	
Bonds and other fixed income securities	2,176	
Bonds of other issuers	2,067	
Public sector debt instruments	109	
Subsidiaries and other equity investments	**203**	
Financial assets at fair value through other comprehensive income	**2,379**	
Debt instruments		4,308
Bonds and other fixed income securities		4,294
Bonds of other issuers		3,981
Public sector debt instruments		313
Other variable rate securities		14
Investment certificates		14
Subsidiaries and other equity investments		**100**
Available-for-sale financial assets		**4,408**

7 | Financial assets at fair value through profit or loss

in € million	Jun 2018	Dec 2017
Financial assets designated at fair value through profit or loss	120	448
Financial assets mandatorily at fair value through profit or loss	390	
Financial assets at fair value through profit or loss	**510**	**448**

8 | Financial assets held for trading

in € million	Jun 2018	Dec 2017
Derivatives in trading book	130	143
Derivatives in banking book	263	315
Financial assets held for trading	**393**	**458**

9 | At amortized cost

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

Jun 2018 in € million	Total gross carrying amount	Impairments Stage 1	Impairments Stage 2	Impairments Stage 3	Total net carrying amount
BAWAG P.S.K. Retail	9,398	(9)	(8)	(134)	9,247
easygroup	5,569	(4)	(5)	(51)	5,509
International Business	5,029	(9)	(12)	(7)	5,001
DACH Corporates & Public Sector	6,688	(4)	(16)	(34)	6,634
Südwestbank	4,115	(16)	(5)	(3)	4,091
Treasury Services & Markets	7,732	0	0	–	7,732
Corporate Center	436	0	0	0	436
Total	**38,967**	**(42)**	**(46)**	**(229)**	**38,650**

Dec 2017 in € million	Unimpaired assets	Impaired assets (total gross carrying amount)	Allowances for individually impaired financial assets	Allowances for collectively impaired financial assets	Total net carrying amount
BAWAG P.S.K. Retail	9,296	206	(104)	(28)	9,370
easygroup	5,835	100	(43)	(7)	5,884
International Business	4,934	50	(21)	–	4,964
DACH Corporates & Public Sector	6,521	42	(27)	0	6,536
Südwestbank	4,124	–	–	–	4,124
Treasury Services & Markets	4,488	–	–	–	4,488
Corporate Center	116	317	0	(45)	387
Total	**35,314**	**715**	**(195)**	**(81)**	**35,753**

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

Receivables from customers – Breakdown by credit type

in € million	Jun 2018	Dec 2017
Loans	26,373	27,466
Current accounts	1,500	1,581
Finance leases	1,180	1,159
Cash advances	362	291
Money market	786	307
Receivables from customers	**30,201**	**30,804**

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

in € million	Jun 2018	Dec 2017
Issued debt securities and other securitized liabilities	447	606
Subordinated and supplementary capital	495	114
Deposits from customers	6	6
Financial liabilities designated at fair value through profit or loss	**948**	**726**

11 | Financial liabilities held for trading

in € million	Jun 2018	Dec 2017
Derivatives trading book	54	64
Derivatives banking book	241	281
Financial liabilities held for trading	**295**	**345**

12 | Financial liabilities measured at amortized cost

in € million	Jun 2018	Dec 2017
Deposits from banks	**3,963**	**4,009**
Deposits from customers	**29,817**	**30,947**
Savings deposits – fixed interest rates	734	968
Savings deposits – variable interest rates	6,955	6,945
Deposit accounts	5,665	5,649
Current accounts – Retail	9,357	9,909
Current accounts – Corporates	3,861	5,288
Other deposits[1)]	3,245	2,188
Issued bonds, subordinated and supplementary capital	**4,051**	**4,938**
Issued debt securities and other securitized liabilities	3,939	4,479
Subordinated and supplementary capital	112	459
Financial liabilities measured at amortized cost	**37,831**	**39,894**

1) Primarily term deposits.

13 | Provisions

in € million	Jun 2018	Dec 2017
Provisions for social capital	344	375
Anticipated losses from pending business	23	20
Other items including legal risks	50	55
Provisions	**417**	**450**

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

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

14 | Related parties

Transactions with related parties

The following table shows transactions with related parties:

Jun 2018 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables from customers	–	543	36	1	83	–
Unutilized credit lines	–	183	7	1	27	–
Securities	–	35	–	22	–	–
Other assets (incl. derivatives)	–	–	5	–	–	–
Financial liabilities – customers	–	0	8	98	0	0
Other liabilities (incl. derivatives)	–	–	–	1	–	–
Guarantees provided	–	–	0	–	1	–
Interest income	–	9.3	0.4	0.1	0.1	0.0
Interest expense	–	3.5	0.0	0.7	0.0	0.0
Net fee and commission income	–	–	0.0	6.5	0.0	0.0

Dec 2017 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables from customers	–	413	37	1	86	–
Unutilized credit lines	–	240	7	1	28	–
Securities	–	34	–	22	–	–
Other assets (incl. derivatives)	–	–	5	–	–	–
Financial liabilities – customers	–	0	17	160	1	0
Other liabilities (incl. derivatives)	–	0	–	1	–	–
Guarantees provided	–	0	0	–	1	0
Interest income	–	23.3	0.9	2.4	0.3	0.0
Interest expense	0.0	9.0	0.1	2.1	0.0	0.0
Net fee and commission income	0.0	–	0.0	15.5	0.0	0.0

Jun 2017 in € million	Parent company	Entities with joint control of, or significant influence over, the entity	Subsidiaries not consolidated	Associates	Joint ventures	Other companies
Receivables from customers	118	631	48	1	91	–
Unutilised credit lines	–	4	36	16	26	–
Securities	–	93	–	21	–	–
Other assets (incl. derivatives)	5	0	5	–	–	–
Financial liabilities – customers	–	0	11	121	0	0
Other liabilities (incl. derivatives)	–	–	–	1	–	–
Guarantees provided	–	–	–	0	1	–
Interest income	0.4	14.9	0.5	1.0	0.1	0.0
Interest expense	–	4.8	0.0	0.7	0.0	0.0
Net fee and commission income	–	–	0.0	8.0	0.0	0.0

Information regarding natural persons

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

in € million	Key management of the entity **30.06.2018**	Other related parties **30.06.2018**	Key management of the entity 31.12.2017	Other related parties 31.12.2017
Current account deposits	4	3	2	2
Savings deposits	0	4	0	3
Loans	0	4	0	3
Building savings deposits	–	–	–	0
Leasing	–	0	–	0
Securities	0	0	0	0
Interest income	0.0	0.0	0.0	0.0
Interest expense	0.0	0.0	0.0	0.0

Number of shares	Key management of the entity **30.06.2018**	Other related parties **30.06.2018**	Key management of the entity 31.12.2017	Other related parties 31.12.2017
Shares of BAWAG Group AG	24,173	367	24,173	147

15 | Segment reporting

This information is based on the Group structure as of 30 June 2018.

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

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

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

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

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

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

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

- **BAWAG P.S.K. Retail –** includes savings, payment, card and lending activities, investment and insurance services for our domestic private customers, small business lending and our social housing activities as well as own issues covered with retail assets and Wohnbaubank bonds.

- **easygroup –** includes our direct banking subsidiary *easybank* with a full online product offering, e.g. savings, payments, card and lending activities for private and small business customers, along with our auto, mobile and real estate leasing platforms, building society loans and savings, as well as lending to our international retail borrowers, including own issues covered with an international mortgage portfolio.

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

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

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

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

- **Corporate Center –** includes unallocated items related to support functions for the entire Bank, accounting positions (e.g. market values of derivatives), tangible and intangible assets as well as select results related to subsidiary and participation holdings and reconciliation positions. Regulatory charges (except for deposit guarantee scheme contributions) and corporate taxes are assigned to the Corporate Center.

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

The segments in detail:

Jan–Jun 2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total
Net interest income	192.2	80.9	61.6	31.2	43.5	23.9	(22.6)	410.7
Net fee and commission income	82.9	28.2	0.1	19.2	16.8	0.0	(1.2)	146.0
Core revenues	**275.1**	**109.1**	**61.7**	**50.4**	**60.3**	**23.9**	**(23.8)**	**556.7**
Gains and losses on financial instruments	8.5	0.0	2.7	0.1	0.0	28.1	(18.4)	21.0
Other operating income and expenses	1.0	0.0	0.0	0.0	0.0	0.0	3.1	4.1
Operating income	**284.6**	**109.1**	**64.4**	**50.5**	**60.3**	**52.0**	**(39.1)**	**581.8**
Operating expenses	**(124.6)**	**(33.7)**	**(13.5)**	**(26.0)**	**(37.6)**	**(14.5)**	**(5.0)**	**(254.9)**
Regulatory charges	(15.0)	(4.2)	0.0	0.0	(2.8)	0.0	(17.4)	(39.4)
Total risk costs	(27.6)	(0.1)	7.2	(2.1)	0.7	1.3	(0.1)	(20.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	2.1	2.1
Profit before tax	**117.4**	**71.1**	**58.1**	**22.4**	**20.6**	**38.8**	**(59.5)**	**268.9**
Income taxes	–	–	–	–	–	–	(66.2)	(66.2)
Profit after tax	**117.4**	**71.1**	**58.1**	**22.4**	**20.6**	**38.8**	**(125.7)**	**202.7**
Non-controlling interests	–	–	–	–	–	–	0.0	0.0
Net profit	**117.4**	**71.1**	**58.1**	**22.4**	**20.6**	**38.8**	**(125.7)**	**202.7**
Business volumes								
Assets	9,534	5,572	5,101	6,853	4,179	10,086	2,958	44,283
Liabilities	19,028	5,989	0	6,008	5,258	2,599	5,401	44,283
Risk-weighted assets	3,864	3,278	4,301	2,159	3,566	1,495	1,522	20,185

Jan–Jun 2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total
Net interest income	187.4	88.4	65.4	31.9	–	24.9	(4.9)	393.1
Net fee and commission income	78.6	9.1	0.0	19.8	–	0.0	(1.4)	106.1
Core revenues	**265.9**	**97.6**	**65.4**	**51.7**	**–**	**24.9**	**(6.3)**	**499.2**
Gains and losses on financial instruments	0.8	0.0	(0.5)	1.7	–	9.8	5.5	17.3
Other operating income and expenses	0.9	(0.3)	0.0	0.0	–	0.0	1.8	2.4
Operating income	**267.6**	**97.3**	**64.9**	**53.4**	**–**	**34.7**	**1.0**	**518.9**
Operating expenses	**(132.7)**	**(25.3)**	**(15.4)**	**(23.9)**	**–**	**(9.6)**	**(11.1)**	**(218.0)**
Regulatory charges	(12.7)	(4.1)	0.0	0.0	–	0.0	(11.3)	(28.1)
Total risk costs	(18.4)	7.6	(15.5)	5.5	–	0.0	(5.9)	(26.7)
Share of the profit or loss of associates accounted for using the equity method	–	–	–	–	–	–	1.8	1.8
Profit before tax	**103.8**	**75.5**	**34.0**	**35.0**	**–**	**25.1**	**(25.5)**	**247.9**
Income taxes	–	–	–	–	–	–	(46.4)	(46.4)
Profit after tax	**103.8**	**75.5**	**34.0**	**35.0**	**–**	**25.1**	**(71.9)**	**201.5**
Non-controlling interests	–	–	–	–	–	–	0.0	0.0
Net profit	**103.8**	**75.5**	**34.0**	**35.0**	**–**	**25.1**	**(71.9)**	**201.5**
Business volumes								
Assets	9,724	5,919	5,130	7,958	–	7,799	3,201	39,731
Liabilities	19,105	6,008	1	6,811	–	2,404	5,402	39,731
Risk-weighted assets	3,612	4,258	4,099	2,649	–	2,100	1,321	18,039

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 the single entity level.

As an Austrian bank, BAWAG Group generates 69% of its core revenues in Austria. The business is focused on the DACH region, supported by Südwestbank, the corporate business as well as the expansion of easygroup to Germany. The International Business is focused on Western Europe and North America.

The following tables show core revenues per segment and geography:

Jan–Jun 2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total
DACH	273.5	83.4	0.0	48.6	58.4	11.8	(23.8)	451.9
thereof Austria	272.6	83.2	0.0	43.6	0.0	9.4	(24.4)	384.4
thereof Germany	0.7	0.2	0.0	5.0	58.3	2.2	0.6	66.8
Western Europe	0.2	25.5	38.5	0.2	1.6	7.3	0.0	73.2
thereof UK	0.0	12.0	18.9	0.1	0.0	2.6	0.0	33.6
thereof France	0.0	13.5	1.9	0.0	0.1	0.3	0.0	15.8
thereof Ireland	0.0	0.0	11.9	0.0	0.0	1.4	0.0	13.2
North America	0.1	0.0	17.0	0.0	0.1	0.8	0.0	18.0
thereof USA	0.1	0.0	16.5	0.0	0.1	0.8	0.0	17.5
Southern Europe	0.2	0.0	5.0	0.1	0.0	3.5	0.0	8.8
Others	1.2	0.1	1.2	1.5	0.2	0.5	0.0	4.8
Total	**275.1**	**109.1**	**61.7**	**50.4**	**60.3**	**23.9**	**(23.8)**	**556.7**

Jan–Jun 2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total
DACH	264.3	59.4	0.0	50.1	–	10.7	(6.0)	378.5
thereof Austria	263.3	59.4	0.0	41.5	–	9.5	(6.0)	367.6
thereof Germany	0.8	0.0	0.0	8.4	–	0.3	0.0	9.6
Western Europe	0.2	38.2	42.0	0.0	–	7.4	(0.2)	87.6
thereof UK	0.1	14.8	19.5	0.0	–	3.5	0.0	37.9
thereof France	0.0	23.4	1.7	0.0	–	0.4	0.0	25.6
thereof Ireland	0.0	0.0	14.3	0.0	–	0.7	0.0	14.9
North America	0.1	0.0	19.5	0.2	–	1.4	0.0	21.2
thereof USA	0.1	0.0	17.5	0.2	–	1.4	0.0	19.1
Southern Europe	0.2	0.0	2.5	0.1	–	4.9	0.0	7.7
Others	1.1	0.0	1.4	1.3	–	0.5	0.0	4.3
Total	**265.9**	**97.6**	**65.3**	**51.7**	**–**	**24.9**	**(6.3)**	**499.2**

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

in € million	Jan–Jun 2018	Jan–Jun 2017
Other operating income and expenses according to segment report	4.1	2.4
Regulatory charges	(37.7)	(27.1)
Other operating income and expenses according to consolidated profit or loss statement	**(33.7)**	**(24.6)**

in € million	Jan–Jun 2018	Jan–Jun 2017
Operating expenses according to segment report	(254.9)	(218.0)
Regulatory charges	(1.7)	(1.0)
Operating expenses according to consolidated profit or loss statement	**(256.6)**	**(219.1)**

16 | Capital management

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

in € million	Jun 2018	Dec 2017
Share capital and reserves (including funds for general banking risk)	3,452	3,492
Deduction of intangible assets	(439)	(343)
Other comprehensive income	(91)	9
IRB risk provision shortfalls	(11)	(38)
Prudent valuation, cumulative gains due to changes in own credit risk on fair valued liabilities, prudential filter for unrealized gains, cash flow hedge reserve	51	(33)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(63)	(91)
Excess of deduction from AT1 items over AT1 capital	–	(90)
Common Equity Tier I	**2,899**	**2,906**
Capital instruments eligible as additonal Tier 1 capital	300	–
IRB risk provision shortfalls	–	(5)
Deduction of intangible assets	–	(85)
Excess of deduction from AT1 items over AT1 capital	–	90
Additional Tier I	**300**	**–**
Tier I	**3,199**	**2,906**
Supplementary and subordinated debt capital	93	347
Tier II capital in grandfathering	10	15
Excess IRB risk provisions	9	35
Less significant investments, IRB risk provision shortfalls	(32)	(27)
Tier II	**80**	**370**
Own funds	**3,279**	**3,276**

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

In April 2018, BAWAG Group issued a bond with a notional value of € 300 million, which fulfills the criteria for eligibility as AT1 capital (XS1806328750). The costs of the issuance and the accrued coupon payment are deducted from CET1. Later in the first half of 2018, BAWAG Group received the approval from the ECB to buy back an issuance partly still eligible as T2 capital with a notional of € 300 million (XS0987169637). As a result, this issuance is no longer recognized in the own funds.

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

in € million	Jun 2018	Dec 2017
Credit risk	18,502	19,716
Market risk	52	52
Operational risk	1,716	1,705
Capital requirements (risk-weighted assets)	**20,270**	**21,473**

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

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

Key figures according to CRR including its transitional rules

	Jun 2018	Dec 2017
Common Equity Tier I capital ratio based on total risk (excl. interim profit)	14.3%	n/a
Total capital ratio based on total risk (excl. interim profit)	16.2%	n/a
Common Equity Tier I capital ratio based on total risk (incl. interim profit)	15.2%	13.5%
Total capital ratio based on total risk (incl. interim profit)	17.2%	15.3%

17 | Fair value

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

in € million	Carrying amount Jun 2018	Fair value Jun 2018	Carrying amount Dec 2017	Fair value Dec 2017
Assets				
Cash reserves	937	937	1,180	1,180
Financial assets designated at fair value through profit or loss	120	120	448	448
Financial assets mandatorily at fair value through profit or loss	390	390		
Financial assets at fair value through other comprehensive income	2,379	2,379		
Available-for-sale financial assets			4,408	4,408
Held-to-maturity investments			2,274	2,347
Financial assets held for trading	393	393	458	458
At amortized cost	38,650	38,892		
Loans and receivables			35,753	35,929
Hedging derivatives	440	440	517	517
Property, plant and equipment	105	n/a	103	n/a
Investment properties	119	121	120	121
Intangible non-current assets	513	n/a	506	n/a
Other assets	237	n/a	304	n/a
Total assets	**44,283**		**46,071**	
Equity and liabilities				
Financial liabilities designated at fair value through profit or loss	948	948	726	726
Financial liabilities held for trading	295	295	345	345
Financial liabilities at amortized cost	37,831	37,851	39,894	40,044
Valuation adjustment on interest rate risk hedged portfolios	130	130	116	116
Hedging derivatives	131	131	94	94
Provisions	417	n/a	450	n/a
Other obligations	629	n/a	836	n/a
Equity	3,901	n/a	3,609	n/a
Non-controlling interests	1	n/a	1	n/a
Total liabilities and equity	**44,283**		**46,071**	

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

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

The fair value of securities recognized in the line item At amortized cost is € 60 million higher than their book value (2017: € 94 million higher) as of 30 June 2018. The fair value of own issues recognized in the line item Financial liabilities at amortized cost is, as of 30 June 2018, € 28 million higher than their book value (2017: € 122 million higher).

Fair value hierarchy

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

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

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

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

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

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

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

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

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

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

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

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

Jun 2018 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial liabilities designated at fair value through profit or loss	–	120	–	120
Financial assets mandatorily at fair value through profit or loss	57	109	224	390
Financial assets at fair value through other comprehensive income	2,208	119	52	2,379
Financial assets held for trading	0	393	–	393
Hedging derivatives	–	440	–	440
Total fair value assets	**2,265**	**1,181**	**276**	**3,722**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	684	264	948
Financial liabilities held for trading	–	295	–	295
Valuation adjustment on interest rate risk hedged portfolios	–	130	–	130
Hedging derivatives	–	131	–	131
Total fair value liabilities	**–**	**1,240**	**264**	**1,504**

Dec 2017 in € million	Level 1	Level 2	Level 3	Total
Assets				
Financial liabilities designated at fair value through profit or loss	267	180	1	448
Available-for-sale financial assets	4,077	210	121	4,408
Financial assets held for trading	–	458	–	458
Hedging derivatives	–	517	–	517
Total fair value assets	**4,344**	**1,365**	**122**	**5,831**
Liabilities				
Financial liabilities designated at fair value through profit or loss	–	363	363	726
Financial liabilities held for trading	–	345	–	345
Valuation adjustment on interest rate risk hedged portfolios	–	116	–	116
Hedging derivatives	–	94	–	94
Total fair value liabilities	**–**	**918**	**363**	**1,281**

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

Movements between Level 1 and Level 2

In the first half 2018, securities at fair value through other comprehensive income with a book value of € 54 million (Available-for-sale 2017: € 4 million) were moved from Level 1 to Level 2 due to subsequent illiquid market prices.

Securities at fair value through other comprehensive income with a book value of € 4 million (Available-for-sale 2017: € 102 million) were moved from Level 2 to Level 1 due to a more liquid market.

Movements in Level 3 financial instruments measured at fair value

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

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
Opening balance as of 01.01.2018	**295**	**–**	**55**	**363**
Valuation gains (losses) in profit or loss				
for assets held at the end of the period	3	–	–	(4)
for assets no longer held at the end of the period	1	–	–	–
Valuation gains (losses) in other comprehensive income				
for assets held at the end of the period	–	–	(3)	1
for assets no longer held at the end of the period	–	–	–	–
Purchases	–	–	1	–
Redemptions	(57)	–	–	(96)
Sales	(19)	–	–	–
Foreign exchange differences	1	–	–	–
Change in scope of consolidation	–	–	(1)	–
Transfers into or out of other levels	–	–	–	–
Closing balance as of 30.06.2018	**224**	**–**	**52**	**264**

in € million	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities
Opening balance as of 01.01.2017	**1**	**1**	**477**
Valuation gains (losses) in line item gains and losses on financial assets and liabilities in profit or loss			
for assets held at the end of the period	–	–	(13)
for assets no longer held at the end of the period	–	–	–
Valuation gains (losses) in other comprehensive income			
for assets held at the end of the period	–	–	–
for assets no longer held at the end of the period	–	–	–
Purchases	–	–	–
Redemptions	–	–	(101)
Sales	–	–	–
Foreign exchange differences	–	–	–
Change in scope of consolidation	–	39	0
Transfers into or out of other levels	–	81	–
Closing balance as of 31.12.2017	**1**	**121**	**363**

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

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

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

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

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

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

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

Sensitivity analysis of fair value measurement from changes in unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters can be drawn from a range of reasonably possible alternatives. Financial liabilities in Level 3 that are measured at fair value through profit or loss relate to own issues of BAWAG P.S.K. Wohnbaubank and IMMO-BANK. BAWAG Group had Level 3 financial assets recognized at their fair value in the amount of € 276 million as of 30 June 2018 (31 December 2017: € 122 million).

If the credit spread used in calculating the fair value of own issues increased by 20 basis points, the accumulated valuation result as of 30 June 2018 would have increased by € 1.1 million (31 December 2017: € 1.3 million). If the credit spread used in calculating the fair value of own issues decreased by 20 basis points, the accumulated valuation result as of 30 June 2018 would have decreased by € 1.1 million (31 December 2017: € 1.3 million).

If the credit spread used in calculating the fair value of loans increased by 100 basis points, the accumulated valuation result as of 30 June 2018 would have decreased by € 8.3 million (31 December 2017: no fair value loans in Level 3). If the credit spread used in calculating the fair value of loans decreased by 100 basis points, the accumulated valuation result as of 30 June 2018 would have increased by € 9.1 million (31 December 2017: no fair value loans in Level 3).

If the liquidity discount of Südwestbank funds is increased by 10 percentage points, the valuation result as of 30 June 2018 would have decreased by € 2.4 million (31 December 2017: € 4.2 million). If the liquidity discount of Südwestbank funds is decreased by 10 percentage points, the valuation result as of 30 June 2018 would have increased by € 2.4 million (31 December 2017: € 4.2 million)

For the valuation of a significant part of the investments in equity instruments, the main input parameters are the discount factor, dividend income or earnings as well as (possibly) necessary capital measures. If the discount rate for investments in equity instruments decreased by 100bps, the fair value would increase by € 5.9 million; whereas if the discount rate increased by 100bps, the fair value would decrease by € 4.4 million. If changes in dividend income or earnings rose by 20%, the fair value of those assets would rise by € 1 million; if changes in dividend income or earnings declined by 20%, the fair value would decrease by € 1.0 million.

A smaller portion is valued based on external price indications. If these indications were 10% lower, the fair value of this portion would decrease by € 2.8 million. If these indications were 10% higher, the fair value of this portion would increase by € 2.8 million.

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

18 | Treatment of a Day one gain

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

In the case of the acquisition of two loan portfolios, market interest rates on the transaction date were lower than when prices were negotiated. In both cases, the seller wanted to exit the respective business. Therefore, the transaction prices in these cases did not represent the fair value of the loans. The initial recognition is based on the fair value of the acquired loans and receivables determined through a DCF method taking into consideration market conditions on the purchase date. Because the fair value and therefore the day one gain is neither evidenced by a quoted price nor based on a valuation technique that uses only data from observable markets, the day one gain must not be realized on day one but must be accrued and the difference is subsequently recognized as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. IFRS 9 does not state how to subsequently measure this difference.

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

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

in € million	**Jan–Jun 2018**	Jan–Dec 2017
Balance at the beginning of the period	70	104
Amounts recognized in profit or loss during the period	(11)	(33)
FX effects	0	(1)
Balance at the end of the period	59	70

19 | Reconciliation IAS 39 to IFRS 9

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

in € million	(i) IAS 39 carrying amount 31 December 2017	(ii) Reclassifications	(iii) Remeasurements	(iv) = (i) + (ii) + (iii) IFRS 9 carrying amount 1 January 2018	(v) = (iii) Retained earnings effect on 1 January 2018 before taxes
Carrying amount 31.12.2017 IAS 39 - Financial assets designated at fair value through profit or loss, Financial assets held for trading, Hedging derivatives	**1,423**	**–**	**–**	**1,423**	**–**
Additions:					
From available for sale (IAS 39) - Equity investments	–	28	–	28	–
From available for sale (IAS 39) – required reclassification - Debt instruments	–	130	–	130	–
From amortised cost (IAS 39) – required reclassification - Receivables from customers	–	189	1	190	1
Subtractions:					
To amortised cost (IFRS 9) - reclassifications due to embedded derivatives	–	–	(19)	(19)	(19)
Total change to fair value through profit or loss	**1,423**	**347**	**(18)**	**1,751**	**(18)**
Carrying amount 31.12.2017 IAS 39 - Available-for-sale financial assets	**4,408**	**–**	**–**	**4,408**	**–**
Subtractions:					
To fair value through profit or loss (IFRS 9) - required reclassification - Equity investments	–	(28)	–	(28)	–
To fair value through profit or loss - required reclassification - Debt instruments	–	(130)	–	(130)	–
To amortised cost - Debt instruments	–	(117)	–	(117)	–
Total change to fair value through other comprehensive income	**4,408**	**(275)**	**–**	**4,133**	**–**
Carrying amount 31.12.2017 IAS 39 - Cash reserves, Loans and receivables, Held-to-maturity investments	**39,207**	**–**	**–**	**39,207**	**–**
Additions:					
From available for sale (IAS 39) - Debt instruments	–	117	(4)	113	(4)
From fair value through profit or loss (IAS 39) – required reclassification - changes due to embedded derivatives	–	–	10	10	10
Subtractions:					
To fair value through profit or loss - required reclassification - Receivables from customers	–	(189)	–	(189)	–
Total change financial assets at amortized cost	**39,207**	**(72)**	**6**	**39,141**	**6**
Total financial asset balances, reclassifications and remeasurements at 1 January 2018	**45,038**	**–**	**(12)**	**45,026**	**(12)**

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

in € million

Measurement category IAS 39	Carrying amount IAS 39	Measurement category IFRS 9	Carrying amount IFRS 9 before measurement	Measurement IFRS 9	Carrying amount IFRS 9
Loans and receivables	36,933	At amortized cost	39,135	6	39,141
Held-to-maturity investments	2,274	Financial Assets at fair value through other comprehensive income - Subsidiaries and other equity investments	72	–	72
Available-for-sale financial assets	4,408	Financial Assets at fair value through other comprehensive income - Debt securities	4,061	–	4,061
Financial assets designated at fair value through profit or loss	448	Financial assets designated at fair value through profit or loss	310	–	310
Financial assets held for trading	458	Financial assets mandatorily at fair value through profit or loss	943	(18)	924
Hedging derivatives	517	Hedging derivatives	517	–	517
Financial assets	**45,038**		**45,038**	**(12)**	**45,026**

in € million

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

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

in € million

Class	Measurement category IAS 39	Measurement category IFRS 9	IAS 39 carrying amount	Reclassifi-cations	Remea-sure-ments	Carrying amount IFRS 9
Cash reserves	Loans and receivables	At amortized cost	1,180	–	–	1,180
Receivables from credit institutions	Loans and receivables	At amortized cost	3,660	–	–	3,660
Receivables from customers	Loans and receivables	At amortized cost	30,804	(189)	10	30,626
	Financial assets designated at fair value through profit or loss	Financial assets designated at fair value through profit or loss	128	–	–	128
		Financial assets mandatorily at fair value through profit or loss		189	1	190
Debt instruments	Financial assets designated at fair value through profit or loss	Financial assets designated at fair value through profit or loss	52	130	–	182
	Available-for-sale financial assets	Financial Assets at fair value through other comprehensive income - Debt securities	4,308	(247)	–	4,061
	Held-to-maturity investments	At amortized cost	2,274	–	–	2,274
	Loans and receivables	At amortized cost	1,289	117	(4)	1,402
		Financial assets mandatorily at fair value through profit or loss				–
Equity investments	Available-for-sale financial assets	Financial Assets at fair value through other comprehensive income - Subsidiaries and other equity investments	100	(28)	–	72
	Financial assets designated at fair value through profit or loss	Financial assets mandatorily at fair value through profit or loss	268	28	–	296
Derivatives in trading book	Financial assets held for trading	Financial assets held for trading	143	–	–	143
Derivatives in banking book	Financial assets held for trading	Financial assets held for trading	315	–	(19)	296
	Hedging derivatives	Hedging derivatives	517	–	–	517
Financial assets			**45,038**	**–**	**(12)**	**45,026**

in € million

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

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

in € million	Fair value as of 30 June 2018	FV loss, if the financial assets had not been reclassified	
		At fair value through profit or loss	At fair value through other comprehensive income net of tax
Financial assets at amortized cost			
Additions:			
From available for sale (IAS 39) - Debt instruments	113	–	1

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

in € million	31 December 2017	Reclassifications	Remeasurements	1 January 2018
Loans and receivables and held to maturity securities under IAS 39/Financial assets at amortised cost under IFRS 9	254	–	69	345
Available for sale debt investment securities under IAS 39/debt financial assets at FVOCI under IFRS 9	–	–	6	6
Finance lease receivables	22	–	2	2
Loan loss provisions for financial assets	**276**	**–**	**77**	**353**
Provisions for credit promises and guarantees	20	–	(2)	18
Total	**296**	**–**	**75**	**371**

RISK REPORT

The operational and strategic risk management functions and the relevant committees of BAWAG Group are responsible for the identification, quantification, limitation, monitoring and steering of all risks the Group is exposed to. At all organizational levels, Market and Risk functions are strictly separated.

The Managing Board defines the overall risk appetite and risk strategy on an annual basis. All risk management principles, the defined limits for all material risks and the established procedures for monitoring these risks are documented in risk manuals and guidelines. The Managing Board is continuously and proactively informed on the overall risk situation. The monthly risk reporting is based on clearly defined risk metrics and encompasses all Pillar I and Pillar II relevant topics as well as non-financial risk matters and additionally relevant specific risk topics. Quarterly risk reports are submitted to the monitoring and control committees of the Supervisory Board.

Risk management policies are reviewed regularly to reflect adjustments to the business strategy, regulatory requirements as well as market conditions. Particular attention is paid to the need for adjustment as part of the Group's expansion strategy.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Other risks: This risk category includes participation risk, macroeconomic risk, strategic risk and capital risk. Participation risk is quantified using the PD/LGD approach based on IFRS book values, while capital is held for the macroeconomic risk based on expert assumptions. For all other mentioned risk types, the required economic capital is quantified using simplified valuation models.

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

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

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

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

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

21 | Credit risk

Credit risk is defined as the risk of loss due to a party in a financial transaction failing to pay its obligation to the other party.

The operative credit risk division is specifically set up to ensure functional risk management expertise for commercial and institutional (non-retail) as well as retail and small business customers (retail). The division Enterprise Risk Management is responsible for the consistent calculation and aggregation of the individual risk metrics within the defined monthly reporting framework.

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

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

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

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

Business segment development in the first half 2018

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

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

The easygroup segment includes our direct banking subsidiary *easybank*, start:bausparkasse, our auto and mobile leasing platforms as well as our performing residential mortgage portfolios in Western Europe. This portfolio consists of UK and French performing mortgage portfolios (outstanding balance of GBP 1.2 billion (as of 31.12.2017: GBP 1.3 billion) and € 1.0 billion (as of 31.12.2018: € 1.1 billion), respectively, as of 30 June 2018).

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

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

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

Treasury Services & Markets acts as a service center for BAWAG Group's customers, subsidiaries and partners through treasury activities such as ALM, funding, market execution and select investment activities. The investment strategy continues to focus on investment grade securities predominantly representing secured and unsecured bonds of financials in Western Europe and the United States as well as select sovereign bond exposures. In addition, the Bank also selectively invests in structured credits (CLOs) with high credit quality (AAA and AA), which show a high degree of diversification with respect to countries and industries.

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

Lending and securities portfolio by business segment

Jun 2018 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total portfolio
Lending portfolio	9,383	5,509	4,819	6,684	4,105	4,804	437	35,741
Securities	0	3	253	115	50	5,281	18	5,720
Off-balance business	1,090	3,218	390	338	902	251	950	7,139
Total	**10,473**	**8,730**	**5,462**	**7,137**	**5,057**	**10,336**	**1,405**	**48,600**
thereof collateralized[1)]	6,361	4,951	2,123	776	3,388	49	333	17,970
thereof NPLs (gross view)[2)]	230	171	13	91	96	–	255	855

1) Collateral comprises residential and commercial real estate, guarantees, life insurance, etc.
2) Taking into consideration the fair value of Südwestbank at initial recognition according to IFRS 3.
The NPLs as of 30.06.2018 without IFRS 3 effect for Südwestbank would have been as follows: € 175 million and Total € 935 million.

Dec 2017 in € million	BAWAG P.S.K. Retail	easygroup	International Business	DACH Corporates & Public Sector	Südwest-bank	Treasury Services & Markets	Corporate Center	Total portfolio
Lending portfolio	9,370	5,884	4,831	6,536	4,124	3,456	388	34,588
Securities	0	3	323	162	59	7,641	7	8,195
Off-balance business	1,097	3,121	205	463	1,381	255	1,107	7,628
Total	**10,467**	**9,008**	**5,359**	**7,159**	**5,564**	**11,352**	**1,502**	**50,411**
thereof collateralized[1)]	6,380	5,188	2,390	1,009	3,722	57	404	19,150
thereof NPLs (gross view)[2)]	251	172	50	97	91	–	255	917

1) Collateral comprises residential and commercial real estate, guarantees, life insurance, etc.
2) Taking into consideration the fair value of Südwestbank at initial recognition according to IFRS 3.
The NPLs as of 31.12.2017 without IFRS 3 effect for Südwestbank would have been as follows: € 187 million and Total € 1,013 million.

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

Jun 2018 in € million	Note 9	Risk view			Segment report
	At amortized cost	Loans & bonds FVPL & FVOCI	Total loans & bonds	Other assets	Total assets
BAWAG P.S.K. Retail	9,247	136	9,383	151	9,534
easygroup	5,509	3	5,512	60	5,572
International Business	5,001	71	5,072	29	5,101
DACH Corporates & Public Sector	6,634	166	6,799	54	6,853
Südwestbank	4,091	64	4,155	23	4,179
Treasury Services & Markets	7,732	2,354	10,085	1	10,086
Corporate Center	436	17	455	2,503	2,958
Total	**38,650**	**2,811**	**41,461**	**2,821**	**44,283**

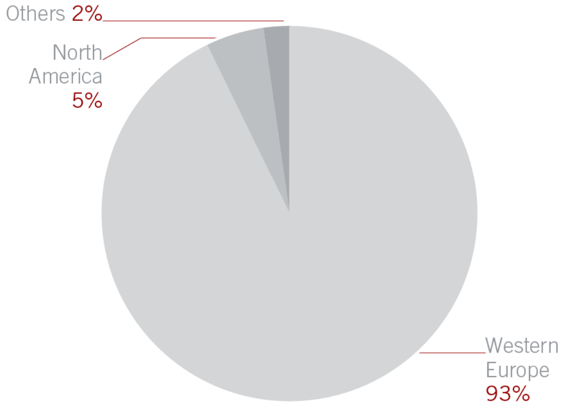
Dec 2017 in € million	Note 9	Risk view			Segment report
	Loans and receivables (L&R)	Loans, securities, investment funds (not part of L&R)	Total loans & securities	Other assets	Total assets
BAWAG P.S.K. Retail	9,370	0	9,370	132	9,502
easygroup	5,884	3	5,887	50	5,938
International Business	4,964	190	5,154	21	5,174
DACH Corporates & Public Sector	6,536	162	6,698	27	6,725
Südwestbank	4,124	59	4,183	0	4,183
Treasury Services & Markets	4,488	6,608	11,096	41	11,137
Corporate Center	387	7	395	3,017	3,412
Total	**35,753**	**7,030**	**42,783**	**3,289**	**46,071**

Geographical distribution of the loan and securities portfolio

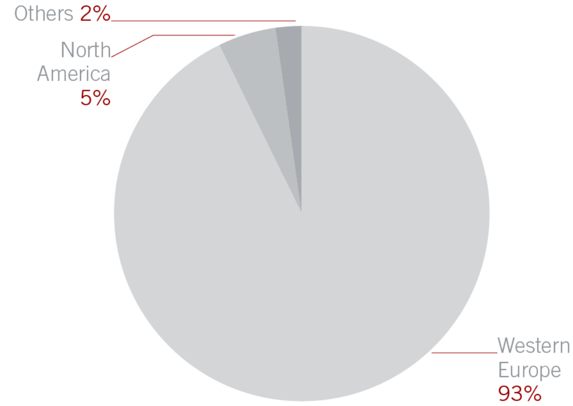
The geographical distribution of the loan portfolio is in line with the Group's strategy to focus on stable geographies and currencies. A total of 98% (as of 31.12.2017: 98%) of the loan portfolio[1)] and 84% (as of 31.12.2017: 86%) of the securities portfolio[2)] is located in Western Europe and North America.

Geographical distribution of loans

30.06.2018

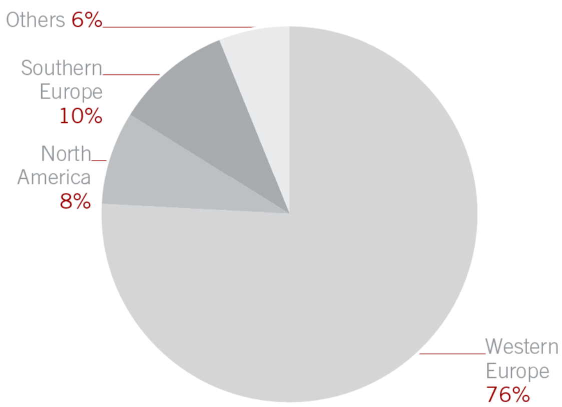


31.12.2017

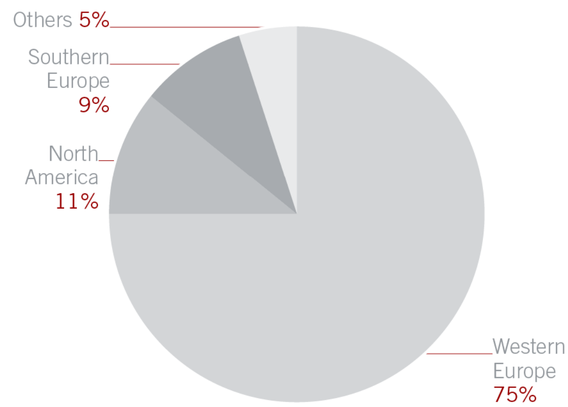


Geographical distribution of securities

30.06.2018



31.12.2017



1) The major share of the loan portfolio is allocated to Austria with 60% (Dec 2017: 58%), Germany with 17% (Dec 2017: 19%), Great Britain with 7% (Dec 2017: 8%), the United States with 5% (Dec 2017: 5%) and France with 3% (Dec 2017: 4%).
2) The major share of the securities portfolio is allocated to Great Britain with 10% (Dec 2017: 13%), Austria with 8% (Dec 2017: 9%), France with 8% (Dec 2017: 7%), the United States with 6% (Dec 2017: 10%) and Germany with 5% (Dec 2017: 10%).

Loan and securities portfolio by currencies

	Book value		in %	
in € million	**Jun 2018**	Dec 2017	**Jun 2018**	Dec 2017
EUR	35,280	36,306	85.1%	84.9%
GBP	2,327	2,545	5.6%	5.9%
USD	2,142	2,215	5.2%	5.2%
CHF	1,456	1,525	3.5%	3.6%
Others	256	192	0.6%	0.4%
Total	**41,461**	**42,783**	**100.0%**	**100.0%**

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

	Book value		in %	
in € million	**Jun 2018**	Dec 2017	**Jun 2018**	Dec 2017
Real Estate	4,162	4,224	29.4%	29.3%
Government	2,131	2,182	15.0%	15.1%
Services	2,081	2,338	14.7%	16.2%
Public Sector	1,400	963	9.9%	6.7%
Engineering & B-2-B	555	600	3.9%	4.2%
Beverages, Food & Tobacco	454	420	3.2%	2.9%
Banks	435	210	3.1%	1.5%
Pharmaceuticals & Health Care	419	309	3.0%	2.1%
Telecommunication	368	219	2.6%	1.5%
Utilities	316	332	2.2%	2.3%
Gaming & Leisure	297	314	2.1%	2.2%
Retail - Food	214	236	1.5%	1.6%
Automotive	201	240	1.4%	1.7%
Leasing	185	506	1.3%	3.5%
Chemicals	184	305	1.3%	2.1%
Social Housing	150	155	1.1%	1.1%
Wood & Paper	120	116	0.8%	0.8%
B-2-C Products	93	149	0.7%	1.0%
Investment Funds	57	157	0.4%	1.1%
Transport	56	49	0.4%	0.3%
Media	54	87	0.4%	0.6%
Construction & Building Materials	53	53	0.4%	0.4%
Commodity	46	78	0.3%	0.5%
Insurance	43	62	0.3%	0.4%
Hotels	41	49	0.3%	0.3%
Mining & Metals	35	41	0.2%	0.3%
NGO	15	18	0.1%	0.1%
Total	**14,166**	**14,410**	**100.0%**	**100.0%**

Expected credit loss

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

Impaired loans

As of 1 January 2018, BAWAG Group calculates provisions according to IFRS 9 that are booked on loans for which full recovery is unlikely. The main components of the provisioning framework are shown in the following paragraphs. The volume reported as NPLs includes all claims against customers classified as being in default and against customers for which specific impairment provisions have been formed.

Automatic loan loss provision
Loan loss provisions are booked automatically in the core banking system based on defined standards in the case of 90 days past due or when legal action is initiated.

Manual loan loss provisions
For exposures that are not subject to automatic loan loss provisioning, an appropriate impairment test is performed. The extent of impairment is assessed after a detailed analysis on an individual basis and loan loss provisions are formed manually.

Non-performing loans (NPLs)

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

Forborne loans and forbearance measures

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

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

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

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

22 | Market risk

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

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

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

In the trading book, risk mitigating measures are performed only if deemed necessary. The risk quantification, limitation and monitoring within the ICAAP framework is carried out using a parametric VaR model. In the first half of 2018, the average value-at-risk of the trading book was measured at minus € 0.44 million (Jan–Jun 2017 average: minus € 0.56 million) and the value-at-risk as of 30 June 2018 was measured at minus € 0.47 million (31 December 2017: minus € 0.45 million) based on a confidence interval of 99% and a one-day holding period. The regulatory capital requirement is calculated using the Standardized Approach.

23 | Liquidity risk

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

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

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

The first half of 2018 was characterized by a solid liquidity position by stable core funding sources and a balanced term funding structure, with retail customers providing the majority of funding. The liquidity risk metric LCR (Liquidity coverage ratio) has improved significantly to 184% at the end of the first half 2018 compared to 150% at year-end 2017, which is mainly a result of adjustments to the securities portfolio of the Bank as well as quality improvement on the deposit side.

24 | Non-financial risk

The Group continues to apply the Standardized Approach for the calculation of the regulatory own fund requirements according to Regulation (EU) No 575/2013 Article 317 to assess operational risk. However, the realized OpRisk losses over the last few years were significantly lower than the regulatory own funds requirements under the Standardized Approach. The OpRisk RWAs are assigned to the segments based on revenues.

For the purpose of internal economic capital steering (ICAAP), a statistical model is used to calculate the value-at-risk based on operational risk losses and risk potential resulting from the risk control self-assessments (RCSAs).

The losses resulting from operational risk are collected in a centrally administrated web-based database within clearly defined regulations and processes.

Key Risk Indicators (KRI) are implemented as additional steering instruments to identify and forecast negative trends or a changed risk profile in company workflows and divisions/subsidiaries in a timely manner. Each KRI is monitored via a traffic light system (green/yellow/red). For KRIs with a red status, the definition and implementation of appropriate countermeasures is mandatorily required.

In addition to recipient-oriented reporting, theRCSAs are another tool for managing operational risk. All business units assess their material operational risks and the effectiveness of their control measures on a yearly basis using this uniform framework. This includes the assessment of individual control measures, assignment to processes, the estimation of probabilities and the extent of losses arising from individual risks. If the risk potential exceeds a defined limit, the implementation of appropriate measures is required.

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

Additionally, the division Non-Financial Risk Management & Regulatory Compliance ensures the comprehensive and integrated management of all non-financial risks. This setup helps to address and mitigate potentially upcoming or increased risk (e.g. cyber risk, integration risk, reputation risk, compliance risk) in a timely manner and to optimally use synergies when implementing risk preventing measures. The Managing Board receives monthly reports about current developments in the dedicated Non-Financial Risk Committee (NFRC).

A clear organizational structure and authorization levels form the basis of Operational Risk governance. Additionally, a consistent guideline and a risk-adequate internal control system (including automated controls embedded in the IT infrastructure) are in place to manage the Group's operational risk/non-financial risk.

STATEMENT OF ALL LEGAL REPRESENTATIVES

“We confirm to the best of our knowledge that the condensed consolidated Half-Year 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 Half-Year Group Management Report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated Half-Year Financial Statements and of the principal risks and uncertainties for the remaining six months of the financial year.”

10 August 2018

Anas Abuzaakouk
Chief Executive Officer

David O’Leary
Member of the Managing Board

Enver Sirucic
Member of the Managing Board

Andrew Wise
Member of the Managing Board

Stefan Barth
Member of the Managing Board

Sat Shah
Member of the Managing Board

REVIEW REPORT

REPORT ON THE REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of BAWAG Group AG, Vienna for the period from 1 January 2018 to 30 June 2018. These condensed interim consolidated financial statements comprise the condensed consolidated statement of financial position as of 30 June 2018 and the condensed consolidated income statement, the condensed consolidated statements of cash flows and condensed consolidated statement of changes in equity for the period from 1 January 2018 to 30 June 2018 and the condensed notes, summarizing the significant accounting policies and other explanatory notes.

Management is responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS's) for interim reporting as adopted by the EU.

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements. Our liability towards the Company and towards third parties is limited in accordance with section 62a Austrian Banking Act (BWG) in conjunction with section 275 par 2 of the Austrian Commercial Code (UGB).

Scope of review

We conducted our review in accordance with Austrian Standards for Chartered Accountants, in particular in compliance with KFS/PG 11 "Principles of Engagements to Review Financial Statements" and with the International Standard on Review Engagements (ISRE 2410) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements is limited primarily to making inquiries, primarily of Company personnel, responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing came to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standards (IFRS's) for Interim Reporting as adopted by the EU.

Statement on the consolidated interim management report for the 6 month period ended 30 June 2018

We have read the consolidated interim management report and evaluated whether it does not contain any apparent inconsistencies with the condensed interim consolidated financial statements. Based on our evaluation, the consolidated interim management report does not contain any apparent inconsistencies with the condensed interim consolidated financial statements.

Vienna, 10 August 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

Note: The condensed interim consolidated financial statements together with our review report may be published or transmitted only as agreed by us.

DEFINITIONS

Key performance indicator	Definition / Calculation	Explanation
After-tax earnings per share	(Net profit – pro-rata AT1 coupon net of tax) / weighted average number of shares outstanding	After-tax earnings per share is the portion of net profit (excluding pro-rata AT1 coupon net of tax) per every individual share of the stock.
Average interest-bearing assets	Average of month-end interest-bearing assets within the quarter or the year	Average of interest-bearing assets is used for calculating net interest margin and risk cost ratio (see KPIs below)
Book value per share	IFRS equity (excl. AT1 capital) / number of shares outstanding	Book value per share represents the total amount of shareholder's equity divided by the number of shares outstanding at the end of the period.
Common Equity Tier 1 (CET1) capital	Based on IFRS CRR regulatory figures (BAWAG Group) including interim profit, excluding any transitional capital (fully loaded); no dividend accruals considered	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	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 costs	Customer loans only include loans that are measured at amortized costs
IFRS equity	Equity attributable to the owners of the parent; excluding minorities	IFRS equity as presented in the consolidated financial statements
IFRS tangible equity	IFRS equity reduced by the carrying amount of intangible assets	IFRS tangible equity is another viability indicator for banks and facilitates the comparison of equity figures excluding intangible assets. It is used as the denominator of the return on tangible equity calculation (see below).
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	Common Equity Tier 1 (CET1) capital / total exposure (calculation according to CRR)	The leverage ratio is a regulatory metric and – similar to the CET1 ratio – expresses the relationship between the bank's CET1 capital and its total exposure, where total exposure includes on-balance and certain off-balance exposures but not on a risk-weighted basis. The ratio provides a metric to judge how leveraged a bank is. The higher the leverage ratio, the lower a bank is leveraged and the higher the likelihood of a bank withstanding negative shocks to its balance sheet.

Liquidity coverage ratio (LCR)	Liquid assets / net liquidity 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.
Net interest margin	Net interest income / average interest-bearing assets	The net interest margin is a performance measure and is expressed as a percentage of what a bank earns on loans and other assets in a time period less the interest it pays on deposits and other liabilities divided by average interest-bearing assets. It is used for external comparison with other banks as well as internal profitability measurement of products and segments.
Net profit	Profit after tax attributable to owners of the parent	This profitability measure represents the profit after tax in absolute amounts for the respective period as presented in the consolidated financial statements that is available for profit distribution to the shareholders.
NPL ratio	Non-performing loans (NPLs) / exposure; as of June 2017, the ratio's denominator was changed from loans and receivables (incl. provisions) to exposure in line with regulatory requirements and applied retroactively	The NPL ratio is an economic ratio to demonstrate the proportion of loans that have been classified as "non-performing" in relation to the entire loan portfolio. The definition of non-performing has been adopted from regulatory standards and guidelines and comprises in general those customers where repayment is doubtful, a realization of collateral is expected and which thus have been moved to a defaulted customer rating segment. The ratio reflects the quality of the loan portfolio of the bank and of the bank's credit risk management.
NPL coverage ratio	Loan loss provisions and collateral / NPL	The total of impairment write-downs and collateral relative to the NPL exposure
Operating income	The total of core revenues, gains and losses on financial instruments and other operating income and expenses	As presented in the respective line item in the income statement
Operating profit	Operating income less operating expenses and regulatory charges	As presented in the respective line item in the income statement
Pre-tax earnings per share	(Profit before tax – pro-rata AT1 coupon net of tax) / weighted average number of shares outstanding	Pre-tax earnings per share is the portion of profit before tax (excluding pro-rata AT1 coupon net of tax) per every individual share of the stock.
Return on equity	Net profit / average IFRS equity excl. AT1 capital – 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. Return on equity and return on tangible equity demonstrate profitability of the bank on the capital invested by its shareholders and thus the success of their investment. The "Return on …" measures are useful for easily comparing the profitability of the bank with other financial institutions. Allocated equity to segments is based on an internal model taking into account risk weighted assets and balance sheet size of the respective segment
Return on equity (@12% CET1)	Return on equity calculated at a fully loaded CET1 ratio of 12%– average equity based on 1 January 2018 due to IFRS 9 implementation	

Return on tangible equity	Net profit / average IFRS tangible equity excl. AT1 capital – average equity based on 1 January 2018 due to IFRS 9 implementation	
Return on tangible equity (@12% CET1)	Return on tangible equity calculated at a fully loaded CET1 ratio of 12% – average equity based on 1 January 2018 due to IFRS 9 implementation	
Risk-weighted assets	Based on IFRS CRR regulatory figures (BAWAG Group, fully loaded)	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.
Total capital	Based on IFRS CRR regulatory figures (BAWAG Group) including interim profit, 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	

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